

**New Issue – Book-Entry Only Issue**

**Rating: Moody's "Aa2"**

*In the opinion of Bond Counsel, under existing statutes, regulations, administrative pronouncements and judicial decisions, and in reliance on the representations, certifications of fact, and statements of reasonable expectation made by the Borough (as defined herein) in the Tax Certificate (as defined herein) and assuming compliance by the Borough with its ongoing covenants in the Tax Certificate, interest on the Bonds (as defined herein) is not included in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103(a) of the Code and is not an item of tax preference to be included in calculating alternative minimum taxable income under the Code for purposes of the alternative minimum tax imposed with respect to individuals and corporations. Interest on the Bonds held by a corporate taxpayer is included in the relevant income computation for calculation of the federal alternative minimum tax as a result of the inclusion of interest on the Bonds included in "adjusted current earnings." No opinion is expressed regarding other federal tax consequences arising with respect to the Bonds. Further, in the opinion of Bond Counsel, interest on the Bonds and any gain on the sale thereof is not includable as gross income under the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein.*

**BOROUGH OF HAWTHORNE,  
In the County of Passaic, New Jersey**

**\$4,475,000 GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**

**Consisting of:**

**\$4,110,000 General Improvement Refunding Bonds, Series 2012A**

**and**

**\$365,000 Water Utility Refunding Bonds, Series 2012B**

**(BANK QUALIFIED) (NON-CALLABLE) (BOOK-ENTRY ONLY)**

**Dated: Date of Delivery**

**Due: June 1, as shown on the inside front cover**

The \$4,475,000 General Obligation Refunding Bonds, Series 2012, consisting of \$4,110,000 General Improvement Refunding Bonds, Series 2012A and \$365,000 Water Utility Refunding Bonds, Series 2012B (together, the "Bonds") of the Borough of Hawthorne, in the County of Passaic, New Jersey (the "Borough"), will be issued in the form of one certificate for the aggregate principal amount of each series of the Bonds maturing in each year and when issued will be registered in the name of CEDE & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as Securities Depository. See "THE BONDS – Book-Entry Only System" herein.

Interest on the Bonds will be payable semiannually on the first day of June and December in each year until maturity, commencing June 1, 2012. The principal of and the interest on the Bonds will be paid to the Securities Depository by the Borough as paying agent. Interest on the Bonds will be credited to the Participants (as defined herein) of DTC as listed on the records of DTC as of each next preceding May 15 and November 15, the "Record Dates" for the payment of interest on the Bonds.

The Bonds are being issued to (i) advance refund the 2004 Refunded Bonds (as defined herein), and (ii) to pay certain costs incurred in connection with the authorization, sale and issuance of the Bonds. See "AUTHORIZATION AND PURPOSE OF THE BONDS – Purpose of the Bonds" herein.

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

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

**This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices, to obtain information essential to the making of an informed investment decision.**

*The Bonds are offered when, as and if issued and delivered to the Underwriter (as defined herein), subject to prior sale, to withdrawal or modification of the offer without notice and to approval of legality by the law firm of McManimon & Scotland, L.L.C., Newark, New Jersey and certain other conditions described herein. Delivery is anticipated to be at the offices of the Borough's Bond Counsel, McManimon & Scotland, L.L.C., Newark, New Jersey or at such other place as agreed to with the Underwriter on or about April 18, 2012.*



**RBC Capital Markets®**

Dated: March 29, 2012

**BOROUGH OF HAWTHORNE,  
In the County of Passaic, New Jersey**

**\$4,475,000 GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**

Consisting of:

**\$4,110,000 General Improvement Refunding Bonds, Series 2012A  
and**

**\$365,000 Water Utility Refunding Bonds, Series 2012B  
(BANK QUALIFIED) (NON-CALLABLE) (BOOK-ENTRY ONLY)**

**MATURITIES, INTEREST RATES, YIELDS OR PRICES AND CUSIP NUMBERS**

<b><u>Year</u></b>	<b><u>General Improvement Bonds</u></b>	<b><u>Water Utility Bonds</u></b>	<b><u>Combined Maturities</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield or Price</u></b>	<b><u>CUSIP Number<sup>1</sup></u></b>
2012	\$70,000	\$5,000	\$75,000	2.000%	0.830%	420560 GN8
2013	15,000	--	15,000	2.000	0.880	420560 GV0
2014	560,000	55,000	615,000	2.000	0.880	420560 GP3
2015	595,000	60,000	655,000	2.000	1.070	420560 GQ1
2016	685,000	60,000	745,000	3.000	1.320	420560 GR9
2017	710,000	60,000	770,000	3.000	1.510	420560 GS7
2018	730,000	60,000	790,000	4.000	1.770	420560 GT5
2019	745,000	65,000	810,000	4.000	1.940	420560 GU2

<sup>1</sup> "CUSIP" is a registered trademark of the American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP Numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the Borough does not make any representations with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specified maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

**BOROUGH OF HAWTHORNE,  
IN THE COUNTY OF PASSAIC, NEW JERSEY**

**MAYOR**

Richard S. Goldberg

**COUNCIL MEMBERS**

John Bertollo  
Bruce Bennett  
Frank E. Matthews  
Dominic Mele  
John Lane  
Gary Sinning  
Joseph Wojtecki

**CHIEF FINANCIAL OFFICER**

Mary Jeanne Hewitt

**CLERK**

Susan Witkowski

**BOROUGH ATTORNEY**

Michael Pasquale, Esq.  
Hawthorne, New Jersey

**AUDITOR**

Suplee, Clooney & Company  
Westfield, New Jersey

**BOND COUNSEL**

McManimon & Scotland, L.L.C.  
Newark, New Jersey

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

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

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

The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under Federal Securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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## **OFFICIAL STATEMENT**

**Relating to**

**BOROUGH OF HAWTHORNE,  
In the County of Passaic, New Jersey**

**\$4,475,000 GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**

**Consisting of:**

**\$4,110,000 General Improvement Refunding Bonds, Series 2012A**

**and**

**\$365,000 Water Utility Refunding Bonds, Series 2012B  
(BANK QUALIFIED) (NON-CALLABLE) (BOOK-ENTRY ONLY)**

### **INTRODUCTION**

This Official Statement, which includes the cover page, the inside front cover page and the appendices attached hereto, has been prepared by the Borough of Hawthorne (the "Borough"), in the County of Passaic (the "County"), State of New Jersey (the "State") in connection with the sale and the issuance by the Borough of \$4,475,000 aggregate principal amount of General Obligation Refunding Bonds, Series 2012 consisting of \$4,110,000 General Improvement Refunding Bonds, Series 2012A and \$365,000 Water Utility Refunding Bonds, Series 2012B (the "Bonds"). This Official Statement has been executed by and on behalf of the Borough by its Chief Financial Officer and may be distributed in connection with the sale of the Bonds described herein.

This Official Statement is "deemed final," as of its date, within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12").

### **THE BONDS**

#### **General Description**

The Bonds shall be dated their date of issuance and will mature on June 1, in the years and in the principal amounts as set forth on the inside front cover page hereof. The Bonds shall bear interest from their date, payable semiannually on each June 1 and December 1 (each, an "Interest Payment Date"), commencing June 1, 2012, in each year until maturity, at the rates shown on the inside front cover page hereof.

The Bonds are issuable as fully registered book-entry bonds in the form of one certificate for each maturity of the Bonds and in the principal amount of such maturity. The Bonds may be purchased in book-entry only form in the amount of any integral multiple of \$1,000 with a minimum purchase of \$5,000 required through book-entries made on the books and records of The Depository Trust Company, New York, New York ("DTC") and its participants. So long as DTC or its nominee, CEDE & Co., (or any successor or assign), is the registered owner for the Bonds, payments of the principal of and interest on the Bonds will be made by the Borough directly to CEDE & Co. (or any successor or assign), as nominee for DTC. Interest on the Bonds

will be credited to the participants of DTC as listed on the records of DTC as of each next preceding May 15 and November 15 (the "Record Dates" for the payment of interest on the Bonds). See "Book-Entry Only System" herein.

## **Redemption**

The Bonds of this issue are not subject to optional redemption prior to their stated maturities.

## **Book-Entry Only System**

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of CEDE & CO. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each year of maturity of the Bonds, in the aggregate principal amount of each maturity, 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 a Standard & Poor's rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, CEDE & CO., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct 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 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to CEDE & CO., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Borough or the paying agent, if any, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the

paying agent, if any, or the Borough, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to CEDE & CO. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Borough or the paying agent, if any, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

THE BOROUGH AS PAYING AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, OR THE INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS") SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

### **Discontinuation of Book-Entry Only System**

If the Borough, in its sole discretion, determines that DTC is not capable of discharging its duties, or if DTC discontinues providing its services with respect to the Bonds at any time, the Borough will attempt to locate another qualified Securities Depository. If the Borough fails to find such a Securities Depository, or if the Borough determines, in its sole discretion, that it is in the best interest of the Borough or that the interest of the Beneficial Owners might be adversely affected if the book-entry only system of transfer is continued (the Borough undertakes no obligation to make an investigation to determine the occurrence of any events that would permit it to make such determination) the Borough shall notify DTC of the termination of the book-entry only system.

## **AUTHORIZATION AND PURPOSE OF THE BONDS**

### **Authorization of the Bonds**

The Bonds have been authorized and are being issued pursuant to N.J.S.A. 40A:2-51 of the Local Bond Law (Chapter 2 of Title 40A of the New Jersey Statutes, as amended, the "Local Bond Law"), a refunding bond ordinance of the Borough, finally adopted March 7, 2012 (the "Refunding Bond Ordinance") and a resolution of the Borough, adopted on March 7, 2012, authorizing the sale and issuance of the Bonds (the "Resolution"). On February 8, 2012, the Local Finance Board, Division of Local Government Services in the Department of Community Affairs (the "Local Finance Board"), adopted a resolution approving the adoption of the Refunding Bond Ordinance and issuance of the Bonds.

### **Purpose of the Bonds**

The Bonds are being issued to (i) advance refund \$4,485,000 outstanding aggregate principal amount of the Borough's General Obligation Bonds, Series 2004, dated June 1, 2004, originally issued in the aggregate principal amount of \$7,010,000, consisting of \$6,292,000 original principal amount of General Improvement Bonds and \$718,000 original principal amount of Water Utility Bonds, maturing on June 1 in each of the years 2014 through 2019, inclusive, (the "2004 Refunded Bonds") and (ii) to pay certain costs incurred in connection with the authorization, sale and issuance of the Bonds. The 2004 Refunded Bonds maturing on or after June 1, 2014 are subject to redemption on or after June 1, 2013 at the option of the Borough at a redemption price of 100% of the principal amount of such 2004 Refunded Bonds to be redeemed, plus accrued interest to the date fixed for redemption (the "Redemption Price").

Pursuant to an Escrow Deposit Agreement (the "Escrow Deposit Agreement"), dated the date of issuance of the Bonds by and between the Borough and Deutsche Bank, Jersey City, New Jersey (the "Escrow Agent"), the Borough will irrevocably deposit direct non-callable obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (the "Government Obligations") with the Escrow Agent, which Government Obligations will bear interest at such rates and will mature at such times and in such amounts so that, when paid in accordance with their terms, sufficient moneys will be available to make full and timely payments of the principal of and interest due on the 2004 Refunded Bonds on June 1, 2013 (the "Redemption Date").

## ESTIMATED SOURCES AND USES

The following sets forth the estimated sources and uses of the proceeds from the sale and issuance of the Bonds:

### Sources of Funds:

Par Amount of Bonds	\$4,475,000.00
Original Issue Premium	<u>351,838.40</u>
Total Sources of Funds:	<u><u>\$4,826,838.40</u></u>

### Uses of Funds:

Deposit to Escrow Fund	\$4,753,713.64
Costs of Issuance <sup>(1)</sup>	<u>73,124.76</u>
Total Uses of Funds	<u><u>\$4,826,838.40</u></u>

<sup>(1)</sup> Includes *inter alia* underwriter's discount, credit rating, legal, accounting, printing and fiduciary fees and other expenses incurred in connection with the issuance of the Bonds.

## SECURITY AND SOURCE OF PAYMENT

The Bonds are valid and legally binding general obligations of the Borough, and the Borough has pledged its full faith and credit for the payment of the principal of and the interest on the Bonds. The Borough is required by law to levy *ad valorem* taxes upon all the real property taxable within the Borough for the payment of the principal of and the interest on the Bonds without limitation as to rate or amount.

## MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

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

The authorized bonded indebtedness of the Borough for municipal purposes is limited by statute, subject to the exceptions noted below, to an amount equal to 3½% of its average equalized valuation basis. The average for the last three years of the equalized value of all taxable real property and improvements and certain Class II railroad property within the

boundaries of Borough, as annually determined by the State Director of Taxation is \$2,794,439,574.

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

The Borough has not exceeded its statutory debt limit. As of December 31, 2011, the statutory net debt as a percentage of average equalized valuation was 0.63%. As noted above, the statutory limit is 3½%.

The Borough may exceed its debt limit with the approval of the Local Finance Board, a State regulatory agency, and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, the Borough may apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of the Borough or substantially reduce the ability of the Borough to meet its obligations or to provide essential public improvements and services, or if it makes certain other statutory determinations, approval is granted. In addition, debt in excess of the statutory limit may be issued by the Borough to fund certain notes, to provide for self-liquidating purposes, and, in each fiscal year, to provide for purposes in an amount not exceeding 2/3 of the amount budgeted in such fiscal year for the retirement of outstanding obligations (exclusive of utility and assessment obligations).

The Borough may sell short-term "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or a subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the ordinance creating such capital expenditure, as it may be amended and supplemented. A local unit's bond anticipation notes may be issued for periods not greater than one year. Generally, bond anticipation notes may not be outstanding for longer than ten years. An additional period may be available following the tenth anniversary date equal to the period from the notes' maturity to the end of the tenth fiscal year in which the notes mature plus 4 months (June 1) in the next following fiscal year from the date of original issuance. Beginning in the third year, the amount of notes that may be issued is decreased by the minimum amount required for the first year's principal payment for a bond issue.

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

The foundation of the New Jersey local finance system is the annual cash basis budget. Every local unit must adopt a budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Certain items of revenue and appropriation are regulated by law and the proposed budget must be certified by the Director of the Division ("Director") prior to final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations.

The local unit is authorized to issue Emergency Notes and Special Emergency Notes pursuant to the Local Budget Law.

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

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

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

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

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

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. The maximum amount of delinquent taxes that may be anticipated is limited by a statutory formula, which allows the unit to anticipate collection at the same rate realized for the collection of delinquent taxes in the previous year. Also the local unit is required to make an appropriation for a "reserve for uncollected taxes" in accordance with a statutory formula to provide for a tax collection in an amount that does not exceed the percentage of taxes levied and payable in the preceding fiscal year that was received in cash by December 31 of that year. The budget also must provide for any cash deficits of the prior year.

Emergency appropriations (those made after the adoption of the budget and the determination of the tax rate) may be authorized by the governing body of a local unit. However, with minor exceptions, such appropriations must be included in full in the following year's budget.

The exceptions are certain enumerated quasi-capital projects ("special emergencies") such as ice, snow and flood damage to streets, roads and bridges, which may be amortized over three years, and tax map preparation, re-evaluation programs, revision and codification of

ordinances, master plan preparation and drainage map preparation for flood control purposes, which may be amortized over five years. Of course, emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

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

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

Additionally, legislation constituting P.L. 2010, c. 44, approved July 13, 2010 and applicable to the next local budget year following enactment imposes a 2% cap on the tax levy of a municipality, county, fire district or solid waste collection district, with exceptions only for capital expenditures including debt service, increases in pension contributions and accrued liability for pension contributions in excess of 2%, certain healthcare increases, extraordinary costs directly related to a declared emergency and amounts approved by a simple majority of voters voting at a special election.

Neither the tax levy limitation nor the "Cap Law" limits the obligation of the Borough to levy *ad valorem* taxes upon all taxable real property within the Borough to pay debt service on its bonds or notes.

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than over the next ensuing six years as a General Obligation 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 three years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or from the annual operating budget if the terms were detailed.

### **Tax Assessment and Collection Procedure**

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

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

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

Tax installments not paid on or before the due date are subject to interest penalties of 8% per annum on the first \$1,500.00 of the delinquency and 18% per annum on any amount in excess of \$1,500.00. These interest rates and penalties are the highest permitted under New Jersey Statutes. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes. A table detailing tax title liens is included in Appendix "A".

### **Tax Appeals**

The New Jersey Statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. Prior to February 1 in each year, the Borough 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 Tax Board on or before April 1 for review. The County Board of Taxation has the authority after a hearing to decrease or reject the appeal petition. These

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

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

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

An independent examination of each local unit's accounts must be performed annually by a licensed registered municipal accountant. The audit, conforming to the Division of Local Government Services' "Requirements of Audit", includes recommendations for improvement of the local unit's financial procedures and must be filed with the report, together with all recommendations made, and must be published in a local newspaper within 30 days of its submission. The entire annual audit report for the year ended December 31, 2010 for the Borough is on file with the Clerk and is available for review during business hours.

## **TAX MATTERS**

### **General**

Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code") provides that interest on obligations such as the Bonds is not included in gross income for federal income tax purposes only if certain requirements are met. In its Certificate as to Arbitrage and Compliance with the Code (the "Tax Certificate"), which will be delivered in connection with the issuance of the Bonds, the Borough will make certain representations, certifications of fact, and statements of reasonable expectation in connection with the issuance of the Bonds and certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of the interest on the Bonds from gross income under Section 103(a) of the Code.

In the opinion of Bond Counsel, under existing statutes, regulations, administrative pronouncements and judicial decisions, and in reliance on the representations, certifications of fact, and statements of reasonable expectation made by the Borough in the Tax Certificate and assuming compliance by the Borough with its ongoing covenants in the Tax Certificate, interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes pursuant to the Section 103(a) of the Code and is not an item of tax preference to be included in calculating alternative minimum taxable income under the Code for purposes of the alternative minimum tax imposed with respect to individuals and corporations. Interest on the Bonds held by corporate taxpayers is included in the relevant income computation for calculation of the federal alternative minimum tax imposed on corporations as a result of interest on the Bonds being included in "adjusted current earnings."

## **Certain Federal Tax Consequences Relating to the Bonds**

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

There can be no assurance that legislation will not be introduced or enacted after the issuance and delivery of the Bonds so as to affect adversely the exclusion from gross income for federal income tax purposes of interest on the Bonds. Each purchaser of the Bonds should consult his or her own advisor regarding any changes in the status of pending or proposed federal tax legislation.

### **Bank Qualification**

The Bonds **will be** designated as qualified under Section 265 of the Code by the Borough for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax-exempt obligations.

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

### **IRS Circular 230 Disclosure**

To ensure compliance with requirements imposed by the Internal Revenue Service, any purchaser of a Bond is hereby informed that (i) any U.S. federal tax advice contained in this offering material (including any attachments) is not intended or written by Bond Counsel to the Borough to be used, and that it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Code; (ii) such advice is written to support the promotion or marketing of the transaction(s) or matter(s) addressed by the written advice; and (iii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

### **New Jersey Gross Income Tax**

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

## **Future Events**

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

EACH PURCHASER OF THE BONDS SHOULD CONSULT HIS OR HER OWN ADVISOR REGARDING ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED FEDERAL OR NEW JERSEY STATE TAX LEGISLATION, ADMINISTRATIVE ACTION TAKEN BY TAX AUTHORITIES, OR COURT DECISIONS.

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

## **LITIGATION**

To the knowledge of the Borough Attorney, Michael Pasquale, Esq., Hawthorne, New Jersey, there is no litigation of any nature now pending or threatened, restraining or enjoining the issuance or the delivery of the Bonds, or the levy or the collection of any taxes to pay the principal of or the interest on the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the Borough or the title of any of the present officers. Moreover, to the knowledge of the Borough Attorney, no litigation is presently pending or threatened that, in the opinion of the Borough Attorney, would have a material adverse impact on the financial condition of the Borough if adversely decided.

## **SECONDARY MARKET DISCLOSURE**

The Borough, pursuant to the Resolution, has covenanted for the benefit of the Bondholders and the beneficial owners of the Bonds to provide certain secondary market disclosure information pursuant to the Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12"). Specifically, for so long as the Bonds remain outstanding (unless the Bonds have been wholly defeased), the Borough will provide:

(a) On or prior to 270 days from the end of each fiscal year, beginning with fiscal year ending December 31, 2012, to the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access Data Port (the "MSRB"), and to the appropriate State information depository (the "State Repository"), if any, annual financial information with respect to the Borough consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available by the date of filing) of the Borough and certain financial information and operating data consisting of (i) Borough and overlapping indebtedness including a schedule of outstanding debt issued by the Borough, (ii) the Borough's

most current adopted budget, (iii) property valuation information, and (iv) tax rate, levy and collection data. The audited financial information will be prepared in accordance with modified cash accounting as mandated by State statutory principles in effect from time to time or with generally accepted accounting principles as modified by governmental accounting standards if required by State law and shall be filed electronically and accompanied by identifying information with the MSRB.

(b) In a timely manner not in excess of ten business days after the occurrence of the event, to the MSRB and to the State Repository, if any, notice of any of the following events with respect to the Notes (herein "Material Events"):

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

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

officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(c) Provide in a timely manner to the MSRB and the State Repository notice of failure of the Borough to provide required annual financial information on or before the date specified above.

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

The undertaking may be amended by the Borough from time to time, without the consent of the Bondholders or the beneficial owners of the Bonds, in order to make modifications required in connection with a change in legal requirements or change in law, which in the opinion of nationally recognized bond counsel complies with Rule 15c2-12.

The Borough has previously failed to comply with prior undertakings pursuant to Rule 15c2-12. Specifically, the Borough previously failed to file audited financial information for each of the years 2007 through 2010 and budgets for each of the years 2007 through 2011. The Borough filed the audited financial statements and budgets, together with a notice of failure to file such audited financial statements on March 19 and 20, 2012. The Borough has implemented internal institutional procedures to ensure the timely filing of all secondary market disclosure in accordance with Rule 15c2-12 on a going forward basis.

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

## **MUNICIPAL BANKRUPTCY**

The undertakings of the Borough should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. Section 901, et seq., as amended by Public Law 94-260, approved April 8, 1976, and as further amended on November 6, 1978 by the Bankruptcy Reform Act of 1978, effective October 1, 1979, as further amended by Public Law 100-597, effective November 3, 1988, and as further amended and other bankruptcy laws affecting creditor's rights and municipalities in general. The amendments of P.L. 94-260 replace former Chapter IX and permit the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to file a petition in a court of bankruptcy for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to debt owed for services or material actually provided within three months of the filing

of the petition; directs a petitioner to file a plan for the adjustment of its debts; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount or more than one-half in number of the listed creditors. The 1976 Amendments were incorporated into the Bankruptcy Reform Act of 1978 with only minor changes.

Reference should also be made to N.J.S.A. 52:27-40 et. seq., which provides that a municipality has the power to file a petition in bankruptcy provided the approval of the Municipal Finance Commission has been obtained. The powers of the Municipal Finance Commission have been vested in the Local Finance Board. The Bankruptcy Act specifically provides that Chapter IX does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a municipality must follow in order to take advantage of the provisions of the Bankruptcy Act.

### **APPROVAL OF LEGAL PROCEEDINGS**

All legal matters incident to the authorization, the issuance, the sale and the delivery of the Bonds are subject to the approval of McManimon & Scotland, L.L.C., Newark, New Jersey, Bond Counsel to the Borough, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth as Appendix "C". Certain legal matters will be passed on for the Borough by its Counsel, Michael Pasquale, Esq., Hawthorne, New Jersey.

### **UNDERWRITING**

Pursuant to a Bond Purchase Contract dated the date hereof (the "Purchase Contract"), the Bonds have been purchased from the Borough by RBC Capital Markets, LLC, Florham Park, New Jersey (the "Underwriter"), at a price of \$8,804,463.40, consisting of the par amount of the Bonds (in the amount of \$4,475,000), plus a original issue premium in the amount of \$351,838.40 and less Underwriter's discount in the amount of \$22,375.00. Pursuant to the Purchase Contract, the Underwriter is obligated to purchase all of the Bonds if any Bonds are purchased.

The Underwriter intends to offer the Bonds to the public initially at the offering prices or yields set forth on the inside front cover page of this Official Statement, which may subsequently change without any requirement or prior notice. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices or yields lower than the public offering prices or yields set forth on the inside front cover page, and such public offering prices or yields may be changed, from time to time, by the Underwriter without prior notice.

## **RATING**

Moody's Investors Service, Inc. ("Moody's") has assigned a rating of "Aa2" to the Bonds.

An explanation of the significance of such credit rating may be obtained from Moody's, 7 World Financial Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that such credit rating will continue for any period of time or that such rating will not be revised or withdrawn. Any such revision or withdrawal of such credit rating may have an adverse affect on the market price of these Bonds. Neither the Borough nor the Underwriter have undertaken or will undertake any responsibility to bring to the attention of the owners of the Bonds any proposed change or withdrawal of such credit rating or to oppose any such proposed revision.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The (i) mathematical accuracy of the computation of the adequacy of the maturing principal of and interest earned on the Government Obligations to be purchased to provide for the payment of the Redemption Price on the Redemption Date and (ii) the mathematical computations supporting Bond Counsel's conclusion that the Bonds will not be "arbitrage bonds" under the Code will be verified by Causey Demgen & Moore Inc., Denver, Colorado.

## **PREPARATION OF OFFICIAL STATEMENT**

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

Suplee, Clooney & Company, the Borough's Auditor, has reviewed certain financial and statistical information contained in this Official Statement and has compared it to the Borough's audited financial statements. They have not verified the accuracy of other information or the completeness and fairness of that and other information contained herein, and accordingly, express no opinion with respect thereto. However, they take responsibility for the audited financial statements to the extent specified in the Independent Auditor's Report appearing in Appendix "B".

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

McManimon & Scotland, L.L.C. has 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, expresses no opinion with respect thereto.

## **ADDITIONAL INFORMATION**

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Mary Jeanne Hewitt, Chief Financial Officer, Borough of Hawthorne, 445 Lafayette Avenue, Hawthorne, New Jersey 07506, telephone number (973) 427-5555.

## MISCELLANEOUS

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

## BOROUGH OF HAWTHORNE

By: /s/ Mary Jeanne Hewitt  
Mary Jeanne Hewitt  
Chief Financial Officer

Dated: March 29, 2012

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**APPENDIX A**

**Certain Economic and Demographic Information about the  
Borough of Hawthorne, in the County of Passaic, New Jersey**

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**CERTAIN STATUTORY PROVISIONS FOR THE PROTECTION  
OF GENERAL OBLIGATION DEBT**

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

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

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

This law regulates the non-budgetary financial activities of local governments. An annual, independent audit of the local unit's accounts for the previous year must be performed by a licensed Registered Municipal Accountant. The audit, conforming to the Division of Local Government Services' "Requirements of Audit," includes recommendations for improvement of the local unit's financial procedures and must be filed with the Director within six months after the close of the fiscal year. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within 30 days of its completion.

The chief financial officer of every local unit must file annually with the Director a verified statement of financial condition of the local unit and all constituent boards, agencies or commissions.

The annual audit report is filed with the Borough Clerk and is available for review during business hours.

**Debt Limits (N.J.S.A. 40A:2-6)**

The authorized bonded indebtedness of a municipality in the State of New Jersey is limited by statute, subject to the exceptions noted below, to an amount equal to 3-1/2% of its equalized valuation basis. The equalized valuation basis of the municipality is set by statute as the average for the last three 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.

Certain categories of debt are permitted by statute to be deducted for purposes of computing the statutory debt limit.

On December 31, 2011, the Borough's percentage of statutory net debt was 0.63% and was comprised of the following:

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
General Purposes	\$17,761,421	\$ 613,551	\$17,147,870
Self-Liquidating Purposes	2,021,185	2,021,185	-
School Purposes	<u>11,141,000</u>	<u>11,141,000</u>	_____
	<u>\$30,923,606</u>	<u>\$13,775,736</u>	<u>\$17,147,870</u>

## **Exceptions to Debt Limits - Extensions of Credit (N.J.S.A. 40A:2-7)**

The debt limit of the Borough may be exceeded with the approval of the Local Finance Board, a State regulatory agency. If all or any part of a proposed debt authorization would exceed its debt limit, the Borough must apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the ability of the Borough to meet its obligations or to provide essential services, or makes other statutory determinations, approval is granted. In addition to the aforesaid, debt in excess of the debt limit may be issued without the approval of the Local Finance Board to fund certain notes for self-liquidating purposes and, in each fiscal year, in an amount not exceeding two-thirds of the amount budgeted in such fiscal year for the retirement of outstanding obligations (exclusive of obligations issued for utility or assessment purposes).

## **Short-Term Financing**

The Borough may issue short term “bond anticipation notes” to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or a subsequent resolution so provides. Bond anticipation notes, which are general obligations of the Borough may be issued for a period not exceeding one year. Generally, bond anticipation notes may not be outstanding for longer than 10 years. An additional period may be available following the tenth anniversary date equal to the period from the notes’ maturity to the end of the tenth fiscal year in which the notes mature plus four months in the next following fiscal year from the date of original issuance. Beginning in the third year, the amount of outstanding notes that may be renewed is decreased by the minimum amount required for the first year’s principal payment of bonds in anticipation of which such notes are issued.

## **GENERAL INFORMATION REGARDING THE BOROUGH**

### **Size and Geographical Location**

The Borough is primarily a residential community, with some segregated industrial, commercial and apartment areas, which is located in the eastern part of Passaic County.

The Borough is approximately 3.44 square miles in area and is bounded by the Village of Ridgewood, the Township of Wyckoff, the City of Paterson and the Boroughs of Fair Lawn, Glen Rock, North Haledon and Prospect Park.

### **Governmental Structure**

The Borough, incorporated in the year 1898, is governed by a seven person Municipal Council who are elected for four year staggered terms. The form of government is under the Faulkner Act with a Mayor, Council and Administrator. The services provided by the administrative body on a daily basis in the various departments include: Police, Fire, Public Works, Solid Waste/Recycling, Recreation, Water, Inspection and Library.

Also, numerous volunteer Board and Service committee members are appointed annually to serve in such areas as Planning, Zoning, Health, Recreation, Library, Shade Tree, Civil Defense and Public Assistance.

### **Transportation**

Railroad transportation is provided by N.J. Transit and is available to Hoboken, New Jersey. N.J. Transit bus lines provide service throughout the metropolitan area from neighboring municipalities.

The Borough is approximately a 30 minute drive from New York City via the George Washington Bridge, the Lincoln Tunnel or the Holland Tunnel. Residents have quick and easy access to all parts of New Jersey and New York via Routes 17, 4, 208, 287 and 80, the New Jersey Turnpike and the Garden State Parkway.

### **Utilities**

Electricity and gas are supplied to the Borough by Public Service Electric & Gas Co.

A deep well water system is owned and operated by the Borough and pumps over 3,000,000 gallons of water a day to Borough residents.

### **Public Safety**

The Borough is served by a Fire Department which consists of over 100 volunteers and operates 5 pumpers, 1 ladder truck, 3 chief's vehicles, 1 rescue truck, 1 communication vehicle and 2 boats. Free ambulance and rescue service to the public is operated on a 24 hour a day basis.

The Police department consists of 28 regular officers and 3 detectives, and operates 8 marked vehicles and 4 unmarked vehicles.

### **Sanitation**

The Borough maintains a sanitary sewer system and treatment is provided by user fee membership in the Passaic Valley Sewerage Authority facility in Newark.

The Borough provides garbage collection for all homes on a weekly basis. Curbside recycling collection is provided to all homes on a twice monthly basis while yard waste is picked up on a weekly basis. For both of these services, the Borough contracts with a private contractor.

### **Recreation**

The Borough maintains a modern municipal swimming pool complex on a paid membership basis for the exclusive use of its residents. There are also recreational areas and playgrounds available for the use of Borough residents throughout the year.

### **Educational System**

The local school district is a Type II School District whose boundaries are coterminous with those of the Borough. The School District operates with a Board of Education elected by the voters which consists of nine members and is subject to Title 18A, Education of the New Jersey Statutes.

The School System consists of five schools; three elementary schools, serving grades Pre-K through 5, one middle school serving grades 6-8 and one high school serving grades 9-12.

**Population**

<u>Year</u>	<u>Borough of Hawthorne</u>	<u>County of Passaic</u>
2010	18,791	501,226
2000	18,218	490,377
1990	17,084	470,864
1980	18,200	447,585

Source: U.S. Census Reports

**Employment and Unemployment Comparisons**

For the years 2008 to 2010, the New Jersey Department of Labor reported the following annual average employment information for the Borough of Hawthorne, the County of Passaic and the State of New Jersey:

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
Borough of Hawthorne				
2010	10,970	10,184	786	7.2%
2009	11,004	10,244	760	6.9%
2008	10,860	10,475	385	3.5%
County of Passaic				
2010	243,037	215,693	27,344	11.3%
2009	243,815	216,961	2,654	11.0%
2008	240,413	224,047	16,366	6.8%
State of New Jersey				
2010	4,502,450	4,076,700	425,750	9.5%
2009	4,526,500	4,116,400	410,100	9.1%
2008	4,496,700	4,251,200	245,500	5.5%

Source: New Jersey Department of Labor, Division of Planning & Research.

**Fiscal Year**

The Borough's fiscal year is the calendar year. Chapter 75 of the Pamphlet Laws of 1991 of New Jersey required municipalities with populations in excess of 35,000 or which received Municipal Revitalization Aid from the State in 1990 or 1991 to change their fiscal year from the calendar year to the State fiscal year (July 1 to June 30), unless an exemption is granted. Municipalities not meeting the criteria for a mandatory change have the option to choose to change to the State fiscal year. The Borough did not meet the criteria to change to the State fiscal year.

**Budget Process**

Primary responsibility for the Borough's budget process lies with the Municipal Council. As prescribed by the Local Budget Law, adoption should occur by the end of March, however, extensions may be granted by

the Division to any local governmental unit. In the first quarter in which the budget formulation is taking place, the Borough operates under a temporary budget which may not exceed 26.25% of the previous fiscal year's adopted budget. In addition to the temporary budget, the Borough may approve emergency temporary appropriations for any purpose for which appropriations may lawfully be made.

**Summary of the Borough of Hawthorne Budgets**

	<b>Current Fund (As Adopted)</b>				
	<u><b>2011</b></u>	<u><b>2010</b></u>	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>2007</b></u>
Anticipated Revenues					
Fund Balance	\$1,225,000	\$1,120,000	\$1,460,185	\$1,558,500	\$1,361,000
Miscellaneous Revenues	3,057,098	3,182,465	3,626,923	3,926,717	4,430,490
Receipts from Delinquent Taxes	775,000	776,000	650,000	600,000	490,000
Amount to be Raised by Taxes for Municipal Purposes	<u>13,507,606</u>	<u>13,281,059</u>	<u>12,652,715</u>	<u>11,889,342</u>	<u>11,146,325</u>
<b>Total Anticipated Revenues</b>	<u><b>\$18,564,704</b></u>	<u><b>\$18,359,524</b></u>	<u><b>\$18,389,823</b></u>	<u><b>\$17,974,559</b></u>	<u><b>\$17,427,815</b></u>
Appropriations					
Salaries and Wages	\$6,460,163	\$6,526,267	\$6,600,239	\$6,481,920	\$6,276,855
Other Expenses	7,230,220	7,169,666	7,091,322	7,767,283	7,502,482
Deferred Charges and Statutory Expenditures	1,404,659	1,195,869	1,233,238	332,960	311,390
Capital Improvements	100,000	182,000	252,400	363,500	261,000
Municipal Debt Service	1,919,662	1,885,722	1,912,624	1,761,896	1,846,088
Reserve for Uncollected Taxes	<u>1,450,000</u>	<u>1,400,000</u>	<u>1,300,000</u>	<u>1,267,000</u>	<u>1,230,000</u>
<b>Total Appropriations</b>	<u><b>\$18,564,704</b></u>	<u><b>\$18,359,524</b></u>	<u><b>\$18,389,823</b></u>	<u><b>\$17,974,559</b></u>	<u><b>\$17,427,815</b></u>

**Capital Budget**

In accordance with the Local Budget Law, each local unit should adopt and annually revise a six-year capital program budget if its population is over 10,000. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next six years.

The following is a summary of the adopted capital budget for the years 2011 through 2016:

<u>Year</u>	<u>General</u>
2011	\$1,700,000
2012	2,575,000
2013	1,280,000
2014	1,240,000
2015	1,250,000
2016	<u>1,275,000</u>
	<u>\$9,320,000</u>

**Proposed Sources of Funding**

Capital Improvement Fund	\$ 381,000
Self Liquidating	1,700,000
General - Bonds and Notes	<u>7,239,000</u>
	<u>\$9,320,000</u>

**Comparative Schedule of Fund Balances**

<u>Year</u>	<u>Fund Balance, December 31,</u>	<u>Utilized In Budget of Succeeding Year</u>
<b>Current Fund</b>		
2010	\$3,069,608	\$1,225,000
2009	2,826,134	1,120,000
2008	3,504,360	1,460,185
2007	3,482,320	1,558,500
2006	3,028,000	1,361,000

## TAX INFORMATION ON THE BOROUGH

### Tax Collection Procedures

Real property taxes are assessed locally, based upon assessed value. The tax bill includes a levy for Municipal, County and School purposes. Tax bills are mailed annually in June. Taxes are payable in four quarterly installments on February 1, May 1, August 1, and November 1. If unpaid on these dates, the amount due becomes delinquent and subject to interest at 8% per annum, or 18% on any delinquency amount in excess of \$1,500. A penalty of up to 6% of the delinquency may be imposed on a taxpayer with a delinquency in excess of \$10,000. The school levy is turned over to the Board of Education as expenditures are incurred, and the balance, if any, transferred as of June 30, of each fiscal year. County taxes are paid quarterly on February 15, May 15, August 15 and November 15 to the County by the Borough. Annually, the properties with unpaid taxes for the previous year are placed in a tax sale in accordance with the New Jersey Statutes. Annual in rem tax foreclosure proceedings are instituted to enforce the tax collection or acquisition of title to the property by the Borough.

### Tax Appeals

The New Jersey Statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. The taxpayer has a right to petition the County Board of Taxation on or before the first day of April of the current tax year for review. The County Board of Taxation has the authority after a hearing to decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as cancelled or remitted taxes for that year. If the taxpayer feels his petition was unsatisfactorily reviewed by the County Board of Taxation, appeal may be made to the State Department of Taxation, Division of Tax Appeal, for a further hearing. State tax appeals tend to take several years prior to settlement and any losses in tax collections from prior years are charged directly to operations or with the permission of the Local Finance Board, may be financed, generally over a three to five year period.

### Current Tax Collections

<u>Year</u>	<u>Total Levy</u>	<u>Collection During</u>	
		<u>Amount</u>	<u>Percentage</u>
2010	\$60,315,016	\$59,265,190	98.26%
2009	58,050,608	56,968,858	98.14
2008	55,714,010	54,837,111	98.43
2007	52,645,449	51,867,831	98.52
2006	50,106,591	49,513,160	98.82

### Delinquent Taxes and Tax Title Liens December 31,

<u>Year</u>	<u>Tax Title Liens</u>	<u>Delinquent Taxes</u>	<u>Total</u>	<u>Percentage of Levy</u>
2010	\$784,913	\$982,894	\$1,767,807	2.93%
2009	726,501	931,153	1,657,654	2.91
2008	650,653	778,206	1,428,859	2.56
2007	596,094	712,648	1,308,742	2.49
2006	545,451	525,220	1,070,671	2.14

**Assessed Valuations of Property Owned by  
the Borough Acquired for Taxes**

<u>Year</u>	<u>December 31,</u>
2010	\$34,980
2009	34,980
2008	34,980
2007	34,980
2006	34,980

**Largest Assessments**

The largest assessments in the Borough and their 2012 assessed valuations are listed below:

<u>Taxpayer</u>	<u>Assessed Valuation</u>
Graham Partnership	\$9,000,000
PRT Realty, L.P.	8,726,400
Van Dyks Senior Residence of Hawthorne, LLC	8,500,000
Hawthorne Garden Associates	7,600,000
Hawthorne Acquisition, LLC	6,171,300
Hawthorne Auto Sales Co.	4,706,500
PSAF Dev. Partners LLC	3,030,200
Hawthorne Commons, LLC	3,000,000
Dater Park Apartments, LLC	2,400,000
One Loretto Realty Associates	2,344,700

Source: Borough of Hawthorne Tax Assessor

**Assessed Valuations  
Land and Improvements by Class**

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartment</u>	<u>Total</u>
2012	\$6,828,200	\$1,001,958,800	\$119,826,500	\$78,684,700	\$22,006,700	\$1,229,304,900
2011	6,733,300	1,005,098,500	120,463,600	79,079,100	22,837,000	1,234,211,500
2010	6,449,600	1,006,540,800	120,785,100	79,530,600	22,900,200	1,236,206,300
2009	6,439,700	1,006,280,400	120,954,000	81,547,000	22,900,200	1,238,121,300
2008	9,824,500	994,885,650	121,641,800	83,619,800	22,900,200	1,232,871,950

**Assessed Valuations  
Net Valuation Taxable**

<u>Year</u>	<u>Real Property Net of Exemptions</u>	<u>Business Personal Property</u>	<u>Net Valuation Taxable</u>	<u>Ratio of Assessed Value To True Value Of Real Property</u>	<u>Total True Value Of Assessed Property</u>
2012	\$1,229,304,900	\$495	\$1,229,305,395	49.45%	\$2,827,289,317
2011	1,234,211,500	672,157	1,234,883,657	44.53	2,785,091,603
2010	1,236,206,300	813,464	1,237,019,764	44.67	2,781,923,249
2009	1,238,121,300	809,598	1,239,930,898	43.48	2,862,181,177
2008	1,232,871,950	781,681	1,233,653,631	44.93	2,758,462,759

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

<u>Year</u>	<u>Total</u>	<u>Municipal</u>	<u>Local School</u>	<u>County (1)</u>
2010	\$4.876	\$1.0740	\$2.5970	\$1.2050
2009	4.676	1.0220	2.4920	1.1620
2008	4.487	0.9641	2.3975	1.1254
2007	4.270	0.9110	2.3100	1.0490
2006	4.090	0.8770	2.2140	0.9990

(1) Includes Open Space Tax

**Apportionment of Tax Levy (Including Added and Omitted Assessments)  
Including School and County Purposes**

<u>Year</u>	<u>Total</u>	<u>Municipal</u>	<u>Local School</u>	<u>County (1)</u>
2010	\$60,315,016	\$13,373,053	\$32,119,402	\$14,922,561
2009	58,050,608	12,749,795	30,870,254	14,430,559
2008	55,714,010	12,169,306	29,574,279	13,970,425
2007	52,645,449	11,485,893	28,276,801	12,882,755
2006	50,106,591	10,834,677	27,047,021	12,224,893

(1) Includes Open Space Tax

## DEBT INFORMATION ON THE BOROUGH

### Debt Statements

The Borough must report all new authorizations of debt or changes in previously authorized debt to the Division of Local Government Services, Department of Community Affairs of the State of New Jersey. The Supplemental Debt Statement, as this report is known, must be submitted to the Division before final passage of any debt authorization. Before January 31, of each year, the Borough must file an Annual Debt Statement with the Division. This report is made under oath and states the authorized, issued and unissued debt of the Borough as of the previous December 31. Through the Annual and Supplemental Debt Statements, the Division monitors all local borrowing.

### Debt Incurring Capacity as of December 31, 2011

Municipal:

Equalized Valuations (last 3 years average)	\$2,681,234,771
3 1/2% Borrowing Margin	93,843,217
Net Debt Issued, Outstanding and Authorized	17,147,870
Excess School Borrowing	-
Total Charged to Borrowing Margin	17,147,870
Remaining Municipal Borrowing Capacity	\$76,695,347

Local School:

4% Borrowing Margin	\$107,249,391
Debt Issued, Outstanding and Authorized	11,141,000
Remaining School Borrowing Capacity	\$96,108,391

### Gross and Statutory Net Debt (Exclusive of Overlapping Debt) as of December 31,

<u>Year</u>	<u>Gross Debt</u> <u>Amount</u>	<u>Statutory Net Debt</u>	
		<u>Amount</u>	<u>Percentage</u>
2011	\$30,923,606	\$17,147,870	0.63%
2010	29,906,600	17,661,546	0.63
2009	28,639,284	18,813,889	0.67
2008	28,178,281	17,474,192	0.64
2007	28,729,813	17,100,949	0.67

**BOROUGH OF HAWTHORNE  
STATEMENT OF INDEBTEDNESS  
AS OF DECEMBER 31, 2011**

**MUNICIPAL PURPOSES**

Bonds and Loans Issued and Outstanding		
Bonds	\$10,387,000	
Notes	3,860,000	
Loans	1,886,666	
Bonds and Notes Authorized But Not Issued	<u>1,627,755</u>	\$17,761,421

**WATER UTILITY**

Bonds and Notes Issued and Outstanding	1,997,595	
Bonds and Notes Authorized But Not Issued	<u>23,590</u>	2,021,185

**SCHOOL PURPOSES**

Bonds Issued and Outstanding		<u>11,141,000</u>
------------------------------	--	-------------------

TOTAL GROSS DEBT 30,923,606

**STATUTORY DEDUCTIONS**

Municipal Purposes	613,551	
Water Utility	2,021,185	
School Purposes	<u>11,141,000</u>	<u>13,775,736</u>

TOTAL NET DEBT \$17,147,870

**OVERLAPPING DEBT**

County of Passaic (Note 1)	\$21,352,259
Passaic County Utilities Authority (Note 1)	3,083,976
Passaic Valley Sewerage Commission (Note 2)	<u>3,173,626</u>

TOTAL OVERLAPPING DEBT \$22,654,401

**GROSS DEBT**

Per Capita (18,218)	\$1,697
Percent of Net Valuation Taxable (2011 - \$1,234,883,657)	2.50%
Percent of Estimated True Value of Real Property (2011 - \$2,785,091,603)	1.11%

**NET MUNICIPAL DEBT**

Per Capita (18,218)	\$941
Percent of Net Valuation Taxable (2011 - \$1,234,883,657)	1.38%
Percent of Estimated True Value of Real Property (2011 - \$2,758,091,603)	0.61%

**OVERALL DEBT (GROSS AND OVERLAPPING DEBT)**

Per Capita (18,218)	
Percent of Net Valuation Taxable (2011 - \$1,234,883,657)	
Percent of Estimated True Value of Real Property (2011 - \$2,758,091,603)	

Note (1) Overlapping debt was computed based upon the real property ratio of equalized valuations of the municipality to all municipalities within the County as provided in the 2008 Abstract of Ratables published by the Passaic County Board of Taxation.

Note (2): Based on Borough usage to total usage.

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**APPENDIX B**

**Financial Statements of the  
Borough of Hawthorne, in the County of Passaic, New Jersey**

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# SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

308 East Broad Street, Westfield, New Jersey 07090-2122

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E-mail info@scnco.com

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members  
of the Borough Council  
Borough of Hawthorne  
County of Passaic  
Hawthorne, New Jersey 07506

We have audited the accompanying financial statements - statutory basis of the various individual funds and the account group of the Borough of Hawthorne, County of Passaic, New Jersey as of and for the year ended December 31, 2010, as listed as financial statements - statutory basis in the foregoing table of contents. These financial statements - statutory basis are the responsibility of the management of the Borough of Hawthorne. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 2009 were audited by other auditors whose report dated July 16, 2010 expressed a qualified opinion on those financial statements presented on the statutory basis of accounting due to the presentation of the unaudited LOSAP fund financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and 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. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Borough of Hawthorne, County of Passaic, prepares its financial statements on a basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, that demonstrates compliance with the modified accrual basis, with certain exceptions, and the budget laws of New Jersey, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

# SUPLEE, CLOONEY & COMPANY

In our opinion, because the Borough of Hawthorne prepares its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Borough of Hawthorne, County of Passaic, as of December 31, 2010 or the results of its operations and changes in fund balance for the year then ended or the revenues or expenditures for the year ended December 31, 2010.

However, in our opinion, the financial statements - statutory basis present fairly, in all material respects, the financial position - statutory basis of the various individual funds and the account group of the Borough of Hawthorne, County of Passaic, as of December 31, 2010, and the results of its operations and changes in fund balance - statutory basis for the year then ended and the revenues, expenditures and changes in fund balance - statutory basis for the year ended December 31, 2010, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2011 on our consideration of the Borough of Hawthorne's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements - statutory basis taken as a whole. The information included in the schedules of expenditures of federal awards and state financial assistance and the other supplementary schedules and data listed in the table of contents is presented for purposes of additional analysis as required by the State of New Jersey, Department of Community Affairs, Division of Local Government Services, and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements mentioned above and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

SUPLEE CLOONEY AND COMPANY  
Certified Public Accountants

/s/ Robert B. Cagnassola  
Robert B. Cagnassola, C.P.A., R.M.A

July 29, 2011

**AUDITED FINANCIAL STATEMENTS**

BOROUGH OF HAWTHORNE

CURRENT FUND

BALANCE SHEETS - STATUTORY BASIS

	BALANCE DECEMBER 31, 2011 (Unaudited)	BALANCE DECEMBER 31, 2010	BALANCE DECEMBER 31, 2009
<u>ASSETS</u>			
Cash	\$ 13,166,523.19	\$ 12,525,708.51	\$ 11,850,073.00
Change Fund	310.00	310.00	310.00
Grants Receivable	173,063.48	193,691.44	161,127.00
	<u>13,339,896.67</u>	<u>12,719,709.95</u>	<u>12,011,510.00</u>
Receivables and Other Assets With Full Reserves:			
Delinquent Property Taxes Receivable	1,026,193.23	982,893.85	931,153.00
Tax Title Liens Receivable	859,138.03	784,913.33	726,501.00
Foreclosed Property	34,980.00	34,980.00	34,980.00
Revenue Accounts Receivable	21,832.94	34,786.67	20,789.00
Due Assessment Trust Fund	5,079.58		
Due General Capital Fund			118,541.00
Due Water Utility Operating Fund	20,110.52		125,000.00
	<u>1,967,334.30</u>	<u>1,837,573.85</u>	<u>1,956,964.00</u>
Deferred Charges:			
Emergency Authorizations 40A:4-46	100,000.00		
	<u>100,000.00</u>		
	<u>\$ 15,407,230.97</u>	<u>\$ 14,557,283.80</u>	<u>\$ 13,968,474.00</u>

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

BOROUGH OF HAWTHORNE

CURRENT FUND

BALANCE SHEETS - STATUTORY BASIS

	BALANCE DECEMBER 31, 2011 (Unaudited)	BALANCE DECEMBER 31, 2010	BALANCE DECEMBER 31, 2009
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Liabilities:			
Appropriation Reserves	\$ 327,514.92	\$ 573,679.74	\$ 385,838.00
Encumbrances Payable	651,147.32	641,942.66	872,029.00
Prepaid Taxes	254,622.39	190,046.75	227,355.00
County Taxes Payable	10,036.73	11,858.12	29,468.00
Local District School Taxes Payable	8,221,701.00	7,771,659.00	7,161,237.00
Tax Overpayments	5,421.78		
Accounts Payable	52,000.00	108,250.00	104,026.00
Reserve for Third Party Lien Redemptions			
Fees Payable	22,422.00	17,987.00	17,514.00
Due State of New Jersey-Chapter 20, PL 1971	63,642.30	60,517.30	62,131.00
Due Assessment Trust Fund		1,512.74	69,843.00
Due Animal Control Fund			44.00
Due General Capital Fund	38,645.29	34.93	
Due Public Assistance Trust Fund			285.00
Due Other Trust Fund	3,873.93		997.00
LOSAP Contributions Payable	152,944.25	150,564.00	118,062.00
Unappropriated Reserves for Grants	36,094.29		5,972.00
Appropriated Reserves for Grants	177,032.64	122,049.17	91,754.00
Reserve for U.C.C. Dedicated Revenues			38,821.00
	<u>10,017,098.84</u>	<u>9,650,101.41</u>	<u>9,185,376.00</u>
Reserve for Receivables and Other Assets	1,967,334.30	1,837,573.85	1,956,964.00
Fund Balance	3,422,797.83	3,069,608.54	2,826,134.00
	<u>\$ 15,407,230.97</u>	<u>\$ 14,557,283.80</u>	<u>\$ 13,968,474.00</u>

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENTS OF OPERATIONS  
AND CHANGE IN FUND BALANCE - STATUTORY BASIS

	<u>YEAR 2011</u> (Unaudited)	<u>YEAR 2010</u>	<u>YEAR 2009</u>
<u>REVENUE AND OTHER INCOME</u>			
Fund Balance Utilized	\$ 1,125,000.00	\$ 1,120,000.00	\$ 1,460,185.00
Miscellaneous Revenue Anticipated	3,357,967.70	3,559,341.75	3,763,513.00
Receipts From Delinquent Taxes	975,751.75	921,198.40	774,596.00
Receipts From Current Taxes	61,704,991.12	59,265,189.74	56,968,858.00
Non-Budget Revenue	343,294.08	181,791.98	262,120.00
Other Credits to Income:			
Unexpended Balance of Appropriation Reserves	558,609.03	343,586.48	303,472.00
Accounts Payable Canceled	34,183.20	6,950.12	97,395.00
Grants Canceled	876.05	24,637.61	5,569.00
Senior Citizens' Deductions Allowed- Prior Year	1,250.00		
Interfunds Returned		118,541.00	
<u>Total Income</u>	<u>68,101,922.93</u>	<u>65,541,237.08</u>	<u>63,635,708.00</u>
<u>EXPENDITURES</u>			
Budget Appropriations:			
Operations Within "CAPS":			
Operating	11,284,286.00	11,083,902.00	11,192,450.00
Deferred Charges and Statutory Expenditures	1,403,159.00	1,195,869.00	1,225,453.00
Operations Excluded From "CAPS":			
Operating	2,548,933.58	2,770,296.20	2,598,051.00
Capital Improvements	100,000.00	182,000.00	252,400.00
Municipal Debt Service	1,824,931.20	1,774,415.03	1,877,850.00
Deferred Charges			7,785.00
County Taxes	16,023,350.81	14,922,561.13	14,430,559.00
Local District School Tax	33,437,997.00	32,119,402.00	30,870,254.00
Senior Citizens' Deductions Disallowed- Prior Year			2,250.00
Interfunds Advanced	25,190.10		243,541.00
Grants Receivable Cancelled	30,453.55	42,851.99	876.00
Refund of Prior Year Revenue	45,432.40	86,465.19	152,280.00
<u>Total Expenditures</u>	<u>66,723,733.64</u>	<u>64,177,762.54</u>	<u>62,853,749.00</u>
Excess in Revenue	1,363,474.54	1,363,474.54	781,959.00
Adjustments to Income Before Fund Balance			
Expenditures Included Above Which are by Statute			
Deferred Charges to the Budget of the Succeeding Year	100,000.00		
Statutory Excess to Fund Balance	1,478,189.29	1,363,474.54	781,959.00
<u>Fund Balance</u>			
Balance, January 1	3,069,608.54	2,826,134.00	3,504,360.00
	4,547,797.83	4,189,608.54	4,286,319.00
Decreased by:			
Utilization as Anticipated Revenue	1,125,000.00	1,120,000.00	1,460,185.00
Fund Balance, December 31	\$ <u>3,422,797.83</u>	\$ <u>3,069,608.54</u>	\$ <u>2,826,134.00</u>

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF REVENUES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Unaudited)

	ANTICIPATED		REALIZED	EXCESS OR (DEFICIT)
	BUDGET	SPECIAL N.J.S. 40A:4-87		
Fund Balance Anticipated	\$ 1,125,000.00		\$ 1,125,000.00	
Miscellaneous Revenues:				
Licenses:				
Alcoholic Beverages	40,000.00		40,700.00	\$ 700.00
Other	16,000.00		16,397.00	397.00
Fees and Permits:	106,000.00		112,132.46	6,132.46
Fines and Costs				
Municipal Court	250,000.00		233,854.02	(16,145.98)
Interest and Costs on Taxes	100,000.00		210,628.65	110,628.65
Interest on Investments and Deposits	110,000.00		89,334.13	(20,665.87)
Swimming Pool Admission Fees	120,000.00		149,085.00	29,085.00
Energy Receipts Taxes	1,316,873.00		1,316,873.00	
Consolidated Municipal Property Tax				
Relief Aid	151,405.00		151,405.00	
Rentals - Board of Education	20,000.00		20,000.00	
Rentals - Cellular Phone	290,000.00		320,253.36	30,253.36
Sewer Charges	40,000.00		50,035.58	10,035.58
Cable Television Franchise Fees	142,000.00		172,914.93	30,914.93
Commuter Parking	20,000.00		21,892.00	1,892.00
Uniform Construction Code Fees	190,917.00		268,397.00	77,480.00
State and Federal Revenues Offset With Appropriations:				
Municipal Alliance Program	25,163.00		25,163.00	
Clean Energy		\$ 2,300.00	2,300.00	
Click It or Ticket		4,000.00	4,000.00	
Clean Communities Program		27,835.43	27,835.43	
Recycling Tonnage Grant	34,825.00		34,825.00	
DDEF	3,915.00		3,915.00	
Shade Tree Grant		3,000.00	3,000.00	
Clean Air Cool Cities		2,500.00	2,500.00	
Sustainable NJ		1,000.00	1,000.00	
Alcohol Education Rehabilitation		701.15	701.15	
Special Items of General Revenue Anticipated with Prior Written				
Consent of Director Of Local Government Services				
Uniform Fire Safety Act - Life Hazard	35,000.00		33,825.99	(1,174.01)
Reserve for Payment of Debt Service	45,000.00		45,000.00	
<b>Total Miscellaneous Revenues</b>	<b>3,057,098.00</b>	<b>41,336.58</b>	<b>3,357,967.70</b>	<b>259,533.12</b>
Receipts From Delinquent Taxes	775,000.00		975,751.75	200,751.75
Amount to be Raised by Taxation for Support of Municipal Budget:				
Local Tax for Municipal Purposes	12,581,962.00		12,767,999.31	186,037.31
Minimum Library Tax	925,644.00		925,644.00	
<b>Budget Totals</b>	<b>\$ 18,464,704.00</b>	<b>\$ 41,336.58</b>	<b>19,152,362.76</b>	<b>\$ 646,322.18</b>
Non-Budget Revenue			343,294.08	
			\$ 19,495,656.84	

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF REVENUES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Unaudited)

Allocation of Current Tax Collections:	
Revenue From Collections	\$ 61,704,991.12
Allocated to:	
School and County Taxes	<u>49,461,347.81</u>
Balance for Support of Municipal Budget Appropriations	12,243,643.31
Add: Appropriation-"Reserve for Uncollected Taxes"	<u>1,450,000.00</u>
Amount for Support of Municipal Budget Appropriations	<u>\$ 13,693,643.31</u>
Licenses - Other:	
Borough Clerk	\$ 12,506.00
Board of Health	<u>3,891.00</u>
	<u>\$ 16,397.00</u>
Fees and Permits	
Police Department	\$ 4,177.98
Board of Health/Registrar of Vital Statistics	31,546.00
Public Works Department	14,165.20
Planning Board	400.00
Zoning Board of Adjustment	950.00
Fire Prevention	29,653.00
Other	1,955.08
Building Department	<u>29,375.00</u>
	<u>\$ 112,222.26</u>

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF REVENUES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Unaudited)

Non Budget Revenues	
Recreation	\$ 36,145.00
Administrative Fee - Off Duty Police	59,813.12
Copies, Maps and List	1,203.35
Administrative Fee - Senior Citizens/Veterans Deductions	3,405.29
Tax Searches / Duplicate Tax Bills	1,210.00
Insurance Dividend	99,170.18
FEMA Reimbursement	78,507.79
NSF Check Fees	1,300.04
Other Miscellaneous	<u>62,539.31</u>
	\$ <u><u>343,294.08</u></u>

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF EXPENDITURES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unaudited APPROPRIATIONS		EXPENDED		CANCELED
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	RESERVED	
<u>OPERATIONS WITHIN "CAPS"</u>					
<u>GENERAL GOVERNMENT</u>					
Administrative and Executive:					
Salaries and Wages	\$ 148,229.00	\$ 148,229.00	\$ 148,227.70	1.30	\$
Other Expenses	10,454.00	10,454.00	10,260.10	193.90	
Other Expenses - Postage	16,500.00	16,500.00	16,500.00		
Mayor and Council:					
Salaries and Wages	36,500.00	36,500.00	36,500.00		
Other Expenses	3,112.00	3,112.00	1,485.42	1,626.58	
Municipal Clerk:					
Salaries and Wages	99,816.00	99,816.00	98,688.89	1,127.11	
Other Expenses	32,895.00	32,895.00	27,168.56	5,726.44	
Financial Administration:					
Salaries and Wages	141,340.00	138,340.00	133,593.09	4,746.91	
Other Expenses	16,415.00	16,415.00	16,396.58	18.42	
Audit Services:					
Other Expenses	26,000.00	26,000.00	26,000.00		
Revenue Administration (Tax Collection):					
Salaries and Wages	70,891.00	70,891.00	70,618.90	272.10	
Other Expenses	13,105.00	13,105.00	13,105.00		
Tax Assessment Administration:					
Salaries and Wages	77,566.00	77,566.00	77,566.00		
Other Expenses	20,740.00	20,740.00	20,740.00		
Legal Services:					
Salaries and Wages	85,336.00	77,336.00	77,336.00		
Other Expenses	29,000.00	24,000.00	24,000.00		
Engineering Services:					
Other Expenses	89,215.00	84,215.00	84,215.00		
Future of Hawthorne:					
Other Expenses	2,000.00	2,000.00		2,000.00	
<u>LAND USE ADMINISTRATION</u>					
Planning Board:					
Salaries and Wages	22,471.00	22,471.00	22,471.00		
Other Expenses	700.00	700.00	663.72	36.28	
Zoning Board of Adjustments:					
Salaries and Wages	20,214.00	20,214.00	20,213.97	0.03	
Other Expenses	1,782.00	1,782.00	643.25	1,138.75	
Computerized Data Processing:	25,220.00	25,220.00	24,267.25	952.75	
<u>PUBLIC SAFETY</u>					
Police:					
Salaries and Wages	3,410,134.00	3,475,134.00	3,475,134.00		
Other Expenses	99,311.00	97,311.00	97,311.00		
Police Dispatchers:					
Salaries and Wages	116,038.00	124,038.00	124,038.00		

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF EXPENDITURES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unaudited APPROPRIATIONS		EXPENDED		CANCELED
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	RESERVED	
<u>OPERATIONS WITHIN "CAPS" (CONTINUED)</u>					
<u>PUBLIC SAFETY (CONTINUED)</u>					
Occupational Safety Health Act (NJS 40A:4-45.3):					
Salaries and Wages	\$ 19,507.00	\$ 19,507.00	\$ 19,507.00		\$
Other Expenses	7,580.00	7,580.00	4,931.29	2,648.71	
Emergency Management Services:					
Salaries and Wages	2,000.00	2,000.00	2,000.00		
Other Expenses	4,150.00	4,150.00	3,797.46	352.54	
Ambulance Corps:					
Other Expenses	4,500.00	4,500.00	4,284.00	216.00	
Domestic Violence Response:					
Other Expenses	750.00	750.00	562.50	187.50	
Fire:					
Salaries and Wages	18,200.00	18,200.00	18,200.00		
Other Expenses	192,923.00	192,923.00	192,644.25	278.75	
Other Expenses - Fire Hydrant Service	89,100.00	89,100.00	89,100.00		
Uniform Fire Safety A:					
Salaries and Wages	108,228.00	108,228.00	108,228.00		
Other Expenses	3,886.00	3,886.00	2,938.00	948.00	
Municipal Court:					
Salaries and Wages	156,338.00	156,338.00	155,627.83	710.17	
Other Expenses	11,993.00	11,993.00	10,327.34	1,665.66	
<u>PUBLIC WORKS</u>					
Road Repair and Maintenance:					
Salaries and Wages	554,004.00	554,004.00	547,670.66	6,333.34	
Other Expenses	242,866.00	242,866.00	226,499.83	16,366.17	
Sewer System Maintenance:					
Salaries and Wages	156,788.00	156,788.00	156,788.00		
Other Expenses	73,119.00	73,119.00	31,697.00	41,422.00	
Shade Tree Commission:					
Salaries and Wages					
Other Expenses	79,480.00	99,480.00	99,316.90	163.10	
Solid Waste Collection:					
Salaries and Wages - Recycling	72,887.00	72,887.00	71,759.27	1,127.73	
Other Expenses - Recycling	280,900.00	265,900.00	265,788.50	111.50	
Other Expenses - Garbage Removal - Contractual	304,125.00	304,125.00	304,125.00		
Buildings and Grounds:					
Salaries and Wages	93,745.00	93,745.00	93,745.00		
Other Expenses	90,038.00	90,038.00	83,467.71	6,570.29	
Maintenance of Parks:					
Other Expenses	36,000.00	71,000.00	62,244.89	8,755.11	

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF EXPENDITURES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unaudited		EXPENDED		CANCELED
	APPROPRIATIONS		PAID OR CHARGED	RESERVED	
	BUDGET	BUDGET AFTER MODIFICATION			
<u>PUBLIC WORKS (CONTINUED)</u>					
Vehicle Maintenance:					
Other Expenses	\$ 191,778.00	\$ 235,778.00	233,842.35	1,935.65	\$
Community Services Act:					
Other Expenses	45,000.00	45,000.00	45,000.00		
<u>HEALTH AND HUMAN SERVICES</u>					
Board of Health:					
Salaries and Wages	94,291.00	96,791.00	96,791.00		
Other Expenses	24,759.00	24,759.00	24,573.34	185.66	
Environmental Commission:					
Other Expenses	3,300.00	3,300.00	3,182.81	117.19	
Animal Control Services:					
Other Expenses	8,000.00	8,000.00	8,000.00		
Board of Recreation:					
Salaries and Wages	70,620.00	70,620.00	66,534.76	4,085.24	
Other Expenses	79,370.00	79,370.00	73,383.60	5,986.40	
Swimming Pool:					
Salaries and Wages	89,500.00	81,500.00	77,505.23	3,994.77	
Other Expenses	32,390.00	32,390.00	31,381.20	1,008.80	
<u>OTHER COMMON OPERATING FUNCTIONS</u>					
Committee on Disability Issues:					
Other Expenses					
Celebration of Public Events:					
Other Expenses	25,150.00	25,150.00	25,077.13	72.87	
Bond Fees:					
Other Expenses	10,828.00	8,328.00	8,328.00		
<u>CODE ENFORCEMENT AND ADMINISTRATION</u>					
Uniform Construction Code Enforcement Functions:					
Building Inspector:					
Salaries and Wages	150,303.00	148,303.00	146,349.18	1,953.82	
Other Expenses	40,614.00	40,614.00	40,614.00		
Property Code Enforcement:					
Salaries and Wages	57,406.00	53,406.00	53,406.00		
Other Expenses	3,255.00	3,255.00	3,185.03	69.97	

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF EXPENDITURES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unaudited APPROPRIATIONS		EXPENDED		CANCELED
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	RESERVED	
Salary Adjustment Account					
<u>UTILITY EXPENSES AND BULK PURCHASES</u>					
Electricity	\$ 191,500.00	\$ 206,500.00	\$ 198,328.73	\$ 8,171.27	
Street Lighting	150,000.00	153,500.00	153,500.00		
Telephone	60,000.00	68,000.00	68,000.00		
Gasoline	193,100.00	193,100.00	188,935.49	4,164.51	
Landfill/Solid Waste Disposal Costs:					
Dumping Fees	489,325.00	459,325.00	459,325.00		
Insurance:					
General Insurance	197,139.00	182,139.00	182,139.00		
Worker's Compensation Insurance	130,000.00	130,000.00	130,000.00		
Group Insurance for Employees	1,620,067.00	1,620,067.00	1,564,989.14	55,077.86	
Total Operations Within "CAPS"	11,180,786.00	11,282,286.00	11,089,764.85	192,521.15	
Contingent	2,000.00	2,000.00		2,000.00	
Total Operations Including Contingent Within "CAPS"	11,182,786.00	11,284,286.00	11,089,764.85	194,521.15	
Detail:					
Salaries and Wages	5,872,352.00	5,922,852.00	5,898,499.48	24,352.52	
Other Expenses:	5,310,434.00	5,361,434.00	5,191,265.37	170,168.63	
Deferred Charges and Statutory Expenditures - Municipal Within "CAPS":					
Statutory Charges:					
Social Security System (O.A.S.I.)	249,700.00	249,700.00	219,334.19	30,365.81	
Public Employees' Retirement System of NJ	295,728.00	295,728.00	295,728.00		
Police and Fireman's Retirement System of NJ	849,231.00	849,231.00	849,231.00		
Consolidated Police and Firemen's Pension	10,000.00	8,500.00		8,500.00	
Total Deferred Charges and Statutory Expenditures - Municipal Within "CAPS"	1,404,659.00	1,403,159.00	1,364,293.19	38,865.81	
Total General Appropriations for Municipal Purposes Within "CAPS"	12,587,445.00	12,687,445.00	12,454,058.04	233,386.96	

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF EXPENDITURES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unaudited		EXPENDED		
	APPROPRIATIONS		PAID OR CHARGED	RESERVED	CANCELED
	BUDGET	BUDGET AFTER MODIFICATION			
<u>OPERATIONS EXCLUDED FROM "CAPS"</u>					
Planning Board:					
Other Expenses - Affordable Housing	\$ 5,000.00	\$ 5,000.00	\$	\$ 5,000.00	
Length of Service Award Program (LOSAP)	105,000.00	105,000.00	105,000.00		
Recycling Tax	19,000.00	19,000.00	19,000.00		
Employee Group Insurance					
<u>EDUCATIONAL FUNCTIONS:</u>					
Maintenance of Free Public Library:					
Salaries and Wages	587,811.00	570,311.00	570,311.00		
Other Expenses - Contribution	250,046.00	267,546.00	267,546.00		
Other Expenses - Other Costs	347,145.00	347,145.00	347,145.00		
Sewer Processing and Disposal:					
Other Expenses - Passaic Valley Sewer Rental	1,083,001.00	1,083,001.00	1,083,001.00		
Other Expenses - Other Municipal Projects	20,400.00	20,400.00	19,779.62	620.38	
NJDES Stormwater Permits	20,000.00	20,000.00	4,468.72	15,531.28	
	<u>2,437,403.00</u>	<u>2,437,403.00</u>	<u>2,416,251.34</u>	<u>21,151.66</u>	
<u>Public and Private Programs Offset by Revenues</u>					
NJ Clean Energy Grant(40A:4-87 \$2,300.00)		2,300.00		2,300.00	
Shade Tree Grant (40A:4-87 \$3,000.00)		3,000.00	3,000.00		
Clean AirCool Cities-Community Catalyst(40A:4-87 \$2,500.00)		2,500.00		2,500.00	
Municipal Alliance::					
Grant Funds	25,163.00	25,163.00	24,814.89	348.11	
Local Match	6,291.00	6,291.00	6,239.39	51.61	
Drunk Driving Enforcement Fund	3,915.00	3,915.00		3,915.00	
Recycling Tonnage Grant	34,825.00	34,825.00		34,825.00	
Alcohol Rehab Grant (40A:4-87 \$701.15)		701.15		701.15	
Click It or Ticket Grant(40A:4-87 \$4,000.00)		4,000.00	4,000.00		
Sustainable N.J.(40A:4-87 \$1,000.00)		1,000.00		1,000.00	
Clean Communities Program:					
Salaries and Wages(40A:4-87 \$5,000.00)		5,000.00		5,000.00	
Other Expense(40A:4-87 \$22,835.43)		22,835.43	500.00	22,335.43	
	<u>70,194.00</u>	<u>111,530.58</u>	<u>38,554.28</u>	<u>72,976.30</u>	
<u>Total Public and Private Programs Offset by Revenues</u>	<u>70,194.00</u>	<u>111,530.58</u>	<u>38,554.28</u>	<u>72,976.30</u>	
<u>Total Other Operations Excluded from "CAPS"</u>	<u>2,507,597.00</u>	<u>2,548,933.58</u>	<u>2,454,805.62</u>	<u>94,127.96</u>	
<u>Detail:</u>					
Salaries and Wages	587,811.00	575,311.00	570,311.00	5,000.00	
Other Expenses:	1,919,786.00	1,973,622.58	1,884,494.62	89,127.96	

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

BOROUGH OF HAWTHORNE

CURRENT FUND

STATEMENT OF EXPENDITURES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unaudited		EXPENDED		
	APPROPRIATIONS		PAID OR CHARGED	RESERVED	CANCELED
	BUDGET	BUDGET AFTER MODIFICATION			
<u>CAPITAL IMPROVEMENTS - EXCLUDED FROM "CAPS"</u>					
Capital Improvement Fund	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$	\$
Total Capital Improvements - Excluded from "CAPS"	<u>100,000.00</u>	<u>100,000.00</u>	<u>100,000.00</u>		
 <u>MUNICIPAL DEBT SERVICE - EXCLUDED FROM "CAPS"</u>					
Payment of Bond Principal	1,010,000.00	1,010,000.00	1,010,000.00		
Interest on Bonds	458,286.00	458,286.00	458,282.76		3.24
Interest on Notes	42,170.00	42,170.00	42,049.98		120.02
Loan Repayments for Principal and Interest	<u>409,206.00</u>	<u>409,206.00</u>	<u>314,598.46</u>		<u>94,607.54</u>
Total Municipal Debt Service - Excluded from "CAPS"	<u>1,919,662.00</u>	<u>1,919,662.00</u>	<u>1,824,931.20</u>		<u>94,730.80</u>
Total General Appropriations Excluded from "CAPS"	<u>4,527,259.00</u>	<u>4,568,595.58</u>	<u>4,379,736.82</u>	<u>94,127.96</u>	<u>94,730.80</u>
<u>Subtotal General Appropriations</u>	<u>17,114,704.00</u>	<u>17,256,040.58</u>	<u>16,833,794.86</u>	<u>327,514.92</u>	<u>94,730.80</u>
Reserve for Uncollected Taxes	<u>1,450,000.00</u>	<u>1,450,000.00</u>	<u>1,450,000.00</u>		
Total General Appropriations	\$ <u>18,564,704.00</u>	\$ <u>18,706,040.58</u>	\$ <u>18,283,794.86</u>	\$ <u>327,514.92</u>	\$ <u>94,730.80</u>
Budget as Adopted		\$ 18,564,704.00			
Added by N.J.S. 40A:4-46		100,000.00			
Added by N.J.S. 40A:4-87		<u>41,336.58</u>			
		\$ <u>18,706,040.58</u>			
Cash Disbursed			\$ 16,077,647.54		
Encumbrances Payable			651,147.32		
Length of Service Award Program Contributions Payable			105,000.00		
Reserve for Uncollected Taxes			<u>1,450,000.00</u>		
			\$ <u>18,283,794.86</u>		

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

BOROUGH OF HAWTHORNE

TRUST FUND

BALANCE SHEETS - STATUTORY BASIS

	BALANCE DECEMBER <u>31, 2011</u> (Unaudited)	BALANCE DECEMBER <u>31, 2010</u>	BALANCE DECEMBER <u>31, 2009</u>
<u>ASSETS</u>			
Assessment Trust Fund:			
Cash	\$ 378,084.70	\$ 326,934.10	\$ 195,185.00
Due from Current Fund		1,512.74	69,843.00
Due from Other Trust Fund			4,638.00
Assessments Receivable	100,663.62	145,221.90	148,354.00
Assessments Liens Receivable	10,331.00	10,331.00	10,331.00
Assessment Lien Interest and Costs	2,743.00	2,743.00	2,743.00
Prospective Assessments Funded	<u>40,800.00</u>	<u>40,800.00</u>	<u>40,800.00</u>
	<u>532,622.32</u>	<u>527,542.74</u>	<u>471,894.00</u>
Animal Control Trust Fund:			
Cash	26,735.14	26,027.54	24,996.00
Due From Current Fund			<u>44.00</u>
	<u>26,735.14</u>	<u>26,027.54</u>	<u>25,040.00</u>
Other Trust Funds:			
Cash	1,585,562.89	1,173,531.61	1,257,026.00
Due from Animal Control Fund		133.00	
Due From Current Fund	<u>3,873.93</u>		<u>997.00</u>
	<u>1,589,436.82</u>	<u>1,173,664.61</u>	<u>1,258,023.00</u>
	<u>\$ 2,148,794.28</u>	<u>\$ 1,727,234.89</u>	<u>\$ 1,754,957.00</u>

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

BOROUGH OF HAWTHORNE

TRUST FUND

BALANCE SHEETS - STATUTORY BASIS

	BALANCE DECEMBER <u>31, 2011</u> (Unaudited)	BALANCE DECEMBER <u>31, 2010</u>	BALANCE DECEMBER <u>31, 2009</u>
<u>LIABILITIES, RESERVES AND FUND BALANCES</u>			
Assessment Trust Fund:			
Due to General Capital Fund	\$ 436,968.74	\$ 436,968.74	\$ 381,320.00
Due Current Fund	5,079.58		
Assessment Notes Payable	12,500.00	12,500.00	12,500.00
Reserve for:			
Assessments Receivable	24,194.00	24,194.00	24,194.00
Assessment Liens Receivable	10,331.00	10,331.00	10,331.00
Prospective Assessments Funded	40,800.00	40,800.00	40,800.00
Assessment Lien Interest and Costs	2,743.00	2,743.00	2,743.00
Fund Balance	<u>6.00</u>	<u>6.00</u>	<u>6.00</u>
	<u>532,622.32</u>	<u>527,542.74</u>	<u>471,894.00</u>
Animal Control Trust Fund:			
Due Other Trust Fund		133.00	
Reserve for Animal Control Fund Expenditures	<u>26,735.14</u>	<u>25,894.54</u>	<u>25,040.00</u>
	<u>26,735.14</u>	<u>26,027.54</u>	<u>25,040.00</u>
Other Funds:			
Reserve For:			
Payroll Deductions Payable		3,438.55	91.00
Due to Assessment Trust Fund			4,638.00
Due to State of NJ- Unemployment Claims			2,190.00
Due General Capital Fund	8,100.38		
Various Reserves and Deposits	<u>1,581,336.44</u>	<u>1,170,226.06</u>	<u>1,251,104.00</u>
	<u>1,589,436.82</u>	<u>1,173,664.61</u>	<u>1,258,023.00</u>
	<u>\$ 2,148,794.28</u>	<u>\$ 1,727,234.89</u>	<u>\$ 1,754,957.00</u>

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

BOROUGH OF HAWTHORNE

ASSESSMENT TRUST FUND

STATEMENTS OF CHANGE IN FUND BALANCE - STATUTORY BASIS

	YEAR ENDED DECEMBER <u>31, 2011</u> (Unaudited)	YEAR ENDED DECEMBER <u>31, 2010</u>	YEAR ENDED DECEMBER <u>31, 2009</u>
Balance, January 1	\$ <u>6.00</u>	\$ <u>6.00</u>	\$ <u>6.00</u>
Balance, December 31	\$ <u><u>6.00</u></u>	\$ <u><u>6.00</u></u>	\$ <u><u>6.00</u></u>

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

BOROUGH OF HAWTHORNE

GENERAL CAPITAL FUND

BALANCE SHEETS - STATUTORY BASIS

	BALANCE DECEMBER 31, 2011 (Unaudited)	BALANCE DECEMBER 31, 2010	BALANCE DECEMBER 31, 2009
<u>ASSETS</u>			
Cash	\$ 144,322.16	\$ 1,088,823.24	\$ 928,430.00
Grants Receivable	213,761.22	402,822.77	337,636.00
Due Assessment Trust Fund	436,968.74	436,968.74	381,320.00
Due to Current Fund	38,645.29	34.93	
Loans Proceeds Receivable	530,450.00	959,214.00	561,378.00
Due Other Trust Fund	8,100.38		
Prospective Assessments Raised by Taxation	42,250.00	36,250.00	23,250.00
Deferred Charges to Future Taxation:			
Funded	12,273,666.93	13,598,265.39	14,700,837.00
Unfunded	4,761,403.80	4,194,187.03	3,625,499.00
	<u>\$ 18,449,568.52</u>	<u>\$ 20,716,566.10</u>	<u>\$ 20,558,350.00</u>
 <u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Serial Bonds Payable	\$ 10,387,000.00	\$ 11,397,000.00	\$ 12,367,000.00
NJ Environmental Infrastructure Loans Payable	1,886,666.93	2,201,265.39	2,320,887.00
NJ Economic Development Authority Loans Payable			12,950.00
Bond Anticipation Notes	3,352,500.00	3,352,500.00	1,547,500.00
Improvement Authorizations:			
Funded	657,619.53	780,632.60	919,812.00
Unfunded	674,065.00	997,054.18	2,055,448.00
Capital Improvement Fund	222,763.00	176,263.00	144,363.00
Encumbrances Payable	334,790.88	1,204,918.16	499,689.00
Due to Current Fund			118,541.00
Various Reserves and Deposits	518,133.12	145,810.00	195,810.00
Reserve for Receivables	197,648.46	255,322.77	190,136.00
Reserve for Prospective Assessments	42,250.00	36,250.00	23,250.00
Fund Balance	176,131.60	169,550.00	162,964.00
	<u>\$ 18,449,568.52</u>	<u>\$ 20,716,566.10</u>	<u>\$ 20,558,350.00</u>

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

BOROUGH OF HAWTHORNE

GENERAL CAPITAL FUND

STATEMENTS OF CHANGE IN FUND BALANCE - STATUTORY BASIS

	YEAR ENDED DECEMBER <u>31, 2011</u> (Unaudited)	YEAR ENDED DECEMBER <u>31, 2010</u>	YEAR ENDED DECEMBER <u>31, 2009</u>
Balance, January 1	\$ 169,550.00	\$ 162,964.00	\$ 149,180.00
Increased by:			
Premium on Sale of Bonds and Notes	<u>6,581.60</u>	<u>6,586.00</u>	<u>13,784.00</u>
Balance, December 31	<u>\$ 176,131.60</u>	<u>\$ 169,550.00</u>	<u>\$ 162,964.00</u>

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

BOROUGH OF HAWTHORNE

WATER UTILITY FUND

BALANCE SHEETS - STATUTORY BASIS

	BALANCE DECEMBER <u>31, 2011</u> (Unaudited)	BALANCE DECEMBER <u>31, 2010</u>	BALANCE DECEMBER <u>31, 2009</u>
<u>ASSETS</u>			
Operating Fund:			
Cash	\$ 829,244.94	\$ 567,036.64	\$ 347,650.00
Change Fund	100.00	100.00	100.00
	<u>829,344.94</u>	<u>567,136.64</u>	<u>347,750.00</u>
Receivables with Full Reserves:			
Consumer Accounts Receivable	<u>379,237.05</u>	<u>457,982.22</u>	<u>291,276.00</u>
<u>Total Operating Fund</u>	<u>1,208,581.99</u>	<u>1,025,118.86</u>	<u>639,026.00</u>
Capital Fund:			
Cash	216,449.32	339,032.79	157,741.00
Due Water Utility Operating Fund	23,344.00	6.13	751.00
Loan Proceeds Receivable	307,803.00	307,803.00	604,120.00
Fixed Capital	10,181,434.00	10,181,434.00	10,181,434.00
Fixed Capital Authorized and Uncompleted	<u>895,962.00</u>	<u>919,552.00</u>	<u>1,215,869.00</u>
<u>Total Capital Fund</u>	<u>11,624,992.32</u>	<u>11,747,827.92</u>	<u>12,159,915.00</u>
	<u>\$ 12,833,574.31</u>	<u>\$ 12,772,946.78</u>	<u>\$ 12,798,941.00</u>

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

BOROUGH OF HAWTHORNE

WATER UTILITY FUND

BALANCE SHEETS - STATUTORY BASIS

<u>LIABILITIES, RESERVES AND FUND BALANCE</u>	BALANCE DECEMBER <u>31, 2011</u> (Unaudited)	BALANCE DECEMBER <u>31, 2010</u>	BALANCE DECEMBER <u>31, 2009</u>
Operating Fund:			
Liabilities:			
Appropriation Reserves	38,735.36 \$	\$	26,492.00
Encumbrances Payable	187,329.32	105,969.45	97,998.00
Accounts Payable			16,415.00
Due Water Utility Capital Fund	23,344.00	6.13	751.00
Due Current Fund	20,110.52		125,000.00
Water Rent Overpayments	5,753.52	5,890.18	3,083.00
Accrued Interest on Bonds and Loans	23,928.00	23,928.00	23,928.00
	<u>299,200.72</u>	<u>135,793.76</u>	<u>293,667.00</u>
Reserve for Receivables	379,237.05	457,982.22	291,276.00
Fund Balance	<u>530,144.22</u>	<u>424,576.14</u>	<u>54,083.00</u>
<u>Total Operating Fund</u>	<u>1,208,581.99</u>	<u>1,018,352.12</u>	<u>639,026.00</u>
Capital Fund:			
Serial Bonds Payable	478,000.00	528,000.00	578,000.00
Water Loans Payable	1,519,595.27	1,699,811.71	2,124,698.00
Bond Anticipation Notes	495,000.00	495,000.00	
Improvement Authorizations:			
Funded	42,702.32	378,825.00	675,142.00
Unfunded		176,317.92	230,305.00
Capital Improvement Fund	64,601.00	64,601.00	64,601.00
Reserve For:			
Contracts Payable	47,699.00	36,919.00	252,385.00
Payment of Debt	390,966.00	12,141.00	57,141.00
Amortization	8,514,800.73	8,284,584.29	8,106,015.00
Deferred Amortization	70,000.00	70,000.00	70,000.00
Fund Balance	<u>1,628.00</u>	<u>1,628.00</u>	<u>1,628.00</u>
<u>Total Capital Fund</u>	<u>11,624,992.32</u>	<u>11,747,827.92</u>	<u>12,159,915.00</u>
	<u>12,833,574.31 \$</u>	<u>12,766,180.04 \$</u>	<u>12,798,941.00</u>

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

BOROUGH OF HAWTHORNE  
WATER UTILITY OPERATING FUND  
STATEMENTS OF OPERATIONS  
AND CHANGE IN FUND BALANCE - STATUTORY BASIS

	YEAR ENDED DECEMBER <u>31, 2011</u> (Unaudited)	YEAR ENDED DECEMBER <u>31, 2010</u>	YEAR ENDED DECEMBER <u>31, 2009</u>
<u>REVENUE AND OTHER INCOME REALIZED</u>			
Fund Balance Utilized	\$ 23,344.00	\$ 11,270.00	\$ 11,000.00
Water Rents	2,747,136.41	2,659,475.47	2,243,859.00
Fire Hydrant Service	92,250.00	89,100.00	97,350.00
Miscellaneous	39,866.46	40,276.61	34,696.00
Non-Budget Revenue		4,730.23	1,793.00
Reserve for Payment of Debt		45,000.00	55,000.00
Other Credits to Income:			
Cancellation of Accounts Payable		3,234.02	
Unexpended Balance of Appropriation Reserves	13,558.40	27,688.85	33,838.00
	<u>2,916,155.27</u>	<u>2,880,775.18</u>	<u>2,477,536.00</u>
<u>EXPENDITURES</u>			
Operating	2,293,034.00	2,226,282.00	2,209,398.00
Capital Improvements	76,700.00		
Debt Service	257,165.19	145,646.06	143,037.00
Statutory Expenditures and Deferred Charges	160,344.00	127,000.00	122,000.00
Refund of Prior Years' Revenue		83.98	
	<u>2,787,243.19</u>	<u>2,499,012.04</u>	<u>2,474,435.00</u>
Statutory Excess to Fund Balance	128,912.08	381,763.14	3,101.00
<u>Fund Balance</u>			
Balance, January 1	424,576.14	54,083.00	61,982.00
	553,488.22	435,846.14	65,083.00
Decreased by:			
Utilization by Swimming Pool Operating Budget	23,344.00	11,270.00	11,000.00
Balance, December 31	<u>\$ 530,144.22</u>	<u>\$ 424,576.14</u>	<u>\$ 54,083.00</u>

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

BOROUGH OF HAWTHORNE  
WATER UTILITY CAPITAL FUND  
STATEMENTS OF CHANGE IN FUND BALANCE - STATUTORY BASIS

	YEAR ENDED DECEMBER <u>31, 2011</u> (Unaudited)	YEAR ENDED DECEMBER <u>31, 2010</u>	YEAR ENDED DECEMBER <u>31, 2009</u>
Balance, January 1	\$ <u>1,628.00</u>	\$ <u>1,628.00</u>	\$ <u>1,628.00</u>
Balance, December 31	\$ <u><u>1,628.00</u></u>	\$ <u><u>1,628.00</u></u>	\$ <u><u>1,628.00</u></u>

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

BOROUGH OF HAWTHORNE

WATER UTILITY OPERATING FUND

STATEMENT OF REVENUES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

(Unaudited)

	<u>ANTICIPATED</u>	<u>REALIZED</u>	<u>EXCESS OR (DEFICIT)</u>
Fund Balance Anticipated	\$ 23,344.00	\$ 23,344.00	\$
Water Rents	2,645,697.00	2,747,136.41	101,439.41
Fire Hydrant Service	89,100.00	92,250.00	3,150.00
Miscellaneous	<u>40,000.00</u>	<u>39,866.46</u>	<u>(133.54)</u>
	<u>\$ 2,607,320.00</u>	<u>2,845,122.08</u>	<u>\$ 237,802.08</u>

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

BOROUGH OF HAWTHORNE

WATER UTILITY OPERATING FUND

STATEMENT OF EXPENDITURES - STATUTORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Unaudited)

	APPROPRIATIONS		EXPENDED		<u>CANCELED</u>
	<u>BUDGET</u>	<u>BUDGET AFTER MODIFICATION</u>	<u>PAID OR CHARGED</u>	<u>RESERVED</u>	
Operating:					
Salaries and Wages	\$ 1,058,559.00	\$ 1,058,559.00	\$ 1,037,481.56	\$ 21,077.44	\$
Other Expenses	808,025.00	808,025.00	799,066.08	8,958.92	
General Insurance	166,800.00	166,800.00	166,800.00		
Group Insurance for Employees	232,650.00	232,650.00	232,650.00		
Laboratory Testing and Safe Water Act	27,000.00	27,000.00	19,270.00	7,730.00	
<u>Total Operating</u>	<u>2,293,034.00</u>	<u>2,293,034.00</u>	<u>2,255,267.64</u>	<u>37,766.36</u>	
Capital Improvements:					
Capital Outlay	76,700.00	76,700.00	75,731.00	969.00	
<u>Total Capital Improvements</u>	<u>76,700.00</u>	<u>76,700.00</u>	<u>75,731.00</u>	<u>969.00</u>	
Debt Service:					
Payment of Bond Principal	50,000.00	50,000.00	50,000.00		
Interest on Bonds	20,750.00	20,750.00	20,748.55		1.45
Interest on Notes	10,937.00	10,937.00	6,200.00		4,737.00
Water Supply Rehabilitation Loans	186,376.00	186,376.00	180,216.64		6,159.36
<u>Total Debt Service</u>	<u>268,063.00</u>	<u>268,063.00</u>	<u>257,165.19</u>		<u>10,897.81</u>
Deferred Charges:					
Deferred Charges Unfunded - Ord. 1575	23,344.00	23,344.00	23,344.00		
Statutory Expenditures:					
Contributions To:					
Social Security System (O.A.S.I.)	80,000.00	80,000.00	80,000.00		
Public Employees Retirement System	57,000.00	57,000.00	57,000.00		
<u>Total Deferred Charges &amp; Statutory Expenditures</u>	<u>160,344.00</u>	<u>160,344.00</u>	<u>160,344.00</u>		
	<u>\$ 2,798,141.00</u>	<u>\$ 2,798,141.00</u>	<u>\$ 2,748,507.83</u>	<u>\$ 38,735.36</u>	<u>\$ 10,897.81</u>

BOROUGH OF HAWTHORNE  
PUBLIC ASSISTANCE FUND  
BALANCE SHEETS - STATUTORY BASIS

	<u>DECEMBER</u> <u>31, 2011</u> (Unaudited)	<u>DECEMBER</u> <u>31, 2010</u>	<u>DECEMBER</u> <u>31, 2009</u>
<u>A S S E T S</u>			
Cash	\$ 15,673.59	\$ 17,573.59	\$ 17,053.00
Due from Current Fund			285.00
	<u>15,673.59</u>	<u>17,573.59</u>	<u>17,338.00</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Reserve for Public Assistance	<u>\$ 15,673.59</u>	<u>\$ 17,573.59</u>	<u>\$ 17,338.00</u>

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

BOROUGH OF HAWTHORNE  
GENERAL FIXED ASSETS ACCOUNT GROUP  
BALANCE SHEETS - STATUTORY BASIS

	DECEMBER 31, 2011 (Unaudited)	DECEMBER 31, 2010	DECEMBER 31, 2009
General Fixed Assets:			
Land	\$ 14,686,600.00	\$ 14,686,600.00	\$ 14,686,600.00
Buildings	5,989,500.00	5,989,500.00	5,989,500.00
Machinery and Equipment	<u>10,825,101.00</u>	<u>10,825,101.00</u>	<u>10,284,336.00</u>
<u>TOTAL GENERAL FIXED ASSETS</u>	<u>\$ 31,501,201.00</u>	<u>\$ 31,501,201.00</u>	<u>\$ 30,960,436.00</u>
Investment in General Fixed Assets	<u>\$ 31,501,201.00</u>	<u>\$ 31,501,201.00</u>	<u>\$ 30,960,436.00</u>

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

BOROUGH OF HAWTHORNE

NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Borough of Hawthorne is an instrumentality of the State of New Jersey, established to function as a municipality. A Mayor is elected to serve a term of four years as the Chief Executive Officer. A Council of seven members, consisting of four (4) ward seats and three (3) at-large seats, is elected to serve four year overlapping terms.

Except as noted below, the financial statements of the Borough of Hawthorne include every board, body, officer or commission supported and maintained wholly or in part by funds appropriated by the Borough of Hawthorne, as required by N.J.S.A. 40A:5-5. Accordingly, the financial statements of the Borough of Hawthorne do not include the operations of the public library, volunteer rescue organizations or the local public school district, inasmuch as their activities are administered by separate boards.

B. Description of Funds

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB codification establishes the presentation of basic financial statements into three fund types, the governmental, proprietary and fiduciary funds, as well as government-wide financial reporting that must be used by governmental units when reporting financial position and results of operations in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

The accounting policies of the Borough of Hawthorne 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 respect to public funds. Under this method of accounting, the financial transactions and accounts of the Borough of Hawthorne are organized on the basis of funds and an account group which is different from the fund structure required by GAAP. A fund or account group is an accounting entity with a separate set of self-balancing accounts established to record the financial position and results of operation of a specific government activity. As required by the Division of Local Government Services, the Borough accounts for its financial transactions through the following individual funds and account group:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Description of Funds (Continued)

Current Fund - resources and expenditures for governmental operations of a general nature, including federal and state grant funds.

Trust Fund - 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 capital facilities, other than those acquired in the Current Fund.

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

General Fixed Assets Account Group - utilized to account for property, land, buildings and equipment that have been acquired by other 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 government units. The more significant accounting policies and differences in the State of New Jersey are as follows:

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

Revenues - are recorded when received in cash except for certain amounts which are due from other governmental units. All grants are realized as revenues when anticipated in the Borough's budget. Receivables for property taxes are recorded with offsetting reserves on the balance sheet of the Borough's Current Fund; accordingly, such amounts are not recorded as revenue until collected.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Other amounts that are due the Borough, which are susceptible to accrual, are also recorded as receivables with offsetting reserves and recorded as revenues when received. GAAP requires revenues to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

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 and constitute part of the Borough's statutory Appropriation Reserve balance.

Appropriation reserves covering unexpended 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 and utility bonds and notes are provided on the cash basis, interest on general capital indebtedness is recognized on the cash basis, whereas interest on utility indebtedness is recognized on the accrual basis.

Encumbrances - Contractual orders at December 31 are reported as expenditures through the establishment of encumbrances payable. Under GAAP, encumbrances outstanding at year end are reported as reservations of fund balance because they do not constitute expenditures or liabilities.

Foreclosed Property - Foreclosed property is recorded in the Current Fund at the assessed valuation when such property was acquired and is fully reserved. GAAP requires such property to be recorded in the General Fixed Assets Account Group at its estimated market value.

Sale of Municipal Assets - The proceeds from the sale of municipal assets can be held in a reserve until anticipated as revenue in a future budget. GAAP requires such proceeds to be recorded as a gain or loss on disposition in the year of sale.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

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. GAAP does not require the establishment of an offsetting reserve.

General Fixed Assets - N.J.A.C. 5:30-5.6, Accounting for Governmental Fixed Assets, as promulgated by the Division of Local Government Services, which differs in certain respects from generally accepted accounting principles, requires the inclusion of a statement of general fixed assets of the Borough as part of its financial statements. General fixed assets are defined as nonexpendable personal and real property having a physical existence and a useful life of more than one year. 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.

General Fixed Assets that have been acquired and are utilized in a governmental fund operation are accounted for in the General Fixed Asset Account Group rather than in a governmental fund. No depreciation has been provided on General Fixed Assets or reported in the financial statements.

The Borough has developed a fixed assets accounting and reporting system. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Buildings and land are stated at the assessed value contained in the Borough's table of aggregates.

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.

Inventories of Supplies - the cost of inventories of supplies for all utility funds are recorded as expenditures at the time individual items are purchased. The cost of inventories is not included on the various balance sheets. GAAP requires the cost of inventories to be reported as a current asset for proprietary funds.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Fixed Capital - Water Utility

Accounting for utility fund "fixed capital" remains unchanged under the requirements of N.J.A.C. 5:30-5.6.

Property and equipment purchased or constructed by the Water 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. The fixed capital reported is as taken from the municipal records and does not necessarily reflect the true condition of such fixed capital. 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 cost of acquisition of property, equipment and improvements. The utility does not record depreciation on fixed assets.

D. Basic Financial Statements

The GASB codification also defines the financial statements of a governmental unit to be presented in the basic financial statements in accordance with GAAP. The Borough presents the financial statements listed in the table of contents of the "Requirements of Audit and Accounting Revision of 1987" as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey and which differ from the financial statements required by GAAP.

NOTE 2: CASH AND CASH EQUIVALENTS

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

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

A. Deposits

New Jersey statutes permit the deposit of public funds in institutions which are located in New Jersey and which meet the requirements of the Governmental Unit Deposit Protection Act (GUDPA) or the State of New Jersey Cash Management Fund. GUDPA requires a bank that accepts public funds to be a public depository. A public depository is defined as a state bank, a national bank, or a savings bank, which is located in the State of New Jersey, the deposits of which are insured by the Federal Deposit Insurance Corporation. The statutes also require public depositories to maintain collateral for deposits of public funds that exceed certain insurance limits. All collateral must be deposited with the Federal Reserve Bank or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.00.

The Borough considers change funds; cash in bank, investment in certificates of deposits as cash and cash equivalents. The Borough of Hawthorne has the following cash and cash equivalents at December 31, 2010:

<u>FUND</u>	<u>CASH IN BANK</u>	<u>CASH EQUIVALENTS</u>	<u>OUTSTANDING CHECKS</u>	<u>TOTAL</u>
Current Fund	\$ 11,750,781.66	\$ 878,931.98	\$ (104,005.13)	\$ 12,525,708.51
Assessment Trust Fund	326,979.83		(45.73)	326,934.10
Animal Control Fund	26,168.94		(141.40)	26,027.54
Other Trust Fund	1,246,855.54		(73,323.93)	1,173,531.61
General Capital Fund	1,079,360.60	11,521.36	(2,058.72)	1,088,823.24
Water Utility Operating Fund	577,773.27		(10,736.63)	567,036.64
Water Utility Capital Fund	348,896.58		(9,863.79)	339,032.79
Public Assistance Fund	17,573.59			17,573.59
<u>TOTAL DECEMBER 31, 2010</u>	<u>\$ 15,374,390.01</u>	<u>\$ 890,453.34</u>	<u>\$ (200,175.33)</u>	<u>\$ 16,064,668.02</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. The Borough does not have a specific deposit policy for custodial risk other than those policies that adhere to the requirements of statute. As of December 31, 2010, based upon the coverage provided by FDIC and NJGUDPA, no amount of the bank balance was exposed to custodial risk. Of the cash on balance in the bank, \$380,000.00 was covered by Federal Depository Insurance and \$14,994,344.28 was covered under the provisions of NJGUDPA. \$890,453.34 invested in the New Jersey Cash Management fund (cash equivalents) is uninsured.

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

B. Investments

The purchase of investments by the Borough is strictly limited by the express authority of the New Jersey Local Fiscal Affairs Law, N.J.S.A. 40A:5-15.1. Permitted investments include any of the following type of securities:

1. Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
2. Government money market mutual funds which are purchased from an investment company or investment trust which is registered with the Securities and Exchange Commission under the "Investment Company Act of 1940," 15 U.S.C. 80a-1 et seq., and operated in accordance with 17 C.F.R. § 270.2a-7 and which portfolio is limited to U.S. Government securities that meet the definition of an eligible security pursuant to 17 C.F.R. § 270.2a-7 and repurchase agreements that are collateralized by such U.S. Government securities in which direct investment may be made pursuant to paragraphs (1) and (3) of N.J.S.A. 5-15.1. These funds are also required to be rated by a nationally recognized statistical rating organization;
3. Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
4. Bonds or other obligations of the Local Unit or bonds or other obligations of school districts of which the Local Unit is a part or within which the school district is located;
5. Bonds or other obligations, having a maturity date not more than 397 days from date of purchase, approved by the Division of Investment of the Department of Treasury for investment by Local Units;
6. Local government investment pools that are fully invested in U.S. Government securities that meet the definition of eligible security pursuant to 17 C.F.R. § 270a-7 and repurchase agreements that are collateralized by such U.S. Government securities in which direct investment may be made pursuant to paragraphs (1) and (3) of N.J.S.A. 5-15.1. This type of investment is also required to be rated in the highest category by a nationally recognized statistical rating organization;
7. Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (c.52:18A-90.4); or

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

B. Investments (Continued)

8. Agreements for the repurchase of fully collateralized securities if:
  - a. the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection;
  - b. the custody of collateral is transferred to a third party;
  - c. the maturity of the agreement is not more than 30 days;
  - d. the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (c. 17:19-41); and
  - e. a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2010, the Borough has \$890,453.34 on deposit with the New Jersey Cash Management Fund. Based upon the limitations set forth by New Jersey Statutes 40A:5-15.1, and existing investment practices of the Investment Council of the New Jersey Cash Management Fund, the Borough is generally not exposed to credit risks and interest rate risks for its investments, nor is it exposed to foreign currency risk for its deposits and investments.

NOTE 3: MUNICIPAL DEBT

The Local Bond Law, Chapter 40A:2, governs the issuance of bonds to finance general municipal capital expenditures. All bonds are retired in annual installments within the statutory period of usefulness. All bonds issued by the Borough are general obligation bonds, based by the full faith and credit of the Borough. Bond Anticipation Notes, which are issued to temporarily finance capital projects, shall mature and be paid off within ten years if financed by the issuance of bonds.



NOTE 3: MUNICIPAL DEBT (CONTINUED)

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

Equalized Valuation Basis* - December 31, 2010	<u>\$2,794,439,574</u>
3-1/2% of Equalized Valuation Basis	\$97,805,385.09
Net Debt	<u>17,770,074.32</u>
Remaining (Deficit) Borrowing Power	<u>\$80,035,310.77</u>

\*Equalized Valuation basis is the average of the equalized valuation of Real Estate, including improvements, and the assessed valuation of Class II Railroad Property of the Borough for the last three (3) preceding years.

SCHOOL DEBT DEDUCTION

School debt is deductible up to the extent of 4% of the Average Equalized Assessed Valuation of real property for the Local School District.

CALCULATION OF "SELF-LIQUIDATING PURPOSE"- WATER UTILITY PER N.J.S. 40A:2-45 AT DECEMBER 31, 2010

Cash Receipts from Fees, Rents of Other Charges for Year and Anticipated Surplus	\$2,849,852.31
Deduction:	
Operating and Maintenance Cost	\$2,353,282.00
Debt Service Per Water Utility Account	<u>145,646.06</u>
	<u>2,498,928.06</u>
Excess in Revenue	<u>\$350,924.25</u>

NOTE 3: MUNICIPAL DEBT (CONTINUED)

Long-Term Debt

**General Capital Fund**

**General Serial Bonds:**

\$6,292,000.00 of 2004 General Improvement Bonds due in annual installments of \$300,000.00 to \$777,000.00 through June 2019, interest rates of 4.125%. \$ 5,217,000.00

\$3,285,000.00 of 2005 Refunding Bonds due in annual installments of \$300,000.00 to \$315,000.00 through August 2015, at interest rates of 3.75% to 4.00%. 1,540,000.00

\$3,510,000.00 of 2008 General Improvement Bonds due in annual installments of \$160,000.00 to \$210,000.00 through February 2026 at interest rates of 4.00% to 5.00%. 3,295,000.00

\$1,585,000.00 of 2009 Refunding Bonds due in annual installments of \$20,000.00 to \$215,000.00 through October 2016, at interest rates of 2.00% to 3.50%. 1,345,000.00

\$ 11,397,000.00

**Water Serial Bonds:**

\$718,000.00 of 2004 Water Improvement Bonds due in annual installments of \$50,000.00 to \$68,000.00 through June 2019, interest rates of 4.125%. \$ 528,000.00

NOTE 3: MUNICIPAL DEBT (CONTINUED)

Long-Term Debt

**Intergovernmental Loans:**

General Capital Fund

Environmental Infrastructure Loans:

\$1,489,254 of 1992 Fund Loan due in annual installments of principal of \$82,033.71 to \$82,627.33 through May 2012 interest-free \$164,661.04

\$429,854 of 1994 Fund Loan due in annual installments of principal of \$21,543.02 to \$23,348.59 through March 2014 interest-free 89,977.55

\$1,635,000 of 1998 Trust Loan due in annual installments of principal of \$100,050.76 to \$106,516.59 through May 2012 at interest rates of 4.0% to 5.0%. 206,567.35

\$455,000 of 1998 Trust Loan due in annual installments of principal of \$27,831.33 to \$35,511.55 through May 2012 at interest rates of 4.0% to 5.0%. 126,865.00

\$1,850,450 of 2004 Loans:

Fund Loan due in annual installments of principal only of \$ 47,033.53 to \$48,851.72 through August 2018, interest free 384,444.45

Trust Loan due in annual installments of principal of \$40,000.00 to \$65,000.00 interest at 3.0% to 5.0% 540,000.00

\$513,750 of 2010 Fund Loan due in annual installments of principal of \$18,348.21 to \$27,522.52 through August 2029 interest-free 513,750.00

\$175,000 of 2010 Trust Loan due in annual installments of principal of \$5,000.00 to \$15,000.00 through August 2029 at interest rates of 4.0% to 5.0%. 175,000.00

\$2,201,265.39

Water Capital Fund

Environmental Infrastructure Loans:

\$1,425,000 of 2003 Trust Loan due in annual installments of principal of \$60,000.00 to \$105,000.00 through August 2023 at interest rates of 3.0% to 4.75% \$1,095,000.00

\$1,299,259 of 2003 Fund Loan due in annual installments of principal of \$49,025.52 to \$70,547.53 through August 2023 interest-free 604,811.71

\$1,699,811.71

NOTE 3: MUNICIPAL DEBT (CONTINUED)

Bonds and Notes Authorized But Not Issued

At December 31, 2010, the Borough has authorized but not issued bonds and notes as follows:

General Capital Fund	\$ <u>871,932.86</u>
Assessment Fund	\$ <u>121,027.90</u>
Water Utility Capital Fund	\$ <u>23,590.00</u>

SCHEDULE OF ANNUAL DEBT SERVICE FOR PRINCIPAL AND INTEREST FOR BONDED DEBT ISSUED AND OUTSTANDING DECEMBER 31, 2010

General Capital Fund

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,010,000.00	\$ 458,283.01	\$ 1,468,283.01
2012	1,040,000.00	420,645.01	1,460,645.01
2013	1,240,000.00	375,920.01	1,615,920.01
2014	1,285,000.00	326,363.76	1,611,363.76
2015	1,330,000.00	273,695.01	1,603,695.01
2016	1,125,000.00	216,782.51	1,341,782.51
2017	940,000.00	170,070.00	1,110,070.00
2018	970,000.00	128,838.75	1,098,838.75
2019	987,000.00	86,638.13	1,073,638.13
2020	210,000.00	60,112.50	270,112.50
2021	210,000.00	51,712.50	261,712.50
2022	210,000.00	43,312.50	253,312.50
2023	210,000.00	34,912.50	244,912.50
2024	210,000.00	26,512.50	236,512.50
2025	210,000.00	17,850.00	227,850.00
2026	<u>210,000.00</u>	<u>8,925.00</u>	<u>218,925.00</u>
Total	\$ <u>11,397,000.00</u>	\$ <u>2,700,573.69</u>	\$ <u>14,097,573.69</u>

NOTE 3: MUNICIPAL DEBT (CONTINUED)

SCHEDULE OF ANNUAL DEBT SERVICE FOR PRINCIPAL AND INTEREST FOR BONDED DEBT ISSUED AND OUTSTANDING DECEMBER 31, 2010

Water Utility Capital Fund

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 50,000.00	\$ 20,748.75	\$ 70,748.75
2012	55,000.00	18,583.13	73,583.13
2013	55,000.00	16,314.38	71,314.38
2014	55,000.00	14,045.63	69,045.63
2015	60,000.00	11,673.75	71,673.75
2016	60,000.00	9,198.75	69,198.75
2017	60,000.00	6,723.75	66,723.75
2018	65,000.00	4,145.63	69,145.63
2019	68,000.00	1,402.50	69,402.50
Total	\$ <u>528,000.00</u>	\$ <u>102,836.25</u>	\$ <u>630,836.25</u>

SCHEDULE OF ANNUAL DEBT SERVICE FOR PRINCIPAL AND INTEREST FOR LOANS ISSUED AND OUTSTANDING DECEMBER 31, 2010

<u>CALENDAR YEAR</u>	<u>NJ EIT LOANS - GENERAL CAPITAL</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2011	\$ 343,658.75	\$ 65,542.00	\$ 409,200.75
2012	364,388.70	56,771.35	421,160.05
2013	180,461.19	28,224.34	208,685.53
2014	184,421.47	23,470.32	207,891.79
2015	104,391.03	25,275.00	129,666.03
2016	86,471.56	24,025.00	110,496.56
2017	135,171.23	23,525.00	158,696.23
2018	139,555.84	20,525.00	160,080.84
2019	92,522.31	17,275.00	109,797.31
2020	97,522.31	14,125.00	111,647.31
2021	97,522.31	10,625.00	108,147.31
2022	102,522.31	7,325.00	109,847.31
2023	37,522.31	3,675.00	41,197.31
2024	37,522.31	3,275.00	40,797.31
2025	37,522.31	2,875.00	40,397.31
2026	37,522.31	2,475.00	39,997.31
2027	37,522.31	2,125.00	39,647.31
2028	42,522.31	1,725.00	44,247.31
2029	42,522.52	1,125.00	43,647.52
	\$ <u>2,201,265.39</u>	\$ <u>333,983.01</u>	\$ <u>2,535,248.40</u>

NOTE 3: MUNICIPAL DEBT (CONTINUED)

SCHEDULE OF ANNUAL DEBT SERVICE FOR PRINCIPAL AND INTEREST FOR LOANS ISSUED AND OUTSTANDING DECEMBER 31, 2010

CALENDAR YEAR	NJ EIT LOANS - WATER CAPITAL		
	PRINCIPAL	INTEREST	TOTAL
2011	\$ 343,658.75	\$ 65,542.00	\$ 409,200.75
2012	364,388.70	56,771.35	421,160.05
2013	180,461.19	28,224.34	208,685.53
2014	184,421.47	23,470.32	207,891.79
2015	104,391.03	25,275.00	129,666.03
2016	86,471.56	24,025.00	110,496.56
2017	135,171.23	23,525.00	158,696.23
2018	139,555.84	20,525.00	160,080.84
2019	92,522.31	17,275.00	109,797.31
2020	97,522.31	14,125.00	111,647.31
2021	97,522.31	10,625.00	108,147.31
2022	102,522.31	7,325.00	109,847.31
2023	37,522.31	3,675.00	41,197.31
2024	37,522.31	3,275.00	40,797.31
2025	37,522.31	2,875.00	40,397.31
2026	37,522.31	2,475.00	39,997.31
2027	37,522.31	2,125.00	39,647.31
2028	42,522.31	1,725.00	44,247.31
2029	42,522.52	1,125.00	43,647.52
	<u>\$ 2,201,265.39</u>	<u>\$ 333,983.01</u>	<u>\$ 2,535,248.40</u>

NOTE 4: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2010, which were appropriated and included as anticipated revenue in their own respective funds for the year ending December 31, 2011, were as follows:

Current Fund	\$1,225,000.00
Swimming Pool Operating Fund	23,344.00

NOTE 5: PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied based on the final adoption of the current year municipal budget, and are payable in four installments on February 1, May 1, August 1 and November 1. The Borough bills and collects its own property taxes and also taxes for the County and local school district. The collections and remittance of county and school taxes are accounted for in the Current Fund. Borough property tax revenues are recognized when collected in cash and any receivables are recorded with offsetting reserves on the balance sheet of the Borough's Current Fund.

Taxes collected in advance - Taxes collected in advance and recorded as cash liabilities in the financial statements are as follows:

	BALANCE DECEMBER <u>31, 2010</u>	BALANCE DECEMBER <u>31, 2009</u>
Prepaid Taxes	<u>\$190,046.75</u>	<u>\$227,355.00</u>

NOTE 6: PENSION PLANS

Borough employees, who are eligible for a pension plan, are enrolled in one of three pension systems administered by the Division of Pensions, Treasury Department of the State of New Jersey. The plans are: the Public Employees Retirement System (PERS), the Police and Firemen's Retirement System (PFRS) and the Defined Contribution Retirement Plan (DCRP). The PERS and the PFRS are cost-sharing multiple employer defined benefit plans. The DCRP is a defined contribution plan. The Division annually charges participating government units for their respective contributions to the plans based upon actuarial methods. Certain portions of the costs are contributed by the employees. The Borough's share of pension costs, which is based upon the annual billings received from the State, amounted to \$1,073,655.49 for 2010, \$1,009,344.00 for 2009, and \$885,652.00 for 2008.

Information as to the comparison of the actuarially computed value of vested benefits with the system's assets is not available from the State Retirement System and, therefore, is not presented.

NOTE 7: COMPENSATED ABSENCES

Under the existing policies and labor contracts of the Borough, employees are not permitted to accumulate unused vacation days and sick pay over the life of their working careers in exchange for lump sum distributions at retirement.

NOTE 8: LITIGATION

The Borough Attorney's letter did not indicate any litigation, claims or contingent liabilities that are either not covered by the Borough's insurance carrier or would have a material financial impact on the Borough as of December 31, 2010.

NOTE 9: TAX APPEALS

There are tax appeals filed with the County and State Tax Court of New Jersey requesting a reduction of assessments for the year 2010. Any reduction in assessed valuation will result in a refund of prior years' taxes in the year of settlement, which may be funded from tax revenues through the establishment of a reserve, through direct charges to operations or by the issuance of refunding bonds per N.J.S.A. 40A:2-51.

NOTE 10: CONTINGENT LIABILITIES

The Borough participates in several federal and state financial assistance grant programs. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of funds for eligible purposes. In addition, these programs are also subject to compliance and financial audits by the grantors or their representatives. As of December 31, 2010, the Borough does not believe that any material liabilities will result from such audits.

NOTE 11: RISK MANAGEMENT

The Borough 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. The Borough of Hawthorne is a member of the Morris County Municipal Joint Insurance Fund and the Municipal Excess Liability Joint Insurance Fund (the "Funds"). The Funds are an insured group of municipalities established for the purpose of operating as risk-sharing public entity pools. The funds are insurance purchasing poolings of risk, subject to established limits and deductibles. Each participating municipality receives their own insurance policies. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Borough. Settled claims have not exceeded policy limits in any of the past three fiscal years.

NOTE 11: RISK MANAGEMENT (CONTINUED)

**New Jersey Unemployment Compensation Insurance** - The Borough has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Borough is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Borough is billed quarterly for amounts due to the State. The following table is a summary of Borough contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Borough's trust fund for the 2010 and the previous two years:

<u>Fiscal Year</u>	<u>Interest Earned</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2010	\$ 1,381.15	\$ 10,711.75	\$ 29,666.91	\$ 189,610.99
2009	1,985.00	11,078.00	16,394.00	207,185.00
2008	4,024.00	9,590.00	6,519.00	210,516.00

NOTE 12: INTERFUND RECEIVABLES AND PAYABLES

The following interfund balances remained on the balance sheets at December 31, 2010:

<u>FUND</u>	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
Current Fund	\$	\$ 1,547.67
Trust Funds	1,645.74	437,101.74
General Capital Fund	437,003.67	
Water Utility Operating Fund		6.13
Water Utility Capital Fund	6.13	
	<u>\$ 438,655.54</u>	<u>\$ 438,655.54</u>

All balances resulted from the time lag between the dates that short-term loans were disbursed and the payment between the funds was made.

NOTE 13: POST-EMPLOYMENT BENEFITS (GASB 45)

Plan Description: The Borough provides post-employment healthcare for eligible retirees and their spouses in accordance with established collective bargaining contracts and Borough Code. Employees who retire at age 59 and who have completed 25 years of service with the Borough are eligible to participate. The Borough contributes 50% of the cost of the plan with the remaining 50% of the cost borne by the retiree.

Funding Policy: Medical benefits are funded on a pay-as-you-go basis.

Disclosure Requirements: Under current New Jersey budget and financial reporting requirements, the Borough is not required to recognize any long-term obligations resulting from OPEB on the balance sheets; however, OPEB obligations are required to be disclosed in the Notes to the Financial Statements as required by Local Finance Notice 2009-13.

Contributions to pay for the health premiums of participating retirees in the plan are billed to the Borough on a monthly basis. The Borough's contributions to the plan for the years ended December 31, 2010, 2009 and 2008, were \$16,785.00, \$15,168.00 and \$21,100.00, respectively, which equaled the required pay-as-you-go contributions for each year.

NOTE 14: DEFERRED SCHOOL TAXES

School taxes raised in the calendar year for the school fiscal year (July 1 to June 30) which remain unpaid at December 31 may be deferred to current fund balance in an amount not exceeding fifty percent (50%) of the levy providing the school district has not requisitioned the funds. As of December 31, 2010 the unpaid levy was \$15,723,143.00. The Borough has deferred \$7,951,484.00. The balance of \$7,771,659.00 is reported as a liability as of December 31, 2010.

NOTE 15: LENGTH OF SERVICE AWARD PROGRAM (LOSAP)

The voters of the Borough of Hawthorne approved the adoption of a LOSAP plan at the general election held on November 7, 2000. The first year of service eligibility was the calendar year 2001. The Borough provides tax deferred income benefits for emergency service volunteers of the Volunteer Fire Department and First Aid Organization. Contributions are made solely by the Borough on behalf of those volunteers who meet the eligibility criteria established by Ordinance.

New Jersey statutes establish a minimum contribution of \$100 and a maximum contribution of \$1,150 per year, subject to annual increases as certified annually by the Division of Local Government Services.

NOTE 15: LENGTH OF SERVICE AWARD PROGRAM (LOSAP) (CONTINUED)

The Borough has contributed \$1,076 for 2010 and 2009 for each eligible Plan member.

State regulations require that an annual review be conducted on the Plan's financial statements in accordance with professional standards established by the American Institute of Certified Public Accountants (AICPA). A copy of the 2010 LOSAP Plan financial statements may be obtained by contacting the Borough of Hawthorne, 445 Lafayette Avenue, Hawthorne, NJ.

**APPENDIX C**

**Form of Approving Legal Opinion of Bond Counsel**

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# McMANIMON & SCOTLAND, L.L.C.

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Borough Council of the  
Borough of Hawthorne  
County of Passaic, New Jersey

Dear Council Members:

We have acted as bond counsel to the Borough of Hawthorne, in the County of Passaic, New Jersey (the "Borough") in connection with the issuance by the Borough of \$4,475,000 General Obligation Refunding Bonds, Series 2012, consisting of \$4,110,000 General Improvement Refunding Bonds, Series 2012A and \$365,000 Water Utility Refunding Bonds, Series 2012B (together, the "Bonds"). In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to us, as we have deemed necessary.

The Bonds are issued pursuant to the Local Bond Law of the State of New Jersey, a bond ordinance finally adopted on March 7, 2012 and a resolution of the Borough adopted March 7, 2012.

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

The Borough has covenanted to comply with continuing requirements that must be satisfied subsequent to the issuance of the Bonds in order to preserve tax exemption under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Failure to comply with certain requirements of the Code may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. In the event that the Borough continuously complies with its covenant and in reliance on representations, certifications of fact and statements of reasonable expectations made by the Borough in its Arbitrage and Tax Certificate, it is our opinion that interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103(a) of the Code and is not an item of tax preference to be included in calculating alternative minimum taxable income under the Code for purposes of the alternative minimum tax imposed with respect to individuals and corporations. Interest on the Bonds held by a corporate taxpayer is included in the relevant income computation for calculation of the federal alternative minimum tax as a result of the inclusion of interest on the Bonds included in "adjust current earnings." We express no opinion regarding other federal tax consequences arising with respect to the Bonds. Further, in our opinion, interest on the Bonds and any gain on the sale thereof is not included in gross income under the New Jersey Gross Income Tax Act.

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

Very truly yours,

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