

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
BOROUGH OF FREEHOLD**

**51 West Main Street
Freehold, New Jersey 07728**

FOR THE YEAR ENDED DECEMBER 31, 2010

Presented by

**Richard Gartz, CPA, RMA
Chief Financial Officer
Borough of Freehold**

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BOROUGH OF FREEHOLD

51 West Main Street ~ Freehold, New Jersey 07728-2195

MICHAEL WILSON
Mayor

TRACI DiBENEDETTO
Borough Clerk

JOSEPH B. BELLINA
Business Administrator

April 26, 2011

TO: The Honorable Mayor and Members of the Borough Council

RE: Comprehensive Annual Financial Report for the Year Ended
December 31, 2010

The Comprehensive Annual Financial Report for the Borough of Freehold, County of Monmouth, State of New Jersey, is hereby submitted herewith and includes financial statements and supplemental schedules. I believe it is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operations of the Borough of Freehold as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain maximum understanding of the Borough's financial affairs have been included.

The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical and Auditor's Comments and Recommendations. The Introductory Section includes this transmittal letter and a list of principal officials. The Financial Section includes the annual financial statements and individual fund financial schedules as well as the Independent Auditors' Report. The Statistical Section includes selected financial, economic and demographic information, generally presented on a multi-year basis. Responsibility for completeness and clarity of the report, including disclosures, rests with the Chief Financial Officer and, ultimately, with the Mayor and Council.

The financial statements have been audited by John J. Maley, Jr., CPA, RMA, whose opinion is expressed in the Financial Section. Please note that the Independent Auditors' Report is unqualified and states that the financial statements are presented fairly in conformity with the basis of accounting as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, except for the LOSAP Fund financial statements which have not been audited.

The Single Audit Act of 1984, including all amendments thereto, U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-Profit Organizations" and the New Jersey Office of Management and Budget Circular 04-04, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid" provide the requirements for undergoing an annual single audit. The Borough did not meet the criteria for a single audit for the year ended December 31, 2010.

2010 saw the following roads, walkways, sidewalk and curbs having improvements or overlay completed: Barkalow Avenue, bus station pedestrian walkway, Court Street walkway, Conover, Ward, Vought, Fulton and Sheriff Street.

The Neighborhood Pride Committee continued to sponsor the "Freehold Borough Community Garden". This program allows participants to plant their own garden in a plot of about 100 square feet. Plots are assigned on a first come, first served basis and are clearly marked out for each participant. Water is available as well as on-site composting. The program was very successful and many residents enjoyed the fruits of their labor.

2010 saw changes to the way the Freehold Fire Department operates. The dispatching services that were manned at the firehouse were transferred to the County of Monmouth and a major overhaul to the firehouse was initiated. The Borough of Freehold installed a proximity access system, fire alarm and monitoring system at both the Firehouse and Borough Hall buildings with access by key fobs along with electrical upgrades and outside camera's to monitor the perimeter. A new phone system was installed. The purchase of various equipment which included vehicle chargers, mobile radios, turnout gear, pagers and a new fire chief's vehicle.

The Borough of Freehold purchased a new fuel management system. The new system allows individuals with access to the system via an encoded key to pump their own gas.

2010 saw the State Legislature pass a 2% Tax Levy Cap which is to be implemented with the 2011 Budget. The 2% Cap requires municipalities to limit the increase in the municipal tax levy over the previous year to 2% with exceptions for pension bills (PERS, PFRS), health insurance and others. In conjunction with the 2% Tax Levy Cap the governor instituted a best practices checklist that needed to be submitted to the Division of Local Government Services to see if each municipality was meeting certain criteria when it came to budgeting, financial oversight, etc. The checklist was to be utilized to gain an understanding of which municipalities were deficient in the requested areas and withhold State Aid for those not meeting the criteria. The Borough of Freehold did not have any State Aid withheld as a result of the checklist answers submitted.

Based upon 2010's fiscal information contained in this report and information available to me, along with my familiarity with Freehold Borough, it is not anticipated that the Borough will experience any financial distress in 2011, however, with the implementation of the above mentioned 2% Tax Levy Cap and other factors, The Borough is actively pursuing various cost saving avenues and revenue streams from alternative sources.

CASH MANAGEMENT

Bank balances are insured up to \$250,000 in the aggregate by the Federal Deposit Insurance Corporation for each bank. In addition, the State of New Jersey Governmental Unit Deposit Protection Act ("GUDPA") insures the remaining balance of Funds on Deposit in registered depositories.

The Borough invests all surplus funds for appropriate periods of time as determined by the Chief Financial Officer. During 2010, idle funds were invested with the New Jersey Cash Management Fund, Sun National Bank, Sovereign Bank and Amboy Bank. Amboy Bank investment account offered a rate of 1.25% during 2010 which exceeded all other investment accounts.

ACCOUNTING AND BUDGET INFORMATION

Accounting:

The Borough maintains an on-line, real-time computerized accounting system to record all financial transactions including tax and water-sewer receipts and billing, special assessments, revenue, budget and general ledger, payroll and fixed assets.

In developing and evaluating the Borough's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of controls should not exceed the benefits expected to be derived; and (2) the evaluation of costs and benefits requires estimates and judgment by management.

During the calendar year, financial reports are prepared monthly and distributed to the Mayor and Council, Business Administrator and department heads. The reports detail the monthly transactions and summarize the balance in the appropriations allocated for goods and services.

Management of the Borough is responsible for establishing and maintaining an adequate internal control structure.

Budget:

The Local Budget Law for the State of New Jersey requires every local unit to adopt an operating budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Certain items of revenue and appropriation are regulated by law and the proposed budget must be certified by the Director of the Division (the "Director") prior to the final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for the payment of current debt service, and the Director is required to review the adequacy of such appropriations, unless a specific amount is required by law. The review function, focusing on anticipated revenues, serves to protect the solvency of all local units.

Section 5:30-4 of the New Jersey Administrative Code provides that every local unit that proposes to spend \$25,000 or more on capital equipment, construction or improvements must prepare a Capital Budget. If the Borough's population exceeds 10,000 the Capital Improvement Program shall include by title all projects anticipated for the Budget year and the five succeeding years, with the estimated costs and the anticipated financing by sources and amounts. A six year Capital Improvement Program was adopted as part of the 2010 Budget.

A Capital Budget section included with the Annual Budget does not in itself confer any authorization to raise or expend funds. Rather, it is a document used as a part of the local unit's planning and management program. Specific authorization to expend funds for purposes described in the Capital Budget must be granted separately, through the adoption of a bond ordinance, by appropriating funds from the Capital Improvement Fund, or other lawful means.

The Budget of the Borough is categorized into appropriations by function. Each appropriation represents a service program or division within the Borough. Funds are appropriated to each of the Budget lines by the Mayor and Council in accordance with procedures prescribed by the State of New Jersey Local Budget Law.

Distinct appropriations are required for "Salaries and Wages" and for "Other Expenses". The Borough delineates each appropriation into subaccounts by budget codes.

The Business Administrator and Chief Financial Officer monitor expenditures throughout the fiscal year to ensure that spending remains within the amounts of funds authorized. Budget modifications are processed in the last two months of the year to transfer funds from one area to another as needed.

DEBT ADMINISTRATION

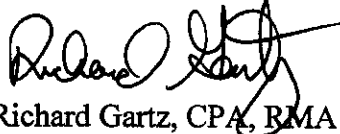
The authorized bonded indebtedness of municipalities in the State of New Jersey is limited by statute to an amount equal to 3½% of their equalized value. The equalized valuation basis of the Borough is set by statute as the average for the last three years of the equalized value of all taxable real property and improvements and certain railroad property within its boundaries as annually determined by the State Board of Taxation.

The Borough has managed its debt well and has outstanding debt equal to 0.62% of its equalized value.

ACKNOWLEDGMENT

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated service of the entire staff of the Finance Department and I would like to express my appreciation for their help and assistance in the preparation of the Borough's Comprehensive Annual Financial Report.

Respectfully submitted,



Richard Gartz, CPA, RMA
Chief Financial Officer

BOROUGH OF FREEHOLD

MUNICIPAL OFFICIALS

DECEMBER 31, 2010

Michael Wilson..... Mayor
Jaye SimsCouncil President
George J. Schnurr.....Councilman
Kevin KaneCouncilman
Sharon Shutzer.....Councilwoman
Michael DiBenedettoCouncilman
John Newman.....Councilman

Joseph B. Bellina Business Administrator
Nancy Forman (retired May 31, 2010)Chief Financial Officer
Richard Gartz, CPA, RMA (effective July 1, 2010).....Chief Financial Officer
Traci L. DiBenedetto Borough Clerk
Mitchell Elias.....Tax Assessor
Henry A. Stryker, III.....Construction Code Official
Mitchell Roth.....Chief of Police
Scott J. Basen, Esq..... Municipal Judge
Kathleen A. Sheedy, Esq.Municipal Prosecutor

BOROUGH OF FREEHOLD
CONSULTANTS AND ADVISORS

DECEMBER 31, 2010

AUDIT FIRM

John J. Maley, Jr. CPA, RMA
Bordentown, NJ 08505

ATTORNEY

Kerry E. Higgins, Esq.
McKenna, DuPont, Higgins & Stone
229 Broad Street
PO Box 610
Red Bank, NJ 07701

BOND COUNSEL

Lomurro, Davison, Eastman & Munuz, PA
100 Willowbrook Road, Bldg 1
Freehold, NJ 07728

ENGINEER

Kranmer Engineering, Inc.
166 Patterson Avenue
Shrewsbury, NJ 07702

BOROUGH OF FREEHOLD

OFFICIAL DEPOSITORIES

DECEMBER 31, 2010

Wachovia Bank, NA NJ
72 West Main Street
Freehold, NJ 07728

TD Bank
Route 537
Freehold, NJ 07728

JP Morgan Chase Bank, NA
59 West Main Street
Freehold, NJ 07728

Amboy National Bank
East Main Street
Freehold, NJ 07728

Sun Bank
31 East Main Street
Freehold, NJ 07728

Investors Savings Bank
Route 9
Freehold, NJ 07728

State of New Jersey Cash Management Fund
2 Montgomery Street
Jersey City, NJ 07302

Sovereign Bank
521 Park Avenue
Freehold, NJ 07728

Municipal Investors Service Corp. (MBIA)
113 King Street
Armonk, NY 10504

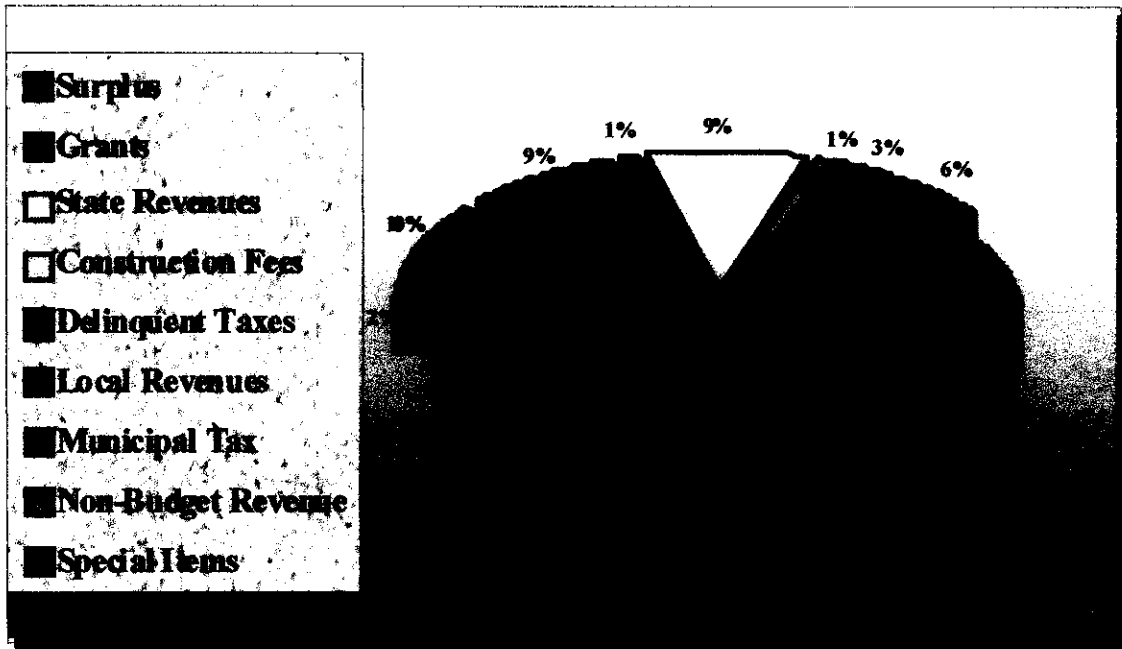
Trust Company
South Street & Park Avenue
Freehold, NJ 07728

Bank of America
1 West Main Street
Freehold, NJ 07728

Freehold Savings & Loan
68 West Main Street
Freehold, NJ 07728

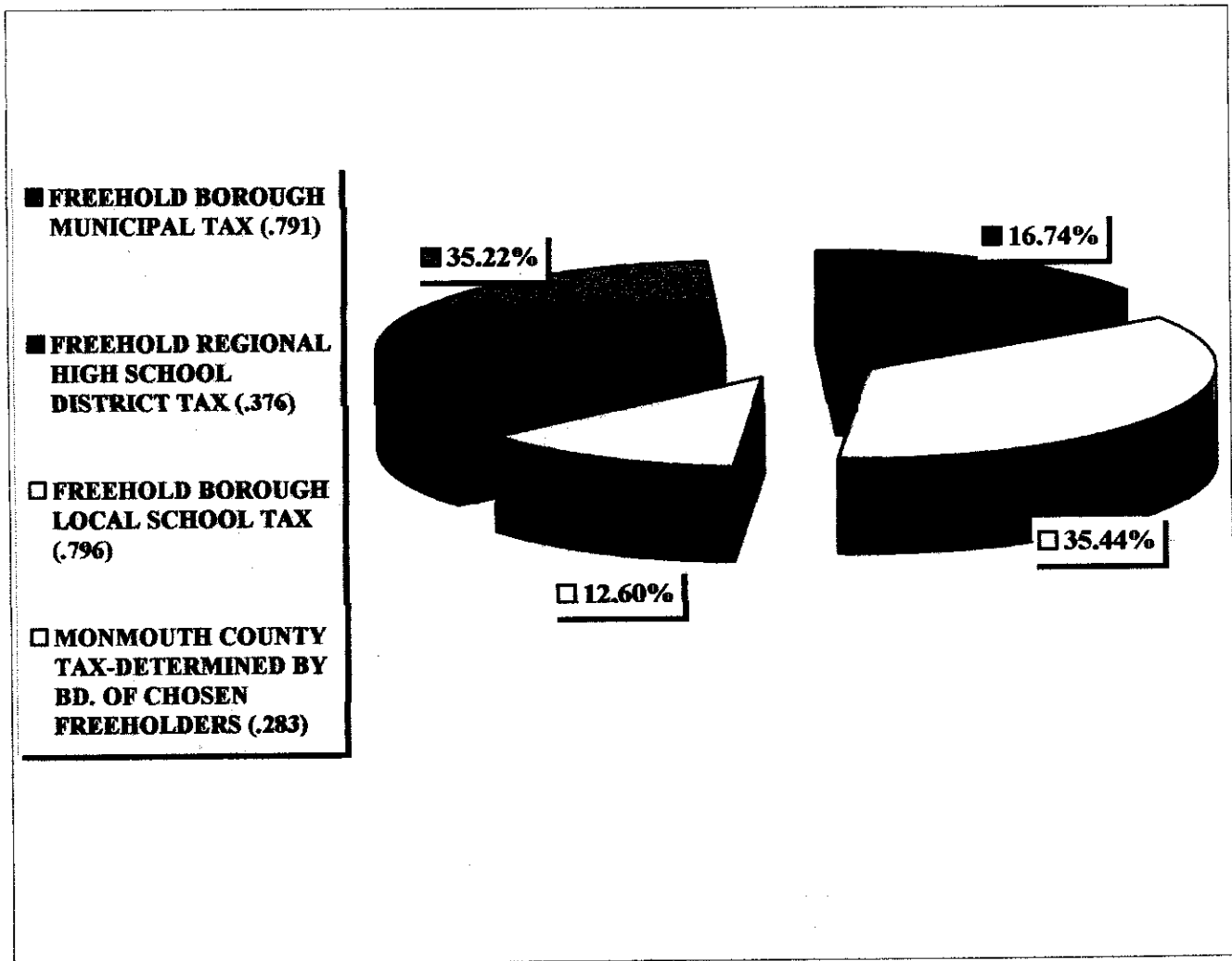
WHERE THE REVENUE COMES FROM

FREEHOLD BOROUGH 2010 REVENUES



<u>TITLES</u>	<u>2010 ANTICIPATED REVENUES</u>	<u>2010 ACTUAL REVENUES</u>
Surplus	\$ 1,375,000.00	\$ 1,375,000.00
Grants	160,292.54	160,292.54
State Revenues	1,250,916.00	1,250,916.00
Construction Fees	145,000.00	157,032.00
Delinquent Taxes	450,000.00	460,299.54
Local Revenues	822,000.00	941,800.52
Municipal Tax	8,533,284.28	8,603,985.40
Non-Budget Revenue	-----	238,952.93
Special Items	<u>1,369,000.00</u>	<u>1,442,940.49</u>
TOTALS	<u>\$ 14,105,492.82</u>	<u>\$ 14,631,219.42</u>

YOUR 2010 TAX RATE 2.246



HOW YOUR 2010 MUNICIPAL TAX DOLLARS WERE SPENT

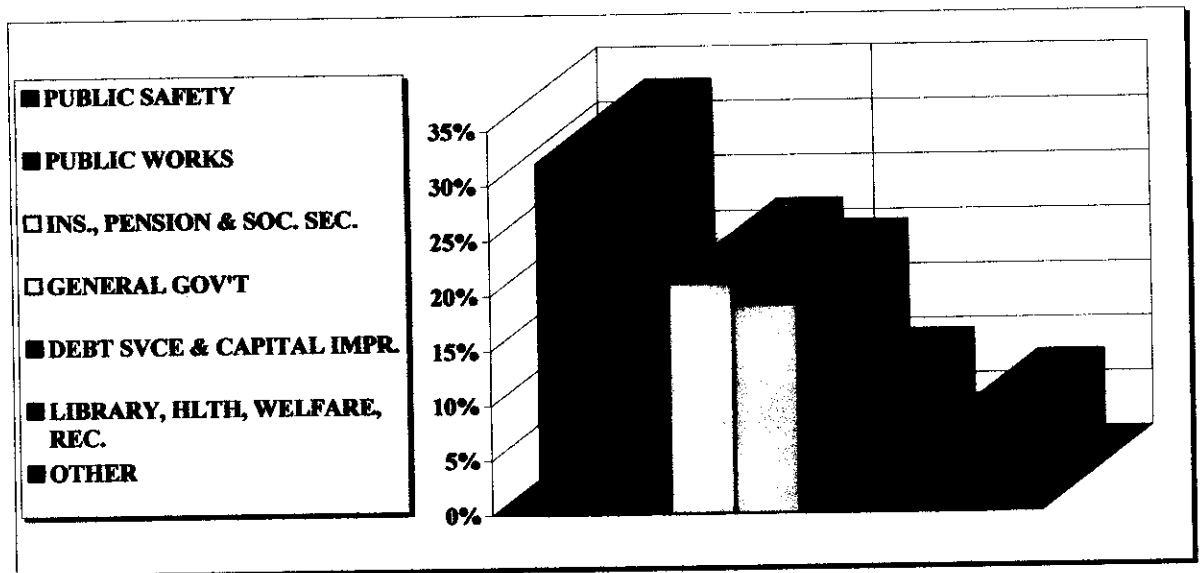
YOUR MUNICIPAL TAX DOLLARS*

\$2,054.08

PUBLIC SAFETY	32%	\$ 657.30
PUBLIC WORKS	9%	184.87
INS., PENSION & SOC. SEC.	21%	431.35
GENERAL GOVERNMENT**	19%	390.28
DEBT SVCE. & CAPITAL IMPR.	9%	184.87
LIBRARY, HEALTH & REC.	3%	61.62
OTHER	<u>7%</u>	<u>143.79</u>
 TOTAL:	 <u>100%</u>	 <u>\$2,054.08</u>

*BASED ON AN AVERAGE ASSESSMENT OF \$259,681.

**INCLUDES LAND USE ADMINISTRATION, CODE ENFORCEMENT, UTILITY EXPENSE & BULK PURCHASES, LANDFILL/SOLID WASTE DISPOSAL AND MUNICIPAL COURT



FINANCIAL SECTION

JOHN J. MALEY, JR.

Certified Public Accountant

Registered Municipal Accountant

P.O. BOX 614

BORDENTOWN, NEW JERSEY 08508

PHONE: (609) 298-8638

FAX: (609) 298-1198

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor
and Members of the Borough Council
Borough of Freehold, County of Monmouth
Freehold, New Jersey 07728

We have audited the accompanying financial statements of the various funds of the Borough of Freehold, County of Monmouth, State of New Jersey (the "Borough") as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Borough of Freehold's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Borough of Freehold as of December 31, 2009 were audited by other auditors whose report dated May 28, 2010 expressed an adverse opinion on those statements because they were not prepared in accordance with generally accepted accounting principles. The auditor's opinion based on the accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in the notes to the financial statements was qualified because the Length of Service Awards Program financial statements were not audited.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control over financial reporting. 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 financial statements previously referred to have been prepared in conformity with accounting practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As described in Note 8 to the financial statements, the Borough provides post employment healthcare benefits for employees. The Division of Local Government Services, Department of Community Affairs, State of New Jersey requires the disclosure of plan information sufficient to meet the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions." The Borough has not obtained the actuarial study necessary to provide the required information, and therefore the disclosures in the notes to the financial statements is incomplete.

In addition, the financial statements of the Length of Service Awards Program Fund (LOSAP) have not been audited, and we were not required by the Division of Local Government Services to audit nor were we engaged to audit the LOSAP Fund financial statements as part of our audit of the Borough's financial statements. The LOSAP Fund financial activities are included in the Borough's Trust Fund, and represent 44.2 percent and 40.2 percent of the assets and liabilities, respectively, of the Borough's Trust Funds as of December 31, 2010 and 2009.

In our opinion, because of the requirement that the Borough prepare its financial statements on the basis of accounting discussed in the third paragraph, the financial statements referred to above do not present fairly the financial position of the Borough of Freehold, County of Monmouth, State of New Jersey, as of December 31, 2010, or the results of its operations and changes in fund balance for the year then ended in conformity with accounting principles generally accepted in the United States of America.

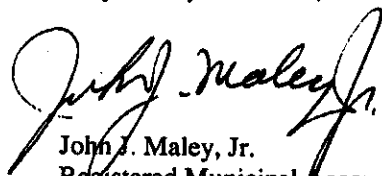
Furthermore, in our opinion, except for the omission of the information relating to the post employment healthcare benefits as described in the fourth paragraph, and except for the effects of such adjustments, if any, as might have been determined to be necessary had the LOSAP Fund financial statements been audited, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, reserves and fund balance-statutory basis of the various funds of the Borough of Freehold, County of Monmouth, State of New Jersey, as of December 31, 2010, and the results of operations and changes in fund balance of such funds for the year then ended, in conformity with accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2011 on our consideration of the Borough of Freehold's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit perform in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Borough of Freehold, in the County of Monmouth, State of New Jersey, taken as a whole. The supplemental schedules of the individual funds listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects, in relation to the financial statements taken as a whole, on the basis of accounting described in Note 1.

The introductory section on pages 1-11 and the statistical section presented as Exhibits H-1 through H-14 are not a required part of the financial statements but are supplementary information required by the State of New Jersey. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



John J. Maley, Jr.
Registered Municipal Accountant No. 218
Certified Public Accountant

April 26, 2011

JOHN J. MALEY, JR.

Certified Public Accountant

Registered Municipal Accountant
P.O. Box 614
BORDENTOWN, NEW JERSEY 08505

PHONE: (609) 298-8639
FAX: (609) 298-1198

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Mayor and
Members of the Borough Council
Borough of Freehold
County of Monmouth
Freehold, New Jersey 07728

We have audited the basic financial statements of the Borough of Freehold, in the County of Monmouth, State of New Jersey, as of and for the year ended December 31, 2010, and have issued our report thereon dated April 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. In our report we expressed an adverse opinion because the financial statements were prepared on a comprehensive basis of accounting other than generally accepted accounting principles. Further, our opinion on the financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles was qualified because of the omission of certain information related to post employment retirement benefits and the Length of Service Awards Programs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Borough of Freehold's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Borough of Freehold's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Borough of Freehold's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

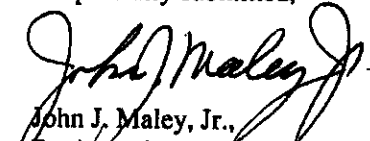
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Borough of Freehold's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2010-01.

The Borough of Freehold's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Borough of Freehold's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the management of Borough of Freehold, the New Jersey State Department of Community Affairs, Division of Local Government Services and other state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



John J. Maley, Jr.,
Registered Municipal Accountant No. 218
Certified Public Accountant

April 26, 2011

GENERAL PURPOSE FINANCIAL STATEMENTS

BOROUGH OF FREEHOLD
COMBINED STATEMENT OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCE -
ALL FUND TYPES AND ACCOUNT GROUPS - STATUTORY BASIS

DECEMBER 31, 2010

(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2009)

	Governmental Funds		Trust Funds	Water-Sewer Utility		General Fixed Assets Account Group	Totals	
	Current	General Capital		Operating	Capital		2010	Memorandum Only 2009
ASSETS AND OTHER DEBITS								
Cash and Cash Equivalents	\$ 3,475,013.32	\$ 4,371,727.98	\$ 892,197.03	\$ 1,808,403.17	\$ 1,329,856.05	\$ 11,877,197.55	\$ 12,080,050.73	
Investments			707,479.61			707,479.61	568,540.74	
Intergovernmental Receivable		569,980.00				569,980.00	119,002.00	
Receivables and Other Assets:								
Delinquent Property Taxes	561,462.57			259,292.55		561,462.57	460,867.97	
Consumer Accounts Receivable				9,198.21		259,292.55	262,705.59	
Inventory						9,198.21	6,595.98	
Tax Title Liens Receivable	25,187.62					25,187.62	8,850.23	
Property Acquired for Taxes - Assessed								
Valuation	173,600.00					173,600.00	173,600.00	
Other Accounts Receivable	48,585.64	295,442.00				344,027.64	395,561.89	
Interfunds Receivable	52,487.37	9,193,000.00				52,487.37	51,017.53	
Deferred Charges					11,945,169.37	9,193,000.00	9,114,200.00	
Fixed Capital						11,945,169.37	11,645,169.37	
Fixed Assets						12,119,345.41	11,970,882.68	
Federal and State Grant Fund:								
Federal and State Grants Receivable	189,127.49					189,127.49	84,197.75	
Interfund Receivable							120,819.45	
Total Assets and Other Debits	\$ 4,525,464.01	\$ 14,430,149.98	\$ 1,599,676.64	\$ 2,076,893.93	\$ 13,275,025.42	\$ 12,119,345.41	\$ 48,026,555.39	\$ 47,062,061.91

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

BOROUGH OF FREEHOLD
COMBINED STATEMENT OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCE -
ALL FUND TYPES AND ACCOUNT GROUPS - STATUTORY BASIS

DECEMBER 31, 2010
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2009)

	Governmental Funds		Trust Funds	Water-Sewer Utility		General Fixed Assets Account Group	Totals	
	Current	General Capital		Operating	Capital		2010	Memorandum Only 2009
LIABILITIES, RESERVES AND FUND BALANCE								
Liabilities and Reserves:								
Appropriation Reserves	\$ 763,018.25			\$ 517,443.63			\$ 1,280,461.88	\$ 1,676,892.41
Other Liabilities and Reserves	1,088,058.84	\$ 2,276,929.65	\$ 1,579,617.42	98,342.55	\$ 326,975.18		5,369,923.64	4,972,630.42
Improvement Authorizations		2,683,779.17			507,858.53		3,191,637.70	2,801,571.97
Accrued interest on Bonds and Notes				25,918.67			25,918.67	30,586.66
Reserve for Amortization					9,007,169.37		9,007,169.37	8,897,169.37
Deferred Reserve for Amortization			20,059.22		141,600.00		141,600.00	126,600.00
Interfunds Payable		32,132.00					52,191.22	171,836.98
Serial Bonds		6,347,000.00			2,128,000.00		8,475,000.00	9,730,000.00
Bond Anticipation Notes		2,680,700.00			573,300.00		3,254,000.00	1,867,600.00
Reserve for Receivables and Other Assets	861,323.20			268,490.76			1,383,123.96	1,326,469.19
Federal and State Grant Fund:								
Interfund Payable	296.15						296.15	
Unappropriated/Appropriated Reserves	188,831.34						188,831.34	205,017.20
Total Liabilities and Reserves	\$ 2,901,527.78	\$ 14,283,850.82	\$ 1,599,676.64	\$ 910,195.61	\$ 12,684,903.08		\$ 32,380,153.93	\$ 31,606,374.20
Equity and Other Credits:								
Investment in General Fixed Assets								
Fund Balance	\$ 1,623,936.23	\$ 146,299.16		\$ 1,166,698.32	\$ 590,122.34		\$ 12,119,345.41	\$ 11,970,882.68
Total Equity and Other Credits	\$ 1,623,936.23	\$ 146,299.16		\$ 1,166,698.32	\$ 590,122.34		\$ 15,646,401.46	\$ 15,455,687.71
Total Liabilities, Reserves and Fund Balance	\$ 4,525,464.01	\$ 14,430,149.98	\$ 1,599,676.64	\$ 2,076,893.93	\$ 13,275,025.42		\$ 48,026,555.39	\$ 47,062,061.91

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

BOROUGH OF FREEHOLD
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CURRENT AND WATER-SEWER UTILITY OPERATING FUNDS - STATUTORY BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

	Current Fund		Water-Sewer Utility Operating Fund		Variance Favorable (Unfavorable)
	Final Budget	Actual	Final Budget	Actual	
Revenues:					
Fund Balance Anticipated	\$ 1,375,000.00	\$ 1,375,000.00	\$ 480,795.00	\$ 480,795.00	\$ 373,143.26
Water-Sewer Rents	2,336,000.00	2,541,773.01	5,000,000.00	5,373,143.26	28,667.82
Miscellaneous Revenues	1,250,916.00	1,250,916.00	154,600.00	183,267.82	
State Aid	160,292.54	160,292.54			
Federal and State Grants					
	\$ 5,122,208.54	\$ 5,327,981.55	\$ 5,635,395.00	\$ 6,037,206.08	\$ 401,811.08
Receipts from Delinquent Taxes					
Amount to be Raised for Support of Municipal Budget:	450,000.00	460,299.54	10,299.54		
Local Tax for Municipal Purposes Including Reserve for Uncollected Taxes	8,533,284.28	8,603,985.40	70,701.12		
	\$ 14,105,492.82	\$ 14,392,266.49	\$ 286,773.67	\$ 6,037,206.08	\$ 401,811.08
Budget Totals					
Non-budget Revenues		238,952.93	238,952.93		
Other Credits to Income		978,051.97	978,051.97		
Taxes Allocated to School, County and Special District	15,939,198.43	15,939,198.43		733,405.28	733,405.28
Total Revenues	\$ 30,044,691.25	\$ 31,548,469.82	\$ 1,503,778.57	\$ 6,770,611.36	\$ 1,135,216.36

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

BOROUGH OF FREEHOLD
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CURRENT AND WATER-SEWER UTILITY OPERATING FUNDS - STATUTORY BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

	Current Fund		Water-Sewer Utility Operating Fund	
	Final Budget	Actual	Final Budget	Actual
				Variance Favorable (Unfavorable)
Expenditures:				
Current:				
Within "CAPS":				
General Government	\$ 864,101.00	\$ 864,101.00		
Land Use Administration	58,686.00	58,686.00		
Code Enforcement/Uniform Construction Code	327,605.00	327,605.00		
Insurance	1,658,848.00	1,658,848.00		
Public Safety	4,091,768.00	4,091,768.00		
Public Works	1,260,467.00	1,260,467.00		
Health and Human Services	16,405.00	16,405.00		
Parks and Recreation	66,900.00	66,900.00		
Utility Expense and Bulk Purchases	449,500.00	449,500.00		
Landfill/Solid Waste Disposal	441,288.00	441,288.00		
Contingent	2,000.00	2,000.00		
Municipal Court	390,550.00	390,550.00		
Deferred Charges and Statutory Expenditures Excluded from "CAPS":	646,109.00	646,109.00		
Library	392,605.00	392,605.00		
Insurance and Pensions	604,925.00	604,925.00		
Landfill/Solid Waste Disposal	99,768.00	99,768.00		
Interlocal Service Agreements	175,000.00	175,000.00		
Due to Local and Regional School Districts - Business Personal Property Adjustment	106,629.00	106,629.00		
State and Federal Grants	384,507.79	384,507.79		
Operating			\$ 5,015,150.00	\$ 5,015,150.00
Capital Improvements	35,000.00	35,000.00	25,000.00	25,000.00
Debt Service	1,280,129.00	1,280,129.00	411,102.00	411,102.00
Deferred Charges and Statutory Expenditures Reserve for Uncollected Taxes	752,702.03	752,702.03	184,143.00	184,143.00
Total Budget Expenditures	\$ 14,105,492.82	\$ 14,105,492.82	\$ 5,635,395.00	\$ 5,635,395.00

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

BOROUGH OF FREEHOLD
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CURRENT AND WATER-SEWER UTILITY OPERATING FUNDS - STATUTORY BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

	Current Fund		Water-Sewer Utility Operating Fund		Variance Favorable (Unfavorable)
	Final Budget	Actual	Final Budget	Actual	
Expenditures (Continued):					
County, School and Special District Taxes	\$ 15,939,198.43	\$ 15,984,295.20			(25,096.77)
Other Expenses		2,999.66			(2,999.66)
Total Expenditures	\$ 30,044,691.25	\$ 30,072,787.68	\$ 5,635,395.00	\$ 5,635,395.00	
Statutory Excess to Fund Balance		\$ 1,475,682.14		\$ 1,135,216.36	\$ 1,135,216.36
Fund Balance, January 1, 2010		1,523,254.21		1,152,276.96	1,152,276.96
		\$ 2,998,936.35		\$ 2,287,493.32	\$ 2,287,493.32
Decreased by:					
Utilization as Anticipated Revenue		\$ 1,375,000.00		\$ 480,795.00	\$ 480,795.00
Transferred to Current Fund as Anticipated Revenue				640,000.00	640,000.00
		\$ 1,375,000.00		\$ 1,120,795.00	\$ 1,120,795.00
Fund Balance, December 31, 2010		\$ 1,623,936.35		\$ 1,166,698.32	\$ 1,166,698.32

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

NOTES TO FINANCIAL STATEMENTS

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. **Description of Financial Reporting Entity** - The Borough of Freehold (the "Borough") is located in the western part of Monmouth County in the north central part of New Jersey. It is wholly surrounded by Freehold Township and its neighboring communities include Colts Neck, Marlboro and Manalapan Township.

The Borough of Freehold operates under the Borough form of government. The governing body consists of a Mayor and six Council members. All action is passed by a majority or, when required, a 2/3 vote of Council. The Mayor votes only in the event of a tie. The Mayor has veto power over all ordinances passed by the Borough Council. This veto can be overridden by a two-thirds (2/3) vote of the Council.

- B. **Description of Funds** - The Governmental Accounting Standards Board (GASB) is the recognized standard setting body for establishing governmental accounting and financial reporting principles. The GASB establishes seven fund types and two account groups to be used by governmental units when reporting financial position and results of operations in accordance with generally accepted accounting principles (GAAP.)

The accounting policies of the Borough conform to the accounting principles applicable to municipalities that have been prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the Borough accounts for its financial transactions through the following separate funds that differ from the fund structure required by generally accepted accounting principles.

Current Fund - Encompasses resources and expenditures for basic governmental operations. Fiscal activity of Federal and State grant programs are reflected in a segregated section of the Current Fund.

Trust Fund - The records of receipts, disbursement and custodianship of monies in accordance with the purpose for which each reserve was created are maintained in Trust Funds. These include the Animal Control Trust Fund and Trust Other Fund.

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. **Description of Funds (Continued)**

General Capital Fund - The receipts and expenditure records for the acquisition of general infrastructure and other capital facilities, other than those acquired in the Current Fund, are maintained in this Fund, as well as related long-term debt accounts.

Water-Sewer Utility Operating Fund and Capital Fund - The Water-Sewer Utility maintains an Operating Fund and Capital Fund which reflect revenue, expenditures, stewardship, acquisitions of utility infrastructure and other capital facilities, debt service, long-term debt and other related activity.

Public Assistance Trust Fund - Receipts and disbursements of funds that provide assistance to certain residents of the Borough pursuant to Title 44 of New Jersey statutes are maintained in the Public Assistance Trust Fund.

Payroll Trust Fund - Net salaries, certain payroll deductions and social security contributions of municipal and utility operations are deposited into bank accounts of the Payroll Fund. Other deductions are retained by the operating funds and paid directly therefrom. A Payroll Fund does not exist under GAAP.

Fixed Asset Group of Accounts - These accounts reflect estimated valuations of land, buildings and certain moveable fixed assets of the Borough as discussed under the caption of "Basis of Accounting".

- C. **Basis of Accounting** - The accounting principles and practices prescribed for municipalities by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, differ in certain respects from accounting principles generally accepted in the United States of America. The accounting system is maintained on the modified accrual basis with certain exceptions. Significant accounting policies in New Jersey are summarized as follows:

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Property Taxes and Other Revenue - Property Taxes and other revenue are realized when collected in cash or approved by regulation for accrual from certain sources of the State of New Jersey and the Federal Government. Accruals of taxes and other revenue are otherwise deferred as to realization by the establishment of offsetting reserve accounts. GAAP requires such revenue to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

Grant Revenue - Federal and State grants, entitlements or shared revenue received for purposes normally financed through the Current Fund are recognized when anticipated in the Borough's budget. GAAP requires such revenue to be recognized in the accounting period when they become susceptible to accrual.

Expenditures - Expenditures for general and utility operations are generally recorded on the accrual basis. Unexpended appropriation balances, except for amounts that may have been canceled by the governing body or by statutory regulation, are automatically recorded as liabilities at December 31st of each year, under the title of "Appropriation Reserves".

Grant appropriations are charged upon budget adoption to create spending reserves.

Budgeted transfers to the Capital Improvement Fund are recorded as expenditures to the extent permitted by law.

Expenditures from Trust and Capital Funds are recorded upon occurrence and charged to accounts statutorily established for specific purposes.

Budget Appropriations for interest on General Capital Long-Term Debt is raised on the cash basis and is not accrued on the records; interest on Utility Debt is raised on the accrual basis and so recorded.

GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Reserve for Encumbrances - As of January 1, 1986 all local units were required by Technical Accounting Directive No. 85-1, as promulgated by the Division of Local Government Services, to maintain an encumbrance accounting system. The directive states that contractual orders outstanding at December 31 are reported as expenditures through the establishment of an encumbrance payable. Encumbrances do not constitute expenditures under GAAP.

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

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

Property Acquired for Taxes - Property Acquired for Taxes (Foreclosed Property) is recorded in the Current Fund at the assessed valuation during the year when such property was acquired by deed or foreclosure and is offset by a corresponding reserve account. GAAP requires such property to be recorded in the general fixed assets account group at market value on the date of acquisition.

Interfund Accounts Receivable - Interfund Accounts Receivable in the Current Fund are generally recorded with offsetting reserves that are established by charges to operations. Collections are recognized as income in the year that the receivables are realized. Interfund Accounts Receivable of all other funds are recorded as accrued and are not offset with reserve accounts. Interfund Accounts Receivable of one fund are offset with Interfund Accounts Payable of the opposite fund. GAAP does not require the establishment of an offsetting reserve.

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Inventories of Supplies - Materials and supplies purchased by all funds are recorded as expenditures.

An annual inventory of materials and supplies for the Water-Sewer Utility is required, by regulation, to be prepared by Borough personnel for inclusion on the Water-Sewer Utility Operating Fund balance sheet. Annual changes in valuations, offset with a Reserve Account, are not considered as affecting results of operations. Materials and supplies of other funds are not inventoried nor included on their respective balance sheets.

Fixed Assets

General - In accordance with Technical Accounting Directive No. 85-2, Accounting for Governmental Fixed Assets, as promulgated by the Division of Local Government Services, which differs in certain respects from GAAP, the Borough has developed a fixed asset accounting and reporting system.

GAAP requires that fixed assets be capitalized at historical or estimated historical cost if actual historical cost is not available. Depreciation on utility fixed assets should also be recorded.

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

Acquisition of land, buildings, machinery, equipment and other capital assets are recorded on a perpetual fixed asset record.

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Fixed Assets (Continued)

General (Continued)

Vehicles, furniture, equipment and other items are reflected at replacement values at time of inventory preparation. Additions to the established fixed assets are valued at cost.

Depreciation of assets is not recorded as an operating expense of the Borough.

Utilities - Capital acquisitions, including utility infrastructure costs of the Water-Sewer Utility, are recorded at cost upon purchase or project completion in the Fixed Capital account of the utilities. The Fixed Capital Accounts are adjusted for dispositions or abandonments. The accounts include moveable fixed assets of the Utility but are not specifically identified and are considered as duplicated in the Fixed Asset Group of Accounts. The duplication is considered as insignificant on its effect on the financial statements taken as a whole.

Utility improvements that may have been constructed by developers are not recorded as additions to Fixed Capital.

Fixed Capital of the Utility is offset by accumulations in Amortization Reserve Accounts. The accumulations represent costs of fixed assets purchased with budgeted funds or acquired by gift as well as grants, developer contributions or liquidations of related bonded debt and other liabilities incurred upon fixed asset acquisition.

The Fixed Capital Accounts reflected herein are recorded in the records of the municipality and do not necessarily reflect the true condition of such Fixed Capital. The records consist of a control account only. Detailed records are not maintained.

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

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

Total Columns on Combined Statements - Total columns are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

- D. Basic Financial Statements - The GASB Codification also defines the financial statements of a governmental unit to be presented in the general purpose financial statements to be in accordance with GAAP. The Borough presents the financial statements listed in the table of contents which are required by the Division and which differ from the financial statements required by GAAP. In addition, the Division requires the financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from GAAP.

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 2. **DEPOSITS AND INVESTMENTS**

A. **Deposits**

The Borough's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by the FDIC.

Bank balances are insured up to \$250,000.00 in aggregate by the FDIC for each bank. At December 31, 2010 and 2009, the book value of the Borough's deposits were \$11,877,197.55 and \$12,080,050.73, respectively and bank balances of the Borough's deposits amounted to \$12,120,148.44 and \$12,646,179.10, respectively. The Borough's deposits which are displayed on the various fund balance sheets as "cash and cash equivalents" are categorized as follows:

Depository Account	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Insured	\$ 1,000,000.00	\$ 1,000,000.00
Uninsured and Collateralized	<u>11,120,148.44</u>	<u>11,646,179.10</u>
	<u>\$ 12,120,148.44</u>	<u>\$ 12,646,179.10</u>

BOROUGH OF FREEHOLD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 2. **DEPOSITS AND INVESTMENTS (CONTINUED)**

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Borough does not have a formal policy for custodial risk. As of December 31, 2010 and 2009, the Borough’s bank balance of \$11,120,148.44 and \$11,646,179.10, respectively was exposed to custodial credit risk as follows:

	<u>2010</u>	<u>2009</u>
Uninsured and Collateralized:		
Collateral held by pledging financial institution's trust department not in the Borough's name	\$ <u>11,120,148.44</u>	\$ <u>11,646,179.10</u>
	\$ <u>11,120,148.44</u>	\$ <u>11,646,179.10</u>

B. **Investments**

The Borough is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 40A:5-15.1. Investments include bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the Borough or bonds or other obligations of the school districts which are a part of the Borough or school districts located within the Borough, Local Government investment pools, and agreements for the repurchase of fully collateralized securities, if transacted in accordance with N.J.S.A. 40A:5-15.1 (8a-8e). In addition, the Borough is permitted to invest LOSAP Funds with the types of eligible investments authorized in N.J.A.C. 5:30-14.19. LOSAP investments include interest bearing account or securities, in which savings banks of New Jersey are authorized to invest their funds, New Jersey Cash Management Fund, fixed and variable individual or group annuity contracts, mutual fund shares or fixed or variable life insurance contracts.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Borough does not have a formal investment policy that limits investment maturities as a means of managing its exposure; however, investments are matched with anticipated cash flows to minimize interest rate risk.