

**SCHOOL DISTRICT  
OF  
KINNELON BOROUGH**

**Kinnelon Borough School District  
Kinnelon, New Jersey**

**Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2011**

**Comprehensive Annual  
Financial Report**

**of the**

**Kinnelon Borough School District**

**Kinnelon, New Jersey**

**For the Fiscal Year Ended June 30, 2011**

**Prepared by**

**Kinnelon Borough School District  
Board of Education**

KINNELON BOROUGH SCHOOL DISTRICT  
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INTRODUCTORY SECTION



## **KINNELON PUBLIC SCHOOLS**

109 KIEL AVENUE • KINNELON, NEW JERSEY 07405

TEL: (973) 838-1418 • FAX: (973) 838-5527

Email: [www.kinnelonpublicschools.org](http://www.kinnelonpublicschools.org)

Email: [robinsona@kinnelon.org](mailto:robinsona@kinnelon.org)

Alice M. Robinson  
Business Administrator  
Board Secretary

September 9, 2011

Honorable President and  
Members of the Board of Education  
109 Kiel Avenue  
Kinnelon, New Jersey 07405

Dear Board Members:

The comprehensive annual financial report of the Kinnelon Board of Education (the "District") for the fiscal year ended June 30, 2011, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Kinnelon Board of Education (the "Board"). To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes this transmittal letter, the District's organizational chart and a list of principal officials. The financial section includes the general purpose financial statements and schedules, as well as the auditor's report thereon. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The District is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States and Local Governments and Non-Profit Organizations", and the state Treasury Circular Letter NJOMB 04-04, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid". Information related to this single audit, including the auditor's report on the internal control structure and compliance with applicable laws and regulations and findings and recommendations, are included in the single audit section of this report.

Honorable President and Members  
of the Board of Education  
Kinnelon Borough School District  
Page 2  
September 9, 2011

1) REPORTING ENTITY AND ITS SERVICES: The Kinnelon School District is an independent reporting entity within the criteria adopted by the GASB as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards. All funds of the District are included in this report. The Kinnelon Board of Education and all its schools constitute the District's reporting entity.

The District provides a full range of educational services appropriate to grade levels Kindergarten through Grade 12. These include regular, vocational as well as special education for handicapped youngsters. The District completed the 2010/2011 fiscal year with an enrollment of 2,215 students. The following details the changes in the student enrollment of the District over the last five years.

Average Daily Enrollment

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>Percent Change</u>
2010/11	2204	- .136%
2009/10	2207	- .943%
2008/09	2228	+ 1.181%
2007/08	2202	+ 0.091%
2006/07	2200	+ 1.946%

2) ECONOMIC CONDITION AND OUTLOOK: Kinnelon Borough has only one expanding housing development. Any future development is limited due to the implementation of the Highlands Act.

3) MAJOR INITIATIVES: Over the past five years, student enrollment in the Kinnelon Public Schools has stabilized. Our student population was anticipated and addressed through the passage of two referendums (in 2001 and 2006) to provide the needed classroom space at Stonybrook School, Pearl R. Miller Middle School and Kinnelon High School. The additions/renovations to Stonybrook and Pearl R. Miller were completed in 2004 while the Kinnelon High School Project was completed in September 2008. There are no plans for future building expansion.

4) INTERNAL ACCOUNTING CONTROLS: Management of the District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Honorable President and Members  
of the Board of Education  
Kinnelon Borough School District  
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September 9, 2011

As a recipient of federal and state financial assistance, the District also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is also subject to periodic evaluation by the District management.

5) BUDGETARY CONTROLS: In addition to internal accounting controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the municipality. Annual appropriated budgets are adopted for the general fund, the special revenue fund, and the debt service fund. Project length budgets are approved for the capital improvements accounted for in the capital projects fund. The final budget amount as amended for the fiscal year is reflected in the financial section.

An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either canceled or are included as re-appropriations of fund balance in the subsequent year. Those amounts to be re-appropriated are reported as fund balance restrictions, commitments and assignments at June 30, 2011.

6) ACCOUNTING SYSTEM AND REPORTS: The District's accounting records reflect generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board (GASB). The accounting system of the District is organized on the basis of funds. These funds and account groups are explained in "Notes to the Financial Statements", Note 1.

7) CASH MANAGEMENT: The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Basic Financial Statements", Note 3. The District has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

8) RISK MANAGEMENT: The Board carries various forms of insurance, including but not limited to general liability, automobile liability and comprehensive/collision, hazard and theft insurance on property and contents, and fidelity bonds. A schedule of insurance coverage is found on Exhibit J-20.

Honorable President and Members  
of the Board of Education  
Kinnelon Borough School District  
Page 4  
July 22, 2011

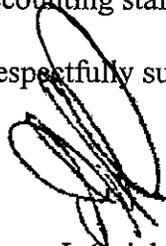
9) OTHER INFORMATION:

A) Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP, was selected by the Board. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act Amendments of 1996 and the related OMB Circular A-133 and State Treasury Circular Letter NJOMB 04-04. The auditor's report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the single audit section of this report.

10) ACKNOWLEDGMENTS:

We would like to express our appreciation to the members of the Kinnelon School Board for their concern in providing fiscal accountability to the citizens and taxpayers of the school district and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,

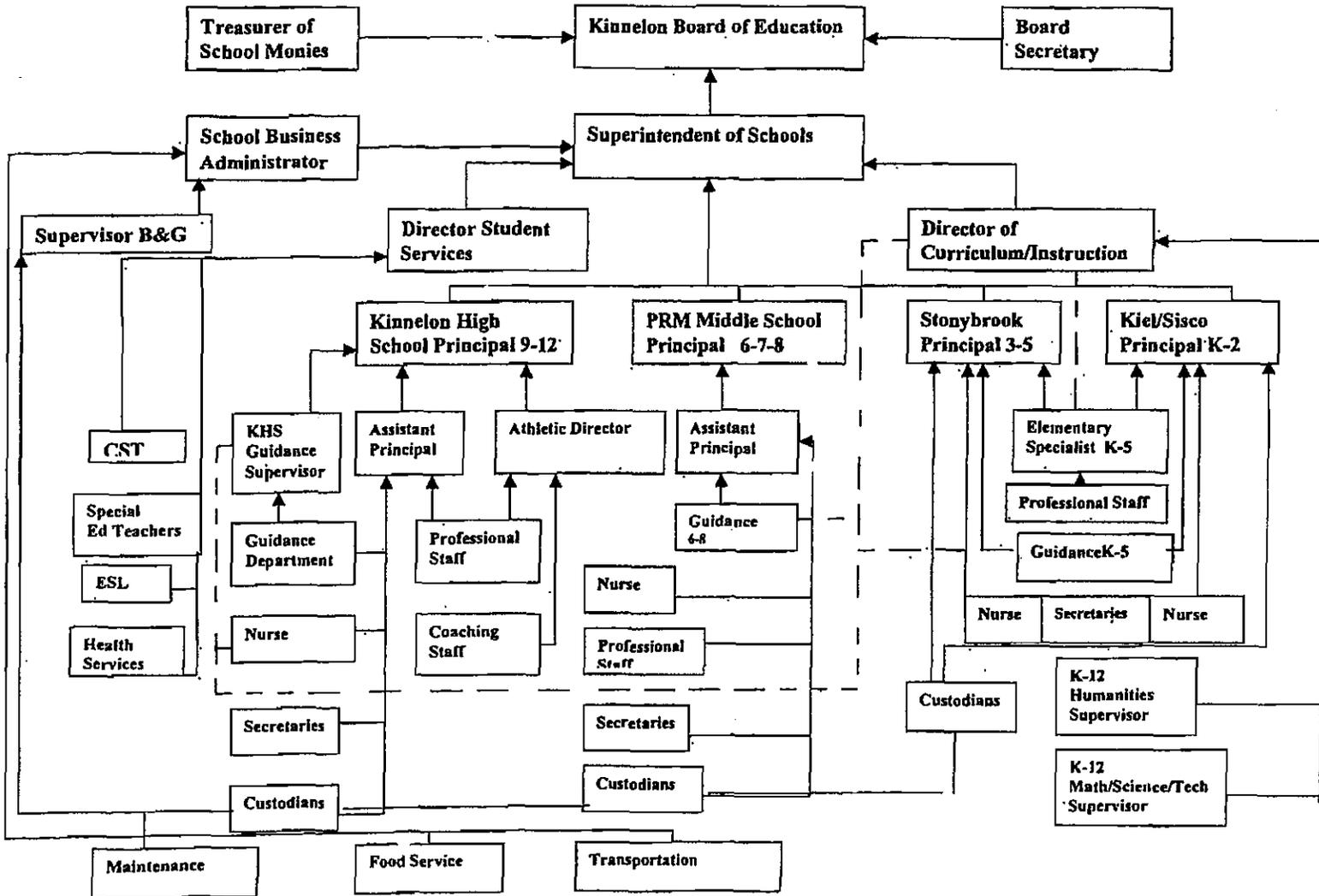


James J. Opiekun  
Superintendent



Alice M. Robinson  
Board Secretary/Business Administrator

# KINNELON SCHOOL DISTRICT ORGANIZATIONAL CHART



**BOROUGH OF KINNELON BOARD OF EDUCATION  
KINNELON, NEW JERSEY**

**ROSTER OF OFFICIALS**

**JUNE 30, 2011**

<b><u>Members of the Board of Education</u></b>		<b><u>Term Expires</u></b>
Margaret Zybrick	President	2012
Keith Dama	Vice President	2012
Marianne DeAlessi	Member	2014
Steven Fink	Member	2013
Denise Hatch	Member	2014
Marcy Pryor	Member	2013

**Other Officials**

**James J. Opiekun, Superintendent**

**Alice M. Robinson, Business Administrator/Board Secretary**

**Jennifer Stillman, Treasurer of School Monies**

**Apruzzese, McDermott, Mastro, Murphy, Board Attorney**

# **KINNELON BOARD OF EDUCATION**

## **CONSULTANTS AND ADVISORS**

### **AUDIT FIRM**

David H. Evans  
Nisivoccia LLP  
200 Valley Road, Suite 300  
Mt. Arlington, NJ 07856

### **ATTORNEYS**

Andrea Kahn  
McManimon & Scotland  
1037 Raymond Blvd., Suite 400  
Newark, NJ 07102

Apruzzese, McDermott, Mastro & Murphy  
25 Independence Boulevard  
Box 112  
Liberty Corner, NJ 07938

### **OFFICIAL DEPOSITORY**

Lakeland Bank  
Route 23 North  
Kinnelon, NJ 07405

**FINANCIAL SECTION**



Mount Arlington Corporate Center  
 200 Valley Road, Suite 300  
 Mt. Arlington, NJ 07856  
 973-328-1825 | 973-328-0507 Fax

Lawrence Business Center  
 11 Lawrence Road  
 Newton, NJ 07860  
 973-383-6699 | 973-383-6555 Fax

### Independent Auditors' Report

The Honorable President and Members  
 of the Board of Education  
 Kinnelon Borough School District  
 County of Morris, New Jersey

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Board of Education of the Kinnelon Borough School District in the County of Morris as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the Board of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements as prescribed by the Division of Finance and Regulatory Compliance, Department of Education, 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 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Board of Education of the Kinnelon Borough School District in the County of Morris as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

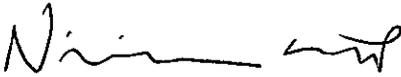
In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2011 on our consideration of the Kinnelon Borough School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable President and Members  
of the Board of Education  
Kinnelon Borough School District  
Page 2

The Management Discussion and Analysis section and Budgetary Comparison Information on schedules C-1 through C-3 and I-3 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of the Kinnelon Borough Board of Education's basic financial statements. The accompanying introductory section, other supplementary information schedules such as the combining and individual financial statements and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*; and New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and are not a required part of the basic financial statements. The supplementary schedules such as the combining and individual fund financial statements and the schedules of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 9, 2011  
Mount Arlington, New Jersey

  
NISIVOCCIA LLP

  
\_\_\_\_\_  
David H. Evans  
Licensed Public School Accountant #740  
Certified Public Accountant

**REQUIRED SUPPLEMENTARY INFORMATION – PART I  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

## Management Discussion and Analysis

This section of Kinnelon Borough School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2011. Please read it in conjunction with the transmittal letter at the front of this report and the district's financial statements, which immediately follow this section.

### Financial Highlights

The District's financial status continues to improve each year on a district-wide basis.

- Fund Balance – \$80,000 was used to offset 2011-12 taxes, bringing Fund Balance down to less than 2% of Current Expenses. At June 30, 2011, the District's Unassigned General Fund Balance was \$684,073.
- General Fund – In 2010-11, the Governmental Activities had \$36,665,269 in revenue. The majority of Governmental Activities revenue was raised through local property taxes and state aid. The total Governmental Activities expenditures for 2010-11 were \$35,796,478.

### Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the district's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the district, reporting the district's operations in *more* detail than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- *Proprietary funds* statements offer *short-* and *long-term* financial information about the activities the district operates like a business, such as food services.
- *Fiduciary funds statements* provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**  
**Organization of Kinnelon Borough's School District Financial Report**

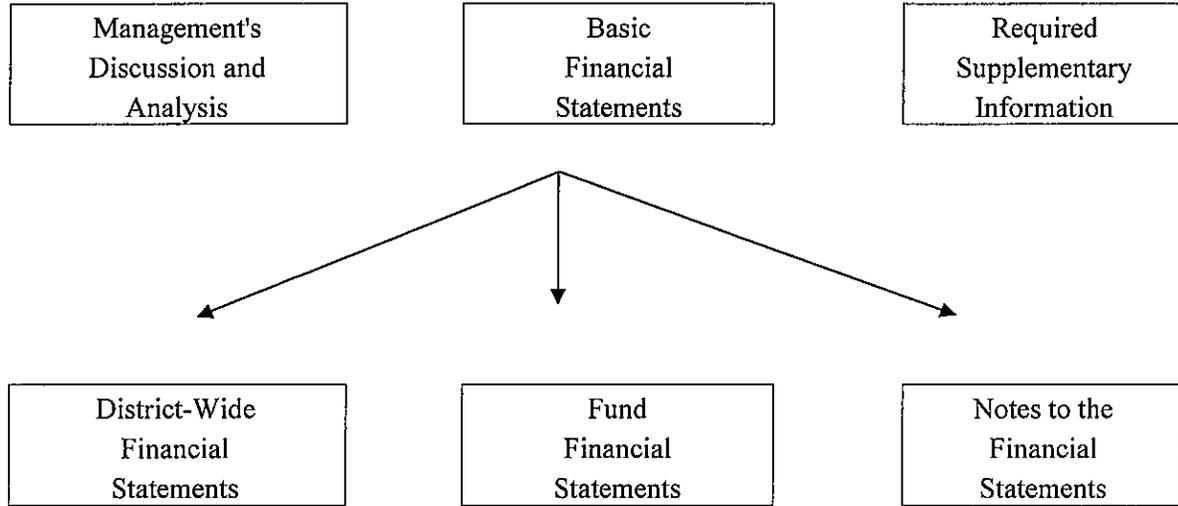


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights that structure and contents of each of the statements.

Figure A-2

## Major Features of the District-Wide and Fund Financial Statements

		Fund Financial Statements		
	District-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, food services and enrichment for before school programs	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required Financial Statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenue, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenue, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenue and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

### *District-wide Statements*

The district-wide statements report information about the district as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the district's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the district's *net assets* and how they have changed. Net assets – the difference between the district's assets and liabilities – is one way to measure the district's financial health or *position*.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the district's overall health, you need to consider additional nonfinancial factors such as changes in the district's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the district's activities are divided into two categories:

- *Governmental activities*: Most of the district's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.
- *Business-type activities*: The district charges fees to help it cover the costs of certain services it provides. The district's food service and enrichment program are included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the district's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The district establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenue (such as federal grants).

The District has three kinds of funds:

- *Governmental funds*: Most of the district's basic services are included in governmental funds, which generally focus on {1} how cash and other financial assets that can readily be converted to cash flow in and out, and {2} the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them.
- *Proprietary funds*: Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The district's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The district uses *internal service funds* (the other kind of proprietary fund) to report activities that provide supplies and services for its other programs and activities. The district currently does not maintain any internal service funds.

- *Fiduciary funds*: The district is the trustee, or *fiduciary*, for assets that belong to others, such as scholarship funds and the student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.
- *Notes to Financial Statements*: Provides additional information essential to full understanding of District-wide and fund financial statements.

### Financial Analysis of the District as a Whole

Net Assets. The District's net assets are shown in Figure A-3.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2010/11
	Government Activities		Business-Type Activities		Total School District		
	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	
Current and							
Other Assets	\$ 764,990	\$ 1,480,134	\$ 139,718	\$ 108,234	\$ 904,708	\$ 1,588,368	75.57%
Capital Assets	48,036,613	46,708,369	119,332	108,116	48,155,945	46,816,485	-2.78%
Total Assets	48,801,603	48,188,503	259,050	216,350	49,060,653	48,404,853	-1.34%
Long-Term Debt							
Outstanding	30,550,011	28,293,981			30,550,011	28,293,981	-7.38%
Other Liabilities	21,745	795,884	34,731	1,294	56,476	797,178	1311.53%
Total Liabilities	30,571,756	29,089,865	34,731	1,294	30,606,487	29,091,159	-4.95%
Net Assets:							
Invested in Capital							
Assets, Net of							
Related Debt	18,555,613	18,157,140	119,332	108,116	18,674,945	18,265,256	-2.19%
Restricted	520,683	470,825			520,683	470,825	-9.58%
Unrestricted(Deficit)	(846,449)	470,673	104,987	106,940	(741,462)	577,613	177.90%
Total Net Assets	\$ 18,229,847	\$ 19,098,638	\$ 224,319	\$ 215,056	\$ 18,454,166	\$ 19,313,694	4.66%

*Changes in net assets*: The District's *combined* net assets were \$859,528 more than they were the year before primarily due to a reduction of debt associated with capital assets. (See Figure A-4).

Figure A-4

## Changes in Net Assets from Operating Results

	Governmental Activities 2010/11	Business-Type Activities 2010/11	Total School District 2010/11	Governmental Activities 2009/10	Business-Type Activities 2009/10	Total School District 2009/10	Percentage Change 2010/11
Revenue:							
Program Revenue:							
Charges for Services		\$ 697,753	\$ 697,753		\$ 676,998	\$ 676,998	3.07%
Operating Grants and Contributions	\$ 3,745,734	58,399	3,804,133	\$ 5,729,384	62,010	5,791,394	-34.31%
General Revenue:							
Property Taxes	32,569,255		32,569,255	32,331,934		32,331,934	0.73%
Other	350,280	144	350,424	233,057	1,019	234,076	49.71%
Total Revenue	<u>36,665,269</u>	<u>756,296</u>	<u>37,421,565</u>	<u>38,294,375</u>	<u>740,027</u>	<u>39,034,402</u>	-4.13%
Expenses:							
Instruction	20,056,967		20,056,967	21,649,035		21,649,035	-7.35%
Pupil and Instruction Services	5,813,043		5,813,043	6,236,091		6,236,091	-6.78%
Administrative and Business	3,491,860		3,491,860	3,416,475		3,416,475	2.21%
Maintenance and Operations	3,356,498		3,356,498	3,519,895		3,519,895	-4.64%
Transportation	2,031,790		2,031,790	1,711,237		1,711,237	18.73%
Other	1,046,320	763,159	1,809,479	1,343,418	795,311	2,138,729	-15.39%
Total Expenses	<u>35,796,478</u>	<u>763,159</u>	<u>36,559,637</u>	<u>37,876,151</u>	<u>795,311</u>	<u>38,671,462</u>	-5.46%
Special Item - Disposal of Capital Assets		(2,400)	(2,400)				-100.00%
Increase/(Decrease) in Net Assets	<u>\$ 868,791</u>	<u>\$ (9,263)</u>	<u>\$ 859,528</u>	<u>\$ 418,224</u>	<u>\$ (55,284)</u>	<u>\$ 362,940</u>	136.82%

Revenue Sources. The District's total revenue for the 2010-11 school year was \$37,421,565. (See Figure A-5). Property taxes and state formula aid accounted for most of the district's revenue, with local taxes accounting for \$32,569,255 of the total, or 87.03 percent. (See Figure A-5). The remainder came from miscellaneous sources and charges for services. It is important to note that of the State Aid, \$3,804,133, over \$1,095,639 is included in funds that are not paid by the District, but are included in funding for Social Security, non-contributory insurance and post retirement benefits that the State of New Jersey pays on behalf of the District. The Kinnelon Borough District basically conducts its operations from the revenues it receives from its local taxpayers.

Figure A-5

## Sources of Revenue for Fiscal Year 2011

	Amount	Percentage
Sources of Income:		
State Formula Aid	\$ 849,867	2.28%
Operating Grants and Contributions	2,954,266	7.89%
Property Taxes	32,569,255	87.03%
Charges for Services	697,753	1.86%
Other	350,424	0.94%
	<u>\$ 37,421,565</u>	<u>100.00%</u>

The total cost of all programs and services was \$36,559,637. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (76.32 percent). (See Figure A-6). The District's administrative and business activities accounted for 9.55 percent of total costs.

**Figure A-6****Expenses for Fiscal Year 2011**

Expense Category:	<u>Amount</u>	<u>Percentage</u>
Instruction	\$ 20,056,967	54.86%
Pupil and Instruction Services	5,813,043	15.90%
Administrative and Business	3,491,860	9.55%
Maintenance and Operations	3,356,498	9.18%
Transportation	2,031,790	5.56%
Other	1,809,479	4.95%
	<u>\$ 36,559,637</u>	<u>100.00%</u>

***Governmental Activities***

As discussed elsewhere in this commentary, the financial position of the District continues to improve. Maintaining existing programs with a slight reduction in regular pupil enrollment and the provision of a multitude of special programs and services for disabled pupils place great demands on the District's resources. The District is also faced with significant increases in health benefit costs.

Careful management of expenses remains essential for the district to sustain its financial health. Among the many significant cost savings actions implemented during the year were:

- Negotiated administrative salaries to fall within the 2% cap
- Expanded autism program at the elementary level
- Refinanced debt
- Authorized participation in the Morris County Solar Energy Initiative
- Relocated Sisco kindergarten program into two neighborhood kindergarten programs

It is crucial that the District continue to examine its expenditures carefully. Increasing teacher, parental and student demands for new activities and programs must be evaluated thoroughly. District resources continue to be at their tightest level in many years.

Figure A-7 presents the cost of six major district activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions:

Figure A-7

	Net Cost of Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2010/11	2010/11	2009/10	2009/10
Sources of Income:				
Instruction	\$ 20,056,967	\$ 17,565,427	\$21,649,035	\$17,809,200
Pupil and Instruction Services	5,813,043	5,063,679	6,236,091	5,666,163
Administrative and Business	3,491,860	3,256,676	3,416,475	3,182,421
Maintenance and Operations	3,356,498	3,221,901	3,519,895	3,373,663
Transportation	2,031,790	1,896,741	1,711,237	783,455
Other	1,046,320	1,046,320	1,343,418	1,331,865
	<u>\$ 35,796,478</u>	<u>\$ 32,050,744</u>	<u>\$37,876,151</u>	<u>\$32,146,767</u>

- The cost of all governmental activities this year was \$35,796,478.
- The federal and state governments subsidized certain programs with grants and contributions (\$3.75 million).
- Most of the District's costs (\$32.5 million), however, were financed by District taxpayers.
- A portion of governmental activities was financed with \$557,186 in state aid based on the SFRAPAY formula.
- The remainder of the funding came from miscellaneous revenue and investment earnings.

### *Business-Type Activities*

Net assets from the District's business-type activity decreased by \$9,263. (Refer to Figure A-4). Factors contributing to these results included:

- Food services expenses exceeded revenues by approximately \$21,210.
- Enrichment program revenues exceeded expenses by approximately \$14,309.
- A transfer from food service fund to the general fund for interest in the amount of \$106.
- There were assets which were disposed of in food service fund which were not fully depreciated. The difference between the assets and the amount of accumulated depreciation was \$2,400 and is identified as a Special Item – Disposal of Capital Assets in this report.

### **Financial Analysis of the District's Funds**

The District's financial position remains stable and continues to meet the rising challenge of growth in the student enrollment and difficult economic times. Expenditures during the recent year increased significantly as a result of an increased number of regular pupils, as well as pupils with disabilities. In addition to greater numbers, these pupils are more profoundly disabled and require more complex educational and related services.

A continued gradual increase in regular enrollment has also forced the District to expand its classroom teaching staff. Other significant areas of budget increases have been in health insurance and energy. Insurance costs for all staff have continued to dramatically increase. The dramatic increase in energy costs forced the District to curtail spending in other areas of the budget.

Difficult economic times have had a direct impact upon the District's revenue sources. As required by the enacted legislation, the District offset the tax levy by reducing fund balance to 2% of the current expense budget. As overall revenue for the District diminishes, the amount of funds generated to offset the tax levy likewise decreases.

All of these factors are likely to continue for the next several years. To maintain a stable financial position, the District must continue to practice sound fiscal management.

### ***General Fund Budgetary Highlights***

Over the course of the year, the District revised the annual operating budget several times. These budget amendments fall into two categories:

- Changes made within budgetary line items for changes in school-based needs for programs, supplies and equipment.
- Appropriation of unanticipated revenue from the State of New Jersey.

### **Capital Asset and Debt Administration**

Figure A-8

	Capital Assets (Net of Depreciation)						Percentage Change 2010/11
	Government Activities		Business-Type Activities		Total School District		
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	
Land	\$ 45,810	\$ 45,810			\$ 45,810	\$ 45,810	0.00%
Buildings and Improvements	45,647,639	46,851,181			45,647,639	46,851,181	-2.57%
Machinery and Equipment	1,014,920	1,139,622	\$ 108,116	\$ 119,332	1,123,036	1,258,954	-10.80%
Total Capital Assets (net of Depreciation)	\$ 46,708,369	\$ 48,036,613	\$ 108,116	\$ 119,332	\$ 46,816,485	\$ 48,155,945	-2.78%

Depreciation expense for Government activities totaled \$1,398,480 in 2010-11. Depreciation expense for business-type activities totaled \$14,804 in 2010-11.

### ***Long-term Debt***

At year-end, the District had \$27,440,352 in general obligation bonds and other long-term debt outstanding as shown in Figure A-9. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.)

Figure A-9

	Outstanding Long-Term Debt		
	Total School District		Percentage Change 2010/11
	2010/11	2009/10	
General Obligation Bonds (Financed with Property Taxes) -Net	\$ 27,440,352	\$ 29,481,000	-6.92%
Compensated Absences	691,400	942,113	-26.61%
Capital Leases	162,229	267,600	-39.38%
	\$ 28,293,981	\$ 30,690,713	-7.81%

- The District's accrued compensated absences decreased by \$250,713 largely in part due to retirees.
- The District paid down debt, retiring \$1,570,000 of outstanding bonds.
- The District paid down capital leases, retiring \$105,371.
- The District refinanced debt in 2011 which reduced its total debt service requirements by \$434,927.

## **Factors Bearing on the District's Future Revenue/Expense Changes**

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

The impact of S1701 legislation. S1701, adopted by the State of New Jersey on June 17, 2004, severely limited the District's ability to accumulate funds in fund balance. Under this legislation, fund balance cannot exceed 2% of the operating budget. This restriction imposes immediate short term tax relief of unanticipated revenues. It does not permit holding funds to offset the peaks and valleys of annual revenue which could provide long term budget solutions.

The Impact of A1 legislation. A1, adopted by the State of New Jersey on April 4, 2007, limited the District's ability to increase taxes. Under this legislation, district can not increase the tax levy by more than 4%. Prior to this legislation, the budget cap was based on total revenues, which allowed districts to adjust the revenues, including taxes, to offset decreases in other revenue areas.

The impact of School Funding Reform Act. The School Funding Reform Act, adopted by the State of New Jersey on January 13, 2008, provided a new funding formula which would meet the requirements of Abbott v Burke in future years. The legislation requires each district to provide a local "fair share" contribution to property taxes to support schools, and establishes an "adequacy budget" for each district. The adequacy budget is based a state formula for each expenditure that is needed to provide a thorough and efficient education. The formula also includes enrollment and other factors such as the number of special education students and at-risk, or poor students.

The impact of Executive Order #14. Executive Order #14 was issued by the Governor of the State of New Jersey on February 11, 2010 and set aside the School Funding Reform Act formula. Executive Order #14 provided no additional state aid for any district and further reduced each district's state aid by 4.994% of the district original fiscal 2010 general fund budget. This reduced the District's state aid from \$2,169,368 to \$557,186 or a loss \$1,612,182. This reduction in state aid resulted in the elimination of thirty-three staff positions as well school programs. There has been a token attempt to restore some of the loss of state aid, however, there still remains a considerable gap between current state aid and what was considered "efficient" two years ago.

The impact of S29, adopted by the State of New Jersey on July 13, 2010 further reduces the District's ability to increase taxes. While A1 legislation in 2007 restricted increases in the District's tax levy to 4%, this legislation, further reduced any increase in tax levy to no by more than 2%. The District will need to focus on containing increases in areas such as health benefits and other employee benefits.

The impact of S2937 adopted by the State of New Jersey on June 28, 2011 provides pension and health benefit reforms. This legislation will result in long term cost containment for pension and health benefit costs.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers and investors and creditors with a general overview of the district's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Education Office, Glen Sisco School, 109 Kiel Road, Kinnelon, NJ 07405.

**BASIC FINANCIAL STATEMENTS**

**DISTRICT-WIDE FINANCIAL STATEMENTS**

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 961,379	\$ 99,404	\$ 1,060,783
Receivables from Other Governments	377,481		377,481
Internal Balances	(2,630)	2,630	
Interfund Receivable	10		10
Inventory		6,200	6,200
Unamortized Bond Issuance Costs	143,794		143,794
Restricted Assets:			
Capital Reserve Account - Cash	100		100
Capital Assets:			
Sites (Land)	45,810		45,810
Depreciable Buildings and Building Improvements and Furniture, Machinery and Equipment	46,662,559	108,116	46,770,675
Total Assets	48,188,503	216,350	48,404,853
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	132,902		132,902
Payable to State Government	39,754		39,754
Unamortized Bond Premium	614,442		614,442
Deferred Revenue	8,786	1,294	10,080
Noncurrent Liabilities:			
Due Within One Year	1,721,363		1,721,363
Due Beyond One Year	26,572,618		26,572,618
Total Liabilities	29,089,865	1,294	29,091,159
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	18,157,140	108,116	18,265,256
Restricted for:			
Capital Projects	30,220		30,220
Debt Service	248,513		248,513
Other Purposes	662,765		662,765
Unrestricted		106,940	106,940
Total Net Assets	\$ 19,098,638	\$ 215,056	\$ 19,313,694

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<b>Governmental Activities:</b>						
<b>Instruction:</b>						
Regular	\$ 15,120,077		\$ 1,425,697		\$ (13,694,380)	\$ (13,694,380)
Special Education	3,520,191		982,183		(2,538,008)	(2,538,008)
Other Special Instruction	286,979		22,981		(263,998)	(263,998)
Other Instruction	1,129,720		60,679		(1,069,041)	(1,069,041)
<b>Support services:</b>						
Tuition	1,316,906		398,520		(918,386)	(918,386)
Student & Instruction Related Services	4,496,137		350,844		(4,145,293)	(4,145,293)
General Administrative Services	676,984		34,265		(642,719)	(642,719)
School Administrative Services	2,126,715		150,978		(1,975,737)	(1,975,737)
Central Services	566,110		41,862		(524,248)	(524,248)
Administrative Information Technology	122,051		8,079		(113,972)	(113,972)
Plant Operations and Maintenance	3,356,498		134,597		(3,221,901)	(3,221,901)
Pupil Transportation	2,031,790		135,049		(1,896,741)	(1,896,741)
Interest on Long-Term Debt	973,545				(973,545)	(973,545)
Capital Outlay	72,775				(72,775)	(72,775)
<b>Total Governmental Activities</b>	<b>35,796,478</b>	<b>-0-</b>	<b>3,745,734</b>	<b>-0-</b>	<b>(32,050,744)</b>	<b>(32,050,744)</b>

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Business-Type Activities:						
Food Service	617,556	537,947	58,399		(21,210)	(21,210)
Enrichment Program	145,497	159,806			14,309	14,309
Total Business-Type Activities	763,053	697,753	58,399		(6,901)	(6,901)
Total Primary Government	<u>\$ 36,559,531</u>	<u>\$ 697,753</u>	<u>\$ 3,804,133</u>	<u>\$ (32,050,744)</u>	<u>\$ (6,901)</u>	<u>\$ (32,057,645)</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes, Net	\$ 30,099,983		\$ 30,099,983
Taxes Levied for Debt Service	2,469,272		2,469,272
Investment Earnings		\$ 144	144
Miscellaneous Income	281,312		281,312
Federal and State Aid not Restricted	68,862		68,862
Transfers	106	(106)	
Special Item - Disposal of Capital Assets		(2,400)	(2,400)
Total General Revenue, Transfers and Special Items	32,919,535	(2,362)	32,917,173

Change in Net Assets 868,791 (9,263) 859,528

Net Assets - Beginning 18,229,847 224,319 18,454,166

Net Assets - Ending \$ 19,098,638 \$ 215,056 \$ 19,313,694

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

**FUND FINANCIAL STATEMENTS**

Exhibit B-1

KINNELON BOROUGH SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 637,090	\$ 40,981	\$ 34,795	\$ 248,513	\$ 961,379
Receivables From Other Governments	367,650	9,831			377,481
Interfund Receivable	14				14
Restricted Cash and Cash Equivalents	100				100
<b>Total Assets</b>	<b><u>1,004,854</u></b>	<b><u>50,812</u></b>	<b><u>34,795</u></b>	<b><u>248,513</u></b>	<b><u>1,338,974</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable	127,630	5,272			132,902
Payable to State Government		39,754			39,754
Interfund Payable	2,634				2,634
Deferred Revenue	3,000	5,786			8,786
<b>Total Liabilities</b>	<b><u>133,264</u></b>	<b><u>50,812</u></b>			<b><u>184,076</u></b>
<b>Fund Balances:</b>					
<b>Restricted for:</b>					
Capital Reserve	100				100
Capital Projects Fund			30,220		30,220
Debt Service Fund				248,513	248,513
<b>Assigned to:</b>					
Designated for Subsequent Year's Expenditures	80,000				80,000
Year-end Encumbrances	107,417		4,575		111,992
Unassigned	684,073				684,073
<b>Total Fund Balances</b>	<b><u>871,590</u></b>		<b><u>34,795</u></b>	<b><u>248,513</u></b>	<b><u>1,154,898</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 1,004,854</u></b>	<b><u>\$ 50,812</u></b>	<b><u>\$ 34,795</u></b>	<b><u>\$ 248,513</u></b>	

Amounts Reported for *Governmental Activities* in the Statement of Net Assets (A-1) are Different Because:

Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$65,117,689 and the accumulated depreciation is \$18,409,320.	46,708,369
Bond issuance premiums are reported as a revenue in the Governmental Funds in the year of receipt. The original premium is \$614,442 and accumulated amortization is \$-0-.	(614,442)
Bond issuance costs are reported as expenditures in the Governmental Funds in the year of expenditure. The costs are \$143,794 and accumulated amortization is \$-0-.	143,794
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds	<u>(28,293,981)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 19,098,638</u></b>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUE:</b>					
<b>Local Sources:</b>					
Local Tax Levy	\$ 30,099,983			\$ 2,469,272	\$ 32,569,255
Tuition	47,928				47,928
Interest Earned	1,685				1,685
Miscellaneous	227,775			3,924	231,699
<b>Total - Local Sources</b>	<b>30,377,371</b>			<b>2,473,196</b>	<b>32,850,567</b>
State Sources	3,260,930	\$ 5,365		68,862	3,335,157
Federal Sources		479,439			479,439
<b>Total Revenue</b>	<b>33,638,301</b>	<b>484,804</b>		<b>2,542,058</b>	<b>36,665,163</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
Regular Instruction	10,869,832				10,869,832
Special Education Instruction	2,560,995	67,234			2,628,229
Other Special Instruction	212,823				212,823
Other Instruction	751,417				751,417
<b>Support Services and Undistributed Costs:</b>					
Tuition	918,386	398,520			1,316,906
Student & Instruction Related Services	3,406,433	19,050			3,425,483
General Administrative Services	535,278				535,278
School Administrative Services	1,502,618				1,502,618

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
EXPENDITURES (Cont'd):					
Support Services and Undistributed Costs (Cont'd):					
Central Services	\$ 431,026				\$ 431,026
Administrative Information Technology	95,981				95,981
Plant Operations and Maintenance	2,783,023				2,783,023
Pupil Transportation	1,870,801				1,870,801
Unallocated Benefits	7,143,643				7,143,643
Debt Service:					
Principal				\$ 1,570,000	1,570,000
Interest and Other Charges				973,545	973,545
Capital Outlay	72,775		\$ 70,236		143,011
Total Expenditures	<u>33,155,031</u>	<u>484,804</u>	<u>70,236</u>	<u>2,543,545</u>	<u>36,253,616</u>
Excess/(Deficiency) of Revenue Over/(Under) Expenditures	<u>483,270</u>		<u>(70,236)</u>	<u>(1,487)</u>	<u>411,547</u>
OTHER FINANCING SOURCES/(USES):					
Serial Bonds Defeased				(9,980,000)	(9,980,000)
Serial Bonds Issued				9,502,000	9,502,000
Bond Issuance Costs				143,794	143,794
Deferred Interest				948,648	948,648
Bond Premium				(614,442)	(614,442)
Transfers In	106			250,000	250,106
Transfers Out			(250,000)		(250,000)
Total Other Financing Sources/(Uses)	<u>106</u>		<u>(250,000)</u>	<u>250,000</u>	<u>106</u>
Net Change in Fund Balances	483,376		(320,236)	248,513	411,653
Fund Balance—July 1	<u>388,214</u>		<u>355,031</u>		<u>743,245</u>
Fund Balance—June 30	<u>\$ 871,590</u>	<u>\$ -</u>	<u>\$ 34,795</u>	<u>\$ 248,513</u>	<u>\$ 1,154,898</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

KINNELON BOROUGH SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds (from B-2)

Amounts Reported for Governmental Activities in the Statement of Activities (A-2) are Different Because: \$ 411,653

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays, deletions and adjustments in the period.

Depreciation expense	\$	(1,398,480)	
Capital outlays		70,236	
			(1,328,244)

Repayment of serial bonds is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets and is not reported in the Statement of Activities. 1,570,000

Debt issued for the advanced refunding less the amount of the bonds defeased are not recorded in the governmental funds.

School Bonds Issued	(9,980,000)		
School Bonds Defeased	9,502,000		
Bond Issuance Costs	143,794		
Deferred Interest	948,648		
Bond Premium	(614,442)		
			-0-

In the Statement of Activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+). 110,011

Repayment of capital leases is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets and is not reported in the Statement of Activities. 105,371

Change in Net Assets of Governmental Activities \$ 868,791

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
AS OF JUNE 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>
<u>ASSETS:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 99,404
Interfund Receivable	2,634
Inventories	6,200
	108,238
Total Current Assets	108,238
Non-Current Assets:	
Capital Assets	378,293
Less: Accumulated Depreciation	(270,177)
	108,116
Total Non-Current Assets	108,116
Total Assets	216,354
<u>LIABILITIES:</u>	
Current Liabilities:	
Interfund Payable	4
Deferred Revenue	1,294
	1,298
Total Current Liabilities	1,298
<u>NET ASSETS:</u>	
Invested in Capital Assets, Net of Related Debt	108,116
Unrestricted	106,940
	215,056
Total Net Assets	\$ 215,056

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Food Service	Enrichment Program	Total Business-type Activities - Enterprise Funds
Operating Revenue:			
Local Sources:			
Daily Sales - Reimbursable Programs	\$ 258,398		\$ 258,398
Daily Sales - Non-Reimbursable Programs	279,549		279,549
Program Fees		\$ 159,806	159,806
<b>Total Operating Revenue</b>	<b>537,947</b>	<b>159,806</b>	<b>697,753</b>
Operating Expenses:			
Cost of Sales	317,628		317,628
Salaries, Benefits & Payroll Taxes	244,045	108,337	352,382
Employee Benefits	17,993	11,876	29,869
Management Fee	15,050		15,050
Professional and Technical Services	129	21,882	22,011
Depreciation Expense	14,804		14,804
Supplies and Materials	1,173	3,402	4,575
Administrative Expense	6,734		
<b>Total Operating Expenses</b>	<b>617,556</b>	<b>145,497</b>	<b>763,053</b>
<b>Operating Income/(Loss)</b>	<b>(79,609)</b>	<b>14,309</b>	<b>(65,300)</b>
Non-Operating Income:			
Local Sources			
Interest Income	110	34	144
State Sources			
State School Lunch Program	4,233		4,233
Federal Sources			
National School Lunch Program	37,318		37,318
Special Milk Program	489		489
Food Distribution Program	16,359		16,359
<b>Total Non-Operating Income</b>	<b>58,509</b>	<b>34</b>	<b>58,543</b>
<b>Net Income/(Loss) Before Operating Transfers</b>	<b>(21,100)</b>	<b>14,343</b>	<b>(6,757)</b>
Operating Transfers Out - General Fund	(106)		(106)
Deletion of Capital Assets	(2,400)		(2,400)
<b>Change in Net Assets</b>	<b>(23,606)</b>	<b>14,343</b>	<b>(9,263)</b>
<b>Net Assets - Beginning of Year</b>	<b>212,805</b>	<b>11,514</b>	<b>224,319</b>
<b>Net Assets - End of Year</b>	<b>\$ 189,199</b>	<b>\$ 25,857</b>	<b>\$ 215,056</b>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Food Service</u>	<u>Enrichment Program</u>	<u>Total Business-type Activities - Enterprise Funds</u>
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 537,947	\$ 159,806	\$ 697,753
Payments to Employees	(261,689)	(108,339)	(370,028)
Payments for Benefits	(17,993)	(11,874)	(29,867)
Payments to Suppliers	(340,714)	(25,284)	(365,998)
Net Cash Provided by/(Used for) Operating Activities	<u>(82,449)</u>	<u>14,309</u>	<u>(68,140)</u>
Cash Flows Used for Capital Financing Activities:			
Acquisition of Equipment	(5,988)		(5,988)
Net Cash Flows Used for Capital Financing Activities	<u>(5,988)</u>		<u>(5,988)</u>
Cash Flows from Noncapital Financing Activities:			
Cash Received from Federal and State Sources	44,710		44,710
Operating Transfer Out - General Fund	(106)		(106)
Net Cash Provided by Noncapital Financing Activities	<u>44,604</u>		<u>44,604</u>
Cash Flows from Investing Activities:			
Investment Income	110	34	144
Net Cash Flows Provided by Investing Activities	<u>110</u>	<u>34</u>	<u>144</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(43,723)	14,343	(29,380)
Cash and Cash Equivalents, July 1	<u>117,270</u>	<u>11,514</u>	<u>128,784</u>
Cash and Cash Equivalents, June 30	<u>\$ 73,547</u>	<u>\$ 25,857</u>	<u>\$ 99,404</u>
Reconciliation of Operating Income to Net Cash Provided by/(Used for) Operating Activities:			
Operating Loss	\$ (79,609)	\$ 14,309	\$ (65,300)
Adjustment to Reconcile Operating Loss to Cash Provided by/(Used for) Operating Activities:			
Federal Food Distribution Program	16,359		16,359
Depreciation Expense	14,804		14,804
Changes in Assets and Liabilities:			
Decrease/(Increase) in Inventory	2,064		2,064
Decrease/(Increase) in Interfund Receivable	(2,630)		(2,630)
Increase/(Decrease) in Accounts Payable	(33,102)		(33,102)
Increase/(Decrease) in Deferred Revenue	(335)		(335)
Net Cash Provided by/(Used for) Operating Activities	<u>\$ (82,449)</u>	<u>\$ 14,309</u>	<u>\$ (68,140)</u>

Investing and Financing Activities:

The District had \$1,629 in USDA donated commodities at June 30, 2010, received commodities valued at \$16,359 used commodities valued at \$16,694 and had \$1,294 in commodities at June 30, 2011.

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

Exhibit B-7

KINNELON BOROUGH SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2011

	<u>Unemployment Compensation Trust</u>	<u>Private Purpose Scholarship Fund</u>	<u>Agency Fund</u>
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 116,435	\$ 8,352	\$ 368,170
Investments		100,265	
Total Assets	<u>116,435</u>	<u>108,617</u>	<u>368,170</u>
<u>LIABILITIES:</u>			
Payroll Deductions and Withholdings Due General Fund			122,999 10
Due to Scholarship Recipient		5,000	
Due to Student Groups			245,161
Total Liabilities		<u>5,000</u>	<u>368,170</u>
<u>NET ASSETS:</u>			
Held in Trust for Unemployment Claims	116,435		
Reserved for Scholarships		103,617	
Total Net Assets	<u>\$ 116,435</u>	<u>\$ 103,617</u>	<u>\$ -0-</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

Exhibit B-8

KINNELON BOROUGH SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Unemployment Compensation Trust	Private Purpose Scholarship Fund	Totals
<b>ADDITIONS:</b>			
Contributions:			
Plan Members	\$ 81,703		\$ 81,703
Board of Education	208,590		208,590
Donations		\$ 61,500	61,500
Total Contributions	<u>290,293</u>	<u>61,500</u>	<u>351,793</u>
Investment Earnings:			
Interest	19	554	573
Net Investment Earnings	<u>19</u>	<u>554</u>	<u>573</u>
Total Additions	<u>290,312</u>	<u>62,054</u>	<u>352,366</u>
<b>DEDUCTIONS:</b>			
Unemployment Compensation Claims	188,317		188,317
Scholarships Awarded		66,500	66,500
Total Deductions	<u>188,317</u>	<u>66,500</u>	<u>254,817</u>
Change in Net Assets	101,995	(4,446)	97,549
Net Assets - Beginning of the Year	<u>14,440</u>	<u>108,063</u>	<u>122,503</u>
Net Assets - End of the Year	<u>\$ 116,435</u>	<u>\$ 103,617</u>	<u>\$ 220,052</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE  
AN INTEGRAL PART OF THIS STATEMENT

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note 1. Summary of Significant Accounting Policies

The financial statements of the Board of Education (the "Board") of the Kinnelon Borough School District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

A. Reporting Entity

The Board is an instrumentality of the State of New Jersey, established to function as an educational institution. The Board consists of elected officials and is responsible for the fiscal control of the District. A superintendent is appointed by the Board and is responsible for the administrative control of the District.

The primary criterion for including activities within the District's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. In addition, certain legally separate, tax-exempt entities that meet specific criteria (i.e. benefit of economic resources, access/entitlement to economic resources, and significances) should be included in the financial reporting entity. The combined financial statements include all funds of the District over which the Board exercises operating control. The operations of the District include 2 elementary schools, 1 middle school, and 1 high school located in the Borough of Kinnelon. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

B. Basis of Presentation

District-Wide Financial Statements

The statement of net assets and the statement of activities present financial information about the District's governmental and business type activities. These statements include the financial activities of the overall District in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. These statements distinguish between the governmental and business type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenue and other non exchange transactions. Business type activities are financed in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenue for business-type activities and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses are allocated to the functions using an appropriate allocation method or association with the specific function. Indirect expenses include health benefits, employer's share of payroll taxes, compensated absences and tuition reimbursements. Program revenue includes (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue. The comparison of direct expenses in the program revenue identifies the extent to which each government function or business segment is self-financing or draws from the general revenue of the District.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation (Cont'd)

Fund Financial Statements

During the fiscal year, the School District segregated transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The New Jersey Department of Education (NJDOE) has elected to require New Jersey districts to treat each governmental fund as a major fund in accordance with the option noted in GASB No. 34, paragraph 76. The NJDOE believes that the presentation of all funds as major is important for public interest and to promote consistency among district financial reporting models.

The District reports the following governmental funds:

General Fund: The General Fund is the general operating fund of the District and is used to account for and report all expendable financial resources not accounted for and reported in another fund. Included are certain expenditures for vehicles and movable instructional or noninstructional equipment which are classified in the capital outlay subfund.

As required by NJDOE, the District includes budgeted capital outlay in this fund. GAAP, as it pertains to governmental entities, states that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenue. Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid, district taxes and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment.

Special Revenue Fund: The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Thus the Special Revenue Fund is used to account for the proceeds of specific revenue from State and Federal Governments (other than major capital projects, debt service or the enterprise funds) and local appropriations that are legally restricted or committed to expenditures for specified purposes.

Capital Projects Fund: The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election, funds appropriated from the General Fund, and from aid provided by the state to offset the cost of approved capital projects.

Debt Service Fund: The Debt Service Fund is used to account and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The District reports the following proprietary funds:

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies: (Cont'd)

B. Basis of Presentation (Cont'd)

Enterprise (Food Service) Fund: The enterprise fund accounts for all revenue and expenses pertaining to the Board's cafeteria operations. The food service fund is utilized to account for the operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e., expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges.

Enterprise Fund- Enrichment Program: The Enterprise Fund accounts for all revenue and expenses pertaining to the Board's enrichment program. This program provides before and after school activities, as well as kindergarten enrichment opportunities to students whom subscribe to the program. The enrichment fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges.

Additionally, the District reports the following fund type:

Fiduciary Funds: The fiduciary funds are used to account for assets held by the District on behalf of others and include the Student Activities Fund, Payroll Agency Fund, the Private Purpose Scholarship Fund, and Unemployment Compensation Insurance Trust Fund.

C. Measurement Focus and Basis of Accounting

The district-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenue.

Reports for the District's Food Service Fund are prepared following the Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with Governmental Accounting Standards Board (GASB) pronouncements.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies: (Cont'd)

D. Budgets/Budgetary Control

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue fund and debt service funds. The budgets are submitted to the County office and are voted upon at the annual school election on the third Tuesday in April. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. All budget amendments/transfers must be made by School Board resolution. All budgeting amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized reserves on the annual budget during the year).

Formal budgetary integration into the accounting system is employed as a management control device during the fiscal year. For Governmental Funds, there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles (GAAP) with the exception of the Special Revenue Fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the Governmental Fund types. Unencumbered appropriations lapse at fiscal year end.

The accounting records of the Special Revenue Fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenue, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

The General Fund budgetary revenue differs from GAAP revenue due to a difference in recognition of the last two state aid payments for the current year. Since the state is recording the last two state aid payments in the subsequent year, the District cannot recognize these payments on the GAAP financial statements.

Note A - Explanation of Differences between Budgetary Inflows and Outflows and  
GAAP Revenue and Expenditures

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Sources/Inflows of Resources		
Actual Amounts (Budgetary Basis) "Revenue" from the Budgetary Comparison Schedule	\$ 33,457,921	\$ 478,923
Differences - Budget to GAAP:		
Grant Accounting Budgetary Basis Differs from GAAP in that the Budgetary Basis Recognizes Encumbrances as Expenditures and Revenue, Whereas the GAAP Basis does not		5,881
Prior Year State Aid Payment Recognized for GAAP Purposes, not Recognized for Budgetary Statements	210,856	
Current Year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	<u>(30,476)</u>	
Total Revenue as Reported on the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds.	<u>\$ 33,638,301</u>	<u>\$ 484,804</u>

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies: (Cont'd)

D. Budgets/Budgetary Control

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenue and Expenditures

	General Fund	Special Revenue Fund
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	\$ 33,155,031	\$ 478,923
Differences - Budget to GAAP		
Encumbrances for Supplies and Equipment Ordered but Not Received are Reported in the Year the Order is Placed for Budgetary Purposes, but in the Year the Supplies are Received for Financial Reporting Purposes.		5,881
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 33,155,031	\$ 484,804
Explanation of Differences between Budgetary Revenues and Expenditures and GAAP Revenue and Expenditures:		
Reconciliation of Capital Projects Fund:		
Unrestricted Fund Balance (Budgetary Basis)	\$ 34,795	
Fund Balance per Governmental Funds	\$ 34,795	

E. Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash and cash in banks. Certificates of deposit, with maturities of one year or less when purchased, are stated at cost.

New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts. Additionally, the District has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value of at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Government Units. If a public depository fails, the collateral it has pledged, plus the collateral of all the other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

F. Interfund Transactions

Transfers between governmental and business-type activities on the district-wide statements are reported in the same manner as general revenue. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenue/expenses in the Enterprise Fund.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies: (Cont'd)

F. Interfund Transactions

Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities or governmental and agency funds, which are presented as internal balances.

G. Allowance for Uncollectible Accounts

No allowance for uncollectible accounts has been recorded as all amounts are considered collectible.

H. Encumbrances

Under encumbrance accounting purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances in governmental funds other than the special revenue fund are reported as restricted, committed and/or assigned fund balances at fiscal year end as they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

Open encumbrances in the special revenue fund for which the District has received advances are reflected in the balance sheet as deferred revenue at fiscal year end.

The encumbered appropriation authority carries over into the next fiscal year. An entry will be made at the beginning of the next fiscal year to increase the appropriation reflected in the certified budget by the outstanding encumbrance amount as of the current fiscal year end.

I. Short-term Interfund Receivables/Payables:

Short-term interfund receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the District and that are due within one year.

J. Inventories and Prepaid Expenses

Inventories and prepaid expenses, which benefit future periods, other than those recorded in the enterprise fund, are recorded as an expenditure during the year of purchase.

Enterprise fund inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. Prepaid expenses in the enterprise fund represent payments made to vendors for services that will benefit periods beyond June 30, 2011.

K. Capital Assets

During the year ended June 30, 1994, the District established a formal system of accounting for its capital assets. Capital assets acquired or constructed subsequent to June 30, 1994, are recorded at historical cost. Capital assets acquired or constructed prior to the establishment of the formal system are valued at cost based on historical records or through estimation procedures performed by an independent appraisal company. Land has been recorded at estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs is not capitalized. The District does not possess any infrastructure. Capital assets have been reviewed for impairment.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies (Cont'd):

K. Capital Assets (Cont'd)

The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is \$2,000. The depreciation method is straight-line. The estimated useful lives of capital assets reported in the district-wide statements and proprietary funds are as follows:

Asset Class	Estimated Useful Life in Years
Buildings	50
Site Improvements	20
Furniture and Equipment	10 to 15
Computer and Related Technology	5
Vehicles	8

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures in the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

L. Long-Term Liabilities

In the District-wide and enterprise fund statements of net assets, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or enterprise funds. Bonds issuance costs, as well as applicable bond premium and discounts, are reported as deferred charges and amortized over the term of the related debt using the straight-line method of amortization. In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, as expenditures in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

M. Accrued Salaries and Wages:

The District does not allow employees who provide services over the ten-month academic year the option to have their salaries evenly distributed during the entire twelve-month year, therefore, there are no accrued salaries and wages as of June 30, 2011.

N. Compensated Absences

The District accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (G.A.S.B. 16), *Accounting for Compensated Absences*. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

District employees are granted varying amounts of vacation and sick leave in accordance with the District's various contracts/agreements. Upon termination, employees are paid for accrued vacation. The District's policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement, employees shall be paid by the District for the unused sick leave in accordance with the District's agreements with the various employee unions/individual employees.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies (Cont'd):

N. Compensated Absences (Cont'd)

In the district-wide Statement of Net Assets, the liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due after one year.

O. Deferred Revenue

Deferred revenue represents cash which has been received but not yet earned.

P. Fund Balance Appropriated

General Fund: Of the \$871,590 General Fund fund balance at June 30, 2011, \$107,417 is assigned to encumbrances; \$100 is restricted in the capital reserve account; \$80,000 of the assigned fund balance has been appropriated and included as anticipated revenue for the fiscal year ending June 30, 2012; and there \$684,073 in unassigned fund balance.

Capital Projects Fund: Of the \$34,795 Capital Projects Fund fund balance at June 30, 2011, \$4,575 is assigned to encumbrances and \$30,220 is restricted.

Calculation of Excess Surplus: In accordance with N.J.S.A. 18A:7F-7, as amended by P.L. 2004, c.73 (S1701) the designation for Reserved Fund Balance-Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to reserve General Fund fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent year's budget. The District had no excess surplus at June 30, 2011 or June 30, 2010.

The District's unreserved/undesignated fund balance in the General Fund is less on a GAAP basis than the budgetary basis by \$30,476 as reported in the fund statements (modified accrual basis). P.L. 2003, C.97 provides that in the event a state school aid payment is not made until the following school budget year, districts must record the related state aid payment as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the last two state aid payments in the subsequent fiscal year, the school district cannot recognize the last two state aid payments on the GAAP financial statements until the year the State records the payable. The excess surplus calculation is calculated using the fund balance reported on the Budgetary Comparison Schedule, including the final state aid payments and not the fund balance reported on the fund statement which excludes the last two state aid payments.

Q. Deficit Net Assets

The District did not have a deficit in net assets in 2011.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies (Cont'd):

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

S. Fund Balance Restrictions, Commitments and Assignments:

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion which is available for appropriation in future periods. Fund balance restrictions have been established for tuition, a waiver offset reserve, a capital reserve and excess surplus as defined by State law.

The District Board of Education has the responsibility to formally commit resources for specific purposes through a motion or a resolution passed by a majority of the Members of the Board of Education at a public meeting of that governing body. The Board of Education must also utilize a formal motion or a resolution passed by a majority of the Members of the Board of Education at a public meeting of that governing body in order to remove or change the commitment of resources. The District has committed resources for (identify purpose – for example – “capital purposes”) at June 30, 2011.

The assignment of resources is generally made by the District Board of Education through a motion or a resolution passed by a majority of the Members of the Board of Education. These resources are intended to be used for a specific purpose. The process is not as restrictive as the commitment of resources and the Board of Education may allow an official of the District to assign resources through policies adopted by the Board of Education. The District has assigned resources for capital purposes at June 30, 2011.

T. Revenue - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified-accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means within sixty days of the fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 1. Summary of Significant Accounting Policies (Cont'd):

T. Revenue - Exchange and Nonexchange Transactions (Cont'd)

resources are provided to the school district on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes, interest, and tuition.

U. Operating Revenue and Expenses

Operating revenue is those revenue that are generated directly from the primary activity of the Proprietary Funds. For the School District, these revenue are sales for food service and fees for the enrichment program. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Proprietary Funds.

V. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Explanation of Certain Differences Between Governmental Fund Statements and District-Wide Statements

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

Note 3. Cash and Cash Equivalents and Investments

Cash and cash equivalents includes petty cash, change funds, amounts in deposits, money market accounts and short-term investments with original maturities of three months or less.

Investments are stated at cost, or amortized cost, which approximates market. The Board classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB Statement No. 40, *Governmental Accounting Standards Board Deposit and Investment Risk Disclosures*, requires disclosure of the level of custodial credit risk assumed by the District in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned.

Interest Rate Risk - In accordance with its cash management plan, the District ensures that any deposit or investment matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk - The District limits its investments to those authorized in its cash management plan which are those permitted under state statute as detailed on the following page.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 3. Cash and Cash Equivalents and Investments (Cont'd)

Deposits

New Jersey statutes require that School Districts deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. School Districts are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least five percent of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments

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

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (5) Local government investment pools;
- (6) Deposits with the State of New Jersey Cash Management Fund; or
- (7) Agreements for the repurchase of fully collateralized securities if:
  - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 3. Cash and Cash Equivalents and Investments (Cont'd)

Investments (Cont'd)

- (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 statute; and
- (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of June 30, 2011, cash and cash equivalents and investments of the District consisted of the following:

<u>Accounts</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Checking Accounts	\$ 1,553,740		\$ 1,553,740
Certificates of Deposit		\$ 100,265	100,265
Capital Reserve	<u>100</u>		<u>100</u>
	<u>\$ 1,553,840</u>	<u>\$ 100,265</u>	<u>\$ 1,654,105</u>

During the period ending June 30, 2011, the District did not hold any investments other than certificates of deposits. The carrying amount of the Board's cash and cash equivalents at June 30, 2011 was \$1,654,105 and the bank balance was \$2,406,144.

Note 4. Capital Reserve Account

A capital reserve account was established by the Borough of Kinnelon Board of Education by inclusion of \$100 on February 9, 1999, for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the District's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the State Department of Education, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfer by board resolution at year end of any unanticipated revenue or unexpended line-item appropriation amounts, or both. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6:23A-5.1(d)7, the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

The activity of the capital reserve for the July 1, 2010 to June 30, 2011 fiscal year is as follows:

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 4. Capital Reserve Account

Beginning balance, July 1, 2010	\$ 100
Ending balance, June 30, 2011	\$ 100

The June 30, 2011 LRF balance of local support costs of uncompleted capital projects at June 30, 2011 is \$11,521,000. There were no withdrawals from the capital reserve account.

Note 5. Capital Assets

Capital assets balances and activity for the year ended June 30, 2011 were as follows:

Activities	Beginning Balance	Additions	Deletions	Total Ending Balance
<b>Governmental Activities:</b>				
Assets not Depreciated:				
Land	\$ 45,810			\$ 45,810
Total Assets not Depreciated	45,810			45,810
Assets Being Depreciated:				
Buildings and Improvements	60,520,136			60,520,136
Machinery and Equipment	4,516,107	\$ 70,236	\$ (34,600)	4,551,743
Total Assets Being Depreciated	65,036,243	70,236	(34,600)	65,071,879
Less: Accumulated Depreciation:				
Buildings and Improvements	(13,668,955)	(1,203,542)		(14,872,497)
Machinery and Equipment	(3,376,485)	(194,938)	34,600	(3,536,823)
Total Accumulated Depreciation	(17,045,440)	(1,398,480)	34,600	(18,409,320)
Governmental Capital Assets, Net of Accumulated Depreciation	<u>\$ 48,036,613</u>	<u>\$(1,328,244)</u>	<u>\$ -</u>	<u>\$46,708,369</u>
<b>Business-Type Activities:</b>				
Machinery and Equipment	\$ 392,505	\$ 5,988	\$ (20,200)	\$ 378,293
Less: Accumulated Depreciation	(273,173)	(14,804)	17,800	(270,177)
Business-Type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 119,332</u>	<u>\$ (8,816)</u>	<u>\$ (2,400)</u>	<u>\$ 108,116</u>

Depreciation expense was charged to governmental functions as follows:

	Amount
Regular Instruction	\$ 898,383
Other Instruction	182,502
General Administrative Services	31,885
School Administrative Services	136,911
Plant Operations and Maintenance	139,149
Pupil Transportation	9,650
Total Depreciation Charged	<u>\$ 1,398,480</u>

At year end, the District has \$4,575 in outstanding construction encumbrances.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 6. Long-Term Liabilities

During the fiscal year ended June 30, 2011, the following changes occurred in liabilities reported in the district-wide financial statements:

	Balance June 30, 2010	Issued/ Accrued	Defeased	Retired	Balance June 30, 2011
Serial Bonds Payable	\$ 29,481,000	\$ 9,980,000	\$ 9,502,000	\$ 1,570,000	\$ 28,389,000
Less: Deferred Interest		(948,648)			(948,648)
Serial Bonds Payable	29,481,000	9,031,352	9,502,000	1,570,000	27,440,352
Compensated Absences	942,113	33,525		284,238	691,400
Capital Leases	267,600			105,371	162,229
Total Obligations	<u>\$ 30,690,713</u>	<u>\$ 9,064,877</u>	<u>\$ 9,502,000</u>	<u>\$ 1,959,609</u>	<u>\$ 28,293,981</u>

A. Bonds Payable

Bonds are authorized in accordance with State law by the voters of the school district through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Board are general obligation bonds and will be liquidated through the debt service fund.

On November 16, 2006, the District issued refunding school bonds of \$4,615,000 with interest rates ranging from 3.25% to 4.00% to advance refund \$4,406,000 school bonds with interest rates ranging from 4.75% to 4.80%. The bonds mature on October 1, 2009 through 2017 and October 1, 2009 is the first optional redemption date at 100% of par. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school bonds are called on October 1, 2009. The advance refunding met the requirements of an in-substance debt defeasance and the school bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirement by \$148,999, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$135,485.

On September 14, 2010, the District issued refunding school bonds of \$9,980,000 with interest rates ranging from 2.00% to 4.00% to advance refund \$9,502,000 school bonds with interest rates ranging from 4.05% to 4.70%. The bonds mature on October 1, 2013 through 2021 and October 1, 2020 is the first optional redemption date at 100% of par. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school bonds are called on October 1, 2020. The advance refunding met the requirements of an in-substance debt defeasance and the school bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirement by \$434,927, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$395,461.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 6. Long-Term Liabilities (Cont'd)

A. Bonds Payable (Cont'd)

The District had serial bonds outstanding as of June 30, 2011 as follows:

<u>Issue Dates</u>	<u>Interest Rates</u>	<u>Final Date of Maturity</u>	<u>Balance June 30, 2011</u>
2/1/1999	4.30-4.40%	2/1/2013	\$ 890,000
12/19/2002	4.10%	10/1/2012	1,330,000
11/16/2005	3.50-4.00%	10/1/2017	3,615,000
12/27/2006	4.00-4.25%	2/1/2033	6,285,000
1/24/2007	4.20%	2/1/2033	6,289,000
9/14/2010	2.00-4.00%	10/1/2023	9,980,000
			<u>\$ 28,389,000</u>

Debt service requirements on serial bonds payable at June 30, 2011 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,670,000	\$ 1,502,577	\$ 3,172,577
2013	1,715,000	1,436,570	3,151,570
2014	1,310,000	951,179	2,261,179
2015	1,355,000	907,853	2,262,853
2016	1,380,000	862,873	2,242,873
2017-2021	6,000,000	3,560,641	9,560,641
2022-2026	5,375,000	2,594,109	7,969,109
2027-2031	6,680,000	1,481,000	8,161,000
2032-2033	2,904,000	184,546	3,088,546
	<u>\$ 28,389,000</u>	<u>\$ 13,481,348</u>	<u>\$ 41,870,348</u>

The Debt Service Fund will be used to liquidate the Serial Bonds.

B. Bonds Authorized but not Issued

As of June 30, 2011, the Board has no bonds authorized but not issued.

C. Capital Leases Payable

The District is leasing buses valued at \$270,852 of which \$108,623 has been amortized. The capital leases are for terms of five years. The following schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2011.

<u>Year</u>	<u>Amount</u>
2012	\$ 57,999
2013	57,999
2014	57,999
	<u>173,997</u>
Less: Amount representing interest	<u>(11,768)</u>
Present value of net minimum lease payments	<u>\$ 162,229</u>

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 6. Long-Term Liabilities (Cont'd)

C. Capital Leases Payable (Cont'd)

The current portion of Capital Leases payable is \$51,363 and the long-term portion is \$110,866.

The General Fund will be used to liquidate the Capital Leases.

D. Compensated Absences Payable

The liability for compensated absences of the governmental fund types is recorded as a long-term liability. There is no current portion of the compensated absences balance of the governmental funds in the current year. The long-term liability balance of compensated absences is \$691,400 for Governmental Activities.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 2011, no liability existed for compensated absences in the Food Service Fund or Enrichment Fund.

The General Fund will be used to liquidate Compensated Absences Payable.

Note 7. Pension Plans

Substantially all of the Board's employees participate in one of the two contributory, defined benefit public employee retirement systems: the Teachers' Pension and Annuity Fund (TPAF) or the Public Employee's Retirement System (PERS) of New Jersey. These systems are sponsored and administered by the State of New Jersey. The TPAF is considered a cost-sharing, multiple employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the Board and the system's other non-contribution employers. The PERS is also considered a cost-sharing, multiple-employer plan.

Employees who are members of TPAF or PERS and retire at a specified age or after 55 according to the relevant tier category for that employee are entitled to a retirement benefit based upon a formula which takes "final average salary" during years of credible service. Vesting occurs after 8 to 10 years of service.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey regulation. Employee contributions are based on percentages of 5.50% for TPAF and 5.50% for PERS of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits, and post-retirement medical premiums. Under current statute, the District is a noncontributing employer of the TPAF.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 7. Pension Plans (Cont'd)

District contributions to PERS amounted to \$374,711, \$280,200 and \$204,829 for the fiscal years ended June 30, 2011, 2010 and 2009 respectively.

During the fiscal years ended June 30, 2011, 2010, and 2009 the State of New Jersey contributed \$-0, \$-0- and \$-0-, respectively, to the TPAF for normal pension benefits on-behalf of the District.

Note 8. Post-Retirement Benefits

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required Teachers Pensions and Annuity Fund (T.P.A.F.) and the Public Employees' Retirement System (P.E.R.S.), respectively, to fund post retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2010, there were 87,288 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributed to P.L. 1992, c.126 which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$126.3 million toward Chapter 126 benefits for 14,050 eligible retired members in fiscal year 2010.

The State's on behalf Post Retirement Medical Contributions to TPAF for the District amounted to \$1,046,375, \$997,768 and \$930,189 for 2011, 2010 and 2009, respectively.

Note 9. Deferred Compensation

The Board offers its employees a choice of the following deferred compensation plans created in accordance with Internal Revenue Code Section 403(b). The plans, which are administered by the entities listed below, permits participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death or unforeseeable emergency. The plan administrators used are:

- |   |                      |
|---|----------------------|
| ➤ Equitable                             | ➤ Metropolitan Life  |
| ➤ Great West (thru Lincoln Investments) | ➤ Met Life Investors |
| ➤ Lincoln National                      | ➤ Valic (AIG)        |

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 10. Risk Management

The District 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 District obtains its health benefit coverage through Horizon Blue Cross Blue Shield.

Property and Liability Insurance:

The District maintains commercial insurance coverage for property, liability, student accident, and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

New Jersey Unemployment Compensation Insurance:

The District has elected to fund its New Jersey Unemployment Compensation Insurance under the 'Benefit Reimbursement Method.' Under this plan, the District 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 District is billed quarterly for amounts due to the State.

The following is a summary of the District contributions, employee contributions, interest earned, reimbursements to the State for benefits paid, and the ending balance of the District's expendable trust fund for the current and previous two years:

<u>Fiscal Year</u>	<u>Employer/ Employee Contributions</u>	<u>Interest</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2010-2011	\$ 290,293	\$ 19	\$ 188,317	\$ 116,435
2009-2010	80,127	209	119,370	14,440
2008-2009	51,060	606	73,063	53,474

Property, Liability and Health Benefits

The Kinnelon Borough School District is a member of the Pooled Insurance Program of New Jersey (the "Fund"). This public entity risk management pool provides general liability, property and automobile coverage and workers' compensation for its members. The Kinnelon Borough School District receives only workers' compensation coverage from the Fund. The Fund is a risk-sharing public entity risk pool that is an insured and self-administered group of school boards established for the purpose of providing low-cost insurance for its respective members in order to keep local property taxes to a minimum.

Each member appoints an official to represent their respective entity for the purpose of creating a governing body from which officers for the Fund are elected.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 10. Risk Management (Cont'd)

As a member of this Fund, the District could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities. The Fund can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided among the members in the same ratio as their individual assessment related to the total assessment of the membership body. In accordance with Statement No.10 of the Governmental Accounting Standards Board, these distribution are used to reduce the amount recorded for membership expense in the year in which the distribution was declared.

The June 30, 2011 audit report is not available as of the date of this report. Selected summarized financial information for the Pool as of June 30, 2010 is as follows:

<u>Year Ended</u> <u>June 30, 2010</u>	<u>Pooled Insurance</u> <u>Program of</u> <u>New Jersey</u>
Total Assets	\$ 18,213,888
Net Assets	\$ 4,394,352
Total Revenue	\$ 7,706,329
Total Expenses and Adjustments	\$ 7,261,105
Change in Net Assets	\$ 445,224
Net Assets Distributed to Participating Members	\$ 1,075,284

Financial statements for the Fund are available at the Fund Administrator's Office:

Pooled Insurance Program of New Jersey  
Burton Agency, Inc.  
44 Bergen Street  
Westwood, New Jersey 07675  
(201) 664-0301

Note 11. Tax Calendar

Property taxes are levied as of January 1 on property values assessed as of the previous calendar year. The tax levy is divided into two billings. The first billing is an estimate of the current year's levy based on the prior year's taxes. The second billing reflects adjustments to the current year's actual levy. The final tax bill is usually mailed on or before June 14th, along with the first half estimated tax bills for the subsequent year. The first half estimated taxes are divided into two due dates, February 1 and May 1. The final tax bills are also divided into two due dates, August 1 and November 1. A ten-day grace period is usually granted before the taxes are considered delinquent and there is an imposition of interest charges. A penalty may be assessed for any unpaid taxes in excess of \$10,000 at December 31 of the current year. Unpaid taxes of the current and prior year may be placed in lien at a tax sale held after December 10.

Taxes are collected by the municipality and are remitted to the local school district on a predetermined, agreed-upon schedule.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 12. Contingent LiabilitiesGrant Programs

The School District participates in federal and state assisted grant programs. The programs are subject to program compliance audits by grantors or their representatives. The School District is potentially liable for expenditures which may be disallowed pursuant to terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

The District is periodically involved in pending lawsuits. The District estimates that the potential claims against it resulting from such litigation and not covered by insurance would not materially affect the financial statements of the District.

Arbitrage

The District may have a liability for arbitrage payable to the federal governments relative to its school bond issues. The amount of liability at June 30, 2011, if any, is unknown.

Encumbrances

At June 30, 2011, there were encumbrances as detailed below in the governmental funds. All of the governmental funds are considered to be major funds:

<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Activities</u>
\$ 107,417	\$ 4,575	\$ 111,992

Note 13. Economic Dependency

The Board of Education receives support from federal and state governments. A significant reduction in the level of support, if this were to occur, may have an effect on the Board of Education's programs and activities.

Note 14. Accounts Payable:

Payables as of June 30, 2011 were:

	<u>Governmental Activities</u>		
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Activities</u>
Vendors	\$ 127,630	\$ 5,272	\$ 132,902
	\$ 127,630	\$ 5,272	\$ 132,902

**SUPPLEMENTARY SCHEDULES**

**BUDGETARY COMPARISON SCHEDULES**

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUES:</b>					
Local Sources:					
Local Tax Levy	\$ 30,099,983		\$ 30,099,983	\$ 30,099,983	
Tuition	100,000		100,000	47,928	\$ (52,072)
Interest Revenue		\$ 40,000	40,000	1,685	(38,315)
Miscellaneous	200,000	(40,000)	160,000	227,775	67,775
<b>Total - Local Sources</b>	<b>30,399,983</b>		<b>30,399,983</b>	<b>30,377,371</b>	<b>(22,612)</b>
State Sources:					
Special Education Aid	557,186		557,186	557,186	
Extraordinary Aid				292,389	292,389
Additional Nonpublic School Transportation Aid				16,938	16,938
Voluntary Wage Freeze				232	232
On-Behalf TPAF Non-Contributory Insurance (Non-Budgeted)				49,264	49,264
On-Behalf TPAF Post Retirement Medical Benefits (Non-Budgeted)				1,046,375	1,046,375
TPAF Social Security (Reimbursed - Non-Budgeted)				1,118,166	1,118,166
<b>Total State Sources</b>	<b>557,186</b>		<b>557,186</b>	<b>3,080,550</b>	<b>2,523,364</b>
<b>TOTAL REVENUES</b>	<b>30,957,169</b>		<b>30,957,169</b>	<b>33,457,921</b>	<b>2,500,752</b>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Regular Programs - Instruction:					
Kindergarten - Salaries of Teachers	406,426	(6,443)	399,983	399,938	45
Grades 1-5 - Salaries of Teachers	3,244,182	(31,422)	3,212,760	3,212,760	
Grades 6-8 - Salaries of Teachers	2,691,789	98,330	2,790,119	2,789,799	320
Grades 9-12 - Salaries of Teachers	3,829,150	(812)	3,828,338	3,826,658	1,680
Regular Programs - Home Instruction:					
Salaries of Teachers	15,000	34,540	49,540	49,540	
Other Purchased Services	16,164	(3,622)	12,542	12,541	1
Regular Programs - Undistributed Instruction:					
Other Salaries for Instruction	10,000	(1,504)	8,496	8,496	
Purchased Professional - Educational Services	50,462	(9,958)	40,504	40,495	9
Other Purchased Services	166,875	(12,948)	153,927	150,688	3,239
General Supplies	429,256	(28,302)	400,954	334,036	66,918
Textbooks	92,983	(48,035)	44,948	44,881	67
Other Objects	126		126	126	126
<b>Total Regular Programs - Instruction</b>	<b>10,952,413</b>	<b>(10,176)</b>	<b>10,942,237</b>	<b>10,869,832</b>	<b>72,405</b>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Special Education - Instruction:					
Learning and/or Language Disabilities:					
Salaries of Teachers	\$ 213,225	\$ 18,542	\$ 231,767	\$ 231,767	
Other Salaries for Instruction	34,291	(1,901)	32,390	32,390	
General Supplies	4,489	(1,330)	3,159	1,767	\$ 1,392
Total Learning and/or Language Disabilities	<u>252,005</u>	<u>15,311</u>	<u>267,316</u>	<u>265,924</u>	<u>1,392</u>
Multiple Disabilities:					
Salaries of Teachers	113,050	(3,830)	109,220	109,218	2
Other Salaries for Instruction	28,815	(30)	28,785	28,785	
General Supplies	890	1,150	2,040	1,797	243
Total Multiple Disabilities	<u>142,755</u>	<u>(2,710)</u>	<u>140,045</u>	<u>139,800</u>	<u>245</u>
Resource Room/Resource Center:					
Salaries of Teachers	1,563,238	35,475	1,598,713	1,591,940	6,773
Other Salaries for Instruction	390,863	(16,539)	374,324	374,324	
General Supplies	10,160	(498)	9,662	9,049	613
Textbooks	227	443	670	670	
Total Resource Room/Resource Center	<u>1,964,488</u>	<u>18,881</u>	<u>1,983,369</u>	<u>1,975,983</u>	<u>7,386</u>
Autistic:					
Salaries of Teachers	59,850	(6,341)	53,509	53,509	
Other Salaries for Instruction	18,826	820	19,646	19,646	
General Supplies	405	105	510	502	8
Total Autistic	<u>79,081</u>	<u>(5,416)</u>	<u>73,665</u>	<u>73,657</u>	<u>8</u>
Preschool Disabilities - Part-time:					
Salaries of Teachers	101,900	(3,000)	98,900	98,900	
Other Salaries for Instruction	19,239	(11,155)	8,084	6,530	1,554
General Supplies	243		243	201	42
Total Preschool Disabilities - Part-time	<u>121,382</u>	<u>(14,155)</u>	<u>107,227</u>	<u>105,631</u>	<u>1,596</u>
Total Special Education Instruction	<u>2,559,711</u>	<u>11,911</u>	<u>2,571,622</u>	<u>2,560,995</u>	<u>10,627</u>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Basic Skills/Remedial - Instruction:					
Salaries of Teachers	\$ 145,510	\$ 31,058	\$ 176,568	\$ 176,568	
General Supplies	1,742	(20)	1,722	907	\$ 815
<b>Total Basic Skills/Remedial - Instruction</b>	<b>147,252</b>	<b>31,038</b>	<b>178,290</b>	<b>177,475</b>	<b>815</b>
Bilingual Education - Instruction:					
Salaries of Teachers	46,325	(11,140)	35,185	35,185	
General Supplies	232		232	163	69
<b>Total Bilingual Education - Instruction</b>	<b>46,557</b>	<b>(11,140)</b>	<b>35,417</b>	<b>35,348</b>	<b>69</b>
School-Sponsored Cocurricular Activities - Instruction:					
Salaries	168,364	1,014	169,378	168,003	1,375
Purchased Services	1,863		1,863		1,863
Supplies and Materials	12,866	(7,204)	5,662	4,654	1,008
Other Objects	2,975	1,721	4,696	4,055	641
<b>Total School-Sponsored Cocurricular Activities - Instruction</b>	<b>186,068</b>	<b>(4,469)</b>	<b>181,599</b>	<b>176,712</b>	<b>4,887</b>
School-Sponsored Cocurricular Athletics - Instruction:					
Salaries	394,337	(3,227)	391,110	391,110	
Purchased Services	125,397	818	126,215	122,215	4,000
Supplies and Materials	57,136	(1,089)	56,047	56,044	3
Other Objects	22,550	(17,213)	5,337	5,336	1
<b>Total School-Sponsored Cocurricular Athletics - Instruction</b>	<b>599,420</b>	<b>(20,711)</b>	<b>578,709</b>	<b>574,705</b>	<b>4,004</b>
<b>Total Instruction</b>	<b>14,491,421</b>	<b>(3,547)</b>	<b>14,487,874</b>	<b>14,395,067</b>	<b>92,807</b>
Undistributed Expenditures:					
Instruction:					
Tuition to Other LEAs Within the State - Special	273,289	(27,158)	246,131	244,882	1,249
Tuition to County Vocational School District - Regular	39,505	33,714	73,219	73,219	
Tuition to County Vocational School District - Special	21,781	31,190	52,971	39,469	13,502
Tuition to County Special Services and Regular Day Schools	54,490	94,310	148,800	148,800	
Tuition to Private Schools for the Handicapped - Within State	448,887	(17,431)	431,456	412,016	19,440
<b>Total Undistributed Expenditures - Instruction:</b>	<b>837,952</b>	<b>114,625</b>	<b>952,577</b>	<b>918,386</b>	<b>34,191</b>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>Health Services:</b>					
Salaries	\$ 316,375	\$ 5,328	\$ 321,703	\$ 321,702	\$ 1
Purchased Professional and Technical Services	23,000	550	23,550	22,825	725
Supplies and Materials	9,096	(705)	8,391	8,304	87
<b>Total Health Services</b>	<b>348,471</b>	<b>5,173</b>	<b>353,644</b>	<b>352,831</b>	<b>813</b>
<b>Other Support Services - Students - Related Services:</b>					
Salaries	384,525	(673)	383,852	383,852	
Purchased Professional Educational Services	4,211	1,014	5,225	5,225	
Supplies and Materials	2,117	1,952	4,069	3,977	92
<b>Total Other Support Services - Students - Related Services</b>	<b>390,853</b>	<b>2,293</b>	<b>393,146</b>	<b>393,054</b>	<b>92</b>
<b>Other Support Services - Students - Extra Ordinary Services:</b>					
Salaries	160,737	7,501	168,238	168,238	
Purchased Professional - Educational Services	219,823	1,025	220,848	220,001	847
<b>Total Other Support Services - Students - Extra Ordinary Services</b>	<b>380,560</b>	<b>8,526</b>	<b>389,086</b>	<b>388,239</b>	<b>847</b>
<b>Other Support Services - Students - Guidance:</b>					
Salaries of Other Professional Staff	618,250	(14,702)	603,548	603,548	
Salaries of Secretarial and Clerical Assistants	110,330	(2,465)	107,865	107,865	
Other Purchased Professional and Technical Services	6,550	(2,028)	4,522	4,522	
Supplies and Materials	4,338	845	5,183	5,106	77
<b>Total Other Support Services - Students - Guidance</b>	<b>739,468</b>	<b>(18,350)</b>	<b>721,118</b>	<b>721,041</b>	<b>77</b>
<b>Other Support Services - Students - Child Study Team:</b>					
Salaries of Other Professional Staff	731,937	(23,613)	708,324	708,324	
Salaries of Secretarial and Clerical Assistants	57,825	3,210	61,035	61,035	
Purchased Professional - Educational Services	8,213	627	8,840	8,840	
Other Purchased Professional and Technical Services	7,950	(627)	7,323	6,050	1,273
Miscellaneous Purchased Services	9,361	428	9,789	7,008	2,781
Supplies and Materials	5,415	3,995	9,410	9,259	151
Other Objects	1,064		1,064	1,025	39
<b>Total Other Support Services - Students - Child Study Team</b>	<b>821,765</b>	<b>(15,980)</b>	<b>805,785</b>	<b>801,541</b>	<b>4,244</b>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>Improvement of Instructional Services:</b>					
Salaries of Supervisor of Instruction	\$ 354,954	\$ (23,287)	\$ 331,667	\$ 331,667	
Salaries Other Professional Staff	15,925	(2,940)	12,985	12,984	\$ 1
Purchased Professional - Educational Services	10,000	(4,216)	5,784	5,784	
Supplies and Materials	5,089	(39)	5,050	4,234	816
Other Objects	2,800		2,800	2,488	312
<b>Total Improvement of Instructional Services</b>	<b>388,768</b>	<b>(30,482)</b>	<b>358,286</b>	<b>357,157</b>	<b>1,129</b>
<b>Educational Media Services/School Library:</b>					
Salaries	238,875	18,346	257,221	257,220	1
Salaries of Technology Coordinators	99,926	(306)	99,620	99,620	
Supplies and Materials	31,070	1,218	32,288	30,815	1,473
<b>Total Educational Media Services/School Library</b>	<b>369,871</b>	<b>19,258</b>	<b>389,129</b>	<b>387,655</b>	<b>1,474</b>
<b>Instructional Staff Training Services:</b>					
Salaries of Other Professional Staff	8,722	(7,512)	1,210	1,209	1
Purchased Professional - Educational Services	1,000	11,864	12,864	1,154	11,710
Other Purchased Services	2,199	276	2,475	2,472	3
Supplies and Materials	900	(164)	736	80	656
<b>Total Instructional Staff Training Services</b>	<b>12,821</b>	<b>4,464</b>	<b>17,285</b>	<b>4,915</b>	<b>12,370</b>
<b>Support Services - General Administration:</b>					
Salaries	313,845	(251)	313,594	313,594	
Legal Services	60,694	(1,409)	59,285	46,374	12,911
Audit Fees	34,850		34,850	34,850	
Other Purchased Professional Services	10,717	4,767	15,484	13,813	1,671
Communications/Telephone	53,122	12,891	66,013	64,182	1,831
BOE Other Purchased Professional Services	150	(132)	18		18
Other Purchased Services	17,200	20,018	37,218	37,218	
General Supplies	8,055	(4,427)	3,628	3,474	154
Miscellaneous Expenditures	2,750	(310)	2,440	350	2,090
BOE Membership Dues and Fees	19,400	2,075	21,475	21,423	52
<b>Total Support Services - General Administration</b>	<b>520,783</b>	<b>33,222</b>	<b>554,005</b>	<b>535,278</b>	<b>18,727</b>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>Support Services - School Administration:</b>					
Salaries of Principals/Assistant Principals	\$ 1,022,160	\$ 130,099	\$ 1,152,259	\$ 1,152,259	
Salaries of Secretarial and Clerical Assistants	231,743	7,162	238,905	238,905	
Purchased Professional and Technical Services	9,657		9,657	9,657	
Other Purchased Services	80,029	(417)	79,612	79,569	\$ 43
Supplies and Materials	15,697	(729)	14,968	14,750	218
Other Objects	7,969	(157)	7,812	7,478	334
<b>Total Support Services - School Administration</b>	<b>1,367,255</b>	<b>135,958</b>	<b>1,503,213</b>	<b>1,502,618</b>	<b>595</b>
<b>Central Services:</b>					
Salaries	370,093	15,642	385,735	385,735	
Purchased Professional Services	6,000	3,680	9,680	9,680	
Purchased Technical Services	11,000	514	11,514	11,514	
Miscellaneous Purchased Services	12,845	5,020	17,865	17,119	746
Supplies and Materials	6,500	(1,062)	5,438	5,438	
Other Objects	1,650	(110)	1,540	1,540	
<b>Total Central Services</b>	<b>408,088</b>	<b>23,684</b>	<b>431,772</b>	<b>431,026</b>	<b>746</b>
<b>Administration Information Technology:</b>					
Salaries	74,668	(228)	74,440	74,440	
Purchased Technical Services		2,745	2,745	2,745	
Supplies and Materials		18,797	18,797	18,796	1
<b>Total Administration Information Technology</b>	<b>74,668</b>	<b>21,314</b>	<b>95,982</b>	<b>95,981</b>	<b>1</b>
<b>Required Maintenance of School Facilities:</b>					
Salaries	65,937	24,172	90,109	90,108	1
Cleaning, Repair and Maintenance Services	91,000	44,890	135,890	131,489	4,401
General Supplies	10,000	3,971	13,971	13,788	183
<b>Total Required Maintenance of School Facilities</b>	<b>166,937</b>	<b>73,033</b>	<b>239,970</b>	<b>235,385</b>	<b>4,585</b>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Custodial Services					
Salaries	\$ 1,088,827	\$ (111,130)	\$ 977,697	\$ 977,697	
Purchased Professional and Technical Services	28,500	25,060	53,560	53,560	
Cleaning, Repair and Maintenance Services	36,879	1,915	38,794	38,184	\$ 610
Other Purchased Property Services	38,400	10,379	48,779	48,778	1
Insurance	178,000	1,763	179,763	179,763	
General Supplies	110,913	(6,435)	104,478	104,387	91
Energy (Heat and Electricity)	660,000	17,238	677,238	672,987	4,251
Energy (Natural Gas)	428,000	(67,024)	360,976	234,596	126,380
Other Objects	10,000	(4,560)	5,440	5,134	306
Salaries of Non-Instructional Aides	87,535	1,601	89,136	89,136	
<b>Total Custodial Services</b>	<b>2,667,054</b>	<b>(131,193)</b>	<b>2,535,861</b>	<b>2,404,222</b>	<b>131,639</b>
Care and Upkeep of Grounds:					
Salaries	64,338	18,943	83,281	83,281	
Cleaning, Repair & Maintenance Services	26,900	9,276	36,176	31,994	4,182
General Supplies	28,500	(359)	28,141	28,141	
<b>Total Care and Upkeep of Grounds</b>	<b>119,738</b>	<b>27,860</b>	<b>147,598</b>	<b>143,416</b>	<b>4,182</b>
Student Transportation Services:					
Salaries Pupil Transportation Home and School Regular	246,571	(6,650)	239,921	239,919	2
Salaries Pupil Transportation (Other than Between Home and School)	60,000	31,349	91,349	91,349	
Cleaning, Repair, & Maintenance Services	30,665	7,542	38,207	36,899	1,308
Lease Purchase Payments - School Buses	129,911	(10,975)	118,936	118,936	
Contracted Services:					
Transportation Services - Between Home and School	843,590	(72,211)	771,379	770,961	418
Transportation Services - Between Home and School Other	50,550	(15,636)	34,914	34,147	767
Transportation Services - Special Education-Joint Agreements	412,794	13,022	425,816	408,586	17,230
Transportation Services - Aid in Lieu-Nonpublic	63,400	35,534	98,934	98,933	1
Transportation Supplies	68,514	1,827	70,341	70,341	
Travel		60	60	57	3
Miscellaneous Expenditures	750	(77)	673	673	
<b>Total Student Transportation Services</b>	<b>1,906,745</b>	<b>(16,215)</b>	<b>1,890,530</b>	<b>1,870,801</b>	<b>19,729</b>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>Unallocated Benefits:</b>					
Social Security Contributions	\$ 359,852	\$ 5,141	\$ 364,993	\$ 364,703	\$ 290
Other Retirement Contributions - Regular	300,000	74,712	374,712	374,711	1
Unemployment	625,000	(381,410)	243,590	243,590	
Workmen's Compensation	184,629	(4,267)	180,362	180,362	
Health Benefits	3,543,272	67,860	3,611,132	3,611,132	
Tuition Reimbursement	223,550	(34,527)	189,023	154,518	34,505
Other Employee Benefits	425	397	822	822	
<b>Total Unallocated Benefits</b>	<b>5,236,728</b>	<b>(272,094)</b>	<b>4,964,634</b>	<b>4,929,838</b>	<b>34,796</b>
<b>On-Behalf Contributions:</b>					
On-Behalf TPAF Non-Contributory Insurance (Non-Budgeted)				49,264	(49,264)
On-Behalf TPAF Post Retirements Medical Benefits (Nonbudgeted)				1,046,375	(1,046,375)
Reimbursed TPAF Social Security Contributions (Nonbudgeted)				1,118,166	(1,118,166)
<b>Total On-Behalf Contributions</b>				<b>2,213,805</b>	<b>(2,213,805)</b>
<b>Total Personal Services - Employee Benefits</b>	<b>5,236,728</b>	<b>(272,094)</b>	<b>4,964,634</b>	<b>7,143,643</b>	<b>(2,179,009)</b>
<b>Total Undistributed Expenses</b>	<b>16,758,525</b>	<b>(14,904)</b>	<b>16,743,621</b>	<b>18,687,189</b>	<b>(1,943,568)</b>
<b>TOTAL CURRENT EXPENSE</b>	<b>31,249,946</b>	<b>(18,451)</b>	<b>31,231,495</b>	<b>33,082,256</b>	<b>(1,850,761)</b>
<b>CAPITAL OUTLAY</b>					
<b>Regular Programs - Instruction:</b>					
Equipment - Grades 1-5		4,950	4,950		4,950
Equipment - Grades 9-12		13,501	13,501		13,501
<b>Total Equipment</b>		<b>18,451</b>	<b>18,451</b>		<b>18,451</b>
<b>Facilities Acquisition and Construction Services:</b>					
Other Objects	72,775		72,775	72,775	
<b>Total Facilities Acquisition and Construction Services</b>	<b>72,775</b>		<b>72,775</b>	<b>72,775</b>	
<b>TOTAL CAPITAL OUTLAY</b>	<b>72,775</b>	<b>18,451</b>	<b>91,226</b>	<b>72,775</b>	<b>18,451</b>
<b>TOTAL EXPENDITURES</b>	<b>31,322,721</b>		<b>31,322,721</b>	<b>33,155,031</b>	<b>(1,832,310)</b>
<b>Excess (Deficiency) of Revenues Over/(Under) Expenditures</b>	<b>(365,552)</b>		<b>(365,552)</b>	<b>302,890</b>	<b>668,442</b>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
Other Financing Sources/(Uses):					
Operating Transfer from Food Service Fund				\$ 106	\$ 106
Total Other Financing Sources/(Uses)				106	106
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	\$ (365,552)		\$ (365,552)	302,996	668,548
Fund Balance, July 1	599,070		599,070	599,070	
Fund Balance, June 30	<u>\$ 233,518</u>	<u>\$ -</u>	<u>\$ 233,518</u>	<u>\$ 902,066</u>	<u>\$ 668,548</u>
Recapitulation:					
Restricted Fund Balance:					
Capital Reserve				\$ 100	
Assigned Fund Balance:					
Year-end Encumbrances				107,417	
Designated for Subsequent Year's Expenditures				80,000	
Unassigned Fund Balance				<u>714,549</u>	
				902,066	
Reconciliation to Governmental Funds Statements (GAAP):					
Last Two State Aid Payments not recognized on GAAP basis				(30,476)	
Fund Balance per Governmental Funds (GAAP)				<u>\$ 871,590</u>	

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUES:</b>					
State Sources	\$ 52,000	\$ 2,429	\$ 54,429	\$ 1,263	\$ (53,166)
Federal Sources	435,000	80,764	515,764	477,660	(38,104)
<b>Total Revenues</b>	<b>487,000</b>	<b>83,193</b>	<b>570,193</b>	<b>478,923</b>	<b>(91,270)</b>
<b>EXPENDITURES:</b>					
<b>Instruction:</b>					
Salaries of Teachers	25,000	32,563	57,563	56,102	1,461
Purchased Professional/Technical Services		2,000	2,000	2,000	
Tuition	410,000	(12,300)	397,700	396,741	959
Other Purchased Services	32,000	9,527	41,527		41,527
General Supplies		34,025	34,025	4,575	29,450
Textbooks	10,000	(3,179)	6,821	455	6,366
<b>Total Instruction</b>	<b>477,000</b>	<b>62,636</b>	<b>539,636</b>	<b>459,873</b>	<b>79,763</b>
<b>Support Services:</b>					
Salaries of Other Professional Staff		2,000	2,000	2,000	
Personal Services - Employee Benefit		6,300	6,300	4,960	1,340
Purchased Professional Services	10,000	11,721	21,721	11,554	10,167
Supplies and Materials		536	536	536	
<b>Total Support Services</b>	<b>10,000</b>	<b>20,557</b>	<b>30,557</b>	<b>19,050</b>	<b>11,507</b>
<b>Total Expenditures</b>	<b>487,000</b>	<b>83,193</b>	<b>570,193</b>	<b>478,923</b>	<b>91,270</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>

KINNELON BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
NOTE TO RSI  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note A - Explanation of Differences between Budgetary Inflows and Outflows and  
GAAP Revenues and Expenditures

	General Fund	Special Revenue Fund
Sources/Inflows of Resources		
Actual Amounts (Budgetary Basis) "Revenue" from the Budgetary Comparison Schedule	\$ 33,457,921	\$ 478,923
Differences - Budget to GAAP:		
Grant Accounting Budgetary Basis Differs from GAAP in that the Budgetary Basis Recognizes Encumbrances as Expenditures and Revenue, Whereas the GAAP Basis does not		5,881
Prior Year State Aid Payment Recognized for GAAP Purposes, not Recognized for Budgetary Statements	210,856	
Current Year State Aid Payment Recognized for Budgetary Purposes, not Recognized for GAAP Statements	(30,476)	
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.	<u>\$ 33,638,301</u>	<u>\$ 484,804</u>
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	\$ 33,155,031	\$ 478,923
Differences - Budget to GAAP		
Encumbrances for Supplies and Equipment Ordered but Not Received are Reported in the Year the Order is Placed for Budgetary Purposes, but in the Year the Supplies are Received for Financial Reporting Purposes.		5,881
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 33,155,031</u>	<u>\$ 484,804</u>

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue and debt service funds. The budgets are submitted to the County office and are voted upon at the annual school election on the third Tuesday in April. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. Transfers of appropriations may be made by School Board resolution at any time during the fiscal year. All budgetary amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions or the annual budgets during the year).

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between budgetary basis of accounting and generally accepted accounting principles, with the exception of the Special Revenue Fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenue, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

The General Fund budgetary revenue differs from GAAP revenue due to a difference in recognition of the last two state aid payments for the current year. Since the State is recording the last two state aid payments in the subsequent fiscal year, the District cannot recognize these payments on the GAAP financial statements.

**SCHOOL LEVEL SCHEDULES  
(NOT APPLICABLE)**

**SPECIAL REVENUE FUND**

KINNELON BOROUGH SCHOOL DISTRICT  
SPECIAL REVENUE FUND  
COMBINING SCHEDULE OF REVENUE AND EXPENDITURES - BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>No Child Left Behind</u>		<u>IDEA</u>	<u>IDEA</u>	<u>IDEA</u>	<u>Non-Public</u>
	<u>Title IIA</u>	<u>Title IV</u>	<u>Part B</u>	<u>Part B</u>	<u>Part B</u>	<u>Textbooks</u>
		<u>Carryover</u>	<u>Preschool</u>	<u>Basic</u>	<u>Basic</u>	
					<u>ARRA</u>	
<b>REVENUE:</b>						
State Sources						\$ 455
Federal Sources	\$ 41,406	\$ 2,763	\$ 12,431	\$ 396,741	\$ 24,319	
<b>Total Revenue</b>	<u>41,406</u>	<u>2,763</u>	<u>12,431</u>	<u>396,741</u>	<u>24,319</u>	<u>455</u>
<b>EXPENDITURES:</b>						
<b>Instruction:</b>						
Salaries of Teachers	25,000		12,431		18,671	
Purchased Professional/Technical Services		2,000				
Tuition				396,741		
General Supplies		763			3,812	
Textbooks						455
<b>Total Instruction</b>	<u>25,000</u>	<u>2,763</u>	<u>12,431</u>	<u>396,741</u>	<u>22,483</u>	<u>455</u>
<b>Support Services:</b>						
Salaries of Other Professional Staff	2,000					
Personal Service - Employee Benefit	3,660				1,300	
Purchased Professional Services	10,746					
Supplies and Materials					536	
<b>Total Support Services</b>	<u>16,406</u>				<u>1,836</u>	
<b>Total Expenditures</b>	<u>\$ 41,406</u>	<u>\$ 2,763</u>	<u>\$ 12,431</u>	<u>\$ 396,741</u>	<u>\$ 24,319</u>	<u>\$ 455</u>

KINNELON BOROUGH SCHOOL DISTRICT  
 SPECIAL REVENUE FUND  
COMBINING SCHEDULE OF REVENUE AND EXPENDITURES - BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>NJ Nonpublic Nursing</u>	<u>Totals June 30, 2011</u>
REVENUE:		
State Sources	\$ 808	\$ 1,263
Federal Sources		477,660
Total Revenue	<u>808</u>	<u>478,923</u>
EXPENDITURES:		
Instruction:		
Salaries of Teachers		56,102
Purchased Professional/Technical Services		2,000
Tuition		396,741
General Supplies		4,575
Textbooks		455
Total Instruction		<u>459,873</u>
Support Services:		
Salaries of Other Professional Staff		2,000
Personal Service - Employee Benefit		4,960
Purchased Professional Services	808	11,554
Supplies and Materials		536
Total Support Services	<u>808</u>	<u>19,050</u>
Total Expenditures	<u>\$ 808</u>	<u>\$ 478,923</u>

KINNELON BOROUGH SCHOOL DISTRICT  
SPECIAL REVENUE FUND  
PRESCHOOL EDUCATION AID SCHEDULE OF EXPENDITURES  
BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOT APPLICABLE

**CAPITAL PROJECTS FUND**

KINNELON BOROUGH SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SUMMARY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE- BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Expenditures:		
Construction Services	\$	47,153
Miscellaneous Expenditures		23,083
Total Expenditures		<u>70,236</u>
Other Financing Uses:		
Operating Transfer Out:		
Transfer To Debt Service Fund		<u>(250,000)</u>
(Deficit) of Revenue and Other Financing Sources Under Expenditures and Other Financing Uses		<u>(70,236)</u>
Fund Balance - Beginning of Year		<u>355,031</u>
Fund Balance - End of Year	\$	<u><u>34,795</u></u>

KINNELON BOROUGH SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS  
ADDITIONS AND RENOVATIONS TO STONY BROOK, PEARL R. MILLER AND KINNELON HIGH SCHOOL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Cost</u>
<b>Revenue and Other Financing Sources:</b>				
State Sources - SDA Grant	\$ 6,780,233		\$ 6,780,233	\$ 6,780,233
Bond Proceeds	14,622,000		14,622,000	14,622,000
<b>Total Revenue and Other Financing Sources</b>	<b>21,402,233</b>		<b>21,402,233</b>	<b>21,402,233</b>
<b>Expenditures</b>				
Purchased Professional and Technical Services	2,452,204		2,452,204	2,452,204
Construction Services	18,192,779	\$ 47,153	18,239,932	18,369,017
Miscellaneous Expenditures	557,929	23,083	581,012	581,012
<b>Total Expenditures</b>	<b>21,202,912</b>	<b>70,236</b>	<b>21,273,148</b>	<b>21,402,233</b>
Cancellation of Construction Contracts Payable	53,213		53,213	
Operating Transfer to Debt Service		177,723	177,723	
<b>Excess/(deficit) of Revenue and other Financing Sources Over/(Under)Expenditures</b>	<b>\$ 252,534</b>	<b>\$ (247,959)</b>	<b>\$ 4,575</b>	<b>\$ -0-</b>

**Additional Project Information:**

Project Number:	20-2003,20-2004,20-2005
Renovations Various Schools	
Grant Date	9/25/2001
Bonds Authorized Date	12/19/2002
Bonds Authorized	14,622,000
Bonds Issued	14,622,000
Original Authorized Cost	21,402,207
Revised Authorized Cost	21,402,207
Percentage Increase over Original Authorized Cost	0%
Percentage Completion	100.00%
Original Target Completion Date	9/1/2004
Revised Target Completion Date	12/31/2007

KINNELON BOROUGH SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS  
IMPROVEMENTS TO KINNELON HIGH SCHOOL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Prior Periods	Current Year	Totals	Revised Authorized Cost
<b>Revenue and Other Financing Sources:</b>				
Bond Proceeds	\$ 12,654,000		\$ 12,654,000	\$ 12,654,000
<b>Total Revenue and Other Financing Sources</b>	<b>12,654,000</b>		<b>12,654,000</b>	<b>12,654,000</b>
<b>Expenditures:</b>				
Purchased Professional and Technical Services	1,357,672		1,357,672	1,447,766
Construction Services	10,034,460		10,034,460	10,043,693
Supplies	973,856		973,856	975,000
Miscellaneous Expenditures	52,974		52,974	55,000
Excess Funds Applied to Lease Payment	132,541		132,541	132,541
<b>Total Expenditures</b>	<b>12,551,503</b>		<b>12,551,503</b>	<b>12,654,000</b>
Operating Transfer to Debt Service		\$ 72,277	72,277	
<b>Excess/(deficit) of Revenue and other Financing Sources</b>				
Over/(Under)Expenditures	\$ 102,497	\$ (72,277)	\$ 30,220	\$ -0-

**Additional Project Information:**

<b>Project Number:</b>	
Improvements to High School	20-2007
Bond # 1 Authorized Date	12/27/2006
Bond # 1 Authorized	6,325,000
Bond # 2 Authorized Date	1/24/2007
Bond # 2 Authorized	6,329,000
Total Bonds Issued	12,654,000
Original Authorized Cost	12,654,000
Revised Authorized Cost	12,654,000

**Percentage Increase over Original**

Authorized Cost	0.00%
Percentage Completion	95.00%
Original Target Completion Date	9/15/2008

**PROPRIETARY FUNDS**

Exhibit G-1

KINNELON BOROUGH SCHOOL DISTRICT  
ENTERPRISE FUND  
COMBINING STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2011

<u>ASSETS:</u>	Food Service	Enrichment Program	Total Enterprise Funds
Current Assets:			
Cash and Cash Equivalents	\$ 73,547	\$ 25,857	\$ 99,404
Interfund Receivable	2,634		2,634
Inventories	6,200		6,200
Total Current Assets	<u>82,381</u>	<u>25,857</u>	<u>108,238</u>
Non-Current Assets:			
Capital Assets	378,293		378,293
Less: Accumulated Depreciation	(270,177)		(270,177)
Total Non-Current Assets	<u>108,116</u>		<u>108,116</u>
Total Assets	<u>190,497</u>	<u>25,857</u>	<u>216,354</u>
<u>LIABILITIES:</u>			
Current Liabilities:			
Interfund Payable	4		4
Deferred Revenue	1,294		1,294
Total Current Liabilities	<u>1,298</u>		<u>1,298</u>
<u>NET ASSETS:</u>			
Investment in Capital Assets Net of Related Debt	108,116		108,116
Unrestricted	81,083	25,857	106,940
Total Net Assets	<u>\$ 189,199</u>	<u>\$ 25,857</u>	<u>\$ 215,056</u>

KINNELON BOROUGH SCHOOL DISTRICT  
ENTERPRISE FUND  
COMBINING STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Food Service	Enrichment Program	Total Enterprise Funds
Operating Revenue:			
Local Sources:			
Daily Sales - Reimbursable Programs	\$ 258,398		\$ 258,398
Daily Sales - Non-Reimbursable Programs	279,549		279,549
Program Fees		\$ 159,806	159,806
Total Operating Revenue	<u>537,947</u>	<u>159,806</u>	<u>697,753</u>
Operating Expenses:			
Cost of Sales	317,628		317,628
Salaries, Benefits & Payroll Taxes	244,045	108,337	352,382
Employee Benefits	17,993	11,876	29,869
Management Fee	15,050		15,050
Professional and Technical Services	129	21,882	22,011
Depreciation Expense	14,804		14,804
Supplies and Materials	1,173	3,402	4,575
Administrative Expenses	6,734		6,734
Total Operating Expenses	<u>617,556</u>	<u>145,497</u>	<u>763,053</u>
Operating Income/(Loss)	(79,609)	14,309	(65,300)
Non-Operating Income:			
Local Sources			
Interest Income	110	34	144
State Sources			
State School Lunch Program	4,233		4,233
Federal Sources			
National School Lunch Program	37,318		37,318
Special Milk Program	489		489
Food Distribution Program	16,359		16,359
Total Non-Operating Income	<u>58,509</u>	<u>34</u>	<u>58,543</u>
Net Income/(Loss) Before Operating Transfers	(21,100)	14,343	(6,757)
Operating Transfers Out - General Fund	(106)		(106)
Adjustment to Fixed Assets	(2,400)		(2,400)
Change in Net Assets	(23,606)	14,343	(9,263)
Net Assets - Beginning of Year	<u>212,805</u>	<u>11,514</u>	<u>224,319</u>
Net Assets - End of Year	<u>\$ 189,199</u>	<u>\$ 25,857</u>	<u>\$ 215,056</u>

KINNELON BOROUGH SCHOOL DISTRICT  
ENTERPRISE FUND  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Food Service</u>	<u>Enrichment Program</u>	<u>Total Enterprise Funds</u>
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 537,947	\$ 159,806	\$ 697,753
Payments to Employees	(261,689)	(108,339)	(370,028)
Payments for Benefits	(17,993)	(11,874)	(29,867)
Payments to Suppliers	(340,714)	(25,284)	(365,998)
Net Cash Provided by/(Used for) by Operating Activities	<u>(82,449)</u>	<u>14,309</u>	<u>(68,140)</u>
Cash Flows from Capital Financing Activities:			
Acquisition of Equipment	(5,988)		(5,988)
Net Cash Used for Capital Financing Activities	<u>(5,988)</u>		<u>(5,988)</u>
Cash Flows from Noncapital Financing Activities:			
Cash Received from Federal and State Sources	44,710		44,710
Operating Transfer Out - General Fund	(106)		(106)
Net Cash Provided by Noncapital Financing Activities	<u>44,604</u>		<u>44,604</u>
Cash Flows from Investing Activities:			
Interest Earned	110	34	144
Net Cash Flows Provided by Investing Activities	<u>110</u>	<u>34</u>	<u>144</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(43,723)	14,343	(29,380)
Cash and Cash Equivalents, July 1	<u>117,270</u>	<u>11,514</u>	<u>128,784</u>
Cash and Cash Equivalents, June 30	<u>\$ 73,547</u>	<u>\$ 25,857</u>	<u>\$ 99,404</u>
Reconciliation of Operating Income to Net Cash Provided by/(Used for) by Operating Activities:			
Operating Income/(Loss)	\$ (79,609)	\$ 14,309	\$ (65,300)
Adjustment to Reconcile Operating Income/(Loss) to Cash Provided by/(Used for) by Operating Activities:			
Federal Food Distribution Program	16,359		16,359
Depreciation Expense	14,804		14,804
Changes in Assets and Liabilities:			
Decrease/(Increase) in Inventory	2,064		2,064
Decrease/(Increase) in Interfund Receivable	(2,630)		(2,630)
Increase/(Decrease) in Accounts Payable	(33,102)		(33,102)
Increase/(Decrease) in Deferred Revenue	(335)		(335)
Net Cash Provided by/(Used for) by Operating Activities	<u>\$ (82,449)</u>	<u>\$ 14,309</u>	<u>\$ (68,140)</u>

Investing and Financing Activities:

The District had \$1,629 in USDA donated commodities at June 30, 2010, received commodities valued at \$16,359 used commodities valued at \$16,694 and had \$1,294 in commodities at June 30, 2011.

**FIDUCIARY FUNDS**

KINNELON BOROUGH SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Unemployment Compensation Trust	Private Purpose Scholarship Fund	Agency		Totals
			Student Activity	Payroll	
<u>ASSETS:</u>					
Cash and Cash Equivalents	\$ 116,435	\$ 8,352	\$ 245,161	\$ 123,009	\$ 492,957
Investments		100,265			100,265
Total Assets	116,435	108,617	245,161	123,009	593,222
<u>LIABILITIES:</u>					
Payroll Deductions and Withholdings				122,999	122,999
Interfund Payable - Due General Fund				10	10
Due to Scholarship Recipient		5,000			5,000
Due to Student Groups			245,161		245,161
Total Liabilities		5,000	245,161	123,009	373,170
<u>NET ASSETS:</u>					
Held in Trust for Unemployment Claims	116,435				116,435
Reserved for Scholarships		103,617			103,617
Total Net Assets	\$ 116,435	\$ 103,617	\$ -0-	\$ -0-	\$ 220,052

KINNELON BOROUGH SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Unemployment Compensation Trust	Private Purpose Scholarship Fund	Totals
<b>ADDITIONS:</b>			
Contributions:			
Plan Members	\$ 81,703		\$ 81,703
Board of Education	208,590		208,590
Donations		\$ 61,500	61,500
Total Contributions	290,293	61,500	351,793
Investment Earnings:			
Interest	19	554	573
Net Investment Earnings	19	554	573
Total Additions	290,312	62,054	352,366
<b>DEDUCTIONS:</b>			
Unemployment Compensation Claims	188,317		188,317
Scholarships Awarded		66,500	66,500
Total Deductions	188,317	66,500	254,817
Change in Net Assets	101,995	(4,446)	97,549
Net Assets - Beginning of the Year	14,440	108,063	122,503
Net Assets - End of the Year	\$ 116,435	\$ 103,617	\$ 220,052

KINNELON BOROUGH SCHOOL DISTRICT  
STUDENT ACTIVITY AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 166,889	\$ 563,331	\$ 485,059	\$ 245,161
Total Assets	<u>\$ 166,889</u>	<u>\$ 563,331</u>	<u>\$ 485,059</u>	<u>\$ 245,161</u>
<u>LIABILITIES:</u>				
Liabilities:				
Due to Student Groups	\$ 166,889	\$ 563,331	\$ 485,059	\$ 245,161
Total Liabilities	<u>\$ 166,889</u>	<u>\$ 563,331</u>	<u>\$ 485,059</u>	<u>\$ 245,161</u>

KINNELON BOROUGH SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS BY SCHOOL  
STUDENT ACTIVITY AGENCY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>SCHOOLS:</b>				
Kiel Elementary School Activity Account	\$ 3,256	\$ 15,818	\$ 13,456	\$ 5,618
Stony Brook School Activity Account	20,836	79,327	75,588	24,575
Pearl R. Miller Middle School Activity Account	23,859	82,685	71,344	35,200
Kinnelon High School Activity Account	118,879	321,441	268,222	172,098
Kinnelon High School Athletic Account	59	64,060	56,449	7,670
	<u>\$ 166,889</u>	<u>\$ 563,331</u>	<u>\$ 485,059</u>	<u>\$ 245,161</u>

KINNELON BOROUGH SCHOOL DISTRICT  
PAYROLL AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 134,026	\$ 22,647,255	\$ 22,658,272	\$ 123,009
Total Assets	<u>\$ 134,026</u>	<u>\$ 22,647,255</u>	<u>\$ 22,658,272</u>	<u>\$ 123,009</u>
 <u>LIABILITIES:</u>				
Payroll Deductions and Withholdings	\$ 134,026	\$ 22,647,143	\$ 22,658,170	\$ 122,999
Interfund Payable		112	102	10
Total Liabilities	<u>\$ 134,026</u>	<u>\$ 22,647,255</u>	<u>\$ 22,658,272</u>	<u>\$ 123,009</u>

**LONG-TERM DEBT**

KINNELON BOROUGH SCHOOL DISTRICT  
LONG-TERM DEBT  
SCHEDULE OF SERIAL BONDS

Purpose	Date of Issue	Original Issue	Maturities of Bonds Outstanding June 30, 2011		Interest Rate	Balance June 30, 2010	Issued	Defeased	Matured	Balance June 30, 2011
			Date	Amount						
Refunding Bonds of 1999	2/1/99	\$ 4,630,000	02/01/12	\$ 445,000	4.30%	\$ 1,345,000			\$ 455,000	\$ 890,000
			02/01/13	445,000	4.40%					
Improvement of Schools	12/19/02	14,622,000	10/01/11	650,000	4.10%	11,452,000		\$ 9,502,000	620,000	1,330,000
			10/01/12	680,000	4.10%					
Refunding Bond of 1998 Issue	11/16/05	4,615,000	10/01/11	495,000	3.50%	4,090,000			475,000	3,615,000
			10/01/12	510,000	3.50%					
			10/01/13	520,000	3.63%					
			10/01/14	530,000	3.63%					
			10/01/15	525,000	3.75%					
			10/01/16	520,000	4.00%					
			10/01/17	515,000	4.00%					
Improvements to High School	12/27/06	6,325,000	02/01/12	10,000	4.00%	6,295,000			10,000	6,285,000
			02/01/13	10,000	4.00%					
			02/01/14	10,000	4.00%					
			02/01/15	15,000	4.00%					
			02/01/16	15,000	4.00%					
			02/01/17	15,000	4.00%					
			02/01/18	20,000	4.00%					
			02/01/19	40,000	4.00%					
			02/01/20	40,000	4.00%					
			02/01/21	50,000	4.00%					
			02/01/22	50,000	4.00%					
			02/01/23	70,000	4.20%					
			02/01/24	100,000	4.20%					
			02/01/25	500,000	4.20%					
			02/01/26	550,000	4.20%					
			02/01/27	600,000	4.20%					
			02/01/28	650,000	4.20%					
			02/01/29	680,000	4.20%					
			02/01/30	700,000	4.25%					
			02/01/31	710,000	4.25%					
			02/01/32	720,000	4.25%					
			02/01/33	730,000	4.25%					

KINNELON BOROUGH SCHOOL DISTRICT  
LONG-TERM DEBT  
SCHEDULE OF SERIAL BONDS

Purpose	Date of Issue	Original Issue	Maturities of Bonds		Interest Rate	Balance June 30, 2010	Issued	Defeased	Matured	Balance June 30, 2011
			Outstanding							
			Date	Amount						
Improvements to High School	1/24/07	\$ 6,329,000	02/01/12	\$ 10,000	4.20%	\$ 6,299,000			\$ 10,000	\$ 6,289,000
			02/01/13	10,000	4.20%					
			02/01/14	10,000	4.20%					
			02/01/15	15,000	4.20%					
			02/01/16	15,000	4.20%					
			02/01/17	15,000	4.20%					
			02/01/18	20,000	4.20%					
			02/01/19	40,000	4.20%					
			02/01/20	40,000	4.20%					
			02/01/21	50,000	4.20%					
			02/01/22	50,000	4.20%					
			02/01/23	70,000	4.20%					
			02/01/24	100,000	4.20%					
			02/01/25	500,000	4.20%					
			02/01/26	550,000	4.20%					
			02/01/27	600,000	4.20%					
			02/01/28	650,000	4.20%					
			02/01/29	680,000	4.20%					
			02/01/30	700,000	4.20%					
			02/01/31	710,000	4.20%					
02/01/32	720,000	4.20%								
02/01/33	734,000	4.20%								
Refunding Bond of 2002 Issue	09/14/10	9,980,000	10/01/11	60,000	2.00%		\$ 9,980,000			9,980,000
			10/01/12	60,000	2.00%					
			10/01/13	770,000	3.00%					
			10/01/14	795,000	3.00%					
			10/01/15	825,000	3.00%					
			10/01/16	855,000	4.00%					
			10/01/17	895,000	4.00%					
			10/01/18	940,000	4.00%					
			10/01/19	975,000	4.00%					
			10/01/20	970,000	4.00%					
			10/01/21	960,000	3.00%					
			10/01/22	945,000	3.125%					
			10/01/23	930,000	3.25%					
						\$ 29,481,000	\$ 9,980,000	\$ 9,502,000	\$ 1,570,000	\$ 28,389,000

KINNELON BOROUGH SCHOOL DISTRICT  
LONG-TERM DEBT  
SCHEDULE OF OBLIGATIONS UNDER CAPITAL LEASES

<u>Item</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Balance June 30, 2010</u>	<u>Issued</u>	<u>Matured</u>	<u>Balance June 30, 2011</u>
2007 Buses	4.58%	\$ 261,758	\$ 56,547		\$ 56,547	
2010 Buses (3)	5.20%	270,852	<u>211,053</u>		<u>48,824</u>	<u>\$ 162,229</u>
			<u>\$ 267,600</u>	<u>\$ -0-</u>	<u>\$ 105,371</u>	<u>\$ 162,229</u>

KINNELON BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUES:</b>					
Local Sources:					
Local Tax Levy	\$ 2,469,272		\$ 2,469,272	\$ 2,469,272	
Miscellaneous				3,924	\$ 3,924
State Sources:					
Debt Service Type II Aid	68,862		68,862	68,862	
<b>Total Revenue</b>	<u>2,538,134</u>		<u>2,538,134</u>	<u>2,542,058</u>	<u>3,924</u>
<b>EXPENDITURES:</b>					
Regular Debt Service:					
Interest	1,218,134		1,218,134	973,545	244,589
Redemption of Principal	1,570,000		1,570,000	1,570,000	
<b>Total Regular Debt Service</b>	<u>2,788,134</u>		<u>2,788,134</u>	<u>2,543,545</u>	<u>244,589</u>
<b>Total Expenditures</b>	<u>2,788,134</u>		<u>2,788,134</u>	<u>2,543,545</u>	<u>244,589</u>
<b>Other Financing Sources:</b>					
Operating Transfer In:					
Transfer from Capital Projects Fund				250,000	250,000
<b>Total Other Financing Sources</b>				<u>250,000</u>	<u>250,000</u>
<b>Excess (Deficiency) of Revenue and Other Financing Sources Over/(Under) Expenditures</b>	<u>(250,000)</u>		<u>(250,000)</u>	<u>248,513</u>	<u>498,513</u>
<b>Fund Balance, July 1</b>	<u>-0-</u>	<u>\$ -0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Fund Balance, June 30</b>	<u>\$ (250,000)</u>	<u>\$ -0-</u>	<u>\$ (250,000)</u>	<u>\$ 248,513</u>	<u>\$ 498,513</u>
			Restricted for Debt Service Fund	<u>\$ 248,513</u>	

**STATISTICAL SECTION**

KINNELON BOROUGH SCHOOL DISTRICT  
NET ASSETS BY COMPONENT  
LAST SEVEN FISCAL YEARS  
*(accrual basis of accounting)*  
UNAUDITED

Fiscal Year Ending June 30,

	2005	2006	2007	2008	2009	2010	2011
<b>Governmental activities</b>							
Invested in capital assets, net of related debt	\$ 18,411,986	\$ 18,059,861	\$ 6,300,840	\$ 13,665,081	\$ 17,877,438	\$ 18,555,613	\$ 18,157,140
Restricted	1,599,054	1,236,471	12,706,992	5,379,249	730,715	520,683	941,498
Unrestricted/(Deficit)	277,267	78,714	(58,683)	(508,473)	(796,530)	(846,449)	
<b>Total governmental activities net assets</b>	<u>\$ 20,288,307</u>	<u>\$ 19,375,046</u>	<u>\$ 18,949,149</u>	<u>\$ 18,535,857</u>	<u>\$ 17,811,623</u>	<u>\$ 18,229,847</u>	<u>\$ 19,098,638</u>
<b>Business-type activities</b>							
Invested in capital assets, net of related debt	\$ 149,493	\$ 135,167	\$ 137,047	\$ 129,984	\$ 135,895	\$ 119,332	\$ 108,116
Unrestricted	184,116	106,383	152,279	129,200	143,708	104,987	106,940
<b>Total business-type activities net assets</b>	<u>\$ 333,609</u>	<u>\$ 241,550</u>	<u>\$ 289,326</u>	<u>\$ 259,184</u>	<u>\$ 279,603</u>	<u>\$ 224,319</u>	<u>\$ 215,056</u>
<b>District-wide</b>							
Invested in capital assets, net of related debt	\$ 18,561,479	\$ 18,195,028	\$ 6,437,887	\$ 13,795,065	\$ 18,013,333	\$ 18,674,945	\$ 18,265,256
Restricted	1,599,054	1,236,471	12,706,992	5,379,249	730,715	520,683	941,498
Unrestricted/(Deficit)	461,383	185,097	93,596	(379,273)	(652,822)	(741,462)	106,940
<b>Total district net assets</b>	<u>\$ 20,621,916</u>	<u>\$ 19,616,596</u>	<u>\$ 19,238,475</u>	<u>\$ 18,795,041</u>	<u>\$ 18,091,226</u>	<u>\$ 18,454,166</u>	<u>\$ 19,313,694</u>

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: School District Financial Reports

**KINNELON BOROUGH SCHOOL DISTRICT**  
**CHANGES IN NET ASSETS, LAST SEVEN FISCAL YEARS**  
*(accrual basis of accounting)*  
**UNAUDITED**

	Fiscal Year Ending June 30,						
	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>							
<b>Governmental activities</b>							
<b>Instruction</b>							
Regular	\$ 12,673,227	\$ 12,830,196	\$ 15,007,235	\$ 15,912,755	\$ 15,335,444	\$ 16,655,387	\$ 15,120,077
Special education	2,371,051	2,529,013	2,704,146	2,973,914	3,245,341	3,276,930	3,520,191
Other special education	316,399	361,485	351,709	377,798	468,724	361,522	286,979
Other instruction	796,864	802,779	1,045,515	1,110,211	1,270,013	1,355,196	1,129,720
<b>Support Services:</b>							
Tuition	920,566	1,245,811	1,243,291	1,140,654	1,120,189	1,016,753	1,316,906
Student & instruction related services	3,600,534	3,650,866	4,169,442	4,697,772	4,885,481	5,219,338	4,496,137
School Administrative Services	1,558,213	1,747,328	2,059,884	2,045,940	2,086,520	2,134,377	2,126,715
Central Services	474,128	474,337	529,430	569,973	529,025	565,133	566,110
Administrative Technology Information	138,272	187,804	207,848	218,278	216,563	219,361	122,051
General and business administrative services	677,869	705,126	724,721	856,882	831,006	97,604	676,984
Plant operations and maintenance	2,608,316	3,493,332	3,322,587	3,630,573	3,617,395	3,519,895	3,356,498
Pupil transportation	1,914,488	1,946,114	2,196,806	2,175,475	2,193,848	1,711,237	2,031,790
Business and other support services	37,413						
Interest on long-term debt	1,071,192	871,883	949,586	1,455,369	1,365,241	1,278,267	973,545
Unallocated depreciation	1,096,923	1,019,914					
Capital Outlay		695,729	1,043,604	510,627	237,017	65,151	72,775
<b>Total governmental activities expenses</b>	<u>30,255,455</u>	<u>32,561,717</u>	<u>35,555,804</u>	<u>37,676,221</u>	<u>37,401,807</u>	<u>37,476,151</u>	<u>35,796,478</u>
<b>Business-type activities:</b>							
Food service	561,781	705,434	622,114	660,307	634,915	647,943	617,556
Enrichment Program	118,938	127,500	103,425	153,150	142,260	146,620	145,497
<b>Total business-type activities expense</b>	<u>680,719</u>	<u>832,934</u>	<u>725,539</u>	<u>813,457</u>	<u>777,175</u>	<u>794,563</u>	<u>763,053</u>
<b>Total district expenses</b>	<u>\$ 30,936,174</u>	<u>\$ 33,394,651</u>	<u>\$ 36,281,343</u>	<u>\$ 38,489,678</u>	<u>\$ 38,178,982</u>	<u>\$ 38,270,714</u>	<u>\$ 36,559,531</u>
 <b>Program Revenues</b>							
<b>Governmental activities:</b>							
Operating grants and contributions	\$ 4,555,347	\$ 4,783,161	\$ 5,822,548	\$ 6,196,237	\$ 5,104,268	\$ 5,729,384	\$ 3,745,734
<b>Total governmental activities program revenues</b>	<u>4,555,347</u>	<u>4,783,161</u>	<u>5,822,548</u>	<u>6,196,237</u>	<u>5,104,268</u>	<u>5,729,384</u>	<u>3,745,734</u>
<b>Business-type activities:</b>							
<b>Charges for services</b>							
Food service	603,672	608,489	618,672	591,315	575,501	558,484	537,947
Enrichment Program	123,064	128,481	118,720	146,269	167,388	118,514	159,806
Operating grants and contributions	29,411	27,648	34,678	44,786	54,263	62,010	58,399
<b>Total business type activities program revenues</b>	<u>756,147</u>	<u>764,618</u>	<u>772,070</u>	<u>782,370</u>	<u>797,152</u>	<u>739,008</u>	<u>756,152</u>
<b>Total district program revenues</b>	<u>\$ 5,311,494</u>	<u>\$ 5,547,779</u>	<u>\$ 6,594,618</u>	<u>\$ 6,978,607</u>	<u>\$ 5,901,420</u>	<u>\$ 6,468,392</u>	<u>\$ 4,501,886</u>

**KINNELON BOROUGH SCHOOL DISTRICT**  
**CHANGES IN NET ASSETS, LAST SEVEN FISCAL YEARS**  
*(accrual basis of accounting)*  
**UNAUDITED**

	Fiscal Year Ending June 30,						
	2005	2006	2007	2008	2009	2010	2011
<b>Net (Expense)/Revenue</b>							
Governmental activities	\$ (25,700,108)	\$ (27,778,556)	\$ (29,733,256)	\$ (31,479,984)	\$ (32,297,539)	\$ (31,746,767)	\$ (32,050,744)
Business-type activities	75,428	(68,316)	46,531	(31,087)	19,977	(55,555)	(6,901)
Total district-wide net expense	<u>\$ (25,624,680)</u>	<u>\$ (27,846,872)</u>	<u>\$ (29,686,725)</u>	<u>\$ (31,511,071)</u>	<u>\$ (32,277,562)</u>	<u>\$ (31,802,322)</u>	<u>\$ (32,057,645)</u>
<b>General Revenues and Other Changes in Net Assets</b>							
Governmental activities:							
Property taxes levied for general purposes, net	\$ 22,485,302	\$ 24,524,140	\$ 26,031,655	\$ 27,389,220	\$ 28,468,788	\$ 29,599,802	\$ 30,099,983
Taxes levied for debt service	2,326,191	2,303,969	2,211,617	2,728,262	2,762,724	2,732,132	2,469,272
SDA Grant			566,121				
Federal and State Aid Not Restricted				85,846	81,256	81,135	68,862
Investment earnings	117,005	142,339	209,555				
Miscellaneous income	100,376	100,442	282,023	859,029	259,276	151,174	281,312
Transfers		30,000	6,388	4,335	1,261	748	106
Extraordinary Item:							
Adjustment to Fixed Assets per appraisal							
Company Report	12,053,317						
Total governmental activities	<u>37,082,191</u>	<u>27,100,890</u>	<u>29,307,359</u>	<u>31,066,692</u>	<u>31,573,305</u>	<u>32,564,991</u>	<u>32,919,535</u>
Business-type activities:							
Miscellaneous income	4,330	6,257	7,633	5,280	1,703	1,019	144
Transfers		(30,000)	(6,388)	(4,335)	(1,261)	(748)	(106)
Special Item - Disposal of Capital Assets							(2,400)
Total business-type activities	<u>4,330</u>	<u>(23,743)</u>	<u>1,245</u>	<u>945</u>	<u>442</u>	<u>271</u>	<u>(2,362)</u>
Total district-wide	<u>\$ 37,086,521</u>	<u>\$ 27,077,147</u>	<u>\$ 29,308,604</u>	<u>\$ 31,067,637</u>	<u>\$ 31,573,747</u>	<u>\$ 32,565,262</u>	<u>\$ 32,917,173</u>
<b>Change in Net Assets</b>							
Governmental activities	\$ 11,382,083	\$ (677,666)	\$ (425,897)	\$ (413,292)	\$ (724,234)	\$ 818,224	\$ 868,791
Business-type activities	79,758	(92,059)	47,776	(30,142)	20,419	(55,284)	(9,263)
Total district	<u>\$ 11,461,841</u>	<u>\$ (769,725)</u>	<u>\$ (378,121)</u>	<u>\$ (443,434)</u>	<u>\$ (703,815)</u>	<u>\$ 762,940</u>	<u>\$ 859,528</u>

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: School District Financial Reports

KINNELON BOROUGH SCHOOL DISTRICT  
FUND BALANCES, GOVERNMENTAL FUNDS,  
LAST SEVEN FISCAL YEARS  
*(modified accrual basis of accounting)*  
UNAUDITED

	Fiscal Year Ending June 30,						
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Fund							
Reserved	\$ 420,803	\$ 236,225	\$ 314,397	\$ 145,754	\$ 137,882	\$ 165,652	
Unreserved	999,787	882,074	793,819	796,235	193,947	222,562	
Restricted							\$ 100
Assigned							187,417
Unassigned							684,073
Total general fund	<u>\$ 1,420,590</u>	<u>\$ 1,118,299</u>	<u>\$ 1,108,216</u>	<u>\$ 941,989</u>	<u>\$ 331,829</u>	<u>\$ 388,214</u>	<u>\$ 871,590</u>
All Other Governmental Funds							
Reserved	\$ 215,926	\$ 62,275	\$ 534,741	\$ 3,143,487	\$ 47,153	\$ 47,153	
Unreserved, reported in:							
Capital projects fund	962,325	790,448	11,857,954	2,090,008	545,680	307,878	\$ 30,220
Debt service fund		41,711	2	1			248,513
Assigned							4,575
Total all other governmental funds	<u>\$ 1,178,251</u>	<u>\$ 894,434</u>	<u>\$ 12,392,697</u>	<u>\$ 5,233,496</u>	<u>\$ 592,833</u>	<u>\$ 355,031</u>	<u>\$ 283,308</u>

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: School District Financial Reports

KINNELON BOROUGH SCHOOL DISTRICT  
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS,  
LAST SEVEN FISCAL YEARS  
(modified accrual basis of accounting)  
UNAUDITED

	Fiscal Year Ending June 30,						
	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>							
Tax levy	\$ 24,811,493	\$ 26,828,109	\$ 28,243,272	\$ 30,117,482	\$ 31,231,512	\$ 32,331,934	\$ 32,569,255
Tuition charges		34,510	100,681	64,400	130,092	64,752	47,928
Interest earnings	117,005	142,339	210,600	673,137	52,235	11,546	1,685
Miscellaneous	100,376	135,581	183,464	121,592	78,775	74,876	231,699
State sources	4,138,905	4,282,632	5,928,512	5,800,572	4,631,973	4,822,198	3,335,157
Federal sources	416,442	430,380	456,990	481,411	551,724	988,321	479,439
<b>Total revenue</b>	<u>29,584,221</u>	<u>31,853,551</u>	<u>35,123,519</u>	<u>37,258,594</u>	<u>36,676,311</u>	<u>38,293,627</u>	<u>36,665,163</u>
<b>Expenditures</b>							
<b>Instruction</b>							
Regular Instruction	9,883,320	9,961,258	10,680,533	11,314,016	11,327,115	12,232,020	10,869,832
Special education instruction	1,698,942	1,861,017	1,855,713	2,082,524	2,476,642	2,470,204	2,628,229
Other special instruction	241,556	361,485	351,709	377,798	357,376	272,341	212,823
Other instruction	643,160	687,803	790,192	874,448	878,661	937,129	751,417
<b>Support Services:</b>							
Tuition	920,566	1,245,811	1,243,291	1,140,654	1,385,804	1,016,753	1,316,906
Student & instruction related services	2,954,075	2,956,043	3,304,619	3,778,115	3,587,665	4,031,472	3,425,483
School Administrative services	1,189,995	1,376,835	1,414,294	1,412,476	1,506,464	1,525,664	1,502,618
General administrative services	592,445	596,819	522,939	651,826	572,377	487,160	535,278
Central Services	342,023	367,143	384,432	415,781	411,526	436,387	431,026
Administrative Information Technology	138,273	144,481	150,968	157,791	164,892	73,340	95,981
Plant operations and maintenance	2,289,393	2,768,877	2,478,372	2,758,317	3,040,542	2,927,873	2,783,023
Pupil transportation	1,914,488	1,940,763	2,122,058	2,116,683	2,172,107	1,869,729	1,870,801
Business and other support services	6,205						
Allocated Benefits		3,279,344	3,652,370				
Unallocated Benefits	5,022,995	2,268,535	3,329,300	7,424,342	6,517,573	7,104,604	7,143,643
Capital outlay	37,176	391,187	1,761,611	7,269,477	4,685,670	277,849	143,011
<b>Debt service:</b>							
Principal	1,255,000	1,285,000	1,330,000	1,385,000	1,505,000	1,535,000	1,570,000
Interest and other charges	1,071,192	977,258	923,326	1,429,109	1,338,981	1,278,267	973,545
<b>Total expenditures</b>	<u>30,200,804</u>	<u>32,469,659</u>	<u>36,295,727</u>	<u>44,588,357</u>	<u>41,928,395</u>	<u>38,475,792</u>	<u>36,253,616</u>
<b>Excess (Deficiency) of revenues over (under) expenditures</b>	<u>(616,583)</u>	<u>(616,108)</u>	<u>(1,172,208)</u>	<u>(7,329,763)</u>	<u>(5,252,084)</u>	<u>(182,165)</u>	<u>411,547</u>

KINNELON BOROUGH SCHOOL DISTRICT  
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS,  
LAST SEVEN FISCAL YEARS  
*(modified accrual basis of accounting)*  
UNAUDITED

	Fiscal Year Ending June 30,						
	2005	2006	2007	2008	2009	2010	2011
Other Financing sources (uses)							
Bond Proceeds			12,654,000				
Transfers in		30,000	7,433	603,843	1,261	748	106
Transfers out			(1,045)	(599,508)			
Total other financing sources (uses)		30,000	12,660,388	4,335	1,261	748	106
Net change in fund balances	\$ (616,583)	\$ (586,108)	\$ 11,488,180	\$ (7,325,428)	\$ (5,250,823)	\$ (181,417)	\$ 411,653
Debt service as a percentage of noncapital expenditures	7.702%	7.052%	6.620%	8.156%	8.268%	7.951%	7.578%

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: School District Financial Reports

Exhibit J-5

KINNELON BOROUGH SCHOOL DISTRICT  
GENERAL FUND - OTHER LOCAL REVENUES BY SOURCE  
LAST TEN FISCAL YEARS  
*(modified accrual basis of accounting)*  
UNAUDITED

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Interest on</u> <u>Investments</u>	<u>Tuition</u>	<u>Prior Year</u> <u>Refunds</u>	<u>Other</u>	<u>Total</u>
2002	\$ 31,042	\$ 3,896		\$ 52,265	\$ 87,203
2003	20,236	4,970	\$ 29,101	52,154	106,461
2004	35,167			69,186	104,353
2005	94,302			100,376	194,678
2006	142,339	34,510		65,432	242,281
2007	209,555	100,681		180,297	490,533
2008	73,629	64,400	60,581	60,911	259,521
2009	52,325	130,092	41,562	37,123	261,102
2010	11,546	64,752	39,157	35,719	151,174
2011	1,685	47,928	17,237	210,538	277,388

Source: Borough of Kinnelon School District records

KINNELON BOROUGH SCHOOL DISTRICT  
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY  
LAST SIX YEARS  
UNAUDITED

<u>Year Ended</u> <u>December 31,</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm Regular</u>	<u>Farm</u> <u>Qualified</u>	<u>Commercial</u>	<u>Apartment</u>	<u>Total Assessed</u> <u>Value</u>	<u>Public</u> <u>Utilities <sup>a</sup></u>	<u>Net Valuation</u> <u>Taxable</u>	<u>Total Direct</u> <u>School Tax</u> <u>Rate <sup>b</sup></u>	<u>Estimated Actual</u> <u>(County Equalized</u> <u>Value)</u>
2005	\$ 73,775,700	\$ 1,414,143,100	\$ 2,688,600	\$ 60,700	\$ 56,188,500	\$ 19,965,800	\$ 1,566,822,400	\$ 1,992,371	\$ 1,568,814,771	\$ 1.627	\$ 1,795,838,074
2006	54,674,400	1,454,945,000	3,156,600	194,900	54,332,000	18,360,100	1,585,663,000	1,766,281	1,587,429,281	1.703	1,958,594,455
2007	44,023,500	1,512,760,000	3,156,600	65,700	62,329,400	18,360,100	1,640,695,300	1,662,978	1,616,634,578	1.778	2,171,671,798
2008	41,568,100	1,535,171,700	3,156,600	21,400	61,800,100	18,360,100	1,660,078,000	1,677,327	1,661,755,327	1.846	2,411,517,948
2009	37,640,800	1,545,303,500	4,018,300	22,800	59,597,300	18,360,100	1,664,942,800	1,793,165	1,666,735,965	1.907	2,464,348,279
2010*	32,726,300	1,533,542,400	4,018,300	18,900	59,597,300	18,360,100	1,648,263,300	1,806,607	1,650,069,907	1.217	2,385,457,970

\*-Revaluation Year

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: Municipal Tax Assessor

Note: Real property is required to be assessed at some percentage of true value (fair or market value) established by each county board of taxation.

Reassessment occurs when ordered by the County Board of Taxation

a Taxable Value of Machinery, Implements and Equipment of Telephone, Telegraph and Messenger System Companies

b Tax rates are per \$100

KINNELON BOROUGH SCHOOL DISTRICT  
DIRECT AND OVERLAPPING PROPERTY TAX RATES  
LAST TEN YEARS  
*(rate per \$100 of assessed value)*  
UNAUDITED

Year Ended December 31,	Kinnelon School District Direct Rate			Overlapping Rates		Total Direct and Overlapping Tax Rate
	Basic Rate <sup>a</sup>	General Obligation Debt Service <sup>b</sup>	Total Direct	Borough of Kinnelon	Morris County	
2001	\$ 1.153	\$ 0.087	\$ 1.240	\$ 0.277	\$ 0.253	\$ 1.770
2002	1.267	0.081	1.348	0.420	0.282	2.050
2003	1.354	0.102	1.456	0.425	0.309	2.190
2004	1.402	0.139	1.541	0.418	0.321	2.280
2005	1.481	0.146	1.627	0.437	0.326	2.390
2006	1.557	0.146	1.703	0.451	0.336	2.490
2007	1.628	0.150	1.778	0.466	0.356	2.600
2008	1.681	0.165	1.846	0.473	0.345	2.664
2009	1.746	0.161	1.907	0.485	0.336	2.728
2010*	1.120	0.097	1.217	0.416	0.265	1.898

\* - Revaluation year

Source: Municipal Tax Collector and School Business Administrator

**Note:**

NJSA 18A:7F-5d limits the amount that the district can submit for a general fund tax levy . The levy when added to other components of the district's net budget may not exceed the prebudget year net budget by more than the spending growth limitation calculation.

**a** The district's basic tax rate is calculated from the A4F form which is submitted with the budget and the Net Valuation Taxable.

**b** Rates for debt service are based on each year's requirements.

KINNELON BOROUGH SCHOOL DISTRICT  
PRINCIPAL PROPERTY TAXPAYERS  
CURRENT YEAR AND NINE YEARS AGO  
UNAUDITED

Taxpayer	2010			Taxpayer	2001		
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value		Taxable Assessed Value	Rank	% of Total District Net Assessed Value
Multi-family Housing	\$ 17,609,600	1	1.07%	N/A	N/A	N/A	N/A
Commercial Property	10,000,000	2	0.61%	N/A	N/A	N/A	N/A
Commercial Property	9,750,000	3	0.59%	N/A	N/A	N/A	N/A
Commercial Property	4,000,800	4	0.24%	N/A	N/A	N/A	N/A
Vacant Land	3,377,200	5	0.20%	N/A	N/A	N/A	N/A
Commercial Property	2,968,300	6	0.18%	N/A	N/A	N/A	N/A
Commercial Property	2,819,800	7	0.17%	N/A	N/A	N/A	N/A
Commercial Property	2,777,700	8	0.17%	N/A	N/A	N/A	N/A
Vacant Land	2,640,000	9	0.16%	N/A	N/A	N/A	N/A
Residential Property	2,604,800	10	0.16%	N/A	N/A	N/A	N/A
Total	<u>\$58,548,200</u>		<u>3.55%</u>		<u>\$ -</u>		<u>0.00%</u>

Source: Municipal Tax Assessor

N/A - Not Available

Exhibit J-9

KINNELON BOROUGH SCHOOL DISTRICT  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
UNAUDITED

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy <sup>a</sup>		Collections in Subsequent Years
		Amount	Percentage of Levy	
2002	\$ 19,685,941	\$ 19,685,941	100.00%	-0-
2003	21,650,366	21,650,366	100.00%	-0-
2004	23,521,941	23,521,941	100.00%	-0-
2005	24,811,493	24,811,493	100.00%	-0-
2006	26,828,109	26,828,109	100.00%	-0-
2007	28,243,272	28,243,272	100.00%	-0-
2008	30,117,482	30,117,482	100.00%	-0-
2009	31,231,512	31,231,512	100.00%	-0-
2010	32,331,934	32,331,934	100.00%	-0-
2011	32,569,255	32,569,255	100.00%	-0-

Source: Borough of Kinnelon District records including the Certificate and Report of School Taxes (A4F form)

- a. School taxes are collected by the Municipal Tax Collector. Under New Jersey State Statute, a municipality is required to remit to the school district the entire property tax balance, in the amount voted upon or certified prior to the end of the school year.

KINNELON BOROUGH SCHOOL DISTRICT  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST SEVEN FISCAL YEARS  
*(dollars in thousands, except per capita)*  
UNAUDITED

Fiscal Year Ended June 30,	Governmental Activities				Business-Type Activities		Total District	Percentage of Personal Income <sup>a</sup>	Per Capita <sup>a</sup>
	General Obligation Bonds	Certificates of Participation	Capital Leases	Bond Anticipation Notes (BANs)	Capital Leases				
2005	\$ 23,658,000	-0-	-0-	-0-	-0-	\$ 23,658,000	4.11%	\$ 2,510	
2006	22,582,000	-0-	-0-	-0-	-0-	22,582,000	3.76%	2,380	
2007	33,906,000	-0-	\$ 476,841	-0-	-0-	34,382,841	5.31%	3,629	
2008	32,521,000	-0-	361,132	-0-	-0-	32,882,132	4.86%	3,462	
2009	31,016,000	-0-	110,617	-0-	-0-	31,126,617	4.56%	3,264	
2010	29,481,000	-0-	267,600	-0-	-0-	29,748,600	4.55%	3,108	
2011	28,389,000	-0-	162,229	-0-	-0-	28,551,229	4.37%	2,983	

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: School District Financial Reports

**Note:** Details regarding the district's outstanding debt can be found in the notes to the financial statements.

<sup>a</sup> See Exhibit J-14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

KINNELON BOROUGH SCHOOL DISTRICT  
RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING  
LAST SEVEN FISCAL YEARS  
UNAUDITED

Fiscal Year Ended June 30,	General Bonded Debt Outstanding		Net General Bonded Debt Outstanding	Percentage of Actual Taxable Value <sup>a</sup> of Property	Per Capita <sup>b</sup>
	General Obligation Bonds	Deductions			
2005	\$ 23,658,000		\$ 23,658,000	1.508%	\$ 2,510
2006	22,582,000		22,582,000	1.439%	2,380
2007	33,906,000		33,906,000	2.136%	3,578
2008	32,521,000		32,521,000	2.012%	3,424
2009	31,016,000		31,016,000	1.866%	3,253
2010	29,481,000		29,481,000	1.769%	3,080
2011	28,389,000		28,389,000	1.720%	2,966

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: School District Financial Reports

Note: Details regarding the district's outstanding debt can be found in the notes to the financial statements.  
 These ratios are calculated using information from the prior calendar year.

a See Exhibit J-6 for property tax data.

b Population data can be found in Exhibit J-14.

Exhibit J-12

KINNELON BOROUGH SCHOOL DISTRICT  
RATIOS OF OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
AS OF DECEMBER 31, 2010  
UNAUDITED

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable <sup>a</sup></u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Borough of Kinnelon	\$ 15,900,261	100.000%	\$ 15,900,261
Morris County General Obligation Debt	249,234,104	2.331%	<u>5,809,884</u>
Subtotal, overlapping debt			21,710,145
Kinnelon School District Direct Debt			<u>28,389,000</u>
Total direct and overlapping debt			<u><u>\$ 50,099,145</u></u>

Sources: Assessed value data used to estimate applicable percentages provided by the Morris County Board of Taxation; debt outstanding data provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Kinnelon. This process recognizes that, when considering the District's ability to issue and repay long-term, the entire debt burden borne by the residents and businesses should be taken into account. However this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping unit.

<sup>a</sup> For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable equalized property values. Applicable percentages were estimated by determining the portion of another governmental unit's equalized property value that is within the district's boundaries and dividing it by each unit's total equalized property value.

KINNELON BOROUGH SCHOOL DISTRICT  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS  
UNAUDITED

## Equalized valuation basis

2010	\$ 2,312,702,820
2009	\$ 2,405,986,705
2008	2,459,374,815
	<u>\$ 7,178,064,340</u>

Average equalized valuation of taxable property	\$ 2,392,688,113
Debt limit (4% of average equalization value)	95,707,525 <sup>a</sup>
Net bonded school debt	<u>28,389,000</u>
Legal debt margin	<u>\$ 67,318,525</u>

## Fiscal Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt limit	\$ 65,415,970	\$ 36,891,062	\$ 53,545,052	\$ 70,749,841	\$ 77,790,723
Total net debt applicable to limit	<u>11,776,000</u>	<u>25,698,000</u>	<u>24,913,000</u>	<u>23,658,000</u>	<u>22,582,000</u>
Legal debt margin	<u>\$ 53,639,970</u>	<u>\$ 11,193,062</u>	<u>\$ 28,632,052</u>	<u>\$ 47,091,841</u>	<u>\$ 55,208,723</u>
Total net debt applicable to the limit as a percentage of debt limit	18.00%	69.66%	46.53%	33.44%	29.03%
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Debt limit	\$ 85,751,577	\$ 92,420,076	\$ 96,825,364	\$ 97,299,500	\$ 95,707,525
Total net debt applicable to limit	<u>33,906,000</u>	<u>32,521,000</u>	<u>31,016,000</u>	<u>29,481,000</u>	<u>28,389,000</u>
Legal debt margin	<u>\$ 51,845,577</u>	<u>\$ 59,899,076</u>	<u>\$ 65,809,364</u>	<u>\$ 67,818,500</u>	<u>\$ 67,318,525</u>
Total net debt applicable to the limit as a percentage of debt limit	39.54%	35.19%	32.03%	30.30%	29.66%

Source: Equalized valuation bases were obtained from the Annual Report of the State of New Jersey, Department of Treasury, Division of Taxation

<sup>a</sup> Limit set by NJSA 18A:24-19 for a K through 12 district; other % limits would be applicable for other districts

KINNELON BOROUGH SCHOOL DISTRICT  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS  
UNAUDITED

Year	Population <sup>a</sup>	Personal Income (thousands of dollars) <sup>b</sup>	Morris County Per Capita Personal Income <sup>c</sup>	Unemployment Rate <sup>d</sup>
2001	9,351	\$ 529,949,223	\$ 56,673	2.40%
2002	9,407	531,824,745	56,535	3.80%
2003	9,408	536,425,344	57,018	3.00%
2004	9,427	575,999,127	61,101	2.40%
2005	9,490	600,688,530	63,297	2.10%
2006	9,475	647,748,900	68,364	2.20%
2007	9,497	677,136,100	71,300	2.00%
2008	9,535	682,009,945	71,527	2.70%
2009	9,572	653,298,572	68,251	4.70%
2010	9,572 **	653,298,572	68,251 *	4.70%

\* - Latest Morris County per capita personal income available (2009) was used for calculation purposes.

\*\* - Latest population data available (2009) was used for calculation purposes.

**Source:**

<sup>a</sup> Population information provided by the NJ Dept of Labor and Workforce Development

<sup>b</sup> Per capita personal income by municipality estimated based upon the 2000 Census published by the US Bureau of Economic Analysis.

<sup>c</sup> Personal income has been estimated based upon the municipal population and per capita personal income presented.

<sup>d</sup> Unemployment data provided by the NJ Dept of Labor and Workforce Development

KINNELON BOROUGH SCHOOL DISTRICT  
PRINCIPAL EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO  
UNAUDITED

<u>Employer</u>	<u>2010</u>		<u>2001</u>	
	<u>Employees</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Percentage of Total Employment</u>
Kinnelon Board of Education	335	6.71%	N/A	N/A
Pathmark	150	3.00%	N/A	N/A
Borough of Kinnelon	100	2.00%	N/A	N/A
Smokerise Club	50	1.00%	N/A	N/A
Weichert Realtors	35	0.70%	N/A	N/A
Kosco Harley-Davidson	30	0.60%	N/A	N/A
J.C. Christopher's	25	0.50%	N/A	N/A
Route 23 Car & Van Wash	20	0.40%	N/A	N/A
Rite Aid	17	0.34%	N/A	N/A
Rite Aid	15	0.30%	N/A	N/A
	<u>777</u>	<u>15.56%</u>	<u>N/A</u>	<u>N/A</u>

N/A - Information not available

Source: Borough of Kinnelon

KINNELON BOROUGH SCHOOL DISTRICT  
FULL-TIME EQUIVALENT DISTRICT EMPLOYEES BY FUNCTION/PROGRAM  
LAST SEVEN FISCAL YEARS  
UNAUDITED

<u>Function/Program</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Instruction							
Regular	136.00	138.00	147.90	146.84	153.31	146.80	138.00
Special education	29.50	29.50	37.00	53.80	59.29	52.54	50.10
Support Services:							
Student & instruction related services	44.50	44.50	37.80	39.83	40.83	43.80	41.90
School administrative services	16.00	16.00	16.50	16.50	16.50	16.00	12.50
General and business administrative services	3.00	3.00	3.00	2.80	3.80	3.80	3.90
Plant operations and maintenance	29.25	29.25	30.50	32.00	28.50	30.90	30.40
Business and other support services	7.00	7.00	7.80	10.80	14.85	5.10	4.60
Pupil transportation						10.00	8.00
Total	<u>265.25</u>	<u>267.25</u>	<u>280.50</u>	<u>302.57</u>	<u>317.08</u>	<u>308.94</u>	<u>289.40</u>

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: District Personnel Records

KINNELON BOROUGH SCHOOL DISTRICT  
OPERATING STATISTICS  
LAST SEVEN FISCAL YEARS  
UNAUDITED

Fiscal Year	Enrollment	Operating Expenditures <sup>a</sup>	Cost Per Pupil <sup>d</sup>	Teaching Staff	Pupil/Teacher Ratio				Average Daily Enrollment (ADE) <sup>c</sup>	Average Daily Attendance (ADA) <sup>c</sup>	% Change in Average Daily Enrollment	Student Attendance Percentage
					Kiel Elementary	Stony Brook Elementary	Pearl R. Miller Middle School	Kinnelon High School				
2005	2,146	\$ 27,383,326	\$ 12,808	165.50	1:12	1:12	1:12	01:11.6	2,138	2,049	N/A	95.84%
2006	2,174	29,304,906	13,580	167.50	1:13	1:14	1:12	1:12	2,158	2,072	0.935%	96.01%
2007	2,205	31,828,678	14,466	171.90	1:13.2	1:13.1	1:10.9	1:11.1	2,200	2,119	1.946%	96.30%
2008	2,207	34,504,771	15,637	172.10	1:13.3	1:13.6	1:12	1:11.5	2,202	2,120	0.091%	96.28%
2009	2,230	34,398,744	15,439	178.27	1:12.9	1:13.3	1:12.54	1:11.65	2,228	2,133	1.181%	95.74%
2010	2,214	35,384,676	16,033	179.10	1:12.5	1:14.6	1:11.9	1:10.3	2,207	2,120	-0.943%	96.06%
2011	2,215	33,567,060	15,234	188.10	1:10.2	1:13.6	1:11.3	1:11.9	2,204	2,102	-0.136%	95.40%

N/A Not Available

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Sources: Borough of Kinnelon School District records

Note: Enrollment based on annual October district count.

- a Operating expenditures equal total expenditures less debt service and capital outlay.
- b Teaching staff includes only full-time equivalents of certificated staff.
- c Average daily enrollment and average daily attendance are obtained from the School Register Summary (SRS).
- d Cost per pupil is the sum of operating expenditures divided by enrollment. This cost per pupil may be different from the State's cost per pupil calculations.

Exhibit J-18

KINNELON BOROUGH SCHOOL DISTRICT  
SCHOOL BUILDING INFORMATION  
LAST SEVEN FISCAL YEARS  
UNAUDITED

<u>District Building</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Kiel Elementary School (1995)</b>							
Square Feet	49,563	49,563	49,563	43,563	43,563	49,563	49,563
Capacity (students)	333	333	333	333	333	333	333
Enrollment	287	341	354	366	331	333	388
<b>Stony Brook Elementary (1957)</b>							
Square Feet	70,137	70,137	70,137	70,137	70,137	70,137	70,137
Capacity (students)	557	557	557	557	557	557	557
Enrollment	253	542	535	519	515	504	578
<b>Pearl R. Miller Middle School (1968)</b>							
Square Feet	89,910	89,910	89,910	89,910	89,910	89,910	89,910
Capacity (students)	593	593	593	593	593	593	593
Enrollment	538	535	535	550	572	561	545
<b>Kinnelon High School (1963)</b>							
Square Feet	100,017	100,017	100,017	100,017	136,846	136,846	136,846
Capacity (students)	646	646	646	646	843	646	646
Enrollment	701	614	665	653	676	697	704
<b>Glenn Sisco Elementary School (1923)</b>							
Square Feet	21,097	21,097	21,097	21,097	21,097	21,097	21,097
Capacity (students)	168	168	168	168	168	168	168
Enrollment		140	116	136	136	119	

Number of Schools at June 30, 2011

Elementary = 2

Middle School = 1

High School = 1

This schedule does not contain ten years of information as GASB #44 was implemented during the fiscal year ending June 30, 2006.

Source: Borough of Kinnelon School District Facilities Office

Note: Year of original construction is shown in parentheses. Increases in square footage and capacity are the result of additions. Enrollment is based on the annual October district count.

KINNELON BOROUGH SCHOOL DISTRICT  
SCHEDULE OF REQUIRED MAINTENANCE  
LAST TEN FISCAL YEARS  
UNAUDITED

UNDISTRIBUTED EXPENDITURES - REQUIRED  
 MAINTENANCE FOR SCHOOL FACILITIES  
 11-000-261-xxx

Fiscal Year Ended June 30,	Kiel Elementary School	Stony Brook Elementary School	Glen L. Sisco Elementary School	Pearl R. Miller Middle School	Kinnelon High School	Maintenance	Total
2002	\$ 99,395	\$ 52,684		\$ 103,566	\$ 159,104		\$ 414,749
2003	131,570	69,738		137,092	210,608		549,008
2004	84,401	44,736		87,942	135,102		352,181
2005	38,183	55,710		48,195	106,409		248,497
2006	108,006	49,162	\$ 43,609	76,633	194,455	\$ 19,080	490,945
2007	52,882	79,290	25,966	43,400	96,937	19,386	317,861
2008	75,025	51,678	21,526	62,426	125,936	19,623	356,214
2009	85,318	67,591	20,314	70,856	92,606	27,266	363,951
2010	33,699	54,552	17,445	50,196	130,940	25,541	312,373
2011	27,227	73,841	11,112	40,641	78,539	4,025	235,385

\* School facilities as defined under EFCFA.  
 (N.J.A.C. 6A:26-1.2 and N.J.A.C. 6A:26A-1.3)

Source: Borough of Kinnelon School District records

Exhibit J-20

KINNELON BOROUGH SCHOOL DISTRICT  
INSURANCE SCHEDULE  
JUNE 30, 2011  
UNAUDITED

	<u>Coverage</u>	<u>Deductible</u>
School Package Policy - Zurich American Insurance Company		
Property - Blanket Building and Contents	\$ 1,000,000	\$ 1,000
Commercial General Liability	2,000,000	5,000
Comprehensive Automotive Liability	1,000,000	1,000
Comprehensive Crime Coverage, Employee Dishonesty	500,000	5,000
Comprehensive Crime Coverage, Forgery or Alteration	50,000	1,000
Computer and Scheduled Equipment - Zurich American Insurance Company		
EDP	2,500,000	5,000
Mobile Equipment	250,000	1,000
Cameras, Musical Instruments	250,000	1,000
Boiler and Machinery - Zurich American Insurance Company		
Property Damage	100,000,000	1,000
Umbrella Liability - Zurich American Insurance Company		
Umbrella Policy	9,000,000	
School Board Legal Liability - Zurich American Insurance Company		
Director's and Officer's Policy	1,000,000	
Public Employees' Faithful Performance Blanket		
Treasurer of School Monies	250,000	
Board Secretary	250,000	
Special Risks		
Flood/Earthquake - Zurich American Insurance Company	5,000,000	5.00%

Source: Kinnelon Borough School District records.

**SINGLE AUDIT SECTION**



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Independent Auditors' Report on Internal Control over Financial Reporting  
 and on Compliance and Other Matters Based on an Audit of Financial Statements  
 Performed in Accordance with *Government Auditing Standards*

The Honorable President and Members  
 of the Board of Education  
 Kinnelon Borough School District  
 County of Morris, New Jersey

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Board of Education of the Kinnelon Borough School District, in the County of Morris (the "Board") as of, and for the fiscal year ended, June 30, 2011, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 9, 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, the audit requirements prescribed by the Division of Finance and Regulatory Compliance, Department of Education, State of New Jersey (the "Department")

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board'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 providing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 to be material weaknesses, as defined above.

The Honorable President and Members  
of the Board of Education  
Kinnelon Borough School District  
Page 2

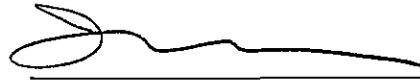
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's basic 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain management suggestions that we have reported in the *Auditor's Management Report on Administrative Findings – Financial, Compliance and Performance*, a separate report dated September 9, 2011.

This report is intended solely for the information and use of management, the members of the Board of Education, and to meet the requirements for filing with the New Jersey State Department of Education, and other state and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.

September 9, 2011  
Mount Arlington, New Jersey

  
NISIVOCCIA LLP

  
\_\_\_\_\_  
David H. Evans  
Licensed Public School Accountant #740  
Certified Public Accountant



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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and New Jersey's OMB Circular NJOMB 04-04

The Honorable President and Members  
 of the Board of Education  
 Kinnelon Borough School District  
 County of Morris, New Jersey

Compliance

We have audited the compliance of the Board of Education of the Kinnelon Borough School District, in the County of Morris (the "Board") with the types of compliance requirements described in the U.S. Office of Management and Budget (the "OMB") *Circular A-133 Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended June 30, 2011. The Board's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; audit requirements prescribed by the Division of Finance and Regulatory Compliance, Department of Education, State of New Jersey (the "Division"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Those standards, OMB Circular A-133 and New Jersey's OMB Circular NJOMB 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the fiscal year ended June 30, 2011.

The Honorable President and Members  
of the Board of Education  
Kinnelon Borough School District  
Page 2

Internal Control Over Compliance

The management of the Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance in accordance with OMB Circular A-133 and the New Jersey State Aid/Grant Compliance Supplement, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the management, the members of the Board of Education, and to meet the requirements for filing with the New Jersey State Department of Education, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 9, 2011  
Mount Arlington, New Jersey

  
NISIVOCIA LLP

  
David H. Evans  
Licensed Public School Accountant #740  
Certified Public Accountant

KINNELON BOROUGH SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass Through Grantor / Program Title / Cluster Title	Federal CFDA Number	Grant or State Project Number	Grant Period	Award Amount	Balance (Accounts Receivable) 6/30/10	Carryover/ (Walkthrough) Amount	Cash Received	Budgetary Expenditures	Cancellation of Prior Years' Encumbrances	Balance 6/30/11		Due to Grantor 6/30/11
										Accounts Receivable	Deferred Revenue	
U.S. Department of Agriculture												
Passed-through State Department of Education:												
Child Nutrition Cluster:												
Federal Food Distribution Program	10.555	N/A	7/1/10-6/30/11	\$ 16,359			\$ 16,359	\$ (15,065)			\$ 1,294	
Federal Food Distribution Program	10.555	N/A	7/1/09-6/30/10	17,787	\$ 1,629			(1,629)				
National School Lunch Program	10.555	N/A	7/1/10-6/30/11	37,318			37,318	(37,318)				
National School Lunch Program	10.555	N/A	7/1/09-6/30/10	37,363	(2,246)		2,246					
Special Milk Program	10.556	N/A	7/1/10-6/30/11	489			489	(489)				
Special Milk Program	10.556	N/A	7/1/09-6/30/10	2,382	(151)		151					
Total Child Nutrition Cluster					(768)		56,563	(54,501)			1,294	
Total U.S. Department of Agriculture					(768)		56,563	(54,501)			1,294	
U.S. Department of Education												
Passed-through State Department of Education:												
No Child Left Behind Consolidated Grant:												
Title IIA	84.367A	NCLB-3100-11	9/1/10-8/31/11	44,639			35,246	(41,406)			\$ (6,160)	
Title IIA - C/O	84.367A	NCLB-3100-10	9/1/09-8/31/10	43,297	(6,990)	\$ 2,763	8,990	(2,763)			(763)	
Title IIA - C/O	84.367A	NCLB-3100-09	9/1/08-8/31/09	42,815	(131)						(131)	
Title IV - C/O	84.186A	NCLB-3100-10	9/1/09-8/31/10	3,335	(400)		400					
Title IV - C/O	84.186A	NCLB-3100-09	9/1/08-8/31/09	3,492	(53)						(53)	
Special Education Cluster:												
I.D.E.A. Preschool	84.173	FT-5520-11	9/1/10-8/31/11	17,365			12,431	(12,431)				
I.D.E.A. Part B, Basic	84.027	FT-5520-11	9/1/10-8/31/11	419,788			396,741	(396,741)				
I.D.E.A. Part B, Basic	84.027	FT-5520-10	9/1/09-8/31/10	417,687	(1)						(1)	
I.D.E.A. Part B, Basic ARRA	84.391	ARRA-5520-10	9/1/09-8/31/11	482,415	(14,170)	1,778	37,544	(24,319)			(2,723)	
Total Special Education Cluster					(14,171)	1,778	446,716	(433,491)			(2,724)	
Total U.S. Department of Education					(21,745)	4,541	491,352	(477,660)			(9,831)	
Total Federal Financial Awards					\$ (22,513)	\$ 4,541	\$ 547,915	\$ (532,161)	\$ -0-		\$ (9,831)	\$ 1,294
											\$ 1,294	\$ -0-

N/A - Not Applicable

SEE ACCOMPANYING NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

KINNELON BOROUGH SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

State Grantor/Program Title	Grant or State Project Number	Grant Period	Award Amount	Balance Deferred Revenue/ (Accounts Receivable) 06/30/10	Cash Received	Budgetary Expenditures	Repayment of Prior Years' Balances	Balance 6/30/11			MEMO	
								GAAP (Accounts Receivable)	Deferred Revenue	Due to Grantor	Budgetary Receivable	Cumulative Total Expenditures
State Department of Education:												
General Fund:												
Transportation Aid	10-495-034-5120-014	7/1/09 - 6/30/10	\$ 913,343	\$ (82,160)	\$ 82,160							\$ 913,343
Special Education Categorical Aid	11-495-034-5120-089	7/1/10 - 6/30/11	557,186		526,710	\$ (557,186)					\$ 30,476	557,186
Special Education Categorical Aid	10-495-034-5120-089	7/1/09 - 6/30/10	1,082,954	(111,821)	111,821							1,082,954
Extraordinary Aid	11-100-034-5120-473	7/1/10 - 6/30/11	292,389			(292,389)		\$ (292,389)			292,389	292,389
Extraordinary Aid	10-100-034-5120-473	7/1/09 - 6/30/10	307,505	(307,505)	307,505							307,505
Additional Non Public Transportation	11-495-034-5120-014	7/1/10 - 6/30/11	16,938			(16,938)		(16,938)			16,938	16,938
Additional Non Public Transportation	10-495-034-5120-014	7/1/09 - 6/30/10	19,230	(19,230)	19,230							19,230
Reimbursed TPAF Social Security Contributions	11-495-034-5095-002	7/1/10 - 6/30/11	1,118,398		1,060,075	(1,118,398)		(58,323)			58,322	1,118,398
Reimbursed TPAF Social Security Contributions	10-495-034-5095-002	7/1/09 - 6/30/10	1,239,599	(65,474)	65,474							1,239,599
<b>Total General Fund</b>				<b>(586,190)</b>	<b>2,172,975</b>	<b>(1,984,911)</b>		<b>(367,650)</b>			<b>398,125</b>	<b>5,547,542</b>
Debt Service Fund:												
Debt Service Aid State Support	11-495-034-5120-017	7/1/10-6/30/11	68,862		68,862	(68,862)						68,862
<b>Total Debt Service Fund</b>					<b>68,862</b>	<b>(68,862)</b>						<b>68,862</b>

KINNELON BOROUGH SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

State Grantor/Program Title	Grant or State Project Number	Grant Period	Award Amount	Balance Deferred Revenue/ (Accounts Receivable) 06/30/10	Cash Received	Budgetary Expenditures	Repayment of Prior Years' Balances	Balance 6/30/11			MEMO		
								GAAP (Accounts Receivable)	Deferred Revenue	Due to Grantor	Budgetary Receivable	Cumulative Total Expenditures	
<b>Special Revenue Fund:</b>													
Non Public Textbooks	11-100-034-5120-064	7/1/10-6/30/11	\$ 6,821		\$ 6,821	\$ (455)	\$ 6,139				\$ 227		\$ 455
Non Public Nursing	11-100-034-5120-070	7/1/10-6/30/11	8,082		808	(808)							808
Non Public Compensatory Education	11-100-034-5120-067	7/1/10-6/30/11	10,885		10,885						10,885		
Non Public Supplemental Education	11-100-034-5120-066	7/1/10-6/30/11	8,338		8,338						8,338		
Non Public Examination and Classification	11-100-034-5120-066	7/1/10-6/30/11	12,271		12,271						12,271		
Non Public Annual Examination	11-100-034-5120-066	7/1/10-6/30/11	2,557		2,557						2,557		
Non Public Speech Correction	11-100-034-5120-066	7/1/10-6/30/11	5,476		5,476						5,476		
<b>Total Special Revenue Fund</b>					<b>47,156</b>	<b>(1,263)</b>	<b>6,139</b>				<b>39,754</b>		<b>1,263</b>
<b>Total NJ Department of Education</b>				<b>(586,190)</b>	<b>2,220,131</b>	<b>(1,986,174)</b>	<b>6,139</b>	<b>\$ (367,650)</b>			<b>39,754</b>	<b>\$ 398,125</b>	<b>5,548,805</b>
<b>Food Service Fund:</b>													
State School Lunch Program	11-100-010-3350-023	7/1/10-6/30/11	4,233		4,233	(4,233)							4,233
State School Lunch Program	10-100-010-3350-023	7/1/09-6/30/10	4,478	(273)	273								4,478
<b>Total Food Service Fund</b>				<b>(273)</b>	<b>4,506</b>	<b>(4,233)</b>							<b>8,711</b>
<b>Total State Awards</b>				<b>\$ (586,463)</b>	<b>\$ 2,224,637</b>	<b>\$ (1,990,407)</b>	<b>\$ 6,139</b>	<b>\$ (367,650)</b>	<b>\$ -0-</b>	<b>\$ 39,754</b>	<b>\$ 398,125</b>	<b>\$ 5,557,516</b>	

SEE ACCOMPANYING NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Note 1: General:

The accompanying schedules of expenditures of federal and state awards present the activity of all federal and state financial award programs of the Board of Education, Kinnelon Borough School District. The Board of Education is defined in Note 1 to the Board's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards passed through other government agencies are included on the schedules of federal and state awards.

Note 2: Basis of Accounting:

The accompanying schedules of expenditures of federal and state awards are presented using the budgetary basis of accounting with the exception of programs recorded in the Food Service Fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Note 1 to the Board's basic financial statements. The information in these schedules is presented in accordance with the requirements of Federal OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and New Jersey OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3: Relationship to Basic Financial Statements:

The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or when expenditures have been made.

The general fund is presented in the accompanying schedules on the modified accrual basis with the exception of the revenue recognition of the last two state aid payments in the current budget year, which is mandated pursuant to N.J.S.A-18A:22-44.2. For GAAP purposes that payment is not recognized until the subsequent budget year due to the state deferral and recording of the last two state aid payments in the subsequent year and the final payment for the prior year is recognized in the current year. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis which recognizes encumbrances as expenditures and also recognizes the related revenue, whereas the GAAP basis does not.

The net adjustment to reconcile from the budgetary basis to the GAAP basis is \$180,380 for the general fund and \$5,881 for the special revenue fund. See exhibit C-3 for a reconciliation of the Budgetary Basis to the modified accrual basis of accounting for the general and special revenue funds. The schedule of expenditures of state awards does not include the TPAF Pension and Post Retirement Medical contributions paid by the State on behalf of the District of \$49,264 and \$1,046,375, respectively.

KINNELON BOROUGH SCHOOL DISTRICT  
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Note 3: Relationship to Basic Financial Statements (Cont'd)

Awards and financial assistance revenue are reported on the Board's basic financial statements on a GAAP basis as presented below:

<u>Fund</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund		\$ 3,260,930	\$ 3,260,930
Special Revenue Fund	\$ 479,439	5,365	484,804
Debt Service Fund		68,862	68,862
Enterprise Fund	<u>54,166</u>	<u>4,233</u>	<u>58,399</u>
Total Financial Awards	<u>\$ 533,605</u>	<u>\$ 3,339,390</u>	<u>\$ 3,872,995</u>

Note 4: Relationship to Federal and State Financial Reports

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

Note 5: Other:

T.P.A.F. Social Security Contributions represents the amount reimbursed by the State for the employer's share of social security contributions for T.P.A.F. members for the fiscal year ended June 30, 2011. Revenues and expenditures reported under the Food Distribution Program represent current year value received and current year distributions, respectively.

KINNELON BOROUGH SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Summary of Auditors' Results:

- An unqualified report was issued on the District's financial statements.
- The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of the District.
- The audit did not disclose any noncompliance which is material in relation to the financial statements of the District.
- The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of the District's major programs.
- An unqualified report was issued on the District's compliance for major programs.
- The audit did not disclose any audit findings which are required to be reported under Federal OMB Circular A-133 and New Jersey's OMB Letter NJOMB 04-04.
- The District's major programs for the current fiscal year consisted of the following awards:

	<u>Grant Number/C.F.D.A.</u>	<u>Grant Period</u>	<u>Award Amount</u>	<u>Budgetary Expenditures</u>
<u>State:</u>				
Special Education Categorical Aid Reimbursed TPAF	11-495-034-5120-089	7/1/10-6/30/11	\$ 557,186	\$ 557,186
Social Security Contributions	11-495-034-5095-002	7/1/10-6/30/11	1,118,398	1,118,398
<u>Federal:</u>				
Special Education Cluster:				
I.D.E.A. Part B, Basic	84.027	9/1/10-8/31/11	419,788	396,741
I.D.E.A. Part B, Basic - ARRA	84.391	9/1/09-8/31/11	482,415	24,319
I.D.E.A. Preschool	84.173	9/1/10-8/31/11	17,365	12,431

- The threshold for distinguishing Type A and Type B programs was \$300,000. A risk based approach was used to determine major programs.
- The District qualified as a "low-risk" auditee under the provisions of section 530 of the Circular.

KINNELON BOROUGH SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(Continued)

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Questioned Costs for Federal Awards:

- The audit did not disclose any findings or questioned costs for federal awards as defined in section 510(a) of the federal circular.

Findings and Questioned Costs for State Awards:

- The audit did not disclose any findings or questioned costs for state awards as defined in section 510(a) of the federal Circular and New Jersey's OMB Circular NJOMB 04-04.

KINNELON BOROUGH SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011

Status of Prior Year Findings:

The District had no prior year audit findings.