

**BOROUGH OF WATCHUNG  
SCHOOL DISTRICT**

**Borough of Watchung School District  
Watchung, New Jersey**

**Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2012**

**Comprehensive Annual  
Financial Report**

**of the**

**BOROUGH OF WATCHUNG SCHOOL DISTRICT**

**Watchung, New Jersey**

**For the Fiscal Year Ended June 30, 2012**

**Borough of Watchung School District**

**Watchung Borough School District Board of Education  
Business Office**

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
TABLE OF CONTENTS  
FISCAL YEAR ENDED JUNE 30, 2012

INTRODUCTORY SECTION (UNAUDITED)

Letter of Transmittal.....	1
Organizational Chart .....	8
Roster of Officials .....	9
Consultants and Advisors .....	10

FINANCIAL SECTION..... 11

Independent Auditors' Report.....	12
-----------------------------------	----

Required Supplementary Information .....	14
Management's Discussion and Analysis (Unaudited) .....	15

Basic Financial Statements (Sections A. and B.).....24

A. District-Wide Financial Statements .....	25
A-1 Statement of Net Assets .....	26
A-2 Statement of Activities.....	27

B. Fund Financial Statements.....	29
B-1 Balance Sheet – Governmental Funds .....	30
B-2 Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Funds.....	31
B-3 Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	33
B-4 Statement of Net Assets – Proprietary Funds.....	34
B-5 Statement of Revenue, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	35
B-6 Statement of Cash Flows – Proprietary Funds.....	36
B-7 Statement of Fiduciary Net Assets – Fiduciary Funds.....	37
B-8 Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	38

Notes to the Basic Financial Statements .....	39
---	----

Supplementary Schedules (Sections C. to I.)

C. Budgetary Comparison Schedules (Unaudited).....	60
C-1 Budgetary Comparison Schedule – General Fund .....	61
C-2 Budgetary Comparison Schedule - Special Revenue Fund.....	71
C-3 Budgetary Comparison Schedule – Note to RSI.....	72

D. School Level Schedules (Not Applicable).....	73
---	----

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
TABLE OF CONTENTS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

FINANCIAL SECTION (Cont'd)

E.	Special Revenue Fund .....	74
E-1	Combining Schedule of Program Revenue and Expenditures - Special Revenue Fund – Budgetary Basis .....	75
E-2	Preschool Education Aid Schedule of Expenditures – Budgetary Basis (Not Applicable) .....	76
F.	Capital Projects Fund.....	77
F-1	Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis .....	78
F-1A	Schedule of Project Revenue, Expenditures, Project Balance and Project Status - Budgetary Basis –Renovate, Construct, Furnish and Equip Additions to the Bayberry and Valley View Schools .....	79
F-1B	Schedule of Project Revenue, Expenditures, Project Balance and Project Status - Budgetary Basis –Valley View Middle School – Renovations to the Bathrooms .....	80
F-1C	Schedule of Project Revenue, Expenditures, Project Balance and Project Status - Budgetary Basis – Bayberry School – Renovations to the Bathrooms .....	81
G.	Proprietary Funds.....	82
G-1	Statement of Net Assets - Food Service Enterprise Fund .....	83
G-2	Statement of Revenue, Expenses and Changes in Fund Net Assets - Food Service Enterprise Fund.....	84
G-3	Statement of Cash Flows - Food Service Enterprise Fund.....	85
H.	Fiduciary Funds .....	86
H-1	Combining Statement of Net Assets .....	87
H-2	Combining Statement of Changes in Net Assets .....	88
H-3	Student Activity Agency Fund Schedule of Receipts and Disbursements.....	89
H-4	Student Activity Agency Fund Statement of Activity .....	90
H-5	Payroll Agency Fund Schedule of Receipts and Disbursements .....	91
I.	Long-Term Debt .....	92
I-1	Schedule of Serial Bonds .....	93
I-2	Schedule of Obligations Under Capital Leases (Not Applicable) .....	94
I-3	Debt Service Fund Budgetary Comparison Schedule (Unaudited) .....	95

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
TABLE OF CONTENTS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

J. Statistical Section (Unaudited) .....	96
J-1 Net Assets by Component .....	97
J-2 Changes in Net Assets .....	98
J-3 Fund Balances - Governmental Funds .....	101
J-4 Changes in Fund Balances - Governmental Funds .....	102
J-5 General Fund Other Local Revenue by Source .....	104
J-6 Assessed Value and Actual Value of Taxable Property .....	105
J-7 Direct and Overlapping Property Tax Rates .....	106
J-8 Principal Property Taxpayers, Current and Nine Years Ago .....	107
J-9 Property Tax Levies and Collections .....	108
J-10 Ratios of Net Outstanding Debt by Type .....	109
J-11 Ratios of Net General Bonded Debt Outstanding .....	110
J-12 Ratios of Overlapping Governmental Activities Debt .....	111
J-13 Legal Debt Margin Information .....	112
J-14 Demographic and Economic Statistics .....	113
J-15 Principal Employers, Current and Nine Years Ago .....	114
J-16 Full-time Equivalent District Employees by Function/Program .....	115
J-17 Operating Statistics .....	116
J-18 School Building Information .....	117
J-19 Schedule of Allowable Maintenance Expenditures by School Facility .....	118
J-20 Insurance Schedule .....	119
 K. Single Audit Section .....	 120
K-1 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 <i>Government</i> <i>Auditing Standards</i> .....	       121
K-2 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 .....	       123
Schedule of Expenditures of Federal Awards .....	125
Schedule of Expenditures of State Awards .....	126
Notes to the Schedules of Expenditures of Federal and State Awards .....	127
Schedule of Findings and Questioned Costs .....	129
Summary Schedule of Prior Audit Findings .....	130

INTRODUCTORY SECTION



# WATCHUNG

## BOARD OF EDUCATION

---

One Dr. Parenty Way, Watchung, N.J. 07069  
Phone: 908-755-8536 ♦ Fax: 908-755-6946

Dr. Mary Louise Malyska, Superintendent  
Dianne Faucher, Business Administrator/Board Secretary

September 28, 2012

Honorable President and  
Members of the Board of Education  
Watchung Borough School District  
County of Somerset, New Jersey

Dear Board Members:

The Comprehensive Annual Financial Report of the Watchung Borough School District for the fiscal year ended June 30, 2012, 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 Watchung Borough Board of Education (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 basic financial statement and results of operations 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 basic 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, Local Governments, and Non-Profit Organizations*, and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Information related to this single audit, including the auditors' report on the internal control structure and compliance with applicable laws, regulations contracts and grants along with findings and questioned costs, are included in the single audit section of this report.

**1. REPORTING ENTITY AND ITS SERVICES:** The Watchung Borough School District is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board (GASB) in codification section 2100. All funds of the District are included in this report. The Watchung 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 Pre-K through 8. These include regular, as well as special education for handicapped students. The District completed the 2011-2012 fiscal year with an enrollment of 710 students, which is 4 less students than the previous year's enrollment. The enrollment includes 18 preschool tuition students and two half time special education students. The following table details student enrollment changes over the last ten years.

**Student Enrollment**

<b>Fiscal Year</b>	<b>Student Enrollment</b>	<b>Percent Change</b>
2011-12	710	-0.56%
2010-11	714	-0.56%
2009-10	718	+4.16%
2008-09	698	+1.46%
2007-08	688	+2.53%
2006-07	671	+1.67%
2005-06	660	+1.08%
2004-05	653	+7.76%
2003-04	606	+1.85%
2002-03	595	+2.77 %

**2. ECONOMIC CONDITION AND OUTLOOK:** The Borough of Watchung was organized on April 20, 1926 and covers an area of approximately 6.2 square miles. Watchung was settled in the early eighteenth century and grew slowly until recent years. In 1960 the population was 3,312 and in 2000 it was 5,613. Watchung Borough is primarily a suburban residential community with 1,872 residential structures. The Borough also has a number of substantial commercial ratables principally located on State Highway 22 on the outskirts of the Borough. Over \$13 million in new construction permits were issued in calendar year 2008. The Watchung Square Mall, a 750,000 square foot shopping center was completed and is currently assessed for over \$128 million. Crystal Ridge, a new 280-unit apartment complex has also been completed adjacent to the shopping center. This portion of the project is assessed at over \$40 million. These units are expected to generate 100 students when fully occupied. Currently we have 60 students from Crystal Ridge in our Pre-K through 8 system.

**3. MAJOR INITIATIVES:** On September 25, 2001, Watchung voters approved a \$24,000,000 building improvement plan for additions and renovations to the Valley View and Bayberry Schools to meet a 30% growth in student enrollment. The Board of Education worked with district administration, teachers, staff, parents, and community

members throughout the year to develop detailed building plans and project timelines. These plans were submitted to the NJ Department of Education for an educational adequacy review and to the NJ Department of Community Affairs for a building code review. Bonds in the amount of \$18,903,000 were sold on June 13, 2002 at a net interest of 4.08%.

In early January 2007 we received our final check of \$126,526.50 from the New Jersey Schools Construction Corporation. We received a total of \$5,096,645 as the state's share of the project's eligible costs.

The Watchung Borough Public Schools have continued to provide excellence in education for all students, Pre-K through eighth grade. A full-day tuition Pre-K was launched at Bayberry in September 2011. A class for 3 year olds and another for 4 year olds were taught September through June. Full-day kindergarten, accelerated mathematics, Spanish 2– 8, German, French 6, 7 and 8, Latin 4, 5, and 6, vocal and instrumental music, art, and performing arts opportunities abound in our schools. Our seventh graders now choose from French, German and Spanish in their world language program. Guidance counselors in both schools assist teachers and administrators with assessing and meeting the academic and social/emotional needs of our students. Our Child Study Team has coordinated a multiply disabled special education program for students in Bayberry School and a L.D. class in Valley View as required by the NJ Department of Education. During the 2011 – 2012 school year, our teachers revised our curriculum documents in Mathematics grade 3, 4, 5 and Language Arts grades K-8. We completed our fifth year using a new Reading series for grades one through five, and we implemented benchmark testing with data analysis to improve Reading skills. We have Nooks in 4 and 8 grades for Language Arts. We have iPads in 3, 4, 7 and 8 grades for Social Studies and Language Arts. We have SmartBoards purchased by the PTO in every classroom and teachers are using them to teach all subjects. Our Distance Learning equipment allows virtual field trips and visits to other countries' schools. All curricula are linked to the NJ Core Curriculum Content Standards and are reviewed and approved by the Board of Education.

Providing well-kept and adequate student facilities continued to play an important role. A Long Range Facility Plan was completed. In addition to on going maintenance projects such as roof repairs, and correction of drainage issues at Valley View School, the District renovated several bathrooms at both Bayberry and Valley View Schools. The District applied for a grant from the State for these renovations and received notification that the State will fund approximately 40% of the costs. On April 27, 2010 bids were opened for the toilet room renovation projects. On June 10, 2010 the bid was awarded to Fine Wall Corporation in the amount of \$241,850 based on their low responsible bid. The toilet room projects are being funded with a local share withdrawal from Capital Reserve in the amount of \$247,250 and a State ROD Grant in the amount of \$139,105. These toilet room projects, although 99% complete, are not final yet. To date the district received \$56,509.51 for the Valley View project and \$53,794.81 for the Bayberry project from the State. Final payment was made to the contractor in June 2012. Final paper work will be submitted to the State shortly.

On January 13, 2011 the district adopted a resolution authorizing participation in the Somerset County Improvement Authority 2011 Renewable Energy Program. This Program finances 100% of the capital cost of solar panels and related equipment, plus installation, operation and maintenance of a "Solar Project" for the district at Bayberry School. The panels will be mounted on school buildings and also as part of a canopy system. The Authority will issue County guaranteed bonds to finance the Solar Projects at no cost, directly or indirectly to the district. Debt service on the Bonds is paid in the first instance by a solar developer that is chosen by the Authority pursuant to the competitive contracting procedures of the Local Public Contracts Law. The roof at Bayberry School will be replaced where needed during the summer of 2012-2013 and the solar installation will take place after these repairs are completed.

As part of the 2010 – 2013 district Technology Plan additional computers, laptops, printers, and Smart Boards were purchased for use in the district. Nooks and iPads were granted by the WEF and the PTO.

Watchung PTO and Watchung Education Foundation grants sponsored a third presentation of the program at Valley View School entitled Narratives of Courage in May 2011 to promote diversity, tolerance, and understanding. The Watchung PTO also funded the following grants: at Bayberry School – Smart Boards, E-Readers, playground equipment, library books, and Block Grants and at Valley View School – Smart Boards, gymnasium mats, study skills material, E-Readers, library books and Block Grants.

The Somerset County Youth Service Commission again provided grants that sponsored spring and fall programs for the Bayberry Girls on the Run and Valley View Girls on Track. These self-esteem building after-school running programs are for girls at Bayberry and Valley View Schools. The programs are designed to help girls develop self-confidence, determination, and focus on goal setting and cooperation. The district was also awarded a competitive grant entitled "Pursuit of Excellence". This is a one-hour after school tutoring program for "at-risk" needy students in Bayberry and Valley View Schools. By providing after-school tutorial services, the district assists students in third through eighth grade to build academic skills, increase their success in school, and their feelings of self-worth and importance in the community. The District provided a late bus to transport students home after this program. The Youth Service Commission also provided a grant to fund an Italian Club for Valley View Middle School students.

The Watchung Educational Foundation, an organization that was established to raise money for Bayberry and Valley View Schools to provide an ongoing centralized source of additional funds and resources to assist the Watchung Schools in maintaining and enhancing the quality of education in Watchung, funded five grants for the district for 2011-2012. They approved the following grants: iPads and accessories, Minute to Win It Language Arts, Bayberry Fish Anatomy, Valley View Coord Boards and Narratives of Courage.

The school programs are further enhanced by involvement of parents in the Parent Teacher Organization and community groups such as the Garden Club, the Optimist Club of Watchung, and the Watchung Police Department's D.A.R.E. program.

**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). Internal control 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.

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.

As part of the District's single audit described earlier, tests are made to determine the adequacy of internal control, including that portion related to federal awards and state financial assistance programs, as well as to determine that the District has complied with applicable laws and regulations.

**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 reappropriations of fund balance in the subsequent year. Those amounts to be reappropriated are reported as reservations of fund balance at June 30, 2012.

**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 and account groups. These funds are explained in "Notes to the Basic Financial Statements", Note 1.

**7. DEBT ADMINISTRATION:** An \$18,903,000 fifteen-year bond was issued on June 13, 2002 at a net interest cost of 4.0804% to finance the building referendum project. On August 21, 2009 the Board of Education refinanced \$8,770,000 of the Refunding School Bonds Series 2009 at variable interest rates averaging 3.55%. Standard and Poor's raised their rating for the Watchung Borough Board of Education from 'AA+' to 'AAA' based on the Board's history of stable financial performance. This new rating assisted the District in reissuing the callable bonds resulting in substantial savings over the remaining years of the bonds. Projections for the savings range between \$375,000 and \$400,000. During the 2011-12 school year the District made its tenth payment on the outstanding debt service for the bond referendum project. The District incurred \$360,400 in interest expense and made \$1,410,000 in principal payments. This is a net savings of \$40,094 from the original amount scheduled for payment and is a direct result of the bond refinancing. Funding for the \$24,000,000 bond referendum project is comprised of \$18,903,000 in local bonds and a State grant in the amount of \$5,096,645. At June 30, 2012, the District has \$8,715,000 of outstanding serial bonds.

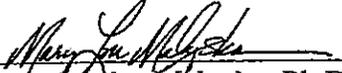
**8. CASH MANAGEMENT:** The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Basic Financial Statements", Note 3. The District has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss 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. The law requires governmental units to deposit funds in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

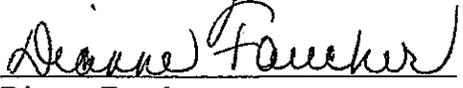
**9. RISK MANAGEMENT:** The Board carries various forms of insurance that includes, but not limited to, general liability, automobile liability and comprehensive/collision, hazard and theft insurance on property and contents, and fidelity bonds. A schedule of insurance coverage is found on J-20.

**10. OTHER INFORMATION:** 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 as the Board's Audit firm. 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 New Jersey OMB's Circular 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.

**11. ACKNOWLEDGMENTS:** We would like to express our appreciation to the members of the Watchung Borough 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 Business Office staff.

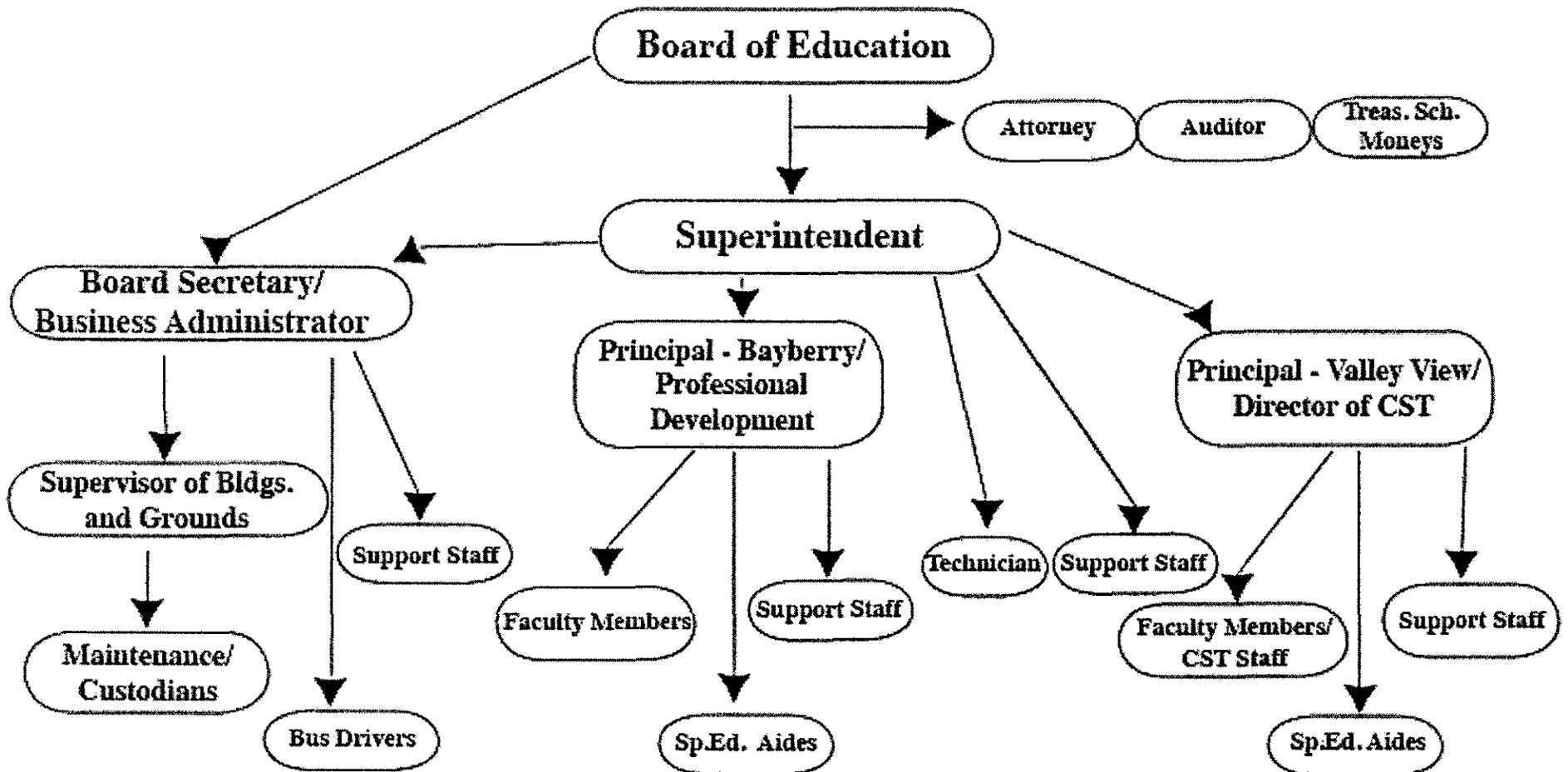
Respectfully submitted by,

  
Mary Louise Malyska, Ph.D.  
Superintendent

  
Dianne Faucher  
Business Administrator/Board Secretary

# WATCHUNG BOROUGH BOARD OF EDUCATION

## ORGANIZATIONAL CHART Unit Control



BOROUGH OF WATCHUNG SCHOOL DISTRICT  
ROSTER OF OFFICIALS  
YEAR ENDED JUNE 30, 2012

**Members of the Board of Education**

**Term Expires**

Charles Neiss, President	2013
Jeffrey Bonner, Vice-President	2013
Kathleen Caldas	2014
John Malchow	2013
Tina Kelly	2014
Ellyn Margulies	2014
James Rhyner	2013
Rhea Qualls Williams	2013

**Other Officials**

Mary Louise Malyska, Ph. D., Superintendent of Schools  
Dianne Faucher, Board Secretary/ Business Administrator  
William J. Hance, Treasurer  
Michael Gross, Esq., Attorney  
Mary Nunn, Principal, Bayberry School  
Barbara Resko, Ed. D. Principal, Valley View School/ Director of Special Services

**BOROUGH OF WATCHUNG SCHOOL DISTRICT  
Consultants and Advisors**

**Audit Firm**

Nisivoccia LLP  
Mount Arlington Corporate Center  
200 Valley Road Suite 300  
Mount Arlington, NJ 07856  
and  
Lawrence Business Park  
11 Lawrence Road  
Newton, NJ 07860

**Attorney (General Matters)**

Kenney, Gross, Kovats, &Parton  
The Courts of Red Bank  
130 Maple Avenue/Building 8  
Red Bank, NJ 07710

**Attorney (Bond Counsel)**

Wilentz, Goldman & Spitzer  
90 Woodbridge Center Dr.  
Suite 900, Box 10  
Woodbridge, NJ 07095-0958

**Architect**

Chapin Architectural Services, P.A.  
17 Main Street  
Netcong, NJ 07857

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  
Borough of Watchung School District  
County of Somerset, 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 Borough of Watchung School District in the County of Somerset as of and for the fiscal year ended June 30, 2012 which collectively comprise the Board of Education'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 *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements as prescribed by the Office of School Finance, 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, the business-type activities, each major fund and the aggregate remaining fund information of the Board of Education of the Borough of Watchung School District in the County of Somerset as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows 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 28, 2012 on our consideration of the Board of Education of the Borough of Watchung School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

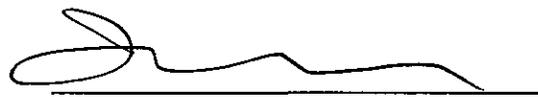
The Honorable President and Members  
of the Board of Education  
Borough of Watchung School District  
Page 2

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report, and Budgetary Comparison Information in Exhibits C-1 through C-3 and I-3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of the Borough of Watchung School District's basic financial statements. The accompanying supplementary information schedules such as the combining and individual nonmajor fund financial statements and the Schedules of Expenditures of Federal and State Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations* and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information such as the combining and individual nonmajor fund financial statements and the schedules of expenditures of federal and state awards are fairly stated in all material respects in relation to the financial statements as a whole. The accompanying other information, such as the introductory and statistical sections, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

September 28, 2012  
Mount Arlington, New Jersey

  
NISIVOCIA LLP

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

REQUIRED SUPPLEMENTARY INFORMATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management Discussion and Analysis (Unaudited)

This section of Borough of Watchung School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2012. 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 is strong, in spite of minimal increases in state aid for several years.
- Overall revenue was \$13.2 million.
- Actual revenue was more than expected, primarily in tuition and additional state aid from extraordinary aid and special education aid.
- Enrollment in the District has been slightly decreasing for the last several years and cost per pupil has been increasing slightly.

### 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**

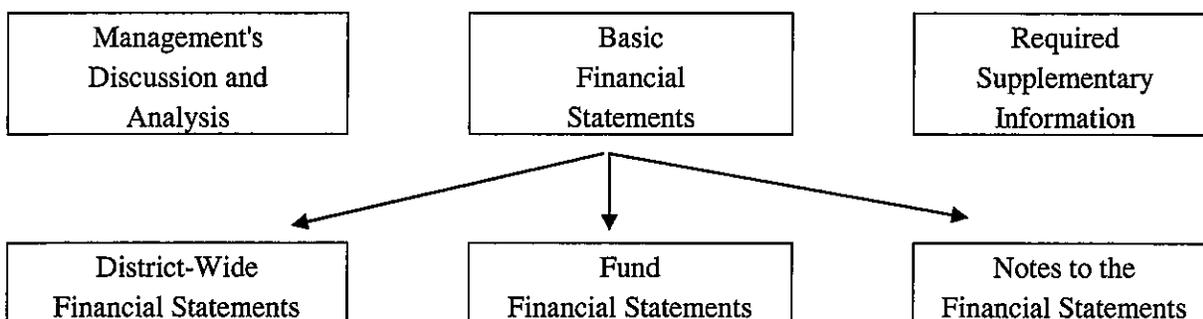


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights that structure and contents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

**Figure A-2**

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

	District-Wide Statements	Fund Financial 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	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities
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 is 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*: Provided additional information essential to a full understanding of the District-wide and fund financial statements.

### Financial Analysis of the District as a Whole

*Net Assets.* The District's combined net assets increased \$1,408,431. Net assets from governmental activities increased by \$1,406,682 combined with an increase of net assets from business activities of \$1,749. Net assets invested in capital assets increased by \$910,034, restricted net assets increased by \$40,647 and unrestricted net assets increased by \$457,750.

**Figure A-3**  
**Condensed Statement of Net Assets**

	Government Activities		Business-Type Activities		Total School District		Total
	Restated				Restated		Percentage
	2011/2012	2010/2011	2011/2012	2010/2011	2011/2012	2010/2011	
Current and Other Assets	\$ 3,403,344	\$ 3,112,750	\$ 5,726	\$ 3,977	\$ 3,409,070	\$ 3,116,727	9.38%
Capital Assets	13,753,874	14,172,618			13,753,874	14,172,618	-2.95%
Total Assets	17,157,218	17,285,368	5,726	3,977	17,162,944	17,289,345	-0.73%
Long-Term Debt Outstanding	8,462,479	9,802,797			8,462,479	9,802,797	-13.67%
Other Liabilities	963,862	1,158,376			963,862	1,158,376	-16.79%
Total Liabilities	9,426,341	10,961,173			9,426,341	10,961,173	-14.00%
<b>Net Assets:</b>							
Invested in Capital Assets,							
Net of Related Debt	5,444,985	4,534,951			5,444,985	4,534,951	20.07%
Restricted	2,627,560	2,586,913			2,627,560	2,586,913	1.57%
Unrestricted/(Deficit)	(341,668)	(797,669)	5,726	3,977	(335,942)	(793,692)	57.67%
Total Net Assets	\$ 7,730,877	\$ 6,324,195	\$ 5,726	\$ 3,977	\$ 7,736,603	\$ 6,328,172	22.26%

*Changes in Net Assets.* The District's combined net assets were \$7,736,603 on June 30, 2012, or \$1,408,431 more than they were the year before. (See Figure A-3). Net Assets invested in capital assets, net of related debt, increased by \$910,034 due to the \$43,142 of additions to capital assets, the retirement of \$1,410,000 of bond principal less \$461,886 in depreciation expense plus a decrease of \$81,222 in deferred interest. Restricted net assets increased by \$40,467 due primarily to the \$274,147 decrease in year-end encumbrances offset by the \$450,000 increase in capital reserve account, \$65,982 decrease in excess surplus and the \$436,447 increase in capital projects. Unrestricted net assets increased by \$457,750 due primarily to the net of the unamortized bond premium, compensated absences and accrued interest payable offset by excess revenues.

**Figure A-4**  
**Changes in Net Assets from Operating Results**

	Governmental Activities		Business-Type Activities		Total School District		Total
	2011/2012	2010/2011	2011/2012	2010/2011	2011/2012	2010/2011	Percentage Change
<b>Revenue:</b>							
<b>Program Revenue:</b>							
Charges for Services			\$ 8,326	\$ 10,237	\$ 8,326	\$ 10,237	-18.67%
Operating Grants & Contributions	\$ 1,320,584	\$ 928,058	7,771	8,099	1,328,355	936,157	41.89%
<b>General Revenue:</b>							
Property Taxes	11,562,213	11,445,564			11,562,213	11,445,564	1.02%
Unrestricted Federal and State Aid	82,040	386,722			82,040	386,722	-78.79%
Other	229,023	134,045			229,023	134,045	70.86%
<b>Total Revenue</b>	<b>13,193,860</b>	<b>12,894,389</b>	<b>16,097</b>	<b>18,336</b>	<b>13,209,957</b>	<b>12,912,725</b>	<b>2.30%</b>
<b>Expenses:</b>							
Instruction	6,567,620	6,219,155			6,567,620	6,219,155	5.60%
Pupil and Instruction Services	1,873,706	1,890,922			1,873,706	1,890,922	-0.91%
Administrative and Business	1,255,394	1,192,710			1,255,394	1,192,710	5.26%
Maintenance and Operations	1,224,782	1,206,358			1,224,782	1,206,358	1.53%
Transportation	540,830	565,314			540,830	565,314	-4.33%
Other	324,846	624,106	14,348	16,080	339,194	640,186	-47.02%
<b>Total Expenses</b>	<b>11,787,178</b>	<b>11,698,565</b>	<b>14,348</b>	<b>16,080</b>	<b>11,801,526</b>	<b>11,714,645</b>	<b>0.74%</b>
<b>Increase in Net Assets</b>	<b>\$ 1,406,682</b>	<b>\$ 1,195,824</b>	<b>\$ 1,749</b>	<b>\$ 2,256</b>	<b>\$ 1,408,431</b>	<b>\$ 1,198,080</b>	<b>17.56%</b>

*Revenue Sources.* The District's total revenue for the 2011/2012 school year was \$13,209,957 (See Figure A-4). Property taxes and state formula aid accounted for most of the District's revenue, with local taxes accounting for \$11,562,213 of the total, or 87.53 percent. (See Figure A-5). Approximately 10.68 percent came from state and federal aid and the remainder from miscellaneous sources.

**Figure A-5**  
**Sources of School District Revenue - Fiscal Year 2012**

	Amount	Percentage
<b>Sources of Income:</b>		
State Formula Aid	\$ 1,328,355	10.06%
Property Taxes	11,562,213	87.53%
Federal and State Categorical Grants	82,040	0.62%
Charges for Services	8,326	0.06%
Other	229,023	1.73%
	<b>\$ 13,209,957</b>	<b>100.00%</b>

The total cost of all programs and services was \$11,801,526. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (76.11 percent). (See Figure A-6). The District's maintenance and operations activities accounted for 10.38 percent of total costs. The most significant contributors to the costs of Maintenance and Operations were fuel and other costs. It is important to remember that \$461,886 in depreciation is included in expenses for the year.

**Figure A-6  
Sources of School District Expenses - Fiscal Year 2012**

Expense Category:	<u>Amount</u>	<u>Percentage</u>
Instruction	\$ 6,567,620	55.65%
Pupil and Instruction Services	1,873,706	15.88%
Administrative and Business	1,255,394	10.64%
Maintenance and Operations	1,224,782	10.38%
Transportation	540,830	4.58%
Other	339,194	2.87%
	<u>\$ 11,801,526</u>	<u>100.00%</u>

**Governmental Activities**

As discussed elsewhere in this commentary, the financial position of the District remains strong. Maintaining existing programs and the provision of a multitude of special programs and services for disabled pupils place great demands on the District’s resources.

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:

- Participation in a joint insurance fund operated by Diploma Joint Insurance Fund resulting in low cost property, liability and workers compensation insurance.
- Participation in Joint Transportation Agreements.
- Participation in Joint Purchasing Agreements.
- Participation in e-Rate Programs.

It is crucial that the District examine its expenditures carefully. Increasing parental and student demands for new activities and programs must be evaluated thoroughly. District resources are at their tightest level in a decade.

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 obligation placed on the District’s taxpayers by each of these functions:

**Figure A-7**  
**Net Cost of Governmental Activities**

	Total Costs of Services		Net Cost of Services	
	2011/2012	2010/2011	2011/2012	2010/2011
Instruction	\$ 6,567,620	\$ 6,219,155	\$ 5,365,061	\$ 5,445,388
Pupil and Instruction Services	1,873,706	1,890,922	1,833,269	1,812,843
Administrative and Business	1,255,394	1,192,710	1,177,806	1,116,498
Maintenance and Operations	1,224,782	1,206,358	1,224,782	1,206,358
Transportation	540,830	565,314	540,830	565,314
Other	324,846	624,106	324,846	624,106
	<u>\$ 11,787,178</u>	<u>\$ 11,698,565</u>	<u>\$ 10,466,594</u>	<u>\$ 10,770,507</u>

- The cost of all governmental activities this year was approximately \$11.8 million.
- The federal and state governments subsidized certain programs with grants and contributions of \$1.40 million.
- Approximately \$11.562 million of the District's costs were financed by District taxpayers.
- The remainder of the funding came from tuition charges, miscellaneous revenue and investment earnings.

#### **Business-Type Activities**

Net assets from the District's business-type activity increased by \$1,749 (Refer to Figure A-4). Factors contributing to these results included:

- Food service revenues exceeded expenses by \$1,749, accounting for all of the increase in the net assets of the business-type activities.

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

The District's financial position remains strong despite significant changes in the student clientele and difficult economic times.

In an effort to return special education students to the district, it has been forced to expand its classroom teaching staff, special education aides and special transportation. The savings realized from the reduction in out of district placements, however, has largely offset the cost of these additional teachers and special education aides. Fringe benefit costs for all staff have increased dramatically in the past several years.

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.
- Changes in budgetary line accounts to more accurately reflect current requirements.

## Capital Asset and Debt Administration

**Figure A-8**  
**Capital Assets (Net of Depreciation)**

	Government Activities		Business-Type Activities		Total School District		Total Percentage Change
	2011/2012	Restated 2010/2011	2011/2012	2010/2011	2011/2012	Restated 2010/2011	
Land	\$ 411,364	\$ 411,364			\$ 411,364	\$ 411,364	0.00%
Building and Building Improvements	12,774,893	13,169,835			12,774,893	13,169,835	-3.00%
Machinery and Equipment	243,419	280,774			243,419	280,774	-13.30%
Construction in Progress	324,198	310,645			324,198	310,645	4.36%
<b>Total Capital Assets (Net of Depreciation)</b>	<b>\$ 13,753,874</b>	<b>\$ 14,172,618</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 13,753,874</b>	<b>\$ 14,172,618</b>	<b>-2.95%</b>

## Long-term Debt

At year-end, the District had a net of \$8,308,889 in general obligation bonds outstanding as shown in Figure A-9. (More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.)

**Figure A-9**  
**Outstanding Long-Term Debt**

	Total School District		Percentage Change
	2011/2012	2010/2011	
General Obligation Bonds	\$ 8,715,000	\$ 10,125,000	-13.93%
Less: Deferred Amount on the Refunding Bonds	(406,111)	(487,333)	-16.67%
	8,308,889	9,637,667	
Compensated Absences	153,590	165,130	-6.99%
	<b>\$ 8,462,479</b>	<b>\$ 9,802,797</b>	<b>-13.67%</b>

- The District continued to pay down its debt, retiring \$1,410,000 of outstanding bonds.
- Compensated absences payable decreased by a net amount of \$11,540 due to retirement and a change in the method of the calculation for vested sick days.

### **Factors Bearing on the District's Future**

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

- A5 – known as School District Accountability. This new law, approved by the Governor on March 15, 2007 provides for various school district accountability measures.
- A1 –New law, approved by the Governor establishes a 2% cap on tax levy increases.
- A4 – known as CORE. This new law, approved by the Governor on April 3, 2007 implements CORE proposals and the primary focus of this new law is to establish uniform shared services and consolidation through the use of new “Executive County Superintendent”.
- The continued impact of S1701 legislation. S1701, adopted by the State of New Jersey on June 17, 2004, places limits on the School’s ability to transfer funds into capital reserve for the construction and maintenance of school facilities, the ability to transfer available balance as needed and the ability to transfer available funds between appropriation accounts. Taking away the option of transferring available funds during the budget year will severely impact our ability to maintain and improve our facilities.

### **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 Mrs. Dianne Faucher, School Business Administrator/Board Secretary, at the Board of Education Office at One Dr. Parenty Way, Watchung, NJ 07069.

**BASIC FINANCIAL STATEMENTS**

DISTRICT-WIDE FINANCIAL STATEMENTS

Exhibit A-1

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,726,901	\$ 4,193	\$ 1,731,094
Receivable from State Government	91,549		91,549
Receivable from Federal Government	38,753	1,533	40,286
Other Accounts Receivable	8,638		8,638
Restricted Assets:			
Capital Reserve Account - Cash	1,358,233		1,358,233
Maintenance Reserve Account - Cash	100,000		100,000
Unamortized Bond Issuance Costs	79,270		79,270
Capital Assets:			
Sites (Land) and Construction in Progress	735,562		735,562
Depreciable Buildings and Building Improvements and Furniture, Machinery and Equipment	13,018,312		13,018,312
Total Assets	<u>17,157,218</u>	<u>5,726</u>	<u>17,162,944</u>
<b>LIABILITIES</b>			
Accrued Interest Payable	322,905		322,905
Accounts Payable - Vendors	18,545		18,545
Deferred Revenue	32,031		32,031
Unamortized Bond Premium	590,381		590,381
Noncurrent Liabilities:			
Due Within One Year	1,418,778		1,418,778
Due Beyond One Year	7,043,701		7,043,701
Total Liabilities	<u>9,426,341</u>		<u>9,426,341</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	5,444,985		5,444,985
Restricted for:			
Capital Projects	1,536,814		1,536,814
Other Purposes	1,090,746		1,090,746
Unrestricted/(Deficit)	(341,668)	5,726	(335,942)
Total Net Assets	<u>\$ 7,730,877</u>	<u>\$ 5,726</u>	<u>\$ 7,736,603</u>

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
<b>Instruction:</b>							
Regular	\$ 5,279,666		\$ 638,366		\$ (4,641,300)		\$ (4,641,300)
Special Education	891,087		520,103		(370,984)		(370,984)
Other Instruction	307,659		35,657		(272,002)		(272,002)
School-Sponsored Instruction	89,208		8,433		(80,775)		(80,775)
<b>Support Services:</b>							
Tuition	359,309				(359,309)		(359,309)
Student & Instruction Related Services	1,514,397		40,437		(1,473,960)		(1,473,960)
General Administrative Services	480,517		77,588		(402,929)		(402,929)
School Administrative Services	466,518				(466,518)		(466,518)
Central Services	286,048				(286,048)		(286,048)
Administrative Information Technology	22,311				(22,311)		(22,311)
Plant Operations and Maintenance	1,224,782				(1,224,782)		(1,224,782)
Pupil Transportation	540,830				(540,830)		(540,830)
Interest on Long Term Debt	287,699				(287,699)		(287,699)
Capital Outlay	37,147				(37,147)		(37,147)
<b>Total Governmental Activities</b>	<b>11,787,178</b>		<b>1,320,584</b>		<b>(10,466,594)</b>		<b>(10,466,594)</b>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012  
(Continued)

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Business-Type Activities:							
Food Service	\$ 14,348	\$ 8,326	\$ 7,771			\$ 1,749	\$ 1,749
Total Business-Type Activities	14,348	8,326	7,771			1,749	1,749
Total Primary Government	<u>\$ 11,801,526</u>	<u>\$ 8,326</u>	<u>\$ 1,328,355</u>	<u>\$ -0-</u>	<u>\$ (10,466,594)</u>	<u>\$ 1,749</u>	<u>\$ (10,464,845)</u>
General Revenue:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					9,791,813		9,791,813
Taxes Levied for Debt Service					1,770,400		1,770,400
Other Local Government Units					44,112		44,112
Federal and State Aid not Restricted					82,040		82,040
Tuition					131,577		131,577
Miscellaneous Income					53,334		53,334
Total General Revenue					11,873,276		11,873,276
Change in Net Assets					1,406,682	1,749	1,408,431
Net Assets - Beginning					6,324,195	3,977	6,328,172
Net Assets - Ending					<u>\$ 7,730,877</u>	<u>\$ 5,726</u>	<u>\$ 7,736,603</u>

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

FUND FINANCIAL STATEMENTS

**BOROUGH OF WATCHUNG SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 1,519,162		\$ 207,739		\$ 1,726,901
Receivables From Federal Government	3,414	\$ 35,339			38,753
Receivables From State Government	91,549				91,549
Other Receivables	280	8,358			8,638
Interfund Receivables	40,151				40,151
Restricted Cash and Cash Equivalents	1,458,233				1,458,233
<b>Total Assets</b>	<b>\$ 3,112,789</b>	<b>\$ 43,697</b>	<b>\$ 207,739</b>	<b>\$ -0-</b>	<b>\$ 3,364,225</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts Payable - Vendors	\$ 15,472	\$ 3,073			\$ 18,545
Interfund Payable		40,151			40,151
Deferred Revenue	2,400	473	\$ 29,158		32,031
<b>Total Liabilities</b>	<b>17,872</b>	<b>43,697</b>	<b>29,158</b>		<b>90,727</b>
<b>Fund Balances:</b>					
<b>Assigned:</b>					
Encumbrances	254,217				254,217
Assigned- Designated for Subsequent Year's Expenditures	112,094				112,094
<b>Restricted:</b>					
Capital Reserve Account	1,358,233				1,358,233
Maintenance Reserve Account	100,000				100,000
Excess Surplus Designated for Subsequent Year's Expenditures	528,364				528,364
Excess Surplus	462,382				462,382
Committed			178,581		178,581
<b>Unassigned:</b>					
General Fund	279,627				279,627
<b>Total Fund Balances</b>	<b>3,094,917</b>		<b>178,581</b>		<b>3,273,498</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,112,789</b>	<b>\$ 43,697</b>	<b>\$ 207,739</b>	<b>\$ -0-</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 \$19,230,042 and the accumulated depreciation is \$5,476,168.	13,753,874
Interest on long-term debt is not accrued in Governmental Funds, but rather is recognized as an expenditure when due.	(322,905)
Bond Issuance Costs are Reported as expenditures in the Governmental Funds. The Cost is \$95,124 and the Amortization is \$15,854.	79,270
Bond Premiums are Reported as revenue in the Governmental Funds. The Premiums are \$708,457 and the Amortization is \$118,076.	(590,381)
Long-Term Liabilities are not due and payable in the current period and therefore are not reported as liabilities in the Funds.	(8,462,479)
<b>Net Assets of Governmental Activities</b>	<b>\$ 7,730,877</b>

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUE:</b>					
<b>Local Sources:</b>					
Local Tax Levy	\$ 9,791,813			\$ 1,770,400	\$ 11,562,213
Other Local Government Units	44,112				44,112
Tuition	131,577				131,577
Miscellaneous	53,334	\$ 94,096			147,430
<b>Total - Local Sources</b>	<b>10,020,836</b>	<b>94,096</b>		<b>1,770,400</b>	<b>11,885,332</b>
State Sources	1,133,001				1,133,001
Federal Sources	22,757	152,770			175,527
<b>Total Revenue</b>	<b>11,176,594</b>	<b>246,866</b>		<b>1,770,400</b>	<b>13,193,860</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Regular Instruction	3,238,433	112,126			3,350,559
Special Education Instruction	460,708	134,740			595,448
Other Special Instruction	201,941				201,941
School Sponsored/Other Instruction	65,521				65,521
<b>Support Services and Undistributed Costs:</b>					
Tuition	359,309				359,309
Student & Instruction Related Services	1,088,293				1,088,293
General Administrative Services	400,830				400,830
School Administrative Services	321,663				321,663
Central Services	212,878				212,878
Administrative Information Technology	22,311				22,311
Plant Operations and Maintenance	1,052,290				1,052,290
Pupil Transportation	511,509				511,509
Allocated and Unallocated Benefits	2,829,434				2,829,434

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
EXPENDITURES					
Debt Service:					
Principal				\$ 1,410,000	\$ 1,410,000
Interest and Other Charges				360,400	360,400
Capital Outlay	\$ 66,736		\$ 13,553		80,289
Total Expenditures	<u>10,831,856</u>	<u>\$ 246,866</u>	<u>13,553</u>	<u>1,770,400</u>	<u>12,862,675</u>
Excess/(Deficit) of Revenue over/(under) Expenditures	344,738		(13,553)		331,185
Fund Balance—July 1	<u>2,750,179</u>		<u>192,134</u>		<u>2,942,313</u>
Fund Balance—June 30	<u>\$ 3,094,917</u>	<u>\$ - 0 -</u>	<u>\$ 178,581</u>	<u>\$ - 0 -</u>	<u>\$ 3,273,498</u>

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds (from Exhibit B-2)	\$		331,185
Amounts Reported for Governmental Activities in the Statement of Activities (Exhibit A-2) are Different Because:			
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 in the period.			
		Depreciation Expense	\$ (461,886)
		Capital outlays	43,142
			(418,744)
Repayment of debt service principal 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. (+)			1,410,000
The governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities over the life of the bonds. (-)			(15,854)
Also, the governmental funds report the effect of deferred interest costs relative to an advance refunding when debt is first issued whereas these amounts are deferred and amortized in the statement of activities. (-)			(81,222)
Finally, the governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. (+)			118,076
In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when accrued, regardless of when due. In the governmental funds, interest is reported when due. When the accrued interest exceeds the interest paid, the difference is a reduction in the reconciliation (-); when the interest paid exceeds the accrued interest, the difference is an addition to the reconciliation (+).			51,701
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 a reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+).			11,541
			11,541
Change in Net Assets of Governmental Activities (Exhibit A-2)	\$		1,406,682

Exhibit B-4

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
AS OF JUNE 30, 2012

	Business-type Activities - Enterprise Funds Food Service
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 4,193
Intergovernmental Accounts Receivable:	
Federal	1,533
Total Current Assets	5,726
Non-Current Assets:	
Capital Assets	124,047
Less: Accumulated Depreciation	(124,047)
Total Non-Current Assets	- 0 -
Total Assets	5,726
NET ASSETS:	
Unrestricted	5,726
Total Net Assets	\$ 5,726

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

Exhibit B-5

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - <u>Enterprise Funds</u> <u>Food Service</u>
Operating Revenue:	
Local Sources:	
Daily Sales - Reimbursable Programs	\$ 8,326
Total Operating Revenue	<u>8,326</u>
Operating Expenses:	
Cost of Sales	13,163
Supplies, Insurance & Other Costs	<u>1,185</u>
Total Operating Expenses	<u>14,348</u>
Operating Loss	(6,022)
Non-Operating Revenue:	
Federal Sources:	
Special Milk Program	<u>7,771</u>
Total Non-Operating Revenue	<u>7,771</u>
Change in Net Assets	1,749
Net Assets - Beginning of Year	<u>3,977</u>
Net Assets - End of Year	<u>\$ 5,726</u>

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

Exhibit B-6

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - <u>Enterprise Funds</u> <u>Food Service</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 8,326
Payments to Food Service Vendor	(13,163)
Payments to Suppliers	(1,185)
Net Cash Used for Operating Activities	<u>(6,022)</u>
Cash Flows from Noncapital Financing Activities:	
Federal Sources:	
Special Milk Program	<u>6,958</u>
Net Cash Provided by Noncapital Financing Activities	<u>6,958</u>
Net Increase in Cash and Cash Equivalents	936
Cash and Cash Equivalents, July 1	<u>3,257</u>
Cash and Cash Equivalents, June 30	<u>\$ 4,193</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	<u>\$ (6,022)</u>
Net Cash Used for Operating Activities	<u>\$ (6,022)</u>

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

Exhibit B-7

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2012

	<u>Agency</u>	<u>Flex Spending Trust</u>	<u>Unemployment Compensation Trust</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 229,674	\$ 23,692	\$ 153,995
Total Assets	<u>229,674</u>	<u>23,692</u>	<u>153,995</u>
<b>LIABILITIES:</b>			
Accrued Salaries and Wages Payable	199,131		
Due to Student Groups	28,268		
Net Payroll	39		
Payroll Deductions and Withholdings	<u>2,236</u>		
Total Liabilities	<u>229,674</u>		
<b>NET ASSETS:</b>			
Forfeiture Balance		23,692	
Held in Trust for Unemployment Claims			<u>153,995</u>
Total Net Assets	<u>\$ -0-</u>	<u>\$ 23,692</u>	<u>\$ 153,995</u>

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Flex Spending Trust</u>	<u>Unemployment Compensation Trust</u>
Additions:		
Contributions:		
Employee Contributions	\$ 64,240	\$ 8,631
Total Contributions	<u>64,240</u>	<u>8,631</u>
Investment Earnings:		
Interest	<u>19</u>	<u>175</u>
Net Investment Earnings	<u>19</u>	<u>175</u>
Total Additions	<u>64,259</u>	<u>8,806</u>
Deductions		
Unemployment Compensation Claims		33,415
Flex Spending Claims	<u>47,563</u>	
Total Deductions	<u>47,563</u>	<u>33,415</u>
Change in Net Assets	16,696	(24,609)
Net Assets - Beginning of the Year	<u>6,996</u>	<u>178,604</u>
Net Assets - End of the Year	<u>\$ 23,692</u>	<u>\$ 153,995</u>

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board of Education (the "Board") of Borough of Watchung 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.

Governmental Accounting Standards Board publication, Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of 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 one elementary and one middle school located in the Borough of Watchung. 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 government 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 nonexchange 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 with program revenues identifies the extent to which each government function or business segment is self-financing or draws from the general revenues of the District.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(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 segregates 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 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. These resources can be transferred from and to current expenses by board resolution.

Special Revenue Fund: The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than capital projects or debt service. 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 for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Basis of Presentation: (Cont'd)

The District reports the following proprietary fund:

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 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 includes the Student Activities Fund, Payroll Agency Fund, Summer Payroll, Flex Spending Trust 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.

It is the District's policy, that when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, to apply restricted resources first followed by unrestricted resources. Similarly, within unrestricted fund balance, it is the District's policy to apply committed resources first followed by assigned resources and then unassigned resources when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Measurement Focus and Basis of Accounting (Cont'd)

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.

D. Budgets/Budgetary Control:

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue and debt service funds. The budget for the fiscal year ended June 30, 2012 was submitted to the County office and was voted upon at the school election in April, 2011. 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 year. For governmental funds, there are no substantial differences between the 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 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.

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	\$ 11,202,281	\$ 246,866
Differences - Budget to GAAP:		
Prior Year State Aid Payments Recognized for GAAP Statements	3,969	
Current Year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	<u>(29,656)</u>	
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.	<u>\$ 11,176,594</u>	<u>\$ 246,866</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. Budgets/Budgetary Control: (Cont'd)

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	<u>\$ 10,831,856</u>	<u>\$ 246,866</u>
Total Expenditures as Reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	<u><u>\$ 10,831,856</u></u>	<u><u>\$ 246,866</u></u>

The Capital Projects Fund budgetary revenue differs from GAAP revenue due to a difference in the recognition of SDA grants receivable. SDA grants are recognized on a budgetary basis in full when they are awarded but are recognized on the GAAP basis as they are expended and requested for reimbursement.

	<u>Capital Projects Fund</u>
Fund Balance - (Budgetary Basis)	\$ 207,382
Reconciliation to Government Funds Statements (GAAP): SDA Grant Receivable not Recognized on a GAAP Basis	<u>(28,801)</u>
Fund Balance per Governmental Funds (GAAP)	<u><u>\$ 178,581</u></u>

E. Cash and Cash Equivalents:

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

New Jersey school districts are limited as to the type 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 a pledged, plus the collateral of all the other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

F. Interfund Transactions:

Transfers between governmental and business-type activities on the District-wide statements are reported in the same manner as general revenues. 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 non-operating revenues/expenses in the enterprise fund. 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, 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, 2012.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 including ancillary charges necessary to place the asset into service. 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.

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:

	<u>Estimated Useful Life</u>
Buildings	50 years
Site Improvements	20 years
Furniture and Equipment	10 to 15 years
Computer and Related Technology	5 years
Vehicles	8 years

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 government-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. Bond 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 premiums as revenue and 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.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

M. Accrued Salaries and Wages:

Certain District employees, who provide services to the District over the ten-month academic year, have the option to have their salaries evenly disbursed during the entire twelve month year. New Jersey statutes require that these earned but undisbursed amounts be retained in a separate bank account. As of June 30, 2012, the amount earned by these employees but not yet disbursed was \$199,131.

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 (GASB 16), *Accounting for Compensated Absences*. A liability for compensated absences attributable to services already rendered and not contingent in 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 personnel policy. Upon termination, employees are paid for accrued vacation. The District permits certain 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.

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 in more than one year.

O. Deferred Revenue:

Deferred revenue in the special revenue fund represents cash which has been received but not yet earned. See Note 1(D) regarding the special revenue fund.

P. Fund Balance Appropriated:

General Fund: Of the \$3,094,917 General Fund fund balance at June 30, 2012, \$254,217 is assigned for encumbrances; \$112,094 is assigned as designated for subsequent year's expenditures; \$100,000 is restricted in the maintenance reserve account; \$1,358,233 is restricted in the capital reserve account; \$528,364 is restricted as prior year excess surplus and has been appropriated and included as anticipated revenue for the fiscal year ended June 30, 2013; \$462,382 is restricted for current year excess surplus in accordance with N.J.S.A.18A:7F-7 (S1701) and will be appropriated and included as anticipated revenue for the fiscal year ended June 30, 2014; and there is \$279,627 in unassigned fund balance, which is \$29,656 less than the calculated maximum fund balance, on a GAAP basis, due to the final two state aid payments, which are not recognized until the fiscal year ended June 30, 2013.

Capital Projects Fund: The Capital Projects fund balance at June 30, 2012 of \$178,581 is committed.

**BOROUGH OF WATCHUNG SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
(Continued)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**P. Fund Balance Appropriated: (Con't)**

**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 Restricted 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 restrict 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 has excess surplus as noted on the prior page.

Unassigned fund balance in the General Fund is less on a GAAP basis than budgetary basis in the amount of \$29,656 as of June 30, 2012 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 last 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 state aid payments in the subsequent fiscal year, the school district cannot recognize these last 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 has a deficit in unrestricted net assets from governmental activities in the amount of \$341,668. This is primarily due to the accrual of compensated absences of \$153,590, accrued interest of \$322,905, unamortized bond issuance costs of \$79,270 and unamortized bond premiums of \$590,381 offset by General Fund assigned and unassigned General Fund fund balance of \$2,627,560.

This does not mean that the District is facing financial difficulties and is a permitted practice by generally accepted accounting principles.

**R. Fund Balance Restrictions, Commitments and Assignments:**

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the prior fiscal year. The objective of this standard is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions (as detailed in Note 1B). This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined for a formal action of the District's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classifications should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts has been restricted, committed or assigned.

Fund balance restrictions have been established for a capital reserve, a maintenance reserve, excess surplus and Capital Projects Fund.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

R. Fund Balance Restrictions, Commitments and Assignments (Cont'd)

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 at June 30, 2012 in Capital Projects Fund of \$178,581.

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 year-end encumbrances and funds designated for subsequent year's expenditures at June 30, 2012 in the General Fund.

S. Net Assets:

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist 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.

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 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 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.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

U. Operating Revenue and Expenses:

Operating revenue are those revenues that are generated directly from the primary activity of the Enterprise Fund. For the School District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Enterprise Fund.

V. Management Estimates:

The preparation of financial statements in conformity with GAAP 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 include petty cash, change funds, amounts in deposits, and short-term investments with original maturities of three months or less.

Investments are stated at 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.

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:

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont'd)

The market value of the collateral must equal at least 5% 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;
  - (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.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont'd)

As of June 30, 2012, cash and cash equivalents and investments of the District consisted of the following:

	<u>Cash and Cash Equivalents</u>	<u>Capital Reserve Account</u>	<u>Maintenance Reserve Account</u>	<u>Total</u>
Checking Accounts	\$ 2,129,276	\$ 1,358,233	\$ 100,000	\$ 3,587,509
New Jersey Cash Management Fund	9,179			9,179
	<u>\$ 2,138,455</u>	<u>\$ 1,358,233</u>	<u>\$ 100,000</u>	<u>\$ 3,596,688</u>

During the period ended June 30, 2012, the District did not hold any investments. The carrying amount of the Board's cash and cash equivalents and investments at June 30, 2012, was \$3,596,688 and the bank balance was \$3,908,923. The \$9,179 in the New Jersey Cash Management Fund is uninsured and unregistered.

NOTE 4. CAPITAL RESERVE ACCOUNT

A capital reserve account in the amount of \$15,000 was established by Board resolution on October 15, 2000 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 department, 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 (June 1 to June 30) of any unanticipated revenue or unexpended line item appropriations 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-14.1(g), 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, 2011 to June 30, 2012 fiscal year is as follows:

Beginning Balance, July 1, 2011	\$ 908,233
Transferred by Board Resolution June 26, 2012	450,000
Ending Balance, June 30, 2012	<u>\$ 1,358,233</u>

The balance in the capital reserve account at June 30, 2012 did not exceed the balance of local support costs of uncompleted capital projects in the District's approved Long Range Facilities Plan.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
 (Continued)

NOTE 5. MAINTENANCE RESERVE ACCOUNT

A maintenance reserve account in the amount of \$100,000 was established by the Borough of Watchung School District during the year ended June 30, 2010. The funds for the establishment of this reserve were withdrawn from assigned general fund balance. These funds may be used for specific activities necessary for the purpose of keeping a school facility open and safe for use or in its original condition, and for keeping its constituent buildings systems fully and efficiently functional and for keeping their warranties valid but cannot be used for routine or capital maintenance. The purpose of the reserve is to provide funds for anticipated expenditures required to maintain a building.

Pursuant to N.J.A.C. 6A:26A-4.2 funds may be deposited into the maintenance reserve account at any time by board resolution to meet the required maintenance of the district by transferring assigned general fund balance of by transferring excess, assigned general fund balance that is anticipated to be deposited during the current year in the advertised recapitulation of balances of the subsequent year's budget that is certified for taxes. Funds may be withdrawn from the maintenance reserve account and appropriated into the required maintenance account lines at budget time or any time during the year by board resolution for use on required maintenance activities by school facility as reported in the comprehensive maintenance plan. Funds withdrawn from the maintenance reserve account are restricted to required maintenance appropriations and may not be transferred to any other line-item account. In any year that maintenance reserve account funds are withdrawn, unexpended required maintenance appropriations, up to the amount of maintenance reserve account funds withdrawn, shall be restored to the maintenance reserve account at year-end. At no time, shall the maintenance reserve account have a balance that exceeds four percent of the replacement cost of the current year of the district's school facilities. If the account exceeds this maximum amount at June 30, the excess shall be restricted and designated in the subsequent year's budget. The maintenance reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

The activity of the maintenance reserve for the July 1, 2011 to June 30, 2012 fiscal year is as follows:

Balance July 1, 2011	<u>\$ 100,000</u>
Balance June 30, 2012	<u><u>\$ 100,000</u></u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(Continued)

NOTE 6. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2012 were as follows:

	Beginning Balance Restated	Increases	Decreases/ Adjustments	Ending Balance
Governmental Activities:				
Capital Assets not Being Depreciated:				
Sites (Land)	\$ 411,364			\$ 411,364
Construction in Progress	310,645	\$ 13,553		324,198
Total Capital Assets Not Being Depreciated	<u>722,009</u>	<u>13,553</u>		<u>735,562</u>
Capital Assets Being Depreciated:				
Buildings and Building Improvements	17,752,664			17,752,664
Machinery and Equipment	712,227	29,589		741,816
Total Capital Assets Being Depreciated	<u>18,464,891</u>	<u>29,589</u>		<u>18,494,480</u>
Governmental Activities Capital Assets	<u>19,186,900</u>	<u>43,142</u>		<u>19,230,042</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	(4,582,829)	(394,942)		(4,977,771)
Machinery and Equipment	(431,453)	(66,944)		(498,397)
	<u>(5,014,282)</u>	<u>(461,886)</u>		<u>(5,476,168)</u>
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 14,172,618</u>	<u>\$ (418,744)</u>	<u>\$ - 0 -</u>	<u>\$ 13,753,874</u>
Business Type Activities:				
Capital Assets Being Depreciated:				
Machinery and Equipment	\$ 124,047			\$ 124,047
Less Accumulated Depreciation	(124,047)			(124,047)
Business Type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

The District has ongoing construction projects totaling \$24,386,355. These projects are for the referendum approved by the voters in September 2001 and two separate projects authorized in 2009-2010. As of June 30, 2012, the District has \$5,358 in encumbrances outstanding.

Depreciation expense was charged to governmental functions as follows:

Regular Instruction	\$ 369,508
Special Education	55,426
Student and Other Instruction Related Services	23,094
General and School Administrative Services	9,239
Operations and Maintenance of Plant	<u>4,619</u>
	<u>\$ 461,886</u>

NOTE 7: TRANSFERS TO CAPITAL OUTLAY

During the year ended June 30, 2012, the District transferred funds of \$13,567 to the capital outlay accounts for equipment which did not require approval from the County Superintendent. There was an additional amount of \$91,214 which received the required approval from the County Superintendent.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 8. LONG-TERM LIABILITIES

During the fiscal year ended June 30, 2012, the following changes occurred in liabilities reported in the District-wide financial statements:

	<u>Beginning Balance</u>	<u>Accrued</u>	<u>Retired</u>	<u>Ending Balance</u>
Serial Bonds Payable	\$ 10,125,000		\$ 1,410,000	\$ 8,715,000
Less: Deferred Amount on Refunding	(487,333)		(81,222)	(406,111)
Net Serial Bonds Payable	<u>9,637,667</u>		<u>1,328,778</u>	<u>8,308,889</u>
Compensated Absences Payable	<u>165,130</u>	\$ <u>1,093</u>	<u>12,633</u>	<u>153,590</u>
	<u>\$ 9,802,797</u>	\$ <u>1,093</u>	\$ <u>1,341,411</u>	\$ <u>8,462,479</u>

A. Bonds Payable:

Bonds are authorized in accordance with State law by the voters of the municipality through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Board will be liquidated through the Debt Service Fund. Bonds payable at June 30, 2012 are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Final Date of Maturity</u>	<u>Balance 6/30/2012</u>
School Refunding Bonds	8/13/2009	2.00%-4.00%	12/15/2016	<u>8,715,000</u>
				<u>\$ 8,715,000</u>

Principal and interest due on serial bonds outstanding are as follows:

<u>Fiscal Year Ended</u>	<u>Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,500,000	\$ 317,200	\$ 1,817,200
2014	1,595,000	270,300	1,865,300
2015	1,730,000	204,688	1,934,688
2016	1,875,000	124,100	1,999,100
2017	<u>2,015,000</u>	<u>38,613</u>	<u>2,053,613</u>
	<u>\$ 8,715,000</u>	\$ <u>954,901</u>	\$ <u>9,669,901</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 8. LONG-TERM LIABILITIES (Cont'd)

A. Bonds Payable (Cont'd)

On August 13, 2009, the Watchung Borough School District issued \$8,770,000 refunding bonds with interest rates ranging from 2.00% to 4.50% to advance refund \$8,938,000 school bonds with interest rates of 3.875% to 4.375%. The refunding bonds mature on December 15, 2009 through 2016. The net proceeds from the issuance of the refunding 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 December 15, 2012 through 2016. The advance refunding met the requirements of an in-substance debt defeasance and the school bonds were removed from the District's financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$398,996, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$369,791.

B. Bonds Authorized But Not Issued:

As of June 30, 2012, the Board had bonds authorized but not issued in the amount of \$355.

C. Capital Leases Payable:

As of June 30, 2012, the District had no capital leases payable.

D. Compensated Absences

The liability for compensated absences of the governmental fund types is recorded in the current and long-term liabilities. The long-term liability balance for compensated absences is \$153,590. There is no current portion of compensated absences payable. This compensated absences payable will be liquidated through the General Fund.

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, 2012, no liability existed for compensated absences in the Food Service Fund.

NOTE 9. 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; or the Defined Contribution Retirement Program (DCRP). The TPAF and the PERS 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. Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. As a general rule, all full-time employees are eligible to join the TPAF or the PERS. However, if an employee is ineligible to enroll in the TPAF or the PERS, the employee may be eligible to enroll in the DCRP.

Employees who are members of TPAF or PERS and retire at a specified age 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 creditable service. Vesting occurs after 8 to 10 years of service.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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. Effective with the first payroll to be paid on or after October 1, 2011 the employee contributions for PERS and TPAF went from 5.5% to 6.50% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in the PERS and TPAF. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined.

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. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

District contributions to PERS amounted to \$131,924, \$135,703 and \$97,870 for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

District and employee contributions to DCRP amounted to \$6,110, \$-0- and \$-0- for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

During the fiscal years ended June 30, 2012, 2011 and 2010 the State of New Jersey contributed \$146,253, \$-0- and \$-0-, respectively, to the TPAF for pension benefits on-behalf of the District.

NOTE 10. POST-RETIREMENT BENEFITS

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required TPAF and PERS, 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 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, 2011, there were 93,323 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 attributable to Chapter 126, P.L. 1992, 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. In fiscal year 2012, the State paid \$144 million toward Chapter 126 benefits for 15,709 eligible retired members.

The State's on behalf Post Retirement Medical Contributions to TPAF for the District amounted to \$294,006, \$309,508 and \$276,320 for 2012, 2011 and 2010, respectively.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 11. 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. Health benefits are provided through Horizon Blue Cross/Blue Shield.

Property and Liability Insurance

The Borough of Watchung School District is a member of the Diploma Joint Insurance Fund (the "Fund"). This public entity risk management pool provides general liability, property and automobile coverage and workers' compensation for its members. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report. 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.

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.

The financial information for Fund year ended June 30, 2012 is not available. Selected, summarized financial information for the Fund as of June 30, 2011 is as follows:

	<u>Diploma Joint Insurance Fund</u>
Total Assets	<u>\$ 10,580,120</u>
Net Assets	<u>\$ 4,666,353</u>
Total Revenue	<u>\$ 5,198,000</u>
Total Expenses	<u>\$ 3,962,510</u>
Change in Net Assets	<u>\$ 1,256,088</u>
Net Assets Distribution to Participating Members	<u>\$ -0-</u>

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

Public Entity Group Administrative Services  
51 Everett Drive  
Suite B-40  
West Windsor, NJ 08550

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 11. RISK MANAGEMENT (Cont'd)

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's contributions, employee contributions and interest earned, reimbursements to the State for benefits paid and the ending balance of the District's Unemployment Trust Fiduciary Fund for the current and previous two years:

<u>Fiscal Year</u>	<u>District Contributions</u>	<u>Employee Contributions and Interest</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2012		\$ 8,806	\$ 33,415	\$ 153,995
2011	\$ 231,000	9,316	92,871	178,604
2010	45,000	10,532	34,387	31,159

NOTE 12. INTERFUND RECEIVABLES AND PAYABLES

The following interfund balances existed as of June 30, 2012:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 40,151	
Special Revenue Fund		\$ 40,151
	<u>\$ 40,151</u>	<u>\$ 40,151</u>

The interfund between the General Fund and the Special Revenue Fund represents grant monies expended but not yet received as of June 30, 2012.

NOTE 13. ECONOMIC DEPENDENCY

The Board of Education receives a substantial amount of its 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. 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, permit 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 are as follows:

AIG (V.A.L.I.C.)  
AXA Equitable Life Assurance  
Metropolitan Life Insurance Company  
Lincoln Investment Planning, Inc.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
 (Continued)

NOTE 15. CONTINGENT LIABILITIES

Grant Programs

The school district participates in state and federally 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 estimates that the potential claims against it resulting from litigation not covered by insurance would not materially affect the financial statements of the District.

Encumbrances

At June 30, 2012, there were encumbrances in the governmental funds of \$254,217 in the general fund and \$5,358 in the capital projects fund.

NOTE 16. 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 constituent municipality and are remitted to the local school District on a predetermined mutually agreed-upon schedule.

NOTE 17. PRIOR YEAR ADJUSTMENT

The District adjusted the capital assets in their governmental activities as of June 30, 2011 to reflect the value of Construction in Progress which was calculated in error. This adjustment had a net effect on total capital assets.

Balance 6/30/11 as Previously Reported	Retroactive Adjustments	Balance 6/30/11 as Restated
--	----------------------------	--------------------------------

Statement of Net Assets - Governmental Activities:

Assets:

Capital Assets not Being Depreciated:

Construction in Progress	\$ 9,194,790	\$ (8,884,145)	\$ 310,645
--------------------------	--------------	----------------	------------

BUDGETARY COMPARISON SCHEDULES

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>REVENUES:</b>					
<b>Local Sources:</b>					
Local Tax Levy	\$ 9,791,813		\$ 9,791,813	\$ 9,791,813	
Tuition	25,503	\$ 100,000	125,503	131,577	\$ 6,074
Other Local Government Units				44,112	44,112
Interest Earned on Capital Reserve Funds	1,000	(1,000)			
Interest Earned on Investments				7,931	7,931
Miscellaneous	5,000	1,000	6,000	45,403	39,403
<b>Total - Local Sources</b>	<u>9,823,316</u>	<u>100,000</u>	<u>9,923,316</u>	<u>10,020,836</u>	<u>97,520</u>
<b>State Sources:</b>					
Special Education Aid	218,124		218,124	330,218	112,094
Extraordinary Aid				53,889	53,889
Nonpublic Transportation Aid				5,394	5,394
TPAF Pension Contributions (On-Behalf - Non-Budgeted)				146,253	146,253
TPAF Post Retirement Contributions (On-Behalf - Non-Budgeted)				294,006	294,006
TPAF Social Security (Reimbursed - Non-Budgeted)				328,928	328,928
<b>Total State Sources</b>	<u>218,124</u>		<u>218,124</u>	<u>1,158,688</u>	<u>940,564</u>
<b>Federal Sources:</b>					
Education Jobs Fund	22,066	691	22,757	22,757	
<b>Total Federal Sources</b>	<u>22,066</u>	<u>691</u>	<u>22,757</u>	<u>22,757</u>	
<b>TOTAL REVENUES</b>	<u>10,063,506</u>	<u>100,691</u>	<u>10,164,197</u>	<u>11,202,281</u>	<u>1,038,084</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
Regular Programs - Instruction:					
Preschool - Salaries of Teachers		\$ 32,000	\$ 32,000	\$ 31,854	\$ 146
Kindergarten - Salaries of Teachers	\$ 167,782		167,782	158,790	8,992
Grades 1-5 - Salaries of Teachers	1,521,845	(5,449)	1,516,396	1,471,240	45,156
Grades 6-8 - Salaries of Teachers	1,279,762		1,279,762	1,266,983	12,779
Regular Programs - Home Instruction:					
Salaries of Teachers	2,000		2,000	735	1,265
Purchased Professional - Educational Services	2,700		2,700		2,700
Regular Programs - Undistributed Instruction:					
Other Salaries of Instruction		47,360	47,360	39,639	7,721
Purchased Professional - Educational Services	1,000	7,880	8,880	6,534	2,346
Purchased Technical Services	5,000	(2,000)	3,000		3,000
Other Purchased Services (400-500 series)	59,047		59,047	47,572	11,475
General Supplies	175,712	35,459	211,171	175,763	35,408
Textbooks	50,270	(17,606)	32,664	32,566	98
Other Objects	5,785	973	6,758	6,757	1
<b>Total Regular Programs - Instruction</b>	<b>3,270,903</b>	<b>98,617</b>	<b>3,369,520</b>	<b>3,238,433</b>	<b>131,087</b>
Multiple Disabilities:					
Salaries of Teachers	62,650	1,300	63,950	63,837	113
Other Salaries for Instruction	26,420	(1,300)	25,120	19,759	5,361
General Supplies	4,745		4,745	1,424	3,321
<b>Total Multiple Disabilities</b>	<b>93,815</b>		<b>93,815</b>	<b>85,020</b>	<b>8,795</b>
Resource Room/Resource Center:					
Salaries of Teachers	367,066	7,500	374,566	372,491	2,075
General Supplies	4,000		4,000	3,197	803
<b>Total Resource Room/Resource Center</b>	<b>371,066</b>	<b>7,500</b>	<b>378,566</b>	<b>375,688</b>	<b>2,878</b>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Preschool Disabilities - Part - Time:					
Salaries of Teachers		\$ 10,618	\$ 10,618		\$ 10,618
<b>Total Preschool Disabilities - Part - Time</b>		<b>10,618</b>	<b>10,618</b>		<b>10,618</b>
<b>Total Special Education Instruction</b>	<b>\$ 464,881</b>	<b>18,118</b>	<b>482,999</b>	<b>\$ 460,708</b>	<b>22,291</b>
Basic Skills/Remedial - Instruction:					
Salaries of Teachers	189,350		189,350	183,800	5,550
General Supplies	500		500	500	
<b>Total Basic Skills/Remedial - Instruction</b>	<b>189,850</b>		<b>189,850</b>	<b>184,300</b>	<b>5,550</b>
Bilingual Education - Instruction:					
Salaries of Teachers	17,391		17,391	17,391	
General Supplies	250		250	250	
<b>Total Bilingual Education - Instruction</b>	<b>17,641</b>		<b>17,641</b>	<b>17,641</b>	
School-Sponsored Cocurricular Activities - Instruction:					
Salaries	26,678		26,678	25,168	1,510
Supplies and Materials	2,100	2,000	4,100	3,971	129
<b>Total School-Sponsored Cocurricular Activities - Instruction</b>	<b>28,778</b>	<b>2,000</b>	<b>30,778</b>	<b>29,139</b>	<b>1,639</b>
School-Sponsored Cocurricular Athletics - Instruction:					
Salaries	16,000	10,000	26,000	22,416	3,584
Purchased Services (300-500 series)	5,000		5,000	5,000	
Supplies and Materials	6,525		6,525	4,966	1,559
Other Objects	500		500		500
<b>Total School-Sponsored Cocurricular Athletics - Instruction</b>	<b>28,025</b>	<b>10,000</b>	<b>38,025</b>	<b>32,382</b>	<b>5,643</b>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
Community Services Programs/Operations:					
Other Objects	\$ 4,000		\$ 4,000	\$ 4,000	
Total Community Services Programs/Operations	4,000		4,000	4,000	
Total Instruction	4,004,078	\$ 128,735	4,132,813	3,966,603	\$ 166,210
Undistributed Expenditures:					
Instruction:					
Tuition to Other LEAs Within the State - Special	164,331	30,000	194,331	186,010	8,321
Tuition to Private Schools for the Handicapped - Within State	271,378	(70,480)	200,898	173,299	27,599
Total Undistributed Expenditures - Instruction	435,709	(40,480)	395,229	359,309	35,920
Health Services:					
Salaries	119,640	1,000	120,640	119,032	1,608
Purchased Professional and Technical Services	3,500		3,500	2,625	875
Other Purchased Services (400-500 series)	500		500		500
Supplies and Materials	3,500		3,500	3,058	442
Other Objects	650		650	170	480
Total Health Services	127,790	1,000	128,790	124,885	3,905
Other Support Services - Students - Related Services:					
Salaries	52,172	17,390	69,562	69,562	
Purchased Professional - Educational Services	130,932	(17,390)	113,542	90,567	22,975
Supplies and Materials	750		750	654	96
Other Objects	100		100		100
Total Other Support Services - Students - Related Services	183,954		183,954	160,783	23,171

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Other Support Services - Students - Extra Services:					
Salaries	\$ 250,169		\$ 250,169	\$ 239,569	\$ 10,600
Total Other Support Services - Students - Extra Services	<u>250,169</u>		<u>250,169</u>	<u>239,569</u>	<u>10,600</u>
Other Support Services - Students - Guidance:					
Salaries of Other Professional Staff	133,250		133,250	133,250	
Salaries of Secretarial and Clerical Assistants	21,515		21,515	21,515	
Supplies and Materials	1,000		1,000	304	696
Total Other Support Services - Students - Guidance	<u>155,765</u>		<u>155,765</u>	<u>155,069</u>	<u>696</u>
Other Support Services - Students - Child Study Teams:					
Salaries of Other Professional Staff	206,152	\$ (15,500)	190,652	157,554	33,098
Salaries of Secretarial and Clerical Assistants	22,784		22,784	22,733	51
Misc. Pur. Serv. (400-500 series) Other Than Residential Costs	4,669		4,669	263	4,406
Supplies and Materials	2,250	5,000	7,250	5,508	1,742
Other Objects	10,000		10,000	7,367	2,633
Total Other Support Services - Students - Special Services	<u>245,855</u>	<u>(10,500)</u>	<u>235,355</u>	<u>193,425</u>	<u>41,930</u>
Improvement of Instructional Services:					
Salaries of Other Professional Staff	41,872		41,872	41,871	1
Other Salaries	8,000		8,000	1,785	6,215
Other Purchased Services (400-500)		2,060	2,060	2,060	
Supplies and Materials	2,960	(2,060)	900		900
Total Improvement of Instructional Services	<u>52,832</u>		<u>52,832</u>	<u>45,716</u>	<u>7,116</u>

**BOROUGH OF WATCHUNG SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**  
**(UNAUDITED)**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Educational Media Services/School Library:					
Salaries	\$ 86,775	\$ 41,872	\$ 128,647	\$ 128,647	
Salaries of Technology Coordinators	41,872	(41,872)			
Purchased Professional and Technical Services	4,110	(300)	3,810	3,560	\$ 250
Other Purchased Services (400-500)	2,000	548	2,548	2,092	456
Supplies and Materials	17,091	(748)	16,343	13,940	2,403
Other Objects	400	200	600	305	295
<b>Total Educational Media Services/School Library</b>	<b>152,248</b>	<b>(300)</b>	<b>151,948</b>	<b>148,544</b>	<b>3,404</b>
Instructional Staff Training Services:					
Other Salaries	1,100	187	1,287	737	550
Purchased Professional - Educational Services		18,100	18,100	17,651	449
Purchased Professional and Technical Services		800	800	800	
Other Purchased Services (400-500 series)	2,707		2,707	46	2,661
Other Objects	7,106	(2,787)	4,319	1,068	3,251
<b>Total Instructional Staff Training Services</b>	<b>10,913</b>	<b>16,300</b>	<b>27,213</b>	<b>20,302</b>	<b>6,911</b>
Support Services - General Administration:					
Salaries	220,980	5,000	225,980	225,820	160
Legal Services	18,650		18,650	6,090	12,560
Audit Fees	13,500		13,500	12,250	1,250
Architectural/Engineering Services		58,405	58,405	37,037	21,368
Other Purchased Professional Services	29,457	(9,405)	20,052	18,108	1,944
Purchased Technical Services	8,608		8,608	7,116	1,492
Communications/Telephone	81,630	(12,000)	69,630	68,419	1,211
Miscellaneous Purchased Services (400-500 series)	12,587	1,145	13,732	10,885	2,847
General Supplies	9,029	(2,000)	7,029	3,406	3,623
BOE Membership Dues and Fees	18,010		18,010	11,699	6,311
<b>Total Support Services - General Administration</b>	<b>412,451</b>	<b>41,145</b>	<b>453,596</b>	<b>400,830</b>	<b>52,766</b>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Support Services - School Administration:					
Salaries of Principals/Assistant Principals	\$ 218,859	\$ 9,303	\$ 228,162	\$ 228,162	
Salaries of Secretarial and Clerical Assistants	77,241	1,211	78,452	78,277	\$ 175
Purchased Professional and Technical Services	9,000		9,000	7,365	1,635
Other Purchased Services (400-500 series)	1,380		1,380	221	1,159
Supplies and Materials	6,400	10,000	16,400	6,090	10,310
Other Objects	4,000		4,000	1,548	2,452
<b>Total Support Services - School Administration</b>	<b>316,880</b>	<b>20,514</b>	<b>337,394</b>	<b>321,663</b>	<b>15,731</b>
Support Services - Central Services:					
Salaries	202,443	7,700	210,143	210,113	30
Miscellaneous Purchased Services (400-500 series)	1,600		1,600	258	1,342
Supplies and Materials	1,868	6,310	8,178	1,147	7,031
Miscellaneous Expenditures	2,000		2,000	1,360	640
<b>Total Support Services - Central Services</b>	<b>207,911</b>	<b>14,010</b>	<b>221,921</b>	<b>212,878</b>	<b>9,043</b>
Support Services - Administration Information Technology:					
Purchased Professional Services	16,326	5,990	22,316	22,311	5
<b>Total Support Services - Administration Information Technology</b>	<b>16,326</b>	<b>5,990</b>	<b>22,316</b>	<b>22,311</b>	<b>5</b>
Required Maintenance of School Facilities:					
Cleaning, Repair and Maintenance Services	151,543	72,000	223,543	164,947	58,596
General Supplies	23,067	10,000	33,067	27,838	5,229
<b>Total Required Maintenance of School Facilities</b>	<b>174,610</b>	<b>82,000</b>	<b>256,610</b>	<b>192,785</b>	<b>63,825</b>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Custodial Services:					
Salaries	\$ 503,307	\$ 947	\$ 504,254	\$ 476,687	\$ 27,567
Purchased Professional and Technical Services	8,505		8,505	4,550	3,955
Cleaning, Repair and Maintenance Services	24,225		24,225	16,942	7,283
Other Purchased Property Services	10,482		10,482	9,992	490
Insurance	83,429	(11,000)	72,429	71,955	474
Miscellaneous Purchased Services	850		850	61	789
General Supplies	55,863		55,863	42,685	13,178
Energy (Electricity)	282,012	(46,578)	235,434	158,151	77,283
Other Objects	1,050	1,700	2,750	2,289	461
Energy (Natural Gas)	226,220	(109,699)	116,521	66,470	50,051
<b>Total Custodial Services</b>	<b>1,195,943</b>	<b>(164,630)</b>	<b>1,031,313</b>	<b>849,782</b>	<b>181,531</b>
Care and Upkeep of Grounds:					
Salaries	7,847		7,847	7,846	1
General Supplies	2,000		2,000	1,877	123
<b>Total Care and Upkeep of Grounds</b>	<b>9,847</b>		<b>9,847</b>	<b>9,723</b>	<b>124</b>
Student Transportation Services:					
Salaries of Non-Instructional Aides	11,575		11,575	9,426	2,149
Salaries for Transportation - Between Home & School - Special	73,210		73,210	70,041	3,169
Salaries for Pupil Trans. (Other than Between Home & School)	3,000		3,000	296	2,704
Salaries for Pupil Trans. (Between Home & School) - NonPublic	5,500		5,500	917	4,583
Management Fee - ESCs & CTSA's Transportation Program	8,000		8,000		8,000
Cleaning, Repair and Maintenance Services	5,000		5,000	4,011	989
Contracted Services:					
Between Home and School - Vendors	278,166		278,166	274,194	3,972
Other Than Between Home and School - Vendors	12,000		12,000	11,844	156
Between Home and School - Joint Agreements	38,035		38,035	35,634	2,401
Special Education Students - Vendors	52,000		52,000	51,990	10
Special Education Students - ESCs & CTSA's	93,759	(3,000)	90,759	12,529	78,230
Aid in Lieu of Payments - NonPublic	43,385		43,385	30,026	13,359
Miscellaneous Purchased Services - Transportation	1,840		1,840		1,840
Supplies and Materials	8,909	1,000	9,909	9,885	24
Other Objects	400	2,000	2,400	716	1,684
<b>Total Student Transportation Services</b>	<b>634,779</b>		<b>634,779</b>	<b>511,509</b>	<b>123,270</b>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
<b>Unallocated Benefits:</b>					
Social Security Contributions	\$ 151,250		\$ 151,250	\$ 130,164	\$ 21,086
Other Retirement Contributions- PERS	150,000	\$ (3,000)	147,000	131,924	15,076
Unemployment Compensation	140,000	(105,214)	34,786		34,786
Workmen's Compensation	54,822		54,822	51,618	3,204
Health Benefits	1,713,893	10,340	1,724,233	1,688,908	35,325
Tuition Reimbursement	20,000		20,000	19,839	161
Other Employee Benefits	44,600		44,600	37,794	6,806
<b>Total Unallocated Benefits</b>	<u>2,274,565</u>	<u>(97,874)</u>	<u>2,176,691</u>	<u>2,060,247</u>	<u>116,444</u>
<b>On-Behalf Contributions:</b>					
TPAF Pension Contributions (On-Behalf - Non-Budgeted)				146,253	(146,253)
TPAF Post Retirement Contributions (On-Behalf - Non-Budgeted)				294,006	(294,006)
TPAF Social Security (Reimbursed - Non-Budgeted)				328,928	(328,928)
<b>Total On-Behalf Contributions</b>				<u>769,187</u>	<u>(769,187)</u>
<b>Total Personal Services - Employee Benefits</b>	<u>2,274,565</u>	<u>(97,874)</u>	<u>2,176,691</u>	<u>2,829,434</u>	<u>(652,743)</u>
<b>Total Undistributed Expenses</b>	<u>6,858,547</u>	<u>(132,825)</u>	<u>6,725,722</u>	<u>6,798,517</u>	<u>(72,795)</u>
<b>TOTAL CURRENT EXPENSE</b>	<u>10,862,625</u>	<u>(4,090)</u>	<u>10,858,535</u>	<u>10,765,120</u>	<u>93,415</u>
<b>CAPITAL OUTLAY</b>					
<b>Equipment:</b>					
Instruction - Grades 1-5		6,267	6,267	6,139	128
<b>Undistributed Expenditures:</b>					
General Administration	20,911		20,911	20,911	
School Administration		7,300	7,300	2,534	4,766
Required Maintenance for School Facilities	3,500		3,500	3,500	
<b>Total Equipment</b>	<u>24,411</u>	<u>13,567</u>	<u>37,978</u>	<u>33,084</u>	<u>4,894</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>EXPENDITURES:</b>					
Facilities Acquisition and Construction Services:					
Other Purchased Professional and Technical Services		\$ 11,474	\$ 11,474		\$ 11,474
Construction Services		79,740	79,740		79,740
Other Objects	\$ 33,652	1,000	34,652	\$ 33,652	1,000
Capital Outlay - Transfer to Capital Reserve	1,000	(1,000)			
Total Facilities Acquisition and Construction Services	34,652	91,214	125,866	33,652	92,214
<b>TOTAL CAPITAL OUTLAY</b>	<u>59,063</u>	<u>104,781</u>	<u>163,844</u>	<u>66,736</u>	<u>97,108</u>
<b>TOTAL EXPENDITURES</b>	<u>10,921,688</u>	<u>100,691</u>	<u>11,022,379</u>	<u>10,831,856</u>	<u>190,523</u>
Excess (Deficiency) of Revenues Over/(Under) Expenditures	(858,182)		(858,182)	370,425	1,228,607
Fund Balance, July 1	<u>2,754,148</u>		<u>2,754,148</u>	<u>2,754,148</u>	
Fund Balance, June 30	<u>\$ 1,895,966</u>	<u>\$ -0-</u>	<u>\$ 1,895,966</u>	<u>\$ 3,124,573</u>	<u>\$ 1,228,607</u>
 <u>Recapitulation:</u>					
Assigned:					
Year End Encumbrances				\$ 254,217	
Assigned- Designated for Subsequent Year's Expenditures				112,094	
Restricted:					
Excess Surplus				462,382	
Excess Surplus - Designated for Subsequent Year's Expenditures				528,364	
Capital Reserve				1,358,233	
Maintenance Reserve				100,000	
Unassigned				309,283	
				<u>3,124,573</u>	
Reconciliation to Governmental Funds Statements (GAAP):					
Last Two State Aid Payments not Recognized on GAAP Basis				(29,656)	
<b>Fund Balance per Governmental Funds (GAAP)</b>				<u>\$ 3,094,917</u>	

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(AUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>REVENUES:</b>					
Federal Sources	\$ 152,770		\$ 152,770	\$ 152,770	
Local Sources	94,569	\$ (473)	94,096	94,096	
Total Revenues	<u>247,339</u>	<u>(473)</u>	<u>246,866</u>	<u>246,866</u>	
<b>EXPENDITURES:</b>					
Instruction:					
Salaries of Teachers	134,740	(118,047)	16,693	16,693	
Other Salaries for Instruction		7,442	7,442	7,442	
Tuition		6,767	6,767	6,767	
Other Purchased Services	17,525	(6,215)	11,310	11,310	
General Supplies	95,074	(18,053)	77,021	77,021	
Total Instruction	<u>247,339</u>	<u>(128,106)</u>	<u>119,233</u>	<u>119,233</u>	
Support Services:					
Salaries of Other Professional Staff		102,713	102,713	102,713	
Personal Services - Employee Benefits		20,516	20,516	20,516	
Purchased Professional and Technical Services		1,858	1,858	1,858	
Other Purchased Services		2,041	2,041	2,041	
Total Support Services		<u>127,128</u>	<u>127,128</u>	<u>127,128</u>	
Facilities Acquisition and Construction Services:					
Construction Services		505	505	505	
Total Facilities Acquisition and Construction Services		<u>505</u>	<u>505</u>	<u>505</u>	
Total Expenditures	<u>\$ 247,339</u>	<u>\$ (473)</u>	<u>\$ 246,866</u>	<u>\$ 246,866</u>	<u>\$ -0-</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
NOTE TO RSI  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues 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	\$ 11,202,281	\$ 246,866
Differences - Budget to GAAP:		
Prior Year State Aid Payments Recognized for GAAP Statements	3,969	
Current year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	<u>(29,656)</u>	
Total Revenues as Reported on the Statement of Revenues, Expenditures and and Changes in Fund Balances - Governmental Funds.	<u>\$ 11,176,594</u>	<u>\$ 246,866</u>
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	<u>\$ 10,831,856</u>	<u>\$ 246,866</u>
Total Expenditures as Reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 10,831,856</u>	<u>\$ 246,866</u>

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue, and debt service funds. The budget for the fiscal year ended June 30, 2012 was submitted to the County office and was voted upon at the school election in April, 2011. 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)l. All budget amendments/transfers must be made by School Board resolution. 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 of 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 the 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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
SPECIAL REVENUE FUND  
COMBINING SCHEDULE OF REVENUE AND EXPENDITURES - BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>No Child Left Behind</u>		<u>IDEA Part B</u>		<u>Local</u>	<u>Totals</u>
	<u>Title II Part A</u>	<u>Title III</u>	<u>Basic</u>	<u>Preschool</u>		
<b>REVENUE:</b>						
Local Sources					\$ 94,096	\$ 94,096
Federal Sources	\$ 17,525	\$ 505	\$ 127,973	\$ 6,767		152,770
<b>Total Revenue</b>	<u>17,525</u>	<u>505</u>	<u>127,973</u>	<u>6,767</u>	<u>94,096</u>	<u>246,866</u>
<b>EXPENDITURES:</b>						
<b>Instruction:</b>						
Salaries of Teachers	14,235				2,458	16,693
Other Salaries for Instruction			4,851		2,591	7,442
Tuition				6,767		6,767
Other Purchased Services					11,310	11,310
General Supplies					77,021	77,021
<b>Total Instruction</b>	<u>14,235</u>		<u>4,851</u>	<u>6,767</u>	<u>93,380</u>	<u>119,233</u>
<b>Support Services:</b>						
Salaries of Other Professional Staff			101,997		716	102,713
Purchased Professional and Technical Services			1,858			1,858
Personal Services - Employee Benefits	2,513		18,003			20,516
Other Purchased Services	777		1,264			2,041
<b>Total Support Services</b>	<u>3,290</u>		<u>123,122</u>		<u>716</u>	<u>127,128</u>
<b>Facilities Acquisition:</b>						
Construction Services		505				505
<b>Total Facilities Acquisition</b>		<u>505</u>				<u>505</u>
<b>Total Expenditures</b>	<u>\$ 17,525</u>	<u>\$ 505</u>	<u>\$ 127,973</u>	<u>\$ 6,767</u>	<u>\$ 94,096</u>	<u>\$ 246,866</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
SPECIAL REVENUE FUND  
PRESCHOOL EDUCATION AID SCHEDULE OF EXPENDITURES  
BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOT APPLICABLE

CAPITAL PROJECTS FUND

Exhibit F-1

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SUMMARY SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Expenditures:	
Other Purchased Professional and Technical Services	\$ 4,711
Construction Services	8,842
	13,553
Total Expenditures	13,553
Deficit of Revenue and Other Financing Sources	
Under Expenditures	(13,553)
Fund Balance - Beginning of Year	220,935
Fund Balance - End of Year	\$ 207,382
<u>Recapitulation:</u>	
Restricted	\$ 145,225
Committed	62,157
	207,382
Reconciliation to Governmental Funds Statement (GAAP):	
SDA Grant Receivable not Recognized on GAAP Basis	(28,801)
	(28,801)
Fund Balance per Governmental Funds (GAAP)	\$ 178,581

F-1A

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS -  
BUDGETARY BASIS  
RENOVATE, CONSTRUCT, FURNISH AND EQUIP ADDITIONS TO THE BAYBERRY AND VALLEY VIEW SCHOOLS  
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Costs</u>
<b>Revenue and Other Financing Sources:</b>				
State Sources - SDA Grant	\$ 5,096,645		\$ 5,096,645	\$ 5,096,645
Bond Proceeds	18,903,000		18,903,000	18,903,000
<b>Total Revenue and Other Financing Sources</b>	<u>23,999,645</u>		<u>23,999,645</u>	<u>23,999,645</u>
<b>Expenditures:</b>				
Equipment	91,433		91,433	271,930
Legal Services	106,061		106,061	103,000
Other Purchased Professional and Technical Services	2,386,462		2,386,462	2,369,550
Construction Services	21,270,464		21,270,464	21,255,520
<b>Total Expenditures</b>	<u>23,854,420</u>		<u>23,854,420</u>	<u>24,000,000</u>
<b>Excess of Revenue and Other Financing Sources over Expenditures</b>	<u>\$ 145,225</u>	<u>\$ - 0 -</u>	<u>\$ 145,225</u>	<u>\$ (355)</u>
<b>Additional Project Information:</b>				
Project Number	SP201964/201965			
Grant Date	2/14/2003			
Bond Authorization Date	8/19/2009			
Bonds Authorized	\$ 18,903,000			
Bonds Issued	\$ 18,903,000			
Original Authorized Cost	\$ 24,000,000			
Change Orders	- 0 -			
Revised Authorized Costs	24,000,000			
Percentage Increase over Original Authorized Cost				
Percentage Completion	99.39%			
Original Target Completion Date	9/30/2004			
Revised Target Completion Date	9/1/2012			

F-1B

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS -  
BUDGETARY BASIS  
VALLEY VIEW MIDDLE SCHOOL - RENOVATIONS TO BATHROOMS  
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Costs</u>
<b>Revenue and Other Financing Sources:</b>				
State Sources - SDA Grant	\$ 64,646		\$ 64,646	\$ 64,646
Transfer from Capital Reserve	130,334		130,334	130,334
<b>Total Revenue and Other Financing Sources</b>	<b>194,980</b>		<b>194,980</b>	<b>194,980</b>
<b>Expenditures:</b>				
Legal Services	1,342		1,342	1,342
Other Purchased Professional and Technical Services	44,934	\$ 4,711	49,645	41,614
Construction Services	109,994	4,421	114,415	152,024
<b>Total Expenditures</b>	<b>156,270</b>	<b>9,132</b>	<b>165,402</b>	<b>194,980</b>
<b>Excess/(Deficit) of Revenue and Other Financing Sources over/(under) Expenditures</b>	<b>\$ 38,710</b>	<b>\$ (9,132)</b>	<b>\$ 29,578</b>	<b>\$ -0-</b>
<b>Additional Project Information:</b>				
SDA Project Number	5540-050-09-0ZXX			
Grant Date	6/3/10			
Original Authorized Cost	\$ 194,980			
Change Orders	-0-			
Revised Authorized Costs	194,980			
Percentage Completion	84.83%			
Original Target Completion Date	9/1/2010			
Revised Target Completion Date	9/1/2012			

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS -  
BUDGETARY BASIS  
BAYBERRY SCHOOL - RENOVATIONS TO BATHROOMS  
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2012

	Prior Periods	Current Year	Totals	Revised Authorized Costs
Revenue and Other Financing Sources:				
State Sources - SDA Grant	\$ 74,458		\$ 74,458	\$ 74,458
Transfer from Capital Reserve	116,917		116,917	116,917
<b>Total Revenue and Other Financing Sources</b>	<b>191,375</b>		<b>191,375</b>	<b>191,375</b>
Expenditures:				
Legal Services	1,342		1,342	1,342
Other Purchased Professional and Technical Services	33,678		33,678	28,303
Construction Services	119,355	\$ 4,421	123,776	161,730
<b>Total Expenditures</b>	<b>154,375</b>	<b>4,421</b>	<b>158,796</b>	<b>191,375</b>
Excess/(Deficit) of Revenue and Other Financing Sources over/(under) Expenditures	<u>\$ 37,000</u>	<u>\$ (4,421)</u>	<u>\$ 32,579</u>	<u>\$ -0-</u>
Additional Project Information:				
SDA Project Number	5540-050-09-0ZYJ			
Grant Date	6/3/10			
Original Authorized Cost	\$ 191,375			
Change Orders	-0-			
Revised Authorized Costs	191,375			
Percentage Completion	82.98%			
Original Target Completion Date	9/1/2010			
Revised Target Completion Date	12/1/2012			

PROPRIETARY FUNDS

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2012

ASSETS:

Current Assets:	
Cash and Cash Equivalents	\$ 4,193
Intergovernmental Accounts Receivable:	
Federal	1,533
	<hr/>
Total Current Assets	5,726
	<hr/>
Non-Current Assets:	
Capital Assets	124,047
Less: Accumulated Depreciation	(124,047)
	<hr/>
Total Non-Current Assets	- 0 -
	<hr/>
Total Assets	5,726
	<hr/>
NET ASSETS:	
Unrestricted	5,726
	<hr/>
Total Net Assets	\$ 5,726
	<hr/> <hr/>

## Exhibit G-2

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Revenue:	
Local Sources:	
Daily Sales - Reimbursable Programs	\$ 8,326
Total Operating Revenue	<u>8,326</u>
Operating Expenses:	
Cost of Sales	13,163
Supplies, Insurance & Other Costs	<u>1,185</u>
Total Operating Expenses	<u>14,348</u>
Operating (Loss)	(6,022)
Non-Operating Income:	
Federal Sources:	
Special Milk Program	<u>7,771</u>
Total Non-Operating Income	<u>7,771</u>
Change in Net Assets	1,749
Net Assets - Beginning of Year	<u>3,977</u>
Net Assets - End of Year	<u>\$ 5,726</u>

## Exhibit G-3

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 8,326
Payments to Food Service Vendor	(13,163)
Payments to Suppliers	(1,185)
	<hr/>
Net Cash Used for Operating Activities	(6,022)
	<hr/>
Cash Flows from Noncapital Financing Activities:	
Federal Sources:	
Special Milk Program	6,958
	<hr/>
Net Cash Provided by Noncapital Financing Activities	6,958
	<hr/>
Net Increase in Cash and Cash Equivalents	936
Cash and Cash Equivalents, July 1	3,257
	<hr/>
Cash and Cash Equivalents, June 30	\$ 4,193
	<hr/> <hr/>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (6,022)
	<hr/>
Net Cash Used for Operating Activities	\$ (6,022)
	<hr/> <hr/>

FIDUCIARY FUNDS

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2012

	<u>Student Activities</u>	<u>Payroll Agency</u>	<u>Total Agency</u>	<u>Flex Spending Trust</u>	<u>Unemployment Compensation Trust</u>
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 28,268	\$ 201,406	\$ 229,674	\$ 23,692	\$ 153,995
Total Assets	<u>28,268</u>	<u>201,406</u>	<u>229,674</u>	<u>23,692</u>	<u>153,995</u>
<b>LIABILITIES:</b>					
Accrued Salaries and Wages Payable		199,131	199,131		
Due to Student Groups	28,268		28,268		
Net Payroll		39	39		
Payroll Deductions and Withholdings		2,236	2,236		
Total Liabilities	<u>28,268</u>	<u>201,406</u>	<u>229,674</u>		
<b>NET ASSETS:</b>					
Forfeiture Balance				23,692	
Held in Trust for Unemployment Claims					<u>153,995</u>
Total Net Assets	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 23,692</u>	<u>\$ 153,995</u>

## Exhibit H-2

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Flex Spending Trust</u>	<u>Unemployment Compensation Trust</u>
Additions:		
Contributions:		
Employee Contributions	\$ 64,240	\$ 8,631
Total Contributions	<u>64,240</u>	<u>8,631</u>
Investment Earnings:		
Interest	<u>19</u>	<u>175</u>
Net Investment Earnings	<u>19</u>	<u>175</u>
Total Additions	<u>64,259</u>	<u>8,806</u>
Deductions		
Unemployment Compensation Claims		33,415
Flex Spending Claims	<u>47,563</u>	
Total Deductions	<u>47,563</u>	<u>33,415</u>
Change in Net Assets	16,696	(24,609)
Net Assets - Beginning of the Year	<u>6,996</u>	<u>178,604</u>
Net Assets - End of the Year	<u>\$ 23,692</u>	<u>\$ 153,995</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STUDENT ACTIVITY AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 33,550	\$ 69,406	\$ 74,688	\$ 28,268
Total Assets	<u>\$ 33,550</u>	<u>\$ 69,406</u>	<u>\$ 74,688</u>	<u>\$ 28,268</u>
 <u>LIABILITIES:</u>				
Liabilities:				
Due to Student Groups	\$ 33,550	\$ 69,406	\$ 74,688	\$ 28,268
Total Liabilities	<u>\$ 33,550</u>	<u>\$ 69,406</u>	<u>\$ 74,688</u>	<u>\$ 28,268</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
STUDENT ACTIVITY AGENCY FUND  
STATEMENT OF ACTIVITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2012</u>
Elementary School:				
Valley View School	\$ 21,496	\$ 58,524	\$ 60,769	\$ 19,251
Bayberry School	9,138	5,297	9,740	4,695
Sporting Officials	2,916	5,585	4,179	4,322
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total All Schools	<u>\$ 33,550</u>	<u>\$ 69,406</u>	<u>\$ 74,688</u>	<u>\$ 28,268</u>

Exhibit H-5

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
PAYROLL AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 204,805	\$ 11,191,633	\$ 11,195,032	\$ 201,406
Total Assets	<u>\$ 204,805</u>	<u>\$ 11,191,633</u>	<u>\$ 11,195,032</u>	<u>\$ 201,406</u>
<u>LIABILITIES:</u>				
Net Payroll	\$ 39	\$ 4,165,640	\$ 4,165,640	\$ 39
Accrued Salaries and Wages	202,303	199,131	202,303	199,131
Payroll Deduction and Withholdings	<u>2,463</u>	<u>6,826,862</u>	<u>6,827,089</u>	<u>2,236</u>
Total Liabilities	<u>\$ 204,805</u>	<u>\$ 11,191,633</u>	<u>\$ 11,195,032</u>	<u>\$ 201,406</u>

LONG-TERM DEBT

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
GENERAL LONG-TERM DEBT ACCOUNT GROUP  
STATEMENT OF SERIAL BONDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Purpose	Date of Issue	Original Issue	Maturities of Bonds Outstanding June 30, 2012		Interest Rate	Balance July 1, 2011	Retired or Matured	Balance June 30, 2012
			Date	Amount				
Renovate, Construct, Furnish and Equip Additions to the Bayberry and Valley View Schools	06/12/02	\$ 18,903,000			4.00%	\$ 1,410,000	\$ 1,410,000	
School Refunding Bonds	08/13/09	8,770,000	12/15/12	\$ 1,500,000	2.00%	8,715,000		\$ 8,715,000
			12/15/13	1,595,000	4.00%			
			12/15/14	1,730,000	3.00%			
			12/15/15	1,875,000	4.50%			
			12/15/16	450,000	3.25%			
			12/15/16	1,565,000	4.00%			
						<u>\$ 10,125,000</u>	<u>\$ 1,410,000</u>	<u>\$ 8,715,000</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
LONG-TERM DEBT  
SCHEDULE OF OBLIGATIONS UNDER CAPITAL LEASES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOT APPLICABLE

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
REVENUE:					
Local Sources:					
Local Tax Levy	\$ 1,770,400		\$ 1,770,400	\$ 1,770,400	
Total Revenue	<u>1,770,400</u>		<u>1,770,400</u>	<u>1,770,400</u>	
EXPENDITURES:					
Regular Debt Service:					
Interest	360,400		360,400	360,400	
Redemption of Principal	<u>1,410,000</u>		<u>1,410,000</u>	<u>1,410,000</u>	
Total Regular Debt Service	<u>1,770,400</u>		<u>1,770,400</u>	<u>1,770,400</u>	
Total Expenditures	<u>1,770,400</u>		<u>1,770,400</u>	<u>1,770,400</u>	
Excess/(Deficiency) of Revenue Over/(Under) Expenditures	-0-		-0-	-0-	
Fund Balance, July 1	<u>-0-</u>		<u>-0-</u>	<u>-0-</u>	
Fund Balance, June 30	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**STATISTICAL SECTION**  
**(UNAUDITED)**

This part of the School's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the School's overall financial health.

**Contents**

	<b><u>Exhibit</u></b>
<p><b>Financial Trends</b> These schedules contain trend information to help the reader understand how the School's financial performance and well-being have changed over time.</p>	J-1 thru J-5
<p><b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting the School's ability to generate its property taxes.</p>	J-6 thru J-9
<p><b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the School's current levels of outstanding debt and the School's ability to issue additional debt in the future.</p>	J-10 thru J-13
<p><b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the School's financial activities take place and to help make comparisons over time and with other governments.</p>	J-14 thru J-15
<p><b>Operating Information</b> These schedules contain information about the School's operations and resources to help the reader understand how the School's financial information relates to the services the School provides and the activities it performs.</p>	J-16 thru J-20

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year. The School implemented Statement 34 in a previous fiscal year. Schedules presenting government-wide information include information beginning in the fiscal year ended June 30, 2005.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NET ASSETS BY COMPONENT,  
LAST NINE FISCAL YEARS  
ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	Fiscal Year Ending June 30,							Restated 2011	2012
	2004	2005	2006	2007	2008	2009	2010		
Governmental Activities									
Invested in Capital Assets, Net of Related Debt/(Deficit)	\$ (2,120,512)	\$ 6,363,995	\$ 8,080,406	\$ 9,377,723	\$ 10,188,050	\$ 10,823,137	\$ 12,440,718	\$ 13,419,096 *	\$ 5,444,985
Restricted	11,851,685	3,644,250	2,554,088	2,296,193	2,314,767	2,337,978	2,486,694	2,586,913	2,627,560
Unrestricted/(Deficit)	34,058	315,613	274,753	176,429	(254,479)	119,772	(914,897)	(797,669)	(341,668)
Total Governmental Activities Net Assets	<u>\$ 9,765,230</u>	<u>\$ 10,323,857</u>	<u>\$ 10,909,247</u>	<u>\$ 11,850,346</u>	<u>\$ 12,248,338</u>	<u>\$ 13,280,887</u>	<u>\$ 14,012,515</u>	<u>\$ 15,208,340</u>	<u>\$ 7,730,877</u>
Business-type Activities									
Unrestricted	\$ 2,858	\$ 5,380	\$ 4,558	\$ 4,558	\$ 865	\$ 2,519	\$ 1,721	\$ 3,977	\$ 5,726
Total Business-type Activities Net Assets	<u>\$ 2,858</u>	<u>\$ 5,380</u>	<u>\$ 4,558</u>	<u>\$ 4,558</u>	<u>\$ 865</u>	<u>\$ 2,519</u>	<u>\$ 1,721</u>	<u>\$ 3,977</u>	<u>\$ 5,726</u>
District-wide									
Invested in Capital Assets, Net of Related Debt/(Deficit)	\$ (2,120,512)	\$ 6,363,995	\$ 8,080,406	\$ 9,377,723	\$ 10,188,050	\$ 10,823,137	\$ 12,440,718	\$ 13,419,096 *	\$ 5,444,985
Restricted	11,851,685	3,644,250	2,554,088	2,296,193	2,314,767	2,337,978	2,486,694	2,586,913	2,627,560
Unrestricted/(Deficit)	36,916	320,993	279,311	180,987	(253,614)	122,291	(913,176)	(793,692)	(335,942)
Total District Net Assets	<u>\$ 9,768,088</u>	<u>\$ 10,329,238</u>	<u>\$ 10,913,805</u>	<u>\$ 11,854,904</u>	<u>\$ 12,249,203</u>	<u>\$ 13,283,406</u>	<u>\$ 14,014,236</u>	<u>\$ 15,212,317</u>	<u>\$ 7,736,603</u>

\* Restated

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CHANGES IN NET ASSETS, LAST NINE FISCAL YEARS  
ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Expenses</b>									
<b>Governmental Activities</b>									
<b>Instruction:</b>									
Regular	\$ 3,659,415	\$ 3,717,319	\$ 4,014,732	\$ 4,593,823	\$ 4,990,389	\$ 4,854,747	\$ 5,094,073	\$ 4,949,781	\$ 5,279,666
Special Education	352,532	445,776	612,055	768,066	642,267	833,309	882,425	873,731	891,087
Other Instruction	165,564	279,453	297,197	315,211	285,167	199,771	286,326	311,516	307,659
School-Sponsored Instruction					125,336	177,429	91,631	84,127	89,208
<b>Support Services:</b>									
Tuition	500,983	584,706	493,332	332,413	352,947	386,597	378,793	414,674	359,309
Student & Instruction Related Services	1,267,049	1,375,725	1,581,226	1,730,710	1,860,049	1,631,991	1,732,724	1,476,248	1,514,397
General Administrative Services	565,722	697,623	574,416	641,823	468,050	354,789	571,162	453,102	480,517
School Administrative Services	296,985	247,096	390,077	480,330	510,535	437,933	515,665	528,936	466,518
Plant Operations and Maintenance	766,523	846,071	1,010,145	1,142,929	1,359,366	1,151,374	1,129,582	1,206,358	1,224,782
Pupil Transportation	531,042	578,281	567,931	587,400	583,269	526,882	597,244	565,314	540,830
Central Services and Administrative Information Technology					282,086	353,600	207,193	210,672	308,359
<b>Capital Outlay</b>								57,866	37,147
<b>Interest on Long-term Debt</b>	732,921	677,364	648,278	616,582	581,841	543,333	560,823	566,240	287,699
<b>Total Governmental Activities Expenses</b>	<u>8,838,735</u>	<u>9,449,416</u>	<u>10,189,388</u>	<u>11,209,288</u>	<u>12,041,303</u>	<u>11,451,755</u>	<u>12,047,642</u>	<u>11,698,565</u>	<u>11,787,178</u>
<b>Business-type Activities:</b>									
Food Service	12,599	10,160	12,553	10,219	22,797	20,414	19,187	16,080	14,348
<b>Total Business-type Activities Expense</b>	<u>12,599</u>	<u>10,160</u>	<u>12,553</u>	<u>10,219</u>	<u>22,797</u>	<u>20,414</u>	<u>19,187</u>	<u>16,080</u>	<u>14,348</u>
<b>Total District Expenses</b>	<u>\$ 8,851,334</u>	<u>\$ 9,459,576</u>	<u>\$ 10,201,941</u>	<u>\$ 11,219,507</u>	<u>\$ 12,064,100</u>	<u>\$ 11,472,169</u>	<u>\$ 12,066,829</u>	<u>\$ 11,714,645</u>	<u>\$ 11,801,526</u>
<b>Program Revenues</b>									
<b>Governmental Activities:</b>									
<b>Charges for Services</b>									
Instruction (Tuition)					\$ 3,935				
<b>Operating Grants and Contributions</b>	\$ 612,799	\$ 2,042,362	\$ 2,079,791	\$ 2,376,308	1,478,947	\$ 588,273	\$ 901,996	\$ 928,058	\$ 1,320,584
<b>Total Governmental Activities Program Revenues</b>	<u>612,799</u>	<u>2,042,362</u>	<u>2,079,791</u>	<u>2,376,308</u>	<u>1,482,882</u>	<u>588,273</u>	<u>901,996</u>	<u>928,058</u>	<u>1,320,584</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CHANGES IN NET ASSETS, LAST NINE FISCAL YEARS  
ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Business-type Activities:</b>									
Charges for Services									
Food Service	\$ 7,737	\$ 7,997	\$ 7,720	\$ 8,997	\$ 11,086	\$ 11,189	\$ 10,731	\$ 10,237	\$ 8,326
Operating Grants and Contributions	3,556	4,685	4,011		8,018	9,644	7,658	8,099	7,771
Total Business-type Activities Program Revenues	<u>11,293</u>	<u>12,682</u>	<u>11,731</u>	<u>8,997</u>	<u>19,104</u>	<u>20,833</u>	<u>18,389</u>	<u>18,336</u>	<u>16,097</u>
Total District Program Revenues	<u>\$ 624,092</u>	<u>\$ 2,055,044</u>	<u>\$ 2,091,522</u>	<u>\$ 2,385,305</u>	<u>\$ 1,501,986</u>	<u>\$ 609,106</u>	<u>\$ 920,385</u>	<u>\$ 946,394</u>	<u>\$ 1,336,681</u>
<b>Net (Expense)/Revenue</b>									
Governmental Activities	\$ (8,225,936)	\$ (7,407,054)	\$ (8,109,597)	\$ (8,832,980)	\$ (10,558,421)	\$ (10,863,482)	\$ (11,145,645)	\$ (10,770,507)	\$ (10,466,594)
Business-type Activities	(1,306)	2,522	(822)	(1,222)	(3,693)	419	(798)	2,256	1,749
Total District-wide Net Expense	<u>\$ (8,227,242)</u>	<u>\$ (7,404,532)</u>	<u>\$ (8,110,419)</u>	<u>\$ (8,834,202)</u>	<u>\$ (10,562,114)</u>	<u>\$ (10,863,063)</u>	<u>\$ (11,146,443)</u>	<u>\$ (10,768,251)</u>	<u>\$ (10,464,845)</u>
<b>General Revenues and Other Changes in Net Assets</b>									
<b>Governmental Activities:</b>									
Property Taxes Levied for General Purposes, Net	\$ 6,349,412	\$ 6,897,781	\$ 7,940,952	\$ 8,548,938	\$ 8,907,646	\$ 9,263,952	\$ 9,606,630	\$ 9,791,813	\$ 9,791,813
Taxes Levied for Debt Service	1,354,076	645,325	811,265	876,367	1,553,357	1,620,012	1,652,575	1,653,751	1,770,400
Federal and State aid not restricted	683,079	94,821	80,707	121,924	324,924	887,882	490,662	386,722	82,040
Tuition	10,439	14,600		6,450		10,090	11,481	25,503	131,577
Investment Earnings	159,314	178,231	146,617	159,618	109,325	6,961	2,006	354	7,931
Miscellaneous Income	73,871	52,682	14,796	62,004	61,171	107,124	92,717	68,093	45,403
Special Item - Proceeds from Sale of Assets	13,839								
N.J. Economic Development Authority grants		63,822							
Adjustment to Capital Assets			(299,350)						
Other Local Governments		18,419					21,203	40,095	44,112
Transfers	(65,542)			(1,222)					
Total Governmental Activities	<u>8,578,488</u>	<u>7,965,681</u>	<u>8,694,987</u>	<u>9,774,079</u>	<u>10,956,423</u>	<u>11,896,021</u>	<u>11,877,274</u>	<u>11,966,331</u>	<u>11,873,276</u>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CHANGES IN NET ASSETS, LAST NINE FISCAL YEARS  
ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED  
(Continued)

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Business-type Activities:									
Investment Earnings				\$ 1,222		\$ 1,235			
Total Business-type Activities				1,222		1,235			
Total District-wide	<u>\$ 8,578,488</u>	<u>\$ 7,965,681</u>	<u>\$ 8,694,987</u>	<u>\$ 9,775,301</u>	<u>\$ 10,956,423</u>	<u>\$ 11,897,256</u>	<u>\$ 11,877,274</u>	<u>\$ 11,966,331</u>	<u>\$ 11,873,276</u>
Change in Net Assets									
Governmental Activities	\$ 352,552	\$ 558,627	\$ 585,390	\$ 941,099	\$ 398,002	\$ 1,032,539	\$ 731,628	\$ 1,195,824	\$ 1,406,682
Business-type Activities	(1,306)	2,522	(822)		(3,693)	1,654	(798)	2,256	1,749
Total District	<u>\$ 351,246</u>	<u>\$ 561,149</u>	<u>\$ 584,568</u>	<u>\$ 941,099</u>	<u>\$ 394,309</u>	<u>\$ 1,034,193</u>	<u>\$ 730,830</u>	<u>\$ 1,198,080</u>	<u>\$ 1,408,431</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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
FUND BALANCES, GOVERNMENTAL FUNDS,  
LAST NINE FISCAL YEARS  
MODIFIED ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund									
Assigned								\$ 332,548	\$ 366,311
Restricted/Reserved								2,062,231	2,448,979
Unassigned								355,400	279,627
Reserved	\$ 1,724,881	\$ 1,194,742	\$ 1,593,015	\$ 2,138,094	\$ 2,150,442	\$ 2,214,622	\$ 2,122,729		
Unreserved	215,344	378,101	333,255	278,668	321,615	308,188	265,759		
Total General Fund	<u>\$ 1,940,225</u>	<u>\$ 1,572,843</u>	<u>\$ 1,926,271</u>	<u>\$ 2,416,763</u>	<u>\$ 2,472,058</u>	<u>\$ 2,522,810</u>	<u>\$ 2,388,488</u>	<u>\$ 2,750,179</u>	<u>\$ 3,094,917</u>
All Other Governmental Funds									
Committed								\$ 192,134	\$ 178,581
Reserved	\$ 7,915,295	\$ 1,655,172	\$ 830,500	\$ 62,629	\$ 41,474	\$ 2,374	\$ 313,316		
Unreserved, Reported in:									
Capital Projects Fund	2,120,685	822,031	157,004	120,535	122,851	142,851			
Debt Service Fund	90,825	1			1		50,649		
Total All Other Governmental Funds	<u>\$ 10,126,804</u>	<u>\$ 2,477,205</u>	<u>\$ 987,504</u>	<u>\$ 183,163</u>	<u>\$ 164,325</u>	<u>\$ 145,225</u>	<u>\$ 363,965</u>	<u>\$ 192,134</u>	<u>\$ 178,581</u>
Total Governmental Funds	<u>\$ 12,067,029</u>	<u>\$ 4,050,048</u>	<u>\$ 2,913,774</u>	<u>\$ 2,599,926</u>	<u>\$ 2,636,383</u>	<u>\$ 2,668,035</u>	<u>\$ 2,752,453</u>	<u>\$ 2,942,313</u>	<u>\$ 3,273,498</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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS,  
LAST NINE FISCAL YEARS  
MODIFIED ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Revenues</b>									
Tax Levy	\$ 7,703,488	\$ 8,220,470	\$ 9,400,495	\$ 10,041,887	\$ 10,461,003	\$ 10,883,964	\$ 11,259,205	\$ 11,445,564	\$ 11,562,213
Tuition Charges	10,439	14,600		6,450	3,935	10,090	11,481	25,503	131,577
Other Local	13,839	18,419			34,296		21,203	40,095	44,112
Interest Earnings	159,314	178,231	146,617	159,618	109,325	6,961	2,006	354	
Miscellaneous	73,871	64,444	45,207	99,016	26,875	107,124	134,934	111,676	147,430
State Sources	1,179,688	1,311,149	1,344,016	1,664,380	1,657,468	1,329,712	1,144,841	1,033,583	1,133,001
Federal Sources	116,190	136,908	137,793	180,257	146,402	146,443	205,600	237,614	175,527
<b>Total Revenue</b>	<b>9,256,829</b>	<b>9,944,221</b>	<b>11,074,128</b>	<b>12,151,608</b>	<b>12,439,304</b>	<b>12,484,294</b>	<b>12,779,270</b>	<b>12,894,389</b>	<b>13,193,860</b>
<b>Expenditures</b>									
<b>Instruction</b>									
Regular Instruction	2,722,194	2,793,111	2,792,576	3,059,095	3,322,626	3,503,570	3,424,209	3,322,441	3,350,559
Special Education Instruction	262,735	345,199	385,651	482,852	398,905	543,558	608,707	602,522	595,448
Other Instruction	127,734	222,252	218,254	223,934	178,395	199,771	178,589	185,403	201,941
School-Sponsored/Other Instruction					90,097	92,768	91,631	84,127	65,521
<b>Support Services:</b>									
Tuition	500,983	584,706	493,332	332,413	352,947	386,597	378,793	414,674	359,309
Student & Other Instruction Related Services	1,020,389	1,052,430	1,228,668	1,266,605	1,334,904	1,304,311	1,277,381	1,002,444	1,088,293
General Administrative Services	480,104	503,201	470,180	485,790	341,956	364,363	350,675	315,145	400,830
School Administrative Services	232,776	246,454	280,029	316,673	339,692	336,655	347,734	316,589	321,663
Central Services and Administrative Information Technology					194,138	201,209	207,193	210,672	235,189
Plant Operations and Maintenance	658,760	717,512	880,390	972,269	972,885	1,049,221	943,934	996,071	1,052,290
Pupil Transportation	503,187	549,475	552,695	569,345	556,975	508,771	571,497	530,465	511,509
Unallocated Benefits	1,493,114	1,798,751	1,940,754	2,410,859	2,675,329	2,303,026	2,569,026	2,730,224	2,829,434
Capital Outlay	6,026,823	7,798,420	1,508,329	851,451	545,640	38,810	138,557	289,352	80,289
<b>Debt Service:</b>									
Principal	650,000	735,000	810,000	875,000	970,000	1,075,000	1,205,000	1,290,000	1,410,000
Interest and Other Charges	704,075	678,513	649,544	617,949	583,356	545,013	401,926	414,400	360,400
<b>Total Expenditures</b>	<b>15,382,874</b>	<b>18,025,024</b>	<b>12,210,400</b>	<b>12,464,235</b>	<b>12,857,846</b>	<b>12,452,643</b>	<b>12,694,852</b>	<b>12,704,529</b>	<b>12,862,675</b>

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS,  
LAST NINE FISCAL YEARS  
MODIFIED ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	Fiscal Year Ending June 30,								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Excess/(Deficit) of Revenues									
Over/(Under) Expenditures	\$ (6,126,045)	\$ (8,080,804)	\$ (1,136,273)	\$ (312,627)	\$ (418,543)	\$ 31,651	\$ 84,418	\$ 189,860	\$ 331,185
Other Financing Sources/(Uses)									
Serial Bonds Issued							8,770,000		
Serial Bonds Defeased							(8,938,000)		
Bond Issuance Costs							(126,832)		
Bond Premium							944,609		
Deferred Interest							(649,777)		
Capital Leases (Non-budgeted)					455,000				
NJ Economic Development Authority Grants		63,822							
Transfers in	198,053	125,490		17,790					
Transfers out	(263,596)	(125,490)		(19,012)					
Total Other Financing Sources/(Uses)	(65,542)	63,822		(1,222)	455,000				
Net Change in Fund Balances	\$ (6,191,587)	\$ (8,016,982)	\$ (1,136,273)	\$ (313,849)	\$ 36,457	\$ 31,651	\$ 84,418	\$ 189,860	\$ 331,185
Debt Service as a Percentage of Noncapital Expenditures	14.47%	13.82%	13.64%	12.86%	12.62%	13.05%	12.80%	13.73%	13.85%

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
GENERAL FUND - OTHER LOCAL REVENUE 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>Miscellaneous</u>	<u>Total</u>
2003	\$ 127,381	\$ 25,352	\$ 44,067	\$ 196,800
2004	12,206	10,439	59,369	82,014
2005	178,231	14,600	71,101	263,932
2006	146,617		14,796	161,413
2007	159,618	6,450	99,016	265,084
2008	109,325	3,935	26,875	140,135
2009	6,961	10,090	63,131	80,182
2010	2,006	11,481	90,086	103,573
2011	354	25,503	108,188	134,045
2012	7,931	131,577	45,403	184,911

Source: School District of the Borough of Watchung records

**BOROUGH OF WATCHUNG SCHOOL DISTRICT**  
**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY,**  
**LAST TEN YEARS**  
**UNAUDITED**

Year Ended December 31,	Vacant Land	Residential	Farm	Commercial	Industrial	Apartment	Total Assessed Value	Public Utilities <sup>a</sup>	Net Valuation Taxable	Total Direct School Tax Rate <sup>b</sup>	Estimated Actual (County Equalized Value)
2002	\$ 43,289,200	\$ 948,143,600	\$ 817,500	\$ 174,157,900	\$ 5,827,200		\$ 1,172,235,400	\$ 1,607,981	\$ 1,173,843,381	0.619	\$ 1,225,757,707
2003	48,012,900	1,166,855,300	662,000	256,778,800	5,694,000	\$ 10,574,100	1,488,577,100	1,767,699	1,490,344,799	0.502	1,363,442,718
2004	46,557,400	1,234,853,701	676,500	272,440,800	6,229,100	43,540,000	1,604,297,501	1,670,552	1,605,968,053	0.489	1,566,423,582
2005	49,840,700	1,353,040,400	895,100	314,230,900	6,705,800	40,000,000	1,764,712,900	1,618,708	1,766,331,608	0.503	1,718,510,703
2006	50,009,200	1,359,902,300	895,100	311,874,300	6,705,800	40,000,000	1,769,386,700	1,398,633	1,770,785,333	0.567	1,857,818,879
2007	43,352,700	1,415,883,400	N/A	323,091,400	7,348,400	55,160,000	1,844,835,900	1,489,275	1,846,325,175	0.541	2,047,141,917
2008	41,366,100	1,373,917,500	N/A	333,359,400	7,295,500	60,600,000	1,816,538,500	1,562,784	1,818,101,284	0.590	1,964,456,771
2009	41,251,800	1,277,353,900	N/A	329,769,100	7,174,900	60,600,000	1,716,149,700	1,562,784	1,717,712,484	0.647	1,912,929,426
2010	35,609,900	1,184,481,400	N/A	295,509,400	6,367,200	56,964,000	1,578,931,900	1,762,687	1,580,694,587	0.724	1,824,791,793
2011	35,484,200	1,204,394,400	N/A	290,376,800	6,367,300	49,255,800	1,585,878,500	1,360,900	1,587,239,400	0.728	1,684,856,609

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 of assessed value.

Source: Municipal Tax Assessor

Exhibit J-7

**BOROUGH OF WATCHUNG SCHOOL DISTRICT**  
**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
**LAST TEN YEARS**  
**UNAUDITED**  
(Rate per \$100 of Assessed Value)

Year Ended December 31,	School District of the Borough of Watchung Direct Rate			Overlapping Rates			Total Direct and Overlapping Tax Rate
	Basic Rate <sup>a</sup>	General Obligation Debt Service <sup>b</sup>	Total Direct	Municipality	Regional High School District	County	
2002	\$ 0.619		\$ 0.619	\$ 0.463	\$ 0.281	\$ 0.462	\$ 1.825
2003	0.370	\$ 0.132	0.502	0.395	0.258	0.382	1.537
2004	0.405	0.084	0.489	0.388	0.275	0.388	1.540
2005	0.423	0.080	0.503	0.385	0.294	0.365	1.547
2006	0.483	0.084	0.567	0.377	0.302	0.378	1.624
2007	0.461	0.080	0.541	0.387	0.304	0.375	1.607
2008	0.502	0.088	0.590	0.422	0.303	0.364	1.679
2009	0.552	0.095	0.647	0.427	0.318	0.369	1.761
2010	0.619	0.105	0.724	0.463	0.351	0.383	1.921
2011	0.617	0.111	0.728	0.521	0.363	0.303	1.915

## 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.

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.

Source: Municipal Tax Collector and School Business Administrator

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
PRINCIPAL PROPERTY TAX PAYERS,  
CURRENT YEAR AND NINE YEARS AGO  
UNAUDITED

Taxpayer	2011		
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value
Watchung Square Associates LLC	\$ 81,379,300	1	4.48%
Levin Properties LP	52,427,300	2	2.88%
WM Crystal Ridge LLC	49,255,800	3	2.71%
Watchung VF LLC	22,718,300	4	1.25%
Sears Roebuck & Company	17,283,000	5	0.95%
Target Corp.	15,156,500	6	0.83%
HD Development of Maryland, Inc	13,265,000	7	0.73%
Weldon Materials Inc.	9,529,500	8	0.52%
Pitney Partners	7,355,000	9	0.40%
Mini U Storage New Jersey Re LLC	6,615,000	10	0.36%
Total	<u>\$ 274,984,700</u>		<u>15.12%</u>

Taxpayer	2002		
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value
INFORMATION NOT AVAILABLE			

Source: Municipal Tax Assessor

Exhibit J-9

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
PROPERTY TAX LEVIES AND COLLECTIONS,  
LAST TEN FISCAL YEARS  
UNAUDITED

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Taxes Levied</u> <u>for the</u> <u>Fiscal Year</u>	<u>Collected within the</u> <u>Fiscal Year of the Levy<sup>a</sup></u>		<u>Collections in</u> <u>Subsequent</u> <u>Years</u>
		<u>Amount</u>	<u>Percentage</u> <u>of Levy</u>	
2003	\$ 5,633,980	\$ 5,633,980	100.00%	-0-
2004	7,703,488	7,703,488	100.00%	-0-
2005	8,220,470	8,220,470	100.00%	-0-
2006	9,400,495	9,400,495	100.00%	-0-
2007	10,041,887	10,041,887	100.00%	-0-
2008	10,461,002	10,461,002	100.00%	-0-
2009	10,883,964	10,883,964	100.00%	-0-
2010	11,259,205	11,259,205	100.00%	-0-
2011	11,445,564	11,445,564	100.00%	-0-
2012	11,562,213	11,562,213	100.00%	-0-

Source: School District of the Borough of Watchung 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.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS  
UNAUDITED

Fiscal Year Ended June 30,	Governmental Activities				Business-Type Activities Capital Leases	Total District	Percentage of Personal Income <sup>a</sup>	Per Capita <sup>a</sup>
	General Obligation Bonds	Certificates of Participation	Obligations Under Lease-Purchase Agreement	Bond Anticipation Notes (BANs)				
2003	\$ 17,903,000	\$ - 0 -	\$ - 0 -	-0-	\$ - 0 -	\$ 17,903,000	4.83%	\$ 2,755
2004	17,253,000	- 0 -	- 0 -	-0-	- 0 -	17,253,000	4.40%	2,650
2005	16,518,000	- 0 -	- 0 -	-0-	- 0 -	16,518,000	4.02%	2,521
2006	15,708,000	- 0 -	- 0 -	-0-	- 0 -	15,708,000	3.47%	2,361
2007	14,833,000	- 0 -	- 0 -	-0-	- 0 -	14,833,000	3.07%	2,212
2008	13,863,000	- 0 -	- 0 -	-0-	355,000	14,218,000	2.85%	2,113
2009	12,788,000	- 0 -	- 0 -	-0-	- 0 -	12,788,000	2.75%	1,888
2010	11,415,000	- 0 -	- 0 -	-0-	- 0 -	11,415,000	2.81%	1,964
2011	10,125,000	- 0 -	- 0 -	-0-	- 0 -	10,125,000	2.49%	1,737
2012	8,715,000	- 0 -	- 0 -	-0-	- 0 -	8,715,000	2.14%	1,495

Source: School District Financial Reports

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

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS  
UNAUDITED

Fiscal Year Ended June 30,	General Bonded Debt Outstanding			Percentage of Net Valuation <sup>a</sup> Taxable	Per Capita <sup>b</sup>
	General Obligation Bonds	Deductions	Net General Bonded Debt Outstanding		
2003	\$ 17,903,000	\$-0-	\$ 17,903,000	1.53%	\$ 2,755
2004	17,253,000	-0-	17,253,000	1.16%	2,650.23
2005	16,518,000	-0-	16,518,000	1.03%	2,521.06
2006	15,708,000	-0-	15,708,000	0.89%	2,361.04
2007	14,833,000	-0-	14,833,000	0.84%	2,211.90
2008	13,863,000	-0-	13,863,000	0.75%	2,059.88
2009	12,788,000	-0-	12,788,000	0.70%	1,888.09
2010	11,415,000	-0-	11,415,000	0.66%	1,964.38
2011	10,125,000	-0-	10,125,000	0.64%	1,494.91
2012	8,715,000	-0-	8,715,000	0.55%	1,495.37

Source: School District Financial Reports

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

a See Exhibit J-6 for property tax data. This ratio is calculated using valuation data for the prior calendar year.

b See Exhibit J-14 for population data. This ratio is calculated using population for the prior calendar year.

Exhibit J-12

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
RATIOS OF OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
AS OF DECEMBER 31, 2011  
UNAUDITED

<u>Governmental Unit</u>	<u>Debt</u> <u>Outstanding</u>	<u>Estimated</u> <u>Percentage</u> <u>Applicable <sup>a</sup></u>	<u>Estimated</u> <u>Share of</u> <u>Overlapping</u> <u>Debt</u>
Debt Repaid With Property Taxes			
Watchung Hills Regional High School	\$ 6,873,605	21.97%	\$ 1,510,344
Borough of Watchung	22,807,975	100.00%	25,668,476
County of Somerset - Borough's Share	174,753,720	2.87%	<u>5,007,549</u>
Subtotal, Overlapping Debt			32,186,369
Borough of Watchung School District Direct Debt			<u>8,715,000</u>
Total Direct and Overlapping Debt			<u>\$ 40,901,369</u>

**a** - 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.

**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 residents and businesses of Watchung. 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.

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
LEGAL DEBT MARGIN INFORMATION,  
LAST TEN FISCAL YEARS  
UNAUDITED

Legal Debt Margin Calculation for Fiscal Year 2012

<u>Equalized valuation basis</u>	
2009	\$ 1,793,634,720
2010	1,750,672,913
2011	1,726,408,121
	<u>\$ 5,270,715,754</u>

Average Equalized Valuation of Taxable Property \$ 1,756,905,251

Debt Limit (3% of average equalization value) \$ 52,707,158 <sup>a</sup>  
Net Bonded School Debt 8,715,000  
Legal Debt Margin \$ 43,992,158

	<u>Fiscal Year</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt Limit	\$ 58,062,085	\$ 58,878,984	\$ 58,119,876	\$ 54,306,404	\$ 52,707,158
Total Net Debt Applicable to Limit	<u>13,863,000</u>	<u>12,788,000</u>	<u>11,415,000</u>	<u>10,215,000</u>	<u>8,715,000</u>
Legal Debt Margin	<u>\$ 44,199,085</u>	<u>\$ 46,090,984</u>	<u>\$ 46,704,876</u>	<u>\$ 44,091,404</u>	<u>\$ 43,992,158</u>
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	23.88%	21.72%	19.64%	18.81%	16.53%

	<u>Fiscal Year</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Debt Limit	\$ 34,678,777	\$ 39,699,929	\$ 44,688,843	\$ 50,447,953	\$ 55,373,713
Total Net Debt Applicable to Limit	<u>17,903,000</u>	<u>17,253,000</u>	<u>16,518,355</u>	<u>15,708,000</u>	<u>14,833,000</u>
Legal Debt Margin	<u>\$ 16,775,777</u>	<u>\$ 22,446,929</u>	<u>\$ 28,170,488</u>	<u>\$ 34,739,953</u>	<u>\$ 40,540,713</u>
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	51.63%	43.46%	36.96%	31.14%	26.79%

a Limit set by NJSA 18A:24-19 for a K through 8 district; other % limits would be applicable for other districts

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

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

Year	Population <sup>a</sup>	Borough of Watchung Personal Income <sup>b</sup>	Somerset County Per Capita Personal Income <sup>c</sup>	Unemployment Rate <sup>d</sup>
2003	6,499	\$ 370,748,453	\$ 57,047	2.90%
2004	6,510	392,351,190	60,269	2.40%
2005	6,552	410,875,920	62,710	2.80%
2006	6,653	452,670,120	68,040	3.00%
2007	6,706	482,932,590	72,015	2.70%
2008	6,730	499,339,080	74,196	4.10%
2009	6,773	465,684,388	68,756	6.40%
2010	5,811	406,107,546	69,886	6.40%
2011	5,828	407,295,608	69,886 *	6.30%
2012	5,828 **	407,295,608 ***	69,886 *	N/A

\* - Latest Somerset County per capita personal income available (2010) was used for calculation purposes.

\*\* - Latest population data available (2011) was used for calculation purposes.

\*\*\*- Latest Borough personal income available (2011) was used for calculation purposes.

N/A - Information not available

Source:

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

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

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

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

Exhibit J-15

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
PRINCIPAL EMPLOYERS, COUNTY OF SOMERSET  
CURRENT YEAR AND NINE YEARS AGO  
UNAUDITED

Employer	2011		
	Employees	Rank	Percentage of Total Employment

INFORMATION NOT AVAILABLE

Employer	2003		
	Employees	Rank	Percentage of Total Employment

INFORMATION NOT AVAILABLE

**BOROUGH OF WATCHUNG SCHOOL DISTRICT**  
**FULL-TIME EQUIVALENT DISTRICT EMPLOYEES BY FUNCTION/PROGRAM,**  
**LAST SEVEN FISCAL YEARS**  
**UNAUDITED**

<u>Function/Program</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Instruction							
Regular	49	49	50	49	49	47	50
Special education	10	11	10	9	9	8	9
Other instruction	3	2	3	4	3	3	3
Support Services:							
Student & instruction related services	22	24	29	27	28	25	21
School administrative services	5	6	5	6	6	6	6
General and business administrative services	5	5	5	5	5	5	5
Plant operations and maintenance	9	11	9	9	9	9	9
Pupil transportation	1	1	2	2	2	2	2
Total	<u>104</u>	<u>109</u>	<u>113</u>	<u>111</u>	<u>111</u>	<u>105</u>	<u>105</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 of the Borough of Watchung Personnel Records

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
OPERATING STATISTICS  
LAST TEN FISCAL YEARS  
UNAUDITED

Fiscal Year	Enrollment	Operating Expenditures <sup>a</sup>	Cost Per Pupil <sup>d</sup>	Percentage Change	Teaching Staff <sup>b</sup>	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
						Elementary	Middle				
2003	595	\$ 6,631,500	\$ 11,145	7.75%	65	13.9:1	13.2:1	595.6	571.1	2.94%	95.89%
2004	606	8,001,976	13,205	18.48%	66	11.4:1	11.5:1	605.8	581.2	1.71%	95.94%
2005	653	8,813,092	13,496	2.21%	75	19.1:1	21.9:1	652.8	625.8	7.76%	95.86%
2006	660	9,242,528	14,004	3.76%	84	N/A	N/A	659.4	633.1	1.01%	96.01%
2007	671	10,119,835	15,082	7.70%	86	N/A	N/A	673.5	644.8	2.14%	95.74%
2008	688	10,758,850	15,638	3.69%	92	N/A	N/A	687.2	658.2	2.03%	95.78%
2009	698	10,793,820	15,464	-1.11%	89	N/A	N/A	698.8	671.2	1.69%	96.05%
2010	718	10,949,369	15,250	-1.38%	75	N/A	N/A	716.7	687.1	2.56%	95.87%
2011	714	10,710,777	15,001	-1.63%	67	N/A	N/A	710.0	679.6	-0.93%	95.72%
2012	710	11,011,986	15,510	3.39%	67	N/A	N/A	681.3	654.7	-4.04%	96.10%

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 The Cost Per Pupil calculated above is the sum of the operating expenditures divided by enrollment.  
 This Cost Per Pupil may be different from other Cost Per Pupil calculations.

N/A: Information not available

Source: Borough of Watchung District Records

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
SCHOOL BUILDING INFORMATION  
LAST SEVEN FISCAL YEARS  
UNAUDITED

<u>District Building</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Valley View							
Square Feet	83,960	83,960	83,960	83,960	83,960	83,960	83,960
Capacity (students)	470	470	470	470	470	470	470
Enrollment	284	284	309	319	342	351	349
Bayberry							
Square Feet	88,629	88,629	88,629	88,629	88,629	88,629	88,629
Capacity (students)	638	638	638	638	638	638	638
Enrollment	388	388	379	379	376	363	361

Number of Schools at June 30, 2012

Elementary = 2

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

Note: Enrollment is based on the annual October district count.

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

Undistributed Expenditures--Required  
 Maintenance for School Facilities  
 11-000-261-xxx

<u>*School Facility</u>	<u>Pending Projects (w/DOE Project #)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Bayberry Elementary	5540-050-09-0ZYJ	\$ 80,000	\$ 77,428	\$ 35,391	\$ 38,619	\$ 35,611
Valley View	5540-050-09-0ZXK	112,785	86,713	33,374	24,557	29,294
District Total		<u>\$ 192,785</u>	<u>\$ 164,141</u>	<u>\$ 68,765</u>	<u>\$ 63,176</u>	<u>\$ 64,905</u>

<u>*School Facility</u>	<u>Pending Projects (w/DOE Project #)</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Bayberry Elementary	5540-050-09-0ZYJ	\$ 60,018	\$ 18,646	\$ 28,036	\$ 20,321	\$ 25,983
Valley View	5540-050-09-0ZXK	48,526	14,687	27,891	22,757	37,446
District Total		<u>\$ 108,544</u>	<u>\$ 33,333</u>	<u>\$ 55,927</u>	<u>\$ 43,078</u>	<u>\$ 63,429</u>

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

Source: District records

Exhibit J-20

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
INSURANCE SCHEDULE  
AS OF JUNE 30, 2012  
UNAUDITED

	<u>COVERAGE</u>	<u>DEDUCTIBLE</u>
Diploma Joint Insurance Fund		
Package Policy:		
Blanket Real and Personal Property	\$ 250,000,000	\$ 100,000
Earthquake	25,000,000	
Flood	10/100,000,000	
Boiler and Machinery	100,000,000	
Crime Coverage:		
Faithful Performance	500,000	
Money and Securities	50,000 per each loss	
General Liability	5,000,000	
Automobile		
School Board Legal Liability	5,000,000	5,000
Workers Compensation	Statutory 5,000,000	
Excess Umbrella Liability	5,000,000	
Catastrophe Umbrella Liability	50,000,000	
Environmental Liability	1,000,000	
Selective Insurance:		
Surety Bonds:		
Board Secretary/Business Administrator	225,000	
Treasurer of School Moneys	225,000	

Source: District records

SINGLE AUDIT 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 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  
 Borough of Watchung School District  
 County of Somerset, 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 Borough of Watchung School District, in the County of Somerset (the "Board") as of, and for the fiscal year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated August 24, 2012. 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 Office of School Finance, 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 an opinion on the financial statements, but not for the purpose of expressing 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 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.

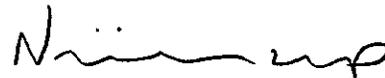
The Honorable President and Members  
of the Board of Education  
Borough of Watchung School District  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey. However, we noted a certain matter which we reported to management in the *Auditor's Management Report on Administrative Findings – Financial, Compliance and Performance*.

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 these specified parties.

September 28, 2012  
Mount Arlington, New Jersey

  
NISIVOCIA LLP

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



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 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  
 Borough of Watchung School District  
 County of Somerset, New Jersey

Compliance

We have audited the compliance of the Board of Education of the Borough of Watchung School District in the County of Somerset (the "Board") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement and the New Jersey State Aid/ Grant Compliance Supplement* that that could have a direct and material effect on its major state program for the fiscal year ended June 30, 2012. The Board's major state program is 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 its major state program 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 Office of School Finance, Department of Education, State of New Jersey (the "Department"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*; and Federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards, Federal OMB Circular A-133, and New Jersey OMB's Circular 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 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 of the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major state program for the fiscal year ended June 30, 2012.

The Honorable President and Members  
of the Board of Education  
Borough of Watchung 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 state and federal 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 state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over 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 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 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 28, 2012  
Mount Arlington, New Jersey

  
NISIVOCIA LLP

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

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/ Program Title/ Cluster Title	Federal CFDA Number	Grant or State Project Number	Grant Period	Award Amount	Balance at June 30, 2011			Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Balance at June 30, 2012		
					Budgetary Accounts Receivable	Budgetary Deferred Revenue	Due to Grantor				Budgetary Accounts Receivable	Budgetary Deferred Revenue	Due to Grantor
U.S. Department of Education Passed-through State Department of Education:													
General Fund:													
Education Jobs Fund	84.410A	N/A	7/1/10-9/30/12	\$ 22,757				\$ 19,343	\$ (22,757)	\$ (3,414)			
Total General Fund								19,343	(22,757)	(3,414)			
U.S. Department of Education Passed-through State Department of Education:													
No Child Left Behind Consolidated Grant:													
Title II, Part A	84.286A	NCLB 554011	9/1/10-8/31/11	19,615	\$ (5,854)			5,854					
Title II, Part A	84.286A	NCLB 554012	9/1/11-8/31/12	17,525				12,551	(17,525)	(4,974)			
Title III	84.365A	NCLB 554012	9/1/11-8/31/12	505				505	(505)				
					(5,854)			18,910	(18,030)	(4,974)			
Special Education Cluster:													
IDEA Combined Grant:													
I.D.E.A. Part B, Basic	84.027	IDEA 554011	9/1/10-8/31/11	125,935	(29,165)			29,165					
I.D.E.A. Part B, Basic	84.027	IDEA 554012	9/1/11-8/31/12	127,973				97,608	(127,973)	(30,365)			
I.D.E.A. Part B, Basic - ARRA	84.391	IDEA 554010	7/1/09-8/31/11	139,102	(3,702)			3,702					
I.D.E.A. Part B, Preschool	84.173	IDEA 554012	9/1/11-8/31/12	6,767				6,767	(6,767)				
Total Special Education Cluster					(32,867)			137,242	(134,740)	(30,365)			
Total U.S. Department of Education					(38,721)			156,152	(152,770)	(35,339)			
U.S. Department of Agriculture:													
Passed-through State Department of Education:													
Child Nutrition Cluster:													
Special Milk Program	10.556	N/A	7/1/10-6/30/11	8,099	(720)			720					
Special Milk Program	10.556	N/A	7/1/11-6/30/12	7,771				6,238	(7,771)	(1,533)			
Total U.S. Department of Agriculture/Child Nutrition Cluster					(720)			6,958	(7,771)	(1,533)			
Total Federal Awards					\$ (39,441)	\$ -0-	\$ -0-	\$ -0-	\$ 182,453	\$ (183,298)	\$ (40,286)	\$ -0-	\$ -0-

N/A - Not Applicable

**BOROUGH OF WATCHUNG SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

State Grantor/Program Title	Grant or State Project Number	Grant Period	Award Amount	Balance at June 30, 2011			Cash Received	Budgetary Expenditures	Repayment of Prior Years' Balances	Balance at June 30, 2012			MEMO	
				Budgetary Accounts Receivable	Budgetary Deferred Revenue	Due to Grantor				GAAP Accounts Receivable	Budgetary Deferred Revenue/ Interfund Payable	Due to Grantor	Budgetary Accounts Receivable	Cumulative Total Expenditures
<b>New Jersey Department of Education</b>														
<b>General Fund:</b>														
Categorical Special Education Aid	11-495-034-5120-089	7/1/10 - 6/30/11	\$ 106,031	\$ (3,969)			\$ 3,969							\$ 106,031
Extraordinary Aid	11-100-034-5120-473	7/1/10 - 6/30/11	102,931	(102,931)			102,931							102,931
Nonpublic Transportation	11-495-035-5120-014	7/1/10 - 6/30/11	6,438	(6,438)			6,438							6,438
Reimbursed TPAF Social Security Contributions	11-495-034-5095-002	7/1/10 - 6/30/11	322,781	(15,654)			15,654							322,781
Categorical Special Education Aid	12-495-034-5120-089	7/1/11 - 6/30/12	330,218				300,562	\$ (330,218)					\$ (29,656)	\$ 330,218
Extraordinary Aid	12-100-034-5120-473	7/1/11 - 6/30/12	53,889					(53,889)		\$ (53,889)			(53,889)	53,889
Nonpublic Transportation	12-495-035-5120-014	7/1/11 - 6/30/12	5,394					(5,394)		(5,394)			(5,394)	5,394
Reimbursed TPAF Social Security Contributions	12-495-034-5095-002	7/1/11 - 6/30/12	328,928				296,662	(328,928)		(32,266)			(32,266)	344,582
<b>Total General Fund State Aid</b>				<b>(128,992)</b>			<b>726,216</b>	<b>(718,429)</b>		<b>(91,549)</b>			<b>(121,205)</b>	<b>1,272,264</b>
<b>Capital Projects Fund:</b>														
N.J. Economic Development Authority Grant	SP210964/201965	N/A	5,096,645	(1)									(1)	5,096,645
N.J. Schools Development Authority Grant	5540-050-09-0ZXX	N/A	64,647	(8,137)									(8,137)	56,510
N.J. Schools Development Authority Grant	5540-050-09-0ZYJ	N/A	74,458	(20,663)									(20,663)	53,795
<b>Total Capital Projects Fund</b>				<b>(28,801)</b>									<b>(28,801)</b>	<b>5,206,950</b>
<b>Total State Awards</b>				<b>\$ (157,793)</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 726,216</b>	<b>\$ (718,429)</b>	<b>\$ -0-</b>	<b>\$ (91,549)</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ (150,006)</b>	<b>\$ 6,479,214</b>

N/A - Not Available

**BOROUGH OF WATCHUNG SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedules of expenditures of federal and state awards includes the federal and state grant activity of the Board of Education, Borough of Watchung School District under programs of the federal and state governments for the fiscal year ended June 30, 2012. The information in these schedules are presented in accordance with the Federal Office of Management and Budget (OMB), *Audits of States and Local Governments and Non-Profit Organizations* and New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because the schedules present only a selected portion of the operations of the District, they are not intended to and do not present the financial position, changes in net assets or cash flows of the District.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the accompanying schedules of expenditures of federal and state awards are reported on 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. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements. Such expenditures are recognized following the cost principles contained in federal OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governmental Units*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through identifying numbers are presented where available.

**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, special revenue and debt service funds 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 state aid payments for the prior year and for the current budget year, which is mandated pursuant to P.L. 2003, C.97. For GAAP purposes, the current year payments are 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. 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 capital projects fund is presented in the accompanying schedules on a modified accrual basis with the exception of the revenue recognition. For GAAP purposes, that revenue is not recognized until the project is completed and the final expenditure report is submitted to the School Development Authority for reimbursement.

The net adjustment to reconcile from the budgetary basis to the GAAP basis is \$(25,687) for the general fund, \$-0- for the special revenue fund and (\$28,801) for the capital projects fund. See Note 1 for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Additionally, the schedule of expenditures of state awards does not include the TPAF Pension Contribution and on-behalf TPAF Pension and Post Retirement Contributions revenue of \$146,253 and \$294,006, respectively.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS (Cont'd)

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	\$ 22,757	\$ 1,133,001	\$ 1,155,758
Special Revenue Fund	152,770		152,770
Food Service Fund	7,771		7,771
Total Awards	<u>\$ 183,298</u>	<u>\$ 1,133,001</u>	<u>\$ 1,316,299</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

TPAF Social Security contributions represent the amount reimbursed by the State for the employers' share of social security contributions for TPAF members for the year ended June 30, 2012.

NOTE 6. NJ SCHOOLS DEVELOPMENT AUTHORITY (NJSDA GRANTS)

The District has been awarded grants totaling \$139,105 from the New Jersey Schools Development Authority (NJSDA) under the Educational Facilities Construction and Financing Act. As of June 30, 2012, the District has not drawn down \$28,801 of the grant funds. In the Capital Projects Fund, the District realized the full amount of the grant funds as a revenue on a budgetary basis in the year awarded and is realizing the grant funds as revenue on a GAAP basis when grant funds are expended and submitted for reimbursement.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 state program.
- An unqualified report was issued on the District's compliance for its major state program.
- The audit did not disclose any audit findings which are required to be reported in accordance with New Jersey OMB's Circular 04-04 or Federal OMB Circular A-133.
- The District was not subject to the single audit provisions of Federal OMB Circular A-133 for fiscal year end June 30, 2012 as federal grant expenditures were less than the single audit threshold of \$500,000 identified in the Circular.
- The District's major state programs for the current fiscal year consisted of the following:

<u>State:</u>	<u>Grant Number</u>	<u>Grant Period</u>	<u>Award Amount</u>	<u>Budgetary Expenditures</u>
Reimbursed TPAF Social Security Contributions	12-495-034-5095-002	7/1/11-6/30/12	\$ 328,928	\$ 328,928

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

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:

- Not Applicable since federal expenditures were below the single audit threshold.

Findings and Questioned Costs for State Awards:

- The audit did not disclose any finding or questioned costs for state awards as defined in section 510(a) of the federal circular and NJOMB 04-04.

BOROUGH OF WATCHUNG SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012

Status of Prior Year Findings:

The District had no prior year audit findings.