

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Fairfield, New Jersey

COMPREHENSIVE ANNUAL

FINANCIAL REPORT

of the

Essex Regional Educational Services Commission

Fairfield, New Jersey

For The Fiscal Year Ended June 30, 2016

Prepared by

Business Office

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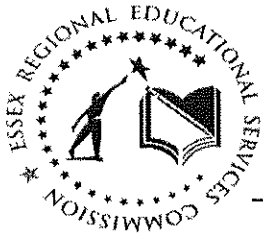
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INTRODUCTORY SECTION



ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION

Dr. Jacqueline A. Young Education Center

369 Passaic Avenue

Fairfield, New Jersey 07004

Tel: (973) 405-6262 / Fax: (973) 405-6565

LAURIE W. NEWELL, Ph.D.
Superintendent

November 28, 2016

Honorable President and
Members of the Board of Directors
Essex Regional Educational Services Commission
Fairfield, New Jersey

The comprehensive annual financial report (CAFR) of the Essex Regional Educational Services Commission for the fiscal year ended June 30, 2016, is hereby submitted. This CAFR includes the Commission's Financial Statements prepared in accordance with Governmental Accounting Standards Board. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Board of Directors. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission'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 Commission's organizational chart and a list of principal officials. The financial section begins with the Independent Auditor's Report and includes the Management's Discussion and Analysis, the Financial Statements and Notes providing an overview of the detailed budgetary information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The Commission is required to undergo an annual single audit in conformity with the requirements of 2 CFR 200-Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (U.S. Uniform Guidance) and the State Treasury Circular Letter 15-08 OMB, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid." Information related to this single audit, including the independent auditor's report on the internal control structure and compliance with applicable laws, regulations, contracts and grants, along with findings and questioned costs is included in the single audit section of this report.

1) REPORTING ENTITY AND ITS SERVICES: The Essex Regional Educational Services Commission is a public educational entity deriving its authority from New Jersey Public Law 18A:6-51 et.seq. Funding sources for the Essex Regional Educational Services Commission is generated from our school tuitions and various fee based educational services.

The Commission provides a broad range of quality educational and administrative services in a cost effective manner. These services include coordinated transportation, special education for learning disabled students, nonpublic 192/193 services, nonpublic nursing, Nonpublic No Child Left Behind (Title I), English as a second language, public school home instruction, public school child study evaluations, educational programs for drug rehabilitation centers and juvenile detention centers, cooperative purchasing, paraprofessional, migrant education, homeless education, alternative education, physical and occupational therapy, and extended school day/year.

<u>FISCAL</u> <u>YEAR</u>	<u>Average Daily Enrollment (Essex Junior Academy)</u>	
	<u>STUDENT</u> <u>ENROLLMENT</u>	<u>PERCENT</u> <u>CHANGE</u>
2015-16	40.8	-3
2014-15	42.0	3
2013-14	40.8	-8
2012-13	44.2	-3
2011-12	45.8	31
2010-11	34.9	11
2009-10	31.4	-1
2008-09	31.8	-40
2007-08	53.2	-10
2006-07	58.9	-1

<u>FISCAL</u> <u>YEAR</u>	<u>Average Daily Enrollment (Essex High School)</u>	
	<u>STUDENT</u> <u>ENROLLMENT</u>	<u>PERCENT</u> <u>CHANGE</u>
2015-16	36.2	-10
2014-15	40.0	3
2013-14	39.0	-16
2012-13	46.2	5
2011-12	44.0	2
2010-11	39.3	16
2009-10	33.8	-20
2008-09	42.5	6
2007-08	40.1	-9
2006-07	44.0	35

<u>FISCAL</u> <u>YEAR</u>	<u>Average Daily Enrollment (Essex Campus Academy)</u>	
	<u>STUDENT</u> <u>ENROLLMENT</u>	<u>PERCENT</u> <u>CHANGE</u>
2015-16	41.1	3
2014-15	40.0	0
2013-14	40.0	10
2012-13	36.4	-21
2011-12	46.3	-14
2010-11	53.8	-36
2009-10	84.7	2
2008-09	82.8	-25
2007-08	109.8	207
2006-07	53.0	21

2) ECONOMIC CONDITION AND OUTLOOK. The Essex Regional Educational Services Commission is experiencing a period of development and expansion, which is expected to continue. The continued reduction of financial resources for local school districts will force them to maximize their assets while they cut costs by cooperatively financing educational expenses. Educational Services Commissions are an effective solution for the financial crisis facing local educators.

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

As a recipient of federal and state financial assistance, the Commission 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 Commission management.

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

4) BUDGETARY CONTROLS: In addition to internal accounting controls, the Commission maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Annual appropriated budgets are adopted for the general and special revenue funds. The final budget amounts as amended for the fiscal year are reflected in the financial section.

An encumbrance accounting system is used to record outstanding purchase commitments of a line item basis. Open encumbrance at year-end are either canceled or are included as reappropriations of fund balance in the subsequent year. The Commission did not have any open encumbrances at June 30, 2016.

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

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

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

8) OTHER INFORMATION: Independent Audit – State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Lerch, Vinci, & Higgins, LLP was appointed as auditor at the reorganization meeting. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the U.S. Uniform Guidance and State OMB Circular 15-08. The auditor's report on the basic financial statements and specific required supplemental information 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.

9) ACKNOWLEDGMENTS: We would like to express our appreciation to the members of the Board of Directors for their concern in providing fiscal accountability to the citizens and taxpayers of the State 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 service of the Business Office staff.

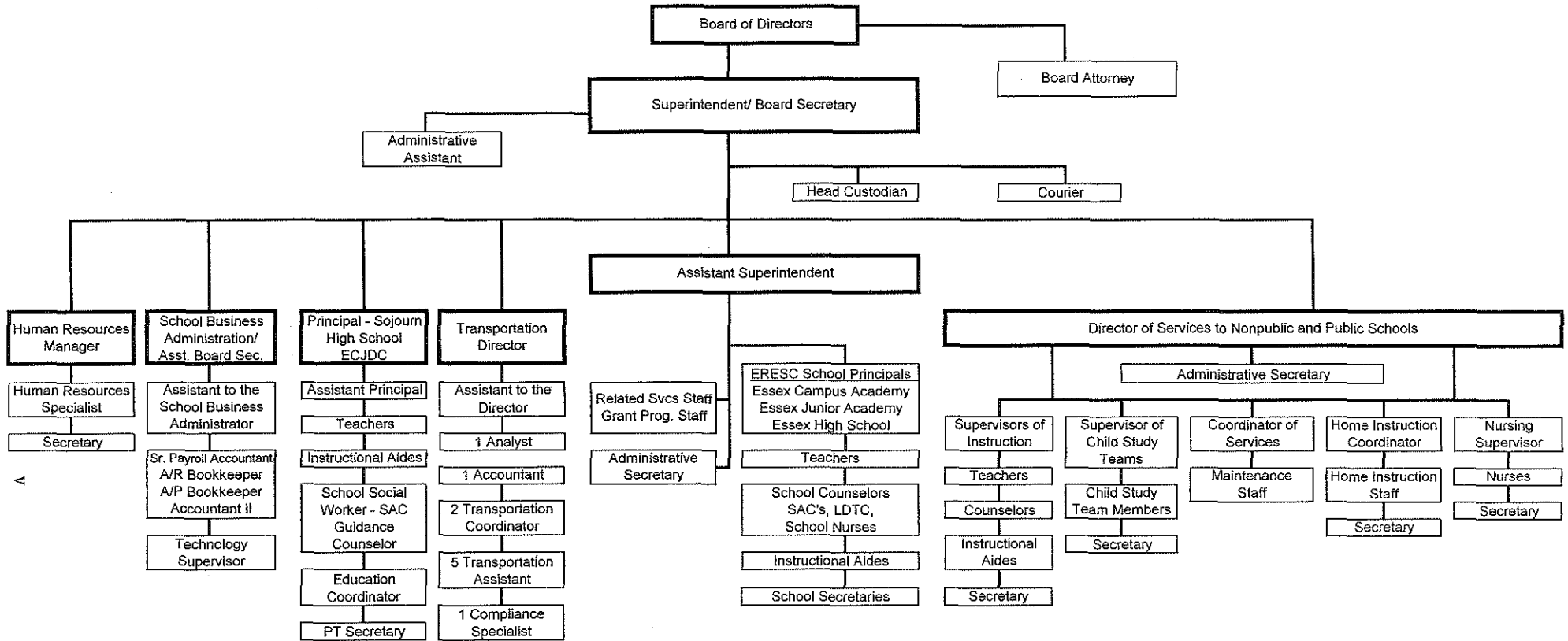
Respectfully submitted,



Dr. Laurie W. Newell
Superintendent of Schools

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION

ORGANIZATIONAL CHART 2015 - 2016



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ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION

Roster of Officials

July 1, 2015 – June 30, 2016

MEMBERS OF THE BOARD OF EDUCATION

SCHOOL DISTRICT

Mr. Richard Williams, President

Irvington Board of Education

Ms. Eve Robinson, Vice President

Montclair Board of Education

Ms. Terry Tucker, Executive Committee Member

East Orange Board of Education

Mr. Salvatore Carnovale

Essex County Vocational

Ms. Christina Mateo

Orange Board of Education

Mr. John Rivera

Belleville Board of Education

Ms. Valerie Wilson

Newark Board of Education

Ms. Maureen Jones

South Orange/Maplewood

Mr. Ronnie Spring

Livingston Board of Education

Ms. Ellen Rogers

Bloomfield Board of Education

OTHER OFFICIALS

Dr. Jacqueline A. Young, Superintendent/Board Secretary

Mr. John Ferraro, School Business Administrator (February 1, 2016 – June 30, 2016)

Wei-Jiun Kao, School Business Administrator (July 1, 2015 – December 23, 2015)

John H. Watson, Esq., Board Attorney

**ESSEX REGIONAL EDUCATIONAL
SERVICES COMMISSION**

Consultants and Advisors

AUDIT FIRM

Lerch, Vinci & Higgins, LLP
Certified Public Accountants
17-17 Route 208 North
Fair Lawn, New Jersey 07410

ATTORNEY

John Watson, Jr., Esq.
63 Washington Street
Suite 200
East Orange, NJ 07017

OFFICIAL DEPOSITORY

PNC Bank
One Garrett Mountain
Woodland Park, NJ 07043

FINANCIAL SECTION



LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA
GARY J. VINCI, CPA, RMA, PSA
GARY W. HIGGINS, CPA, RMA, PSA
JEFFREY C. BLISS, CPA, RMA, PSA
PAUL J. LERCH, CPA, RMA, PSA
DONNA L. JAPHET, CPA, PSA
JULIUS B. CONSONI, CPA, PSA
ANDREW D. PARENTE, CPA, RMA, PSA

ELIZABETH A. SHICK, CPA, RMA, PSA
ROBERT W. HAAG, CPA, PSA
DEBORAH K. LERCH, CPA, PSA
RALPH M. PICONE, CPA, RMA, PSA
DEBRA GOLLE, CPA
CINDY JANACEK, CPA, RMA
MARK SACO, CPA
SHERYL M. NICOLOSI, CPA
ROBERT AMPONSAH, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Directors
Essex Regional Educational Services Commission
Fairfield, New Jersey

Report on the Financial Statements

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 Essex Regional Educational Services Commission as of and for the fiscal year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Essex Regional Educational Services Commission as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information 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.

Other Information

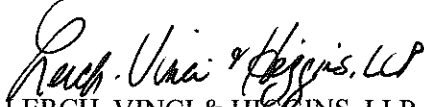
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Essex Regional Educational Services Commission's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, financial schedules, statistical section, schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 15-08, 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 basic financial statements of the Essex Regional Educational Services Commission.


The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards and schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, schedules of expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section, financial schedules and statistical section have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2016 on our consideration of the Essex Regional Educational Services Commission'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Essex Regional Educational Services Commission's internal control over financial reporting and compliance.


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Public School Accountants


Gary J. Vinci
Public School Accountant
PSA Number CS00829

Fair Lawn, New Jersey
November 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

This section of the Essex Regional Educational Services Commission's annual financial report presents our discussion and analysis of the Commission's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the transmittal letter at the front of this report and the Commission's financial statements, which immediately follows this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-2016 fiscal year include the following:

- The assets and deferred outflows of resources of the Essex Regional Educational Services Commission exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$25,675,401 (net position).
- The Commission's total net position increased \$4,033,099.
- Overall Commission revenues were \$108,120,432. General revenues accounted for \$554,939 or less than 1% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$107,565,493 or over 99% of total revenues.
- The Commission had \$104,018,391 in expenses for governmental activities, most of these expenses were offset by program specific charges, grants or contributions. Program revenues for governmental activities exceeded program expenses by \$3,495,782.
- As of the close of the current fiscal year, the Commission's governmental funds reported a combined ending fund balance of \$28,760,282, an increase of \$4,057,149 when compared to the previous year ending fund balance.
- The General Fund unassigned fund balance at June 30, 2016 was \$13,089,192 an increase of \$4,807,149 when compared with the beginning fund balance at July 1, 2015 of \$8,282,043.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the Commission:

- The first two statements are commission wide financial statements that provide both short-term and long-term information about the Commission's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Commission, reporting the Commission's operations in more detail than the commission-wide statements.

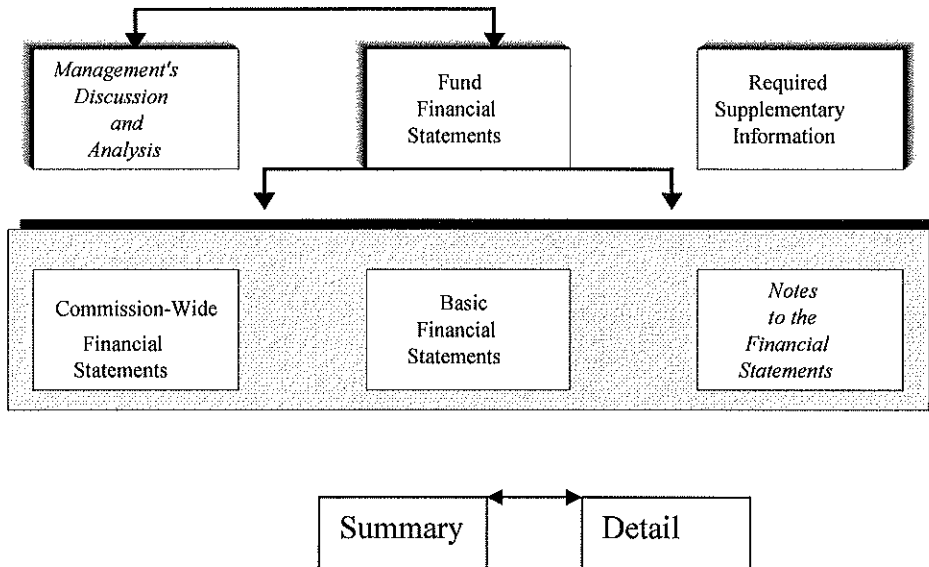
**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

- The governmental funds statements tell how basic services were financed in the short term as well as what remains for future spending.
- Proprietary funds statements offer short-term and long-term financial information about the activities the Commission operated like businesses.
- Fiduciary funds statements provide information about the financial relationships in which the Commission acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain the information in the statements and provide more detailed data. The following shows how the various parts of this annual report are arranged and related to one another.



**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

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

Major Features of the Commission-wide and Fund Financial Statements

	Commission-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Commission (except fiduciary funds)	The activities of the Commission that are not proprietary or fiduciary, such as Regular and Special Education Instruction and Building maintenance	Activities the Commission operates similar to private businesses: Enterprise Fund	Instances in which the Commission administers resources held in trust, such as Payroll Agency and Student Activities
Required financial statements	Statements of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows	Statements of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources Focus
Type of asset, liability and deferred inflows information	All assets, deferred outflows, liabilities, and deferred inflows of resources, 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.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues 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 revenues and expenses during the year, regardless of when cash is received or paid.	All additions and dedications during the year, regardless of when cash is received or paid.

Commission-Wide Financial Statements

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

The two commission-wide statements report the Commission's net position and how they have changed. Net position – the difference between the Commission's assets, deferred outflows, deferred inflows and liabilities – is one way to measure the Commission's financial health or position.

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

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

Commission-Wide Financial Statements (Continued)

In the commission-wide financial statements the Commission's activities are shown in two categories:

- *Governmental activities* – Most of the Commission's basic services are included here, such as regular and special education, transportation, administration and plant operations and maintenance. Tuition charges and service fee revenues finance all of these activities.
- *Business Type activities* – These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Commission's Food Service operations are included under this category.

Fund Financial Statements

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

- Some funds are required by State law and bond covenants.
- The Commission establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (federal and state grants and restricted contributions and service fees).

The Commission has three kinds of funds:

- *Governmental funds* – Most of the Commission'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 to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. Because this information does not encompass the additional long-term focus of the commission-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the Commission charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the commission-wide statements.

Enterprise Funds – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that costs of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges. The Commission currently has one enterprise fund, the Food Service Enterprise Fund.

- *Fiduciary funds* – The Commission is the trustee, or fiduciary, for assets that belong to others. The Commission 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. All of the Commission's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the commission-wide financial statements because the Commission cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the commission-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statements.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Commission's budget process. The Commission adopts an annual expenditure budget for the general and special revenue funds. A budgetary comparison statement has been provided for these funds as required supplementary information. The required supplementary information can be found following the notes to the financial statements.

Combining statements and schedules are presented immediately following the major budgetary comparisons.

COMMISSION-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$25,675,401 and \$21,642,302 as of June 30, 2016 and 2015.

By far the largest portion of the Commission's net position is unrestricted and available to finance future expenses and capital acquisitions of the Commission. The other portion of net position reflects the Commission's net investment in capital assets. The Commission uses these assets to provide services to its students and other local education agencies utilizing the Commission's services.

**Net Position
As of June 30, 2016 and 2015**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets						
Current Assets	\$ 43,282,599	\$ 32,571,219	\$ 22,631	\$ 40,253	\$ 43,305,230	\$ 32,611,472
Capital Assets	<u>11,292,275</u>	<u>11,791,581</u>	<u>-</u>	<u>-</u>	<u>11,292,275</u>	<u>11,791,581</u>
Total Assets	<u>54,574,874</u>	<u>44,362,800</u>	<u>22,631</u>	<u>40,253</u>	<u>54,597,505</u>	<u>44,403,053</u>
Deferred Outflows of Resources						
Deferred Amounts on Net						
Pension Liability	<u>2,005,352</u>	<u>354,619</u>	<u>-</u>	<u>-</u>	<u>2,005,352</u>	<u>354,619</u>
Liabilities						
Long-Term Liabilities	22,843,839	20,638,152			22,843,839	20,638,152
Other Liabilities	<u>7,370,484</u>	<u>1,203,180</u>	<u>-</u>	<u>-</u>	<u>7,370,484</u>	<u>1,203,180</u>
Total Liabilities	<u>30,214,323</u>	<u>21,841,332</u>	<u>-</u>	<u>-</u>	<u>30,214,323</u>	<u>21,841,332</u>
Deferred Inflows of Resources						
Deferred Amounts on Net						
Pension Liability	<u>713,133</u>	<u>1,274,038</u>	<u>-</u>	<u>-</u>	<u>713,133</u>	<u>1,274,038</u>
Net Position						
Net Investment						
in Capital Assets	2,591,880	2,756,573			2,591,880	2,756,573
Restricted	-	36,052			-	36,052
Unrestricted	<u>23,060,890</u>	<u>18,809,424</u>	<u>22,631</u>	<u>40,253</u>	<u>23,083,521</u>	<u>18,849,677</u>
Total Net Position	<u>\$ 25,652,770</u>	<u>\$ 21,602,049</u>	<u>\$ 22,631</u>	<u>\$ 40,253</u>	<u>\$ 25,675,401</u>	<u>\$ 21,642,302</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

**Change in Net Position
For The Fiscal Years Ended June 30, 2016 and 2015**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$ 101,704,764	\$ 83,162,980			\$ 101,704,764	\$ 83,162,980
Operating Grants and Contributions	5,809,409	4,654,659	\$ 51,320	\$ 101,127	5,860,729	4,755,786
General Revenues						
Other	554,939	937,376	-	-	554,939	937,376
Total Revenues	<u>108,069,112</u>	<u>88,755,015</u>	<u>51,320</u>	<u>101,127</u>	<u>108,120,432</u>	<u>88,856,142</u>
Expenses						
Instruction						
Regular	3,871,547	4,470,116			3,871,547	4,470,116
Special Education	10,717,912	10,245,503			10,717,912	10,245,503
Other Instruction	5,739,014	5,331,868			5,739,014	5,331,868
Support Services						
Student and Instruction Related Services	6,144,644	6,322,752			6,144,644	6,322,752
General Administrative Services	1,683,334	1,784,255			1,683,334	1,784,255
School Administrative Services	1,361,735	1,171,115			1,361,735	1,171,115
Central Services	712,869	727,272			712,869	727,272
Administrative Info. Technology	137,436	132,698			137,436	132,698
Plant Operations and Maintenance	1,530,426	1,488,500			1,530,426	1,488,500
Pupil Transportation	71,711,850	55,971,127			71,711,850	55,971,127
Interest on Long Term Debt	407,624	422,747			407,624	422,747
Food Services	-	-	68,942	87,471	68,942	87,471
Total Expenses	<u>104,018,391</u>	<u>88,067,953</u>	<u>68,942</u>	<u>87,471</u>	<u>104,087,333</u>	<u>88,155,424</u>
Change in Net Position	4,050,721	687,062	(17,622)	13,656	4,033,099	700,718
Net Position, Beginning of Year	<u>21,602,049</u>	<u>20,914,987</u>	<u>40,253</u>	<u>26,597</u>	<u>21,642,302</u>	<u>20,941,584</u>
Net Position, End of Year	<u>\$ 25,652,770</u>	<u>\$ 21,602,049</u>	<u>\$ 22,631</u>	<u>\$ 40,253</u>	<u>\$ 25,675,401</u>	<u>\$ 21,642,302</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

Governmental Activities. The Commission's total governmental activities' revenues, which includes State and Federal grants, were \$108,069,112 and \$88,755,015 for the fiscal years ended June 30, 2016 and 2015, respectively. Tuition charges and local education fees of \$101,704,764 and \$83,162,980 represented 94% of the revenues for the respective years. Grants and contributions of \$5,809,409 and \$4,654,659 were realized for the fiscal years ended June 30, 2016 and 2015. In addition, miscellaneous income which includes items such as interest, prior year refunds and other miscellaneous items.

The total cost of all governmental activities programs and services were \$104,018,391 and \$88,067,953 for the fiscal years ended June 30, 2016 and 2015, respectively. The Commission's expenses are related to educating and caring for students and providing transportation and other related services to local education agencies. Instruction totaled \$20,328,473 and \$20,047,487 representing 20% and 23% of total expenses for the fiscal years ended June 30, 2016 and 2015, respectively. Support services (including pupil transportation), totaled \$83,282,294 and \$67,597,719 representing 80% and 76% of total expenditures for the fiscal years ended June 30, 2016 and 2015, respectively. Interest on long term debt totaled less than 1%.

Net Cost of Governmental Activities. The Commission's total cost of services was \$104,018,391 and \$88,067,953 for the fiscal years ended June 30, 2016 and 2015. After applying program revenues, derived from charges for services and grants and contributions of \$107,514,173 and \$87,817,639, the net revenue (expense) for fiscal years ended June 30, 2016 and 2015 were \$3,495,782 and \$(250,314), respectively.

**Total and Net (Expense) Revenue from Governmental Activities
For the Fiscal Years Ended June 30, 2016 and 2015**

	Total Cost of Services		Net (Cost) Income of Services	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Instruction				
Regular	\$ 3,871,547	\$ 4,470,116	\$ (275,724)	\$ (272,580)
Special Education	10,717,912	10,245,503	(5,425,304)	(4,968,064)
Other Instruction	5,739,014	5,331,868	(41,686)	(53,713)
Support Services				
Student and Instruction Related Services	6,144,644	6,322,752	8,386,030	8,286,976
General Administrative Services	1,683,334	1,784,255	(786,811)	(606,849)
School Administrative Services	1,361,735	1,171,115	(1,042,614)	(960,547)
Central Services	712,869	727,272	(712,869)	(719,772)
Administrative Info. Technology	137,436	132,698	(137,436)	(132,698)
Plant Operations and Maintenance	1,530,426	1,488,500	(1,458,120)	(1,474,634)
Pupil Transportation	71,711,850	55,971,127	5,397,940	1,074,314
Interest on Long Term Debt	407,624	422,747	(407,624)	(422,747)
Total	<u>\$ 104,018,391</u>	<u>\$ 88,067,953</u>	<u>\$ 3,495,782</u>	<u>\$ (250,314)</u>

Business-Type Activities – The Commission's total business-type activities revenues were \$51,320 and \$101,127 for the fiscal years ended June 30, 2016 and June 30, 2015. Grants and contributions accounted for 100% of total revenue for both fiscal years.

The total cost of all business-type activities programs and services were \$68,942 and \$87,471 for the fiscal years ended June 30, 2016 and 2015. The Commission's expenses are related to Food Service programs provided to all eligible students within the Commission.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Commission's net resources available for spending at the end of the fiscal year.

The financial performance of the Commission as a whole is reflected in its governmental funds as well. As the Commission completed the school year, its governmental funds reported a combined fund balance of \$28,760,282 for the fiscal year ended June 30, 2016 compared to \$24,703,133 for the fiscal year ended June 30, 2015.

Revenues for the Commission's governmental funds were \$105,022,565 and \$86,115,794, while total expenses were \$100,988,750 and \$86,245,049 for the fiscal years ended June 30, 2016 and 2015, respectively.

General Fund - The General Fund is the chief operating fund of the Commission and includes the primary operations in providing educational services to regular students, to special needs students, as well as, basic skills, home instruction and other support services to various local education agencies. In addition, the Commission provides contracted services for pupil transportation to local education agencies.

The following schedule presents a summary of General Fund Revenues.

	Fiscal Year Ended		Amount of Increase (Decrease)	Percent Change
	June 30,			
	<u>2016</u>	<u>2015</u>		
Local Sources				
Tuition Charges	\$ 3,848,879	\$ 4,679,444	\$ (830,565)	-18%
Transportation Fees	77,827,845	54,508,463	23,319,382	43%
Miscellaneous	10,321,564	12,626,222	(2,304,658)	-18%
State Sources	<u>1,766,182</u>	<u>1,686,981</u>	<u>79,201</u>	5%
Total General Fund Revenues	<u>\$ 93,764,470</u>	<u>\$ 73,501,110</u>	<u>\$ 20,263,360</u>	28%

Total revenues increased \$20,263,360 or 28% from the previous year. Transportation fees increased over \$23 million due to an increase in transportation services provided to other local education agencies. Miscellaneous revenue decreased \$2,304,658 or 18% mainly attributed to a decrease in fees from services provided to other local education agencies. State aid revenues increased \$79,201 due to the increase in State funding for TPAF On-Behalf pension contributions.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE COMMISSION'S FUNDS (Continued)

The following schedule presents a summary of General Fund Expenditures.

	Fiscal Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	<u>2016</u>	<u>2015</u>		
Instruction	\$ 12,149,538	\$ 11,945,634	\$ 203,904	2%
Support Services	76,831,117	60,858,244	15,972,873	26%
Capital Outlay	-	25,347	(25,347)	
Debt Service	<u>750,000</u>	<u>730,000</u>	<u>20,000</u>	3%
 Total Expenditures	 <u>\$ 89,730,655</u>	 <u>\$ 73,559,225</u>	 <u>\$ 16,171,430</u>	 22%

Total General Fund expenditures increased \$16,171,430 or 22% from the previous year. The majority of this increase is attributable to the increase in the cost of transportation and others support expenditures for services provided to other local education agencies.

Special Revenue Fund - The Special Revenue Fund includes all restricted Federal, State and Local sources utilized in the operations of the Commission in providing educational services to students with special needs.

Revenues of the Special Revenue Fund were \$11,258,095 and \$12,614,684 for the fiscal years ended June 30, 2016 and 2015. Local sources accounted for the majority of Special Revenue Fund's revenue which represented 87% and 91% of the total revenues for fiscal years June 30, 2016 and June 30, 2015.

Total Special Revenue Fund revenues decreased \$1,356,589 or 11% from the previous year.

Expenditures of the Special Revenue Fund were \$11,258,095 and \$12,614,684 for the fiscal years ended June 30, 2016 and 2015. Instructional expenditures were \$6,163,453 and \$6,781,611 or 55% and 54% and expenditures for the support services were \$5,094,642 and \$5,833,073 or 45% and 46% of total expended for the fiscal years ended June 30, 2016 and 2015.

Enterprise Fund - The Commission uses an Enterprise Fund to report activities related to the Food Services program. The Commission's Enterprise Fund provides the same type of information found in the Commission-wide financial statements, business-type activities, but in more detail. Factors concerning the finances of this Fund have already been addressed in the discussion of the Commission's Business-Type activities.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

GENERAL FUND BUDGETARY HIGHLIGHTS

The Commission's budget is prepared according to New Jersey Department of Education guidelines, and is based on accounting for certain transactions on the budgetary basis of accounting for revenues, expenditures and encumbrances. The most significant budgetary fund is the General Fund.

Over the course of the year, the Commission revised the annual operating budget several times. These budget amendments were due to adjusted budgets for specially funded projects, which include additional service fee revenue and both federal and state grant awards.

CAPITAL ASSETS

The Commission's investment in capital assets for its governmental activities as of June 30, 2016 and 2015 amounted to \$11,292,275 and \$11,791,581. The Commission's business-type activities capital assets were fully depreciated as of June 30, 2015. The capital assets consist of land, construction in progress site and leasehold improvements, building and building improvements, computers, specialized machinery and various other types of equipment. Depreciation charges for fiscal years 2015-2016 and 2014-2015 amounted to \$475,543 and \$471,676 for governmental activities and \$-0- and \$1,434 for business-type activities, respectively.

Capital Assets at June 30, 2016 and 2015
(Net of Accumulated Depreciation)

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 2,100,000	\$ 2,100,000
Site Improvements	2,465	2,648
Building and Building Improvements	8,787,968	9,124,906
Leasehold Improvements	113,646	121,319
Machinery and Equipment	<u>288,196</u>	<u>442,708</u>
Total Capital Assets, Net	<u>\$ 11,292,275</u>	<u>\$ 11,791,581</u>

Additional information on the Commission's capital assets is presented in the notes to the financial statements.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FAIRFIELD, NEW JERSEY**

Management's Discussion and Analysis

LONG TERM LIABILITIES

At year end, the Commission's long-term liabilities consisted of compensated absences payable of \$347,249 and \$325,837, capital leases payable in the amount of \$8,700,395 and \$9,035,008 and net pension liability of \$13,796,195 and \$11,277,307 for the fiscal years ended June 30, 2016 and 2015.

Additional information of the Commission's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Many factors were considered by the Commission's administration during the process of developing the fiscal year 2016-2017 budget. The primary factors were the Commission's projected student population and services required to be provided to local education agencies as well as increasing transportation, salary and related benefit costs.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our member school districts, customers, and investors and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report or need additional information contact the School Business Administrator, Essex Regional Educational Services Commission, 369 Passaic Avenue, Fairfield, NJ 07052.

BASIC FINANCIAL STATEMENTS

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 3,390,851	\$ 1,070	\$ 3,391,921
Receivables, Net	39,815,540	34,436	39,849,976
Other Current Assets	63,333		63,333
Internal Balances	12,875	(12,875)	
Capital Assets			
Capital Assets Not Being Depreciated	2,100,000		2,100,000
Capital Assets Being Depreciated (Net)	9,192,275	-	9,192,275
Total Assets	<u>54,574,874</u>	<u>22,631</u>	<u>54,597,505</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts on Net Pension Liability	<u>2,005,352</u>	-	<u>2,005,352</u>
Total Deferred Outflows of Resources	<u>2,005,352</u>	-	<u>2,005,352</u>
Total Assets and Deferred Outflows	<u>56,580,226</u>	<u>22,631</u>	<u>56,602,857</u>
LIABILITIES			
Accounts Payable and Other Current Liabilities	7,007,760		7,007,760
Accrued Interest Payable	201,849		201,849
Unearned Revenue	160,875		160,875
Noncurrent Liabilities			
Due Within One Year	370,551		370,551
Due Beyond One Year	22,473,288	-	22,473,288
Total Liabilities	<u>30,214,323</u>	-	<u>30,214,323</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts on Net Pension Liability	<u>713,133</u>	-	<u>713,133</u>
Total Deferred Inflows of Resources	<u>713,133</u>	-	<u>713,133</u>
Total Liabilities and Deferred Inflows	<u>30,927,456</u>	-	<u>30,927,456</u>
NET POSITION			
Net Investment in Capital Assets	2,591,880		2,591,880
Unrestricted	23,060,890	22,631	23,083,521
Total Net Position	<u>\$ 25,652,770</u>	<u>\$ 22,631</u>	<u>\$ 25,675,401</u>

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction							
Regular	\$ 3,871,547	\$ 2,449,612	\$ 1,146,211		\$ (275,724)		\$ (275,724)
Special Education	10,717,912	4,906,330	386,278		(5,425,304)		(5,425,304)
Other Instruction	5,739,014	3,501,992	2,195,336		(41,686)		(41,686)
Support Services							
Student and Instruction Related Services	6,144,644	13,062,651	1,468,023		8,386,030		8,386,030
General Administrative Services	1,683,334	636,931	259,592		(786,811)		(786,811)
School Administrative Services	1,361,735		319,121		(1,042,614)		(1,042,614)
Central Services	712,869		-		(712,869)		(712,869)
Administrative Info. Technology	137,436				(137,436)		(137,436)
Plant Operations and Maintenance	1,530,426	37,458	34,848		(1,458,120)		(1,458,120)
Pupil Transportation	71,711,850	77,109,790	-		5,397,940		5,397,940
Interest on Long Term Debt	407,624	-	-		(407,624)		(407,624)
Total Governmental Activities	<u>104,018,391</u>	<u>101,704,764</u>	<u>5,809,409</u>	<u>-</u>	<u>3,495,782</u>	<u>-</u>	<u>3,495,782</u>
Business-Type Activities							
Food Service	<u>68,942</u>	<u>-</u>	<u>51,320</u>	<u>-</u>	<u>-</u>	<u>\$ (17,622)</u>	<u>(17,622)</u>
Total Business-Type Activities	<u>68,942</u>	<u>-</u>	<u>51,320</u>	<u>-</u>	<u>-</u>	<u>(17,622)</u>	<u>(17,622)</u>
Total Primary Government	<u>\$ 104,087,333</u>	<u>\$ 101,704,764</u>	<u>\$ 5,860,729</u>	<u>\$ -</u>	<u>3,495,782</u>	<u>(17,622)</u>	<u>3,478,160</u>
General Revenues							
Indirect Cost Reimbursement and Miscellaneous					554,939	-	554,939
Total General Revenues					<u>554,939</u>	<u>-</u>	<u>554,939</u>
Change in Net Position					4,050,721	(17,622)	4,033,099
Net Position, Beginning of Year					<u>21,602,049</u>	<u>40,253</u>	<u>21,642,302</u>
Net Position, End of Year					<u>\$ 25,652,770</u>	<u>\$ 22,631</u>	<u>\$ 25,675,401</u>

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

FUND FINANCIAL STATEMENTS

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
GOVERNMENTAL FUNDS
BALANCE SHEET
AS OF JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 3,390,851			\$ 3,390,851
Receivables, Net				
Accounts	59,407	\$ 34,869		94,276
Receivables from Other Governments	36,187,790	3,528,474		39,716,264
Due from Other Funds	2,921,494			2,921,494
Security Deposits	63,333	-	-	63,333
	<u>42,622,875</u>	<u>3,563,343</u>	<u>-</u>	<u>46,186,218</u>
Total Assets	\$ 42,622,875	\$ 3,563,343	\$ -	\$ 46,186,218
LIABILITIES, DEFERRED INFLOWS OF RESOURCES				
FUND BALANCE				
Liabilities				
Accounts Payable	\$ 6,426,681	\$ 481,079		\$ 6,907,760
Accrued Salaries and Wages	61,500	38,500		100,000
Due to Other Funds		2,903,619		2,903,619
Unearned Revenue	20,730	140,145	-	160,875
	<u>6,508,911</u>	<u>3,563,343</u>	<u>-</u>	<u>10,072,254</u>
Total Liabilities	6,508,911	3,563,343	-	10,072,254
Deferred Inflows of Resources				
Unavailable Revenue - Program Fees	7,353,682	-	-	7,353,682
	<u>7,353,682</u>	<u>-</u>	<u>-</u>	<u>7,353,682</u>
Total Deferred Inflows of Resources	7,353,682	-	-	7,353,682
Fund Balances				
Assigned:				
Designated for Capital Projects	2,779,970			2,779,970
Designated for Repairs and Replacements	683,475			683,475
Designated for Fairfield Building Lease	12,207,645			12,207,645
Unassigned	13,089,192	-	-	13,089,192
	<u>28,760,282</u>	<u>-</u>	<u>-</u>	<u>28,760,282</u>
Total Fund Balances	28,760,282	-	-	28,760,282
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 42,622,875	\$ 3,563,343	\$ -	

Amounts reported for governmental activities in the statement of net position (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 \$16,447,650 and the accumulated depreciation is \$5,155,375.	11,292,275
Unearned revenues in the funds that do not provide current financial resources are realized as revenues in the statement of activities	7,353,682
The District has financed capital assets through the issuance of long-term debt. The interest accrued at year end is:	(201,849)
Long term liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Capital Leases Payable	\$ (8,700,395)
Compensated Absences	(347,249)
Net Pension Liability	(13,796,195)
Deferred Amounts on Net Pension Liability	
Deferred Inflows	(713,133)
Deferred Outflows	2,005,352
	<u>(21,551,620)</u>
Net Position of Governmental Activities	\$ 25,652,770

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Sources				
Tuition Charges	\$ 3,848,879			\$ 3,848,879
Transportation Fees	77,827,845			77,827,845
Miscellaneous	10,321,564	\$ 9,820,751	-	20,142,315
Total - Local Sources	91,998,288	9,820,751		101,819,039
State Sources	1,766,182	115,713		1,881,895
Federal Sources	-	1,321,631	-	1,321,631
Total Revenues	93,764,470	11,258,095	-	105,022,565
EXPENDITURES				
Current				
Instruction				
Regular Instruction	2,066,634	1,157,232		3,223,866
Special Education Instruction	9,389,388	875,608		10,264,996
Other Special Instruction	693,516	4,130,613		4,824,129
Support Services				
Student and Instruction Related Services	1,154,384	4,542,491		5,696,875
General Administrative Services	1,003,562	469,211		1,472,773
School Administrative Services	1,159,525			1,159,525
Central Services	700,842			700,842
Administrative Info. Technology	134,202			134,202
Plant Operations and Maintenance	1,042,793	37,458		1,080,251
Pupil Transportation	71,635,809	45,482		71,681,291
Debt Service				
Principal	334,613			334,613
Interest and Other Charges	415,387	-	-	415,387
Total Expenditures	89,730,655	11,258,095	-	100,988,750
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,033,815	-	-	4,033,815
OTHER FINANCING SOURCES (USES)				
Proceeds from Insurance Recovery	23,334			23,334
Transfers In	36,052		-	36,052
Transfers Out	-	-	(36,052)	(36,052)
Total Other Financing Sources (Uses)	59,386	-	(36,052)	23,334
Net Change in Fund Balances	4,093,201	-	(36,052)	4,057,149
Fund Balance, Beginning of Year	24,667,081	-	36,052	24,703,133
Fund Balance, End of Year	\$ 28,760,282	\$ -	\$ -	\$ 28,760,282

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
WITH THE COMMISSION-WIDE STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Governmental Funds (Exhibit B-2) **\$ 4,057,149**

Amounts reported for governmental activities in the statement of activities are different because:

In the statement of activities revenues that do not provide current financial resources are not reported as revenue but are deferred in the funds.

Unearned Revenue - June 30, 2015	\$ (6,874,518)	
Unearned Revenue - June 30, 2016	<u>7,353,682</u>	479,164

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expense.

Depreciation Expense	<u>(475,543)</u>	(475,543)
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The net effect of various transactions involving capital assets is to increase or decrease net assets. These transactions are not reported in the governmental funds financial statements.

Loss on Disposal of Capital Assets		(23,763)
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Repayment of debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. Forgiveness of debt is a revenue in the statement of activities and reduces long-term debt in the statement of net position but does not affect the governmental funds.

Capital Leases Principal Paid		334,613
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In the statement of activities, certain operating expenses - compensated absences and claims and judgements - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (paid):

Increase in Compensated Absences		(21,412)
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In the statement of activities, pension expenses are measured by the liability accrued during the year. In the governmental funds, however, expenditures are reported in the amount of financial resources used (paid).

Increase in Pension Expense - Public Employees' Retirement System		(307,250)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

Decrease in Accrued Interest		<u>7,763</u>
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Change in Net Position of Governmental Activities (Exhibit A-2) **\$ 4,050,721**

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 PROPRIETARY FUNDS
 FOOD SERVICE ENTERPRISE FUND
 STATEMENT OF NET POSITION
 AS OF JUNE 30, 2016**

ASSETS

Current Assets

Cash and Cash Equivalents	\$	1,070
Intergovernmental Accounts Receivable		
Federal		34,012
State		424
		35,506
 Total Current Assets		 35,506

Non-Current Assets

Capital Assets		7,170
Accumulated Depreciation		(7,170)
		-
 Total Capital Assets, Net		 -
 Total Assets		 35,506

LIABILITIES

Current Liabilities

Due to Other Funds		12,875
		12,875
 Total Liabilities		 12,875

NET POSITION

Unrestricted		22,631
		22,631
 Total Net Position	\$	 22,631

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 PROPRIETARY FUND
 FOOD SERVICE ENTERPRISE FUND
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

OPERATING EXPENSES

Cost of Sales - Reimbursable Programs	\$ <u>68,942</u>
Total Operating Expenses	<u>68,942</u>
Operating (Loss)	<u>(68,942)</u>

NONOPERATING REVENUES

State Sources	
State School Lunch Program	612
Federal Sources	
School Breakfast Program	19,884
National School Lunch Program	30,810
Interest	<u>14</u>
Total Nonoperating Revenues	<u>51,320</u>
Change in Net Position	(17,622)
Net Position, Beginning of Year	<u>40,253</u>
Net Position, End of Year	<u>\$ 22,631</u>

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 PROPRIETARY FUNDS
 FOOD SERVICE ENTERPRISE FUND
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Payments for Goods and Services	\$ <u>(68,942)</u>
Net Cash (Used for) Operating Activities	<u>(68,942)</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING
 ACTIVITIES**

Cash Received from Interfund Advances	12,875
Cash Received from State and Federal Subsidy Reimbursements	<u>24,148</u>
Net Cash Provided By Non-Capital Financing Activities	<u>37,023</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received on Deposits	<u>14</u>
Net Cash Provided By Investing Activities	<u>14</u>
Net Change in Cash and Cash Equivalents	(31,905)
Cash and Cash Equivalents, Beginning of Year	<u>32,975</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,070</u>

**Reconciliation of Operating (Loss) to Net Cash
 (Used) by Operating Activities:**

Operating (Loss)	\$ <u>(68,942)</u>
Net Cash (Used for) Operating Activities	<u>\$ (68,942)</u>

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2016**

	<u>Agency Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>195,993</u>
Total Assets	\$ <u><u>195,993</u></u>
LIABILITIES	
Due to Student Groups	\$ 1,534
Payroll Deductions and Withholdings	181,344
Accrued Salaries and Wages	8,115
Due to Other Funds	<u>5,000</u>
Total Liabilities	\$ <u><u>195,993</u></u>

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

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOT APPLICABLE

NOTES TO THE FINANCIAL STATEMENTS

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Essex Regional Educational Services Commission (the "Commission") is an instrumentality of the State of New Jersey, established to function as an education institution. The Board consists of ten member school districts who assign an individual to serve on the Commission's Board of Directors. The Commission is located in the County of Essex and the Board of Directors are responsible for the fiscal control of the Commission. A superintendent is appointed by the Board and is responsible for the administrative control of the Commission. Under existing statutes, the Commission's duties and powers include, but are not limited to, the development and adoption of a school program; the establishment, organization and operation of schools; and the acquisition, maintenance and disposition of school property.

The Board also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements of the Commission are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Commission. For the Essex Regional Educational Services Commission this includes general operations, food service, and student related activities of the Commission.

Component units are legally separate organizations for which the Commission is financially accountable. The Commission is financially accountable for an organization if the Commission appoints a voting majority of the organization's governing board and (1) the Commission is able to significantly influence the programs or services performed or provided by the organization; or (2) the Commission is legally entitled to or can otherwise access the organization's resources; the Commission is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Commission is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Commission in that the Commission approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Commission has no component units. Furthermore, the Commission is not includable in any other reporting entity as a component unit.

B. New Accounting Standards

During fiscal year 2016, the Commission adopted the following GASB statements:

- GASB No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement applies to donated capital assets, donated works of art, donated historical treasures, and also to similar assets and capital assets received in a service concession arrangement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. New Accounting Standards (Continued)

Other accounting standards that the Commission is currently reviewing for applicability and potential impact on the financial statements include:

- GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
- GASB No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.
- GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.
- GASB No. 77, *Tax Abatement Disclosures*, will be effective beginning with the fiscal year ending June 30, 2017. The requirements of this Statement will improve financial reporting by providing disclosure of information about the nature and magnitude of tax abatements that will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.
- GASB No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pension*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

C. Basis of Presentation - Financial Statements

The financial statements include both commission-wide financial statements (based on the Commission as a whole) and fund financial statements (based on specific Commission activities or objectives). Both the commission-wide and fund financial statements categorize activities as either governmental activities or business-type activities. While separate commission-wide and fund financial statements are presented, they are interrelated. In the commission-wide financial statements, the governmental activities column incorporates data from the governmental funds, while business-type activities incorporate data from the Commission's enterprise funds. Fiduciary funds are excluded from the commission-wide financial statements.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Financial Statements (Continued)

Commission-Wide Financial Statements

The commission-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Commission. All fiduciary activities are reported only in the fund financial statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. In the statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) reflect on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or other governmental entities, including other school districts, who purchase, use, or directly benefit from goods or services provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

As a general rule the effect of interfund activity has been eliminated from the commission-wide financial statements. Exceptions to this general rule are charges between the Commission's proprietary and fiduciary funds since elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Separate fund financial statements are provided for governmental, proprietary, and fiduciary activities, even though the latter are excluded from the commission-wide financial statements. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. The Commission considers all of its governmental funds to be major funds and the food service enterprise fund to be a nonmajor fund.

The Commission reports the following major governmental funds:

The *general fund* is the Commission's primary operating fund. It accounts for all financial resources of the Commission, except those to be accounted for in another fund.

The *special revenue fund* accounts for the proceeds of specific revenue sources legally restricted to expenditures for specified purposes. This fund accounts for federal, state and local financial programs, with the exception of grants for major capital projects and the child nutrition programs. This fund also accounts for fees earned by the Commission from local education agencies restricted for specific programs and services performed by the Commission.

The *capital projects fund* accounts for the proceeds from the sale of bonds, lease purchases and other revenues used for the acquisition or construction of capital facilities and other capital assets, other than those financed by the proprietary funds.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

The Commission reports the following nonmajor proprietary fund which is organized to be self-supporting through user charges:

The *food service fund* accounts for the activities of the school cafeteria, which provides food service to students.

Additionally, the Commission reports the following fund type:

The *fiduciary trust fund* is used to account for resources legally held in trust for payroll related activities and student related activities which are supported and controlled by student organizations and clubs. All resources of the fund, including any earnings on invested resources, may be used to support the intended purpose. There is no requirement that any portion of these resources be preserved as capital.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the commission-wide financial statements as "internal balances".

Reclassifications

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The commission-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements with the exception of the agency fund which does not have a measurement focus. All assets, all liabilities and all deferred outflows/inflows of resources associated with these operations (with the exception of the fiduciary funds) are included on the Statement of Net Position. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e. when they are both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when a liability is incurred, as under accrual basis of accounting, with the exception of debt service expenditures as well as expenditures related to compensated absences and claims and judgments which are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Tuition, transportation fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements (formula-type grants and aid) are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Expenditure-driven grants and similar awards (reimbursement-type grants and awards) are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements imposed by the grantor or provider have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when cash is received by the Commission.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value and are limited by N.J.S.A. 18A:20-37.

2. Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

3. Inventories

The cost of inventories of the governmental fund types are recorded as expenditures at the time individual inventory items are purchased.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. *Capital Assets*

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the commission-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of \$2,000 and an estimated useful life in excess of two years. The Commission was able to estimate the historical cost for the initial reporting of these capital assets through back trending. As the Commission constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land and construction in progress are not depreciated. The other property, plant, and equipment of the Commission is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Site Improvements	20
Buildings and Building Improvements	20-40
Leasehold Improvements	20
Office Equipment and Furniture	5-8

5. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has one item which arises only under the accrual basis of accounting that qualifies for reporting in this category. The item that qualifies for reporting in this category is the deferred amounts on net pension liability. Deferred amounts on net pension liability are reported in the commission-wide statement of net position and result from: (1) differences between expected and actual experience; (2) changes in assumptions; (3) net difference between projected and actual investment earnings on pension plan investments; (4) changes in proportion and differences between employer contributions and proportionate share of contributions; and (5) contributions made subsequent to the measurement date. These amounts are deferred and amortized over future years.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

5. *Deferred Outflows/Inflows of Resources* (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has two types of items, one type which arises only under a modified accrual basis of accounting, and one type which arises only under the accrual basis of accounting that qualifies for reporting in this category. Accordingly, one item, unavailable revenue, is reported only in the governmental funds balance sheet for tuition, transportation fees and miscellaneous service fees. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds as deferred inflows of resources were as follows:

General Fund

Intergovernmental Receivables:

Tuition	\$ 526,746
Transportation Fees	5,265,483
Miscellaneous Service Fees	<u>1,561,453</u>

Total Unavailable Revenue	<u>\$ 7,353,682</u>
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The other item that qualifies for reporting in this category are the deferred amounts on net pension liability. Deferred amounts on net pension liability are reported in the commission-wide statement of net position and result from: (1) differences between expected and actual experience; (2) changes in assumptions; (3) net difference between projected and actual investment earnings on pension plan investments; and (4) changes in proportion and differences between employer contributions and proportionate share of contributions. These amounts are deferred and amortized over future years.

6. *Compensated Absences*

It is the Commission's policy to permit employees to accumulate (with certain restrictions) earned but unused vacation and sick leave benefits. A long-term liability of accumulated vacation and sick leave and salary related payments has been recorded in the governmental activities in the commission-wide financial statements, representing the Commission's commitment to fund such costs from future operations. A liability is reported in the governmental funds only to the amount actually due at year end as a result of employee resignations and retirements.

7. *Pensions*

In the commission-wide financial statements, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the retirement systems sponsored and administered by the State of New Jersey and additions to/deductions from these retirement systems' fiduciary net position have been determined on the same basis as they are reported by the retirement systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

7. *Pensions (Continued)*

In the governmental fund financial statements, net pension liabilities represent amounts normally expected to be liquidated with expendable available financial resources for required pension contributions that are due and payable at year end. Pension expenditures are recognized based on contractual pension contributions that are required to be made to the pension plan during the fiscal year.

8. *Long-Term Obligations*

In the commission-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

9. *Net Position/Fund Balance*

Commission-Wide Statements

In the commission-wide statements, there are three classes of net position:

- **Net Investment in Capital Assets** – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or related debt also should be included.
- **Restricted Net Position** – reports net position when constraints placed on the residual amount of noncapital assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – any portion of net position not already classified as either net investment in capital assets or net position – restricted is classified as net position – unrestricted.

Governmental Fund Statements

Fund balance categories are designed to make the nature and extent of the constraints placed on the Commission's fund balance more transparent. These categories are comprised of a hierarchy based primarily on the extent to which the Commission is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Assigned Fund Balance – Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Designated for Capital Projects – This designation was created to dedicate a portion of fund balance for capital improvements.

Designated for Repairs and Replacements – This designation was created to dedicate a portion of fund balance for facility required maintenance repairs and replacement costs.

Designated for Fairfield Building Lease – This designation was created to dedicate a portion of fund balance for the repayment of principal and interest on the Fairfield building lease-purchase agreement.

Unassigned Fund Balance – Represents fund balance that has not been restricted, committed or assigned to specific purposes within the governmental funds.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Revenues and Expenditures/Expenses

1. *Program Revenues*

Amounts reported as program revenues in the commission-wide statement of activities include 1) charges to customers or applicants for goods or services, provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include indirect cost reimbursements, interest earnings and miscellaneous revenues.

2. *Tuition Revenues and Expenditures*

Tuition Revenues - Tuition charges were established by the Commission based on estimated costs.

Tuition Expenditures - Tuition charges for the fiscal years 2014-2015 and 2015-2016 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been certified by the State Department of Education.

3. *Proprietary Funds, Operating and Nonoperating Revenues and Expenses*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the food service enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Federal and State subsidies for the food service operation are considered nonoperating revenues.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

In accordance with the requirements of the New Jersey Department of Education ("the Department"), the Commission annually prepares its operating budget for the forthcoming year. The budget, except for the general fund and special revenue fund, which is more fully explained below and in the notes to the required supplementary information, is prepared in accordance with accounting principles generally accepted in the United States of America and serves as a formal plan for expenditures and the proposed means for financing them. Capital lease transactions are accounted for on the GAAP basis.

The annual budget is adopted in the spring of the preceding year for the general and special revenue funds. The Commission is not required to adopt an annual budget for the capital projects fund. The budget is submitted to the county superintendent for review and approval prior to adoption and is approved by the Board of Directors on or before March 8 of the preceding fiscal year. Prior to the adoption of the budget the Commission must notify each member of the Commission of the fees to be charged for each service and program for the ensuing school year and the method by which the Commission expenses shall be funded.

Budget adoptions and amendments are recorded in the Commission's minutes. The budget is amended by the Board of Directors as needed throughout the year. The budget for revenues, other resources, other uses, and fund balances is prepared by fund source and amount. The budget for expenditures is prepared by fund, program, function, object and amount. The legal level of budgetary control is established at the line item account 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. The Commission approved several budget transfers during 2015/2016. Also, during 2015/2016 the Commission increased the original budget of the General Fund by \$38,832,112 and the Special Revenue Fund by \$2,681,181. The increases were funded by grant awards and additional program fees.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

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 accounting principles generally accepted in the United States of America, with the exception of the legally mandated revenue recognition of certain state aid payments for budgetary purposes only and the treatment of encumbrances in the special revenue fund as described in the Notes to Required Supplementary Information (RSI). Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

Encumbrance accounting is employed in the governmental funds. 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 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 which are reappropriated and honored during the subsequent fiscal year.

B. Excess Expenditures Over Appropriations

The following is a summary of expenditures in excess of available appropriations. The overexpended appropriations resulted in unfavorable variances.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Undistributed Expenditures			
Instruction			
Special Education			
Learning/Language			
Salaries of Teachers	\$ 423,320	\$ 432,310	\$ 8,990
Support Services - School Administration			
Other Purchased Services	16,821	17,429	608
Central Services			
Other Objects	33,400	34,109	709
Unallocated Employee Benefits			
Social Security Contributions	811,017	823,544	12,527
Other Retirement Contributions - PERS	527,475	574,524	47,049
Special Revenue Fund			
Instruction			
Purchased Professional and Technical Services	39,328	40,917	1,589
Other Objects	12,352	54,507	42,155
Support Services			
Salaries of Secretaries and Clerical Assistants	189,055	196,147	7,092
Clearing, Repairs and Maintenance	25,023	25,068	45
Indirect Costs	357,915	469,211	111,296

The above variances were offset with other available resources.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

C. Transfers to Capital Outlay

During the 2015/2016 school year, the Commission transferred \$34,327 to the non-equipment capital outlay accounts. The transfer was made to provide the funds necessary for the required payment of the lease purchase principal.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Cash Deposits and Investments

Cash Deposits

The Commission's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Commission is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At June 30, 2016, the book value of the Commission's deposits were \$3,587,914 and bank and brokerage firm balances of the Commission's deposits amounted to \$5,314,865. The Commission's deposits which are displayed on the various fund balance sheets as "cash and cash equivalents" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ <u>5,314,865</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Commission does not have a policy for custodial credit risk. As of June 30, 2016 the Commission had no bank balances exposed to custodial credit risk.

Investments

The Commission is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 18A:20-37. Examples of the allowable investments are bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the school district or bonds or other obligations of the local unit or units within which the school district is located, Local Government investment pools, and agreements or the repurchase of fully collateralized securities, if transacted in accordance with the above statute.

As of June 30, 2016, the Commission had no outstanding investments.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables

Receivables as of June 30, 2016 for the Commission’s individual major and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Food Service</u>	<u>Total</u>
Receivables:				
Accounts	\$ 59,407	\$ 34,869		\$ 94,276
Intergovernmental				
Federal		204,512	\$ 50,641	255,153
State	45,059		633	45,692
Local	<u>36,142,731</u>	<u>3,323,962</u>	<u>-</u>	<u>39,466,693</u>
Gross Receivables	36,247,197	3,563,343	51,274	39,861,814
Less: Allowance for Uncollectibles				
Federal			16,629	16,629
State	<u>-</u>	<u>-</u>	<u>209</u>	<u>209</u>
Net Total Receivables	<u>\$ 36,247,197</u>	<u>\$ 3,563,343</u>	<u>\$ 34,436</u>	<u>\$ 39,844,976</u>

C. Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported in the governmental funds were as follows:

General Fund	
Summer School Tuition	\$ 20,730
Special Revenue Fund	
Unencumbered Grant Drawdowns	<u>140,145</u>
	<u>\$ 160,875</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance, July 1, 2015	Increases	Decreases	Balance, June 30, 2016
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,100,000			\$ 2,100,000
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>2,100,000</u>	<u>-</u>	<u>-</u>	<u>2,100,000</u>
Capital Assets, Being Depreciated:				
Site Improvements	3,652			3,652
Building and Building Improvements	12,051,198	-		12,051,198
Leasehold Improvements	154,389			154,389
Machinery and Equipment	2,163,758	-	\$ (25,347)	2,138,411
Total Capital Assets Being Depreciated	<u>14,372,997</u>	<u>-</u>	<u>(25,347)</u>	<u>14,347,650</u>
Less Accumulated Depreciation For:				
Site Improvements	(1,004)	\$ (183)		(1,187)
Building and Building Improvements	(2,926,292)	(336,938)		(3,263,230)
Leasehold Improvements	(33,070)	(7,673)		(40,743)
Machinery and Equipment	(1,721,050)	(130,749)	1,584	(1,850,215)
Total Accumulated Depreciation	<u>(4,681,416)</u>	<u>(475,543)</u>	<u>1,584</u>	<u>(5,155,375)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,691,581</u>	<u>(475,543)</u>	<u>(23,763)</u>	<u>9,192,275</u>
Governmental Activities Capital Assets, net	<u>\$ 11,791,581</u>	<u>\$ (475,543)</u>	<u>\$ (23,763)</u>	<u>\$ 11,292,275</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Machinery and Equipment	\$ 7,170	-	-	\$ 7,170
Total Capital Assets Being Depreciated	<u>7,170</u>	<u>-</u>	<u>-</u>	<u>7,170</u>
Less Accumulated Depreciation for:				
Machinery and Equipment	(7,170)	-	-	(7,170)
Total Accumulated Depreciation	<u>(7,170)</u>	<u>-</u>	<u>-</u>	<u>(7,170)</u>
Business-Type Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the Commission as follows:

Governmental Activities:

Instruction		
Regular	\$	3,605
Special		<u>10,148</u>
Total Instruction		<u>13,753</u>
Support Services		
General Administration		8,229
School Administration		8,614
Operations and Maintenance of Plant		443,123
Business and Other Support Services		<u>1,824</u>
Total Support Services		<u>461,790</u>
Total Depreciation Expense - Governmental Activities	\$	<u>475,543</u>

E. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2016, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$ 2,903,619
General Fund	Food Service Fund	12,875
General Fund	Payroll Agency Fund	<u>5,000</u>
Total		<u>\$ 2,921,494</u>

The above balances are the result of revenues earned or other financing sources received in one fund which are due to another fund and/or expenditures paid by one fund on behalf of another fund and/or to cover cash balances which were in an overdraft position.

The Commission expects all interfund balances to be liquidated within one year.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	<u>Transfer In:</u>
	General Fund
Transfer Out:	
Capital Projects Fund	\$ <u>36,052</u>

The above transfers are the result of the cancellation of unexpended project balances restored to the General Fund.

F. Leases

Operating Leases

The Commission leases buildings and office equipment under noncancelable operating leases. Lease payments for the fiscal year ended June 30, 2016 were \$603,434. The future minimum lease payments for these operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 612,227
2018	460,033
2019	468,424
2020	476,983
2021	485,713
2022-2023	<u>454,135</u>
Total	<u>\$ 2,957,515</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

F. Leases (Continued)

Capital Leases

The Commission is leasing a building acquisition for a term of 25 years. The Commission will own the building upon payment of the final lease installation in fiscal year 2031.

The capital assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Land	\$ 2,100,000
Building and Building Improvements	<u>10,400,000</u>
 Total	 <u>\$ 12,500,000</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 770,000
2018	790,000
2019	800,000
2020	810,000
2021	821,605
2022-2026	4,108,020
2027-2031	<u>4,108,020</u>
 Total Minimum Lease Payments	 12,207,645
 Less: Amount Representing Interest	 <u>(3,507,250)</u>
 Present Value of Minimum Lease Payments	 <u>\$ 8,700,395</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

G. Other Long-Term Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Balance,</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> <u>June 30, 2016</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental activities:					
Capital Leases	\$ 9,035,008		\$ 334,613	\$ 8,700,395	\$ 370,551
Compensated Absences	325,837	\$ 21,412	-	347,249	
Net Pension Liability	<u>11,277,307</u>	<u>3,047,266</u>	<u>528,378</u>	<u>13,796,195</u>	<u>-</u>
Governmental Activity Long-Term Liabilities	<u>\$ 20,638,152</u>	<u>\$ 3,068,678</u>	<u>\$ 862,991</u>	<u>\$ 22,843,839</u>	<u>\$ 370,551</u>

For the governmental activities, the liabilities for compensated absences, capital lases and net pension liability are generally liquidated by the General Fund.

NOTE 4 OTHER INFORMATION

A. Risk Management

The Commission is exposed to various risks of loss related to property, general liability, automobile coverage, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; student accident; termination of employees and natural disasters. The Commission has obtained insurance coverage from New Jersey Schools Insurance Group (NJSIG) to guard against these events to minimize the exposure to the Commission should they occur. A complete schedule of insurance coverage can be found in the statistical section of this Comprehensive Annual Financial Report.

B. Contingent Liabilities

The Commission is a party defendant in some lawsuits, none of a kind unusual for a school district of its size and scope of operation. In the opinion of the Commission's Attorney the potential claims against the Commission not covered by insurance policies would not materially affect the financial condition of the Commission.

Federal and State Awards – The Commission participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Commission may be required to reimburse the grantor government. As of June 30, 2016, significant amounts of grant expenditures have not been audited by the various grantor agencies but the Commission believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Commission.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems) covering substantially all eligible Commission employees:

Public Employees' Retirement System (PERS) – Established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage. PERS is a cost sharing multi-employer defined benefit pension plan.

Teachers' Pension and Annuity Fund (TPAF) – Established in January 1955, under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirement health care to substantially all full time certified teachers or professional staff of the public school systems in the State. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage. TPAF is a cost sharing plan with special funding situations.

The State of New Jersey sponsors and administers the following defined contribution public employee retirement program covering certain state and local government employees which include those Commission employees who are eligible for pension coverage.

Defined Contribution Retirement Program (DCRP) – established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected, certain appointed officials, and certain Commission employees not eligible for enrollment in PERS or TPAF. Effective July 1, 2007 membership is mandatory for such individuals with vesting occurring after one (1) year of membership. DCRP is a defined contribution pension plan.

Other Pension Funds

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local government employers do not appropriate funds to SACT.

The cost of living increase for PERS and TPAF, are funded directly by each of the respective systems but are currently suspended as a result of reform legislation.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

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 accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial reports may be obtained in writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290 or at www.state.nj/treasury/doinvest.

Funding Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the aggregate funded ratio for the State administered TPAF and local PERS retirement systems, is 35 percent with an unfunded actuarial accrued liability of \$86 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded TPAF system is 28.71 percent and \$63.6 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS is 47.93 percent and \$22.4 billion, respectively.

The funded status and funding progress of the retirement systems is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the July 1, 2014 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (a) an investment rate of return for the retirement systems of 7.90 percent and (b) projected salary increases of 2.60-9.48 percent based on age for the PERS and varying percentages based on experience for TPAF.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey legislation with the amount of contributions by the State of New Jersey contingent upon the Annual Appropriations Act. As defined, the retirement systems require employee contributions based on 6.92% for PERS, 6.92% for TPAF and 5.50% for DCRP of the employee's annual compensation.

Annual Pension Costs (APC)

Per the requirements of GASB Statement No. 27 *Accounting for Pensions by State and Local Government Employees*, for the fiscal year ended June 30, 2016 for TPAF, which is a cost sharing plan with special funding situations, the annual pension cost differs from the annual required contribution. For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. TPAF employer contributions are made annually by the State of New Jersey to the pension system on behalf of the Commission. PERS employer contributions are made annually by the Commission to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the fiscal years ended June 30, 2016, 2015 and 2014 the Commission was required to contribute for PERS and DCRP and the State of New Jersey was required to contribute for TPAF for normal cost pension and accrued liability contributions (including non-contributory group life insurance (NCGI)) the following amounts:

Fiscal Year Ended <u>June 30,</u>	<u>PERS</u>	On-Behalf <u>TPAF</u>	<u>DCRP</u>
2016	\$528,378	\$ 576,901	\$ 191,895
2015	496,554	440,485	150,386
2014	481,940	334,841	135,308

For fiscal years 2015/2016 and 2014/2015, the State contributed \$576,901 and \$440,485, respectively for normal cost pension, accrued liability and the NCGI premium. For fiscal year 2013/2014 the State did not contribute to the TPAF for accrued liability but did contribute \$334,841 for normal cost pension and NCGI premium.

The PERS contributions are recognized in the governmental fund financial statements (modified accrual basis) as an expenditure. The On-Behalf TPAF contributions are recognized in the governmental fund financial statements (modified accrual basis) as both a revenue and expenditure in accordance with GASB No. 24. The DCRP contributions are recognized in the governmental fund financial statements (modified accrual basis) as an expenditure, as well as, the commission-wide financial statements (accrual basis) as an expense.

Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the Commission \$502,351 during the fiscal year ended June 30, 2016 for the employer's share of social security contributions for TPAF members as calculated on their base salaries. This amount has been recognized in the commission-wide financial statements (accrual basis) and the governmental fund financial statements (modified accrual basis) as a revenue and expense/expenditure in accordance with GASB No. 24.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Public Employees Retirement System (PERS)

At June 30, 2016, the Commission reported in the statement of net position (accrual basis) a liability of \$13,796,195 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportionate share of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2015, the Commission's proportionate share was .06146 percent, which was an increase of .00123 percent from its proportionate share measured as of June 30, 2014 of .06023 percent.

For the fiscal year ended June 30, 2016, the Commission recognized in the commission-wide statement of activities (accrual basis) pension expense of \$835,628 for PERS. At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERS pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 329,129	
Changes of Assumptions	1,481,601	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		\$ 221,816
Changes in Proportion and Differences Between Commission Contributions and Proportionate Share of Contributions	<u>194,622</u>	<u>491,317</u>
Total	<u>\$ 2,005,352</u>	<u>\$ 713,133</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized in pension expense as follows:

Fiscal Year Ending <u>June 30,</u>	
2017	\$ 220,614
2018	220,614
2019	220,614
2020	388,631
2021	<u>241,746</u>
	<u>\$ 1,292,219</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions (Continued)**

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate	3.04%
Salary Increases:	
2012-2021	2.15-4.40%
	Based on Age
Thereafter	3.15-5.40%
	Based on Age
Investment Rate of Return	7.90%
Mortality Rate Table	RP-2000
Period of Actuarial Experience	July 1, 2008 -
Study Upon Which Actuarial	June 30, 2011
Assumptions were Based	

Assumptions for mortality improvements are based on Society of Actuaries Scale AA.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad US Equities	27.25%	8.52%
Developed Foreign Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%
REIT	4.25%	5.12%

Discount Rate

The discount rate used to measure the total pension liabilities of the PERS plan was 4.90%.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Discount Rate (Continued)

The following table represents the crossover period, if applicable, for the PERS defined benefit plan:

Period of Projected Benefit	
Payments for which the Following	
Rates were Applied:	
Long-Term Expected Rate of Return	Through June 30, 2033
Municipal Bond Rate *	From July 1, 2033 and Thereafter

* The municipal bond return rate used is 3.80%. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of Net Pension Liability

The following presents the Commission's proportionate share of the PERS net pension liability calculated using the discount rate of 4.90%, as well as what the Commission's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.90 percent) or 1-percentage-point higher (5.90 percent) than the current rate:

	1% Decrease <u>(3.90%)</u>	Current Discount Rate <u>(4.90%)</u>	1% Increase <u>(5.90%)</u>
Commission's Proportionate Share of the PERS Net Pension Liability	<u>\$ 17,146,982</u>	<u>\$ 13,796,195</u>	<u>\$ 10,986,919</u>

The sensitivity analysis was based on the proportionate share of the Commission's net pension liability at June 30, 2015. A sensitivity analysis specific to the Commission's net pension liability was not provided by the pension system.

Pension Plan Fiduciary Net Position

Detailed information about the PERS pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial report may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Teachers Pension and Annuity Fund (TPAF)

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the Commission is not required to recognize a net pension liability for TPAF. The State of New Jersey is the only entity that has a legal obligation to make employer contributions to TPAF on behalf of the Commission. Accordingly, the Commission's proportionate share percentage determined under Statement No. 68 is zero percent and the State's proportionate share is 100% of the net pension liability attributable to the Commission for TPAF. Therefore, in addition, the Commission does not recognize any portion of the TPAF collective deferred outflows of resources and deferred inflows of resources.

For the fiscal year ended June 30, 2016, the Commission recognized in the commission-wide statement of activities (accrual basis) pension expense of \$3,144,284 for TPAF. This amount has been included in the commission-wide statement of activities (accrual basis) as a revenue and expense in accordance with GASB No. 24.

At June 30, 2016 the State's proportionate share of the net pension liability attributable to the Commission is \$51,495,835. The nonemployer allocation percentages are based on the ratio of the State's contributions made as an employer and nonemployer towards the actuarially determined contribution amount adjusted by locations who participated in the State early retirement incentives to total contributions to TPAF during the year ended June 30, 2015. At June 30, 2015, the state's share of the net pension liability attributable to the Commission was .08148 percent, which was an increase of .00233 percent from its proportionate share measured as of June 30, 2014 of .07915 percent.

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.50%
Salary Increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment Rate of Return	7.90%
Mortality Rate Table	RP-2000
Period of Actuarial Experience	July 1, 2009 -
Study Upon Which Actuarial	June 30, 2012
Assumptions were Based	

Assumptions for mortality improvements are based on Society of Actuaries Scale AA.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Teachers Pension and Annuity Fund (TPAF) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Cash	5.00%	0.53%
US Government Bonds	1.75%	1.39%
US Credit Bonds	13.50%	2.72%
US Mortgages	2.10%	2.54%
US Inflation-Indexed Bonds	1.50%	1.47%
US High Yield Bonds	2.00%	4.57%
US Equity Market	27.25%	5.63%
Foreign-Developed Equity	12.00%	6.22%
Emerging Markets Equity	6.40%	8.46%
Private Real Estate Property	4.25%	3.97%
Timber	1.00%	4.09%
Farmland	1.00%	4.61%
Private Equity	9.25%	9.15%
Commodities	1.00%	3.58%
Hedge Funds - MultiStrategy	4.00%	4.59%
Hedge Funds - Equity Hedge	4.00%	5.68%
Hedge Funds - Distressed	4.00%	4.30%

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Teachers Pension and Annuity Fund (TPAF) (Continued)

Discount Rate

The discount rate used to measure the total pension liabilities of the TPAF plan was 4.13%.

The following table represents the crossover period, if applicable, for the TPAF defined benefit plan:

Period of Projected Benefit Payments for which the Following Rates were Applied:	
Long-Term Expected Rate of Return	Through June 30, 2027
Municipal Bond Rate *	From July 1, 2027 and Thereafter

* The municipal bond return rate used is 3.80%. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of Net Pension Liability

The following presents the State's proportionate share of the TPAF net pension liability attributable to the Commission calculated using the discount rate of 4.13%, as well as what the State's proportionate share of the TPAF net pension liability attributable to the Commission that would be if it were calculated using a discount rate that is 1-percentage-point lower (3.13 percent) or 1-percentage-point higher (5.13 percent) than the current rate:

	1% Decrease <u>(3.13%)</u>	Current Discount Rate <u>(4.13%)</u>	1% Increase <u>(5.13%)</u>
State's Proportionate Share of the TPAF Net Pension Liability Attributable to the Commission	<u>\$ 61,200,875</u>	<u>\$ 51,495,835</u>	<u>\$ 43,134,362</u>

The sensitivity analysis was based on the State's proportionate share of the net pension liability attributable to the Commission at June 30, 2015. A sensitivity analysis specific to the State's proportionate share of the net pension liability attributable to the Commission at June 30, 2015 was not provided by the pension system.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

C. Employee Retirement Systems and Pension Plans (Continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions (Continued)**

Teachers Pension and Annuity Fund (TPAF) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the TPAF pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial report may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

D. Post-Retirement Medical Benefits

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for school districts. The Plans are classified as either single employer plans or cost sharing multiple employer defined benefit plans depending on the plan the eligible employee is covered under.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS and TPAF are combined and reported as Pension and Other employee Benefit Trust Funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, and the PRM of the PERS are combined and reported as a Health Benefits Program Fund – State classified as a single employer plan. The SHBP-Local, PDP-Local, and the PRM of the TPAF-Local are combined and reported as Health Benefits Program Fund –Local Government classified as a cost-sharing multiple-employer plan in the State's CAFR. The post-retirement benefit programs had a total of 590 state and local participating employers and contributing entities for Fiscal Year 2015.

The State of New Jersey sponsors and administers the following health benefit programs covering certain state and local government employees, including those Commission employees and retirees eligible for coverage.

Health Benefits Program Fund (HBPF) – Local Education (including Prescription Drug Program Fund) – The State of New Jersey provides paid coverage to members of the Teachers' Pension and Annuity Fund who retire from a board of education or county college with 25 years of service or on a disability retirement. Under the provisions of P.L. 1992, c.126, the State also provides paid coverage to members of the Public Employees' Retirement System and Alternate Benefits Program who retire from a board of education or county college with 25 years of service or on a disability retirement if the member's employer does not provide this coverage. Certain local participating employers also provide post-retirement medical coverage to their employees. Retirees who are not eligible for state paid health coverage at retirement can continue in the program if their employer participates in this program or if they are participating in the health benefits plan of their former employer and are enrolled in Medicare parts A and B by paying the cost of the insurance for themselves and their covered dependents. Also, education employees are eligible for the PDP coverage after 60 days of employment.

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 the above Fund. The financial reports may be accessed via the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

D. Post-Retirement Medical Benefits (Continued)

Basis of Accounting

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

Significant Legislation

P.L. 2011, c.78, effective October 2011, sets new employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to this new legislation's effective date with a minimum contribution required to be at least 1.5% of salary.

Investment Valuation

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the State had a \$65.0 billion unfunded actuarial accrued liability for other post-employment benefits (OPEB) which is made up to \$24.4 billion for state active and retired members and \$40.6 billion for education employees and retirees that become the obligation of the State of New Jersey upon retirement.

The funded status and funding progress of the OPEB includes actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the OPEB in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at the point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the July 1, 2014, OPEB actuarial valuation, the projected unit credit was used as the actuarial cost method. The actuarial assumptions included an assumed investment rate of return of 4.50 percent.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (Continued)

D. Post-Retirement Medical Benefits (Continued)

Post-Retirement Medical Benefits Contributions

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Teachers' Pension and Annuity Fund (TPAF) and Public Employees' Retirement System (PERS), respectively to fund post-retirement medical benefits for those State employees and education employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2015, there were 107,314, retirees receiving post-retirement medical benefits and the State contributed \$1.25 billion on their behalf. The cost of these benefits is funded through contributions by the State and in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits 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 P.L. 1992, c.126, which provides employer paid health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$214.1 million toward Chapter 126 benefits for 19,056 eligible retired members in Fiscal Year 2015.

The School Employees Health Benefits Program (SEHBP) Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et.seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SEHBP. That report may be obtained from the Treasury website at: <http://www.nj.gov/treasury/pensions/pdf/financial/2015divisioncombined.pdf>.

The State sets the contribution rate based on a pay as you go basis and not on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State's contributions to the State Health Benefits Program Fund for TPAF retirees' post-retirement benefits on behalf of the Commission for the fiscal years ended June 30, 2016, 2015 and 2014 were \$686,930, \$699,270 and \$549,014, respectively, which equaled the required contributions for each year. The State's contributions to the State Health Benefits Program Fund for PERS retirees' post-retirement benefits on behalf of the Commission was not determined or made available by the State of New Jersey.

REQUIRED SUPPLEMENTARY INFORMATION - PART II

BUDGETARY COMPARISON SCHEDULES

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final To Actual</u>
REVENUES					
Local Sources					
Tuition	\$ 4,743,062	\$ 49,122	\$ 4,792,184	\$ 3,848,879	\$ (943,305)
Transportation Fees	43,145,238	38,000,000	81,145,238	77,827,845	(3,317,393)
Miscellaneous	11,766,797	782,990	12,549,787	10,321,564	(2,228,223)
Total Local Sources	<u>59,655,097</u>	<u>38,832,112</u>	<u>98,487,209</u>	<u>91,998,288</u>	<u>(6,488,921)</u>
State Sources					
On-Behalf TPAF (Non-Budget)					
Pension Contribution				549,527	549,527
NCGI Premium				27,374	27,374
Post Retirement Medical Benefits				686,930	686,930
Social Security Contributions (Non-Budget)	-	-	-	502,351	502,351
Total State Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,766,182</u>	<u>1,766,182</u>
Total Revenues	<u>59,655,097</u>	<u>38,832,112</u>	<u>98,487,209</u>	<u>93,764,470</u>	<u>(4,722,739)</u>
CURRENT EXPENDITURES					
Instruction - Regular Programs					
Salaries of Teachers:					
Grades 9 - 12	740,663	(45,914)	694,749	665,405	29,344
Home Instruction:					
Salaries of Teachers	598,784	197,822	796,606	796,605	1
Purchased Professional - Educational Services	10,000	1,000	11,000	10,300	700
Other Purchased Services	4,000	(3,500)	500	-	500
Total Instruction Regular Programs	<u>1,353,447</u>	<u>149,408</u>	<u>1,502,855</u>	<u>1,472,310</u>	<u>30,545</u>
Special Education					
Learning/Language Disabilities					
Salaries of Teachers	433,664	(10,344)	423,320	432,310	(8,990)
Other Salaries for Instruction	150,767	78,730	229,497	209,968	19,529
Other Objects	-	5,629	5,629	5,626	3
Total Learning/Language Disabilities	<u>584,431</u>	<u>74,015</u>	<u>658,446</u>	<u>647,904</u>	<u>10,542</u>
Behavioral Disabilities					
Salaries of Teachers	308,121	49,897	358,018	312,975	45,043
Other Salaries for Instruction	6,348,955	600,940	6,949,895	6,905,037	44,858
General Supplies	3,000	1,944	4,944	3,549	1,395
Textbooks	1,000	(474)	526	526	-
Other Objects	5,900	5,334	11,234	10,362	872
Total Behavioral Disabilities	<u>6,666,976</u>	<u>657,641</u>	<u>7,324,617</u>	<u>7,232,449</u>	<u>92,168</u>
Total Special Education	<u>7,251,407</u>	<u>731,656</u>	<u>7,983,063</u>	<u>7,880,353</u>	<u>102,710</u>
Total Instruction	<u>8,604,854</u>	<u>881,064</u>	<u>9,485,918</u>	<u>9,352,663</u>	<u>133,255</u>

(Continued)

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance Final To Actual
CURRENT EXPENDITURES (Continued)					
Undistributed Expenditures					
Instruction					
Tuition to County Voc. School District-Special	\$ 30,000	\$ (14,000)	\$ 16,000	\$ 12,375	\$ 3,625
Total Undistributed Expenditures - Instruction	30,000	(14,000)	16,000	12,375	3,625
Health Services					
Salaries of Teachers	92,249	(5,627)	86,622	84,407	2,215
General Supplies	-	429	429	429	-
Total Health Services	92,249	(5,198)	87,051	84,836	2,215
Other Supp. Serv. - Speech, OT, PT & Related Services					
Salaries	40,975	4,584	45,559	44,861	698
Purchased Professional-Educational Services	62,300	(9,398)	52,902	20,977	31,925
Total Other Supp. Serv. - Speech, OT, PT & Related Serv.	103,275	(4,814)	98,461	65,838	32,623
Child Study Teams					
Salaries of Other Professional Staff	442,119	(48,624)	393,495	357,499	35,996
Purchased Professional-Educational Services	72,300	76,240	148,540	122,625	25,915
Total Child Study Teams	514,419	27,616	542,035	480,124	61,911
Improvement of Inst. Serv.					
Purchased Professional-Educational Services	10,000	6,470	16,470	16,470	-
Total Improvement of Inst. Serv.	10,000	6,470	16,470	16,470	-
Instructional Staff Training Services					
Purchased Professional - Educational Services	10,500	(6,950)	3,550	3,550	-
Total Instructional Staff Training Services	10,500	(6,950)	3,550	3,550	-
Support Services General Administration					
Salaries	523,863	153,695	677,558	670,187	7,371
Legal Services	60,000	(20,000)	40,000	32,344	7,656
Audit Fees	35,000	7,509	42,509	42,509	-
Other Purchased Professional Services	95,000	(41,505)	53,495	41,773	11,722
Communications/Telephone	30,170	403	30,573	29,713	860
Misc. Purchased Services	4,600	1,759	6,359	6,359	-
General Supplies	7,200	(1,652)	5,548	2,503	3,045
BOE In-House Training/Meeting Supplies	4,000	-	4,000	3,492	508
Miscellaneous Expenditures	2,433,822	(451,975)	1,981,847	18,290	1,963,557
BOE Membership Dues and Fees	11,000	4,119	15,119	15,119	-
Total Support Services General Administration	3,204,655	(347,647)	2,857,008	862,289	1,994,719
Support Services School Administration					
Salaries of Principals and Assistant Principals	438,348	97,812	536,160	523,589	12,571
Salaries of Other Professional Staff	92,492	-	92,492	92,437	55
Salaries of Secretarial and Clerical Assistants	333,240	(44,517)	288,723	269,110	19,613
Purchased Prof. and Tech. Services	10,000	(382)	9,618	8,974	644
Other Purchased Services	19,879	(3,058)	16,821	17,429	(608)
Supplies and Materials	2,200	4,680	6,880	6,477	403
Other Objects	11,900	18,406	30,306	29,206	1,100
Total Support Services School Administration	908,059	72,941	981,000	947,222	33,778

(Continued)

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final To Actual</u>
CURRENT EXPENDITURES (Continued)					
Central Services					
Salaries	\$ 483,085	\$ (43,628)	\$ 439,457	\$ 360,550	\$ 78,907
Purchased Professional Services	144,516	1,990	146,506	146,506	-
Purchased Technical Services	49,000	12,568	61,568	61,182	386
Miscellaneous Purchased Services	32,500	(7,150)	25,350	22,986	2,364
Supplies and Materials	8,000	5,527	13,527	13,527	-
Interest on Lease Purchase Agreements	429,714	(14,000)	415,714	415,387	327
Other Objects	19,000	14,400	33,400	34,109	(709)
Total Central Services	<u>1,165,815</u>	<u>(30,293)</u>	<u>1,135,522</u>	<u>1,054,247</u>	<u>81,275</u>
Admin. Info. Tech.					
Salaries	176,053	(60,813)	115,240	114,305	935
Supplies and Materials	-	249	249	249	-
Total Undistributed Expenditures-Admin. Info. Technology	<u>176,053</u>	<u>(60,564)</u>	<u>115,489</u>	<u>114,554</u>	<u>935</u>
Required Maintenance for School Facilities					
Cleaning, Repair and Maintenance Services	18,500	7,404	25,904	24,134	1,770
General Supplies	8,000	(5,674)	2,326	2,163	163
Other Objects	6,500	3,818	10,318	8,872	1,446
Total Required Maintenance for School Facilities	<u>33,000</u>	<u>5,548</u>	<u>38,548</u>	<u>35,169</u>	<u>3,379</u>
Custodial Services					
Salaries	213,773	25,607	239,380	234,013	5,367
Cleaning, Repair and Maintenance Services	6,040	9,921	15,961	14,841	1,120
Rental of Land & Bldg. Oth. Than Lease Pur Agreement	491,534	-	491,534	491,534	-
Insurance	43,800	14,910	58,710	58,710	-
Miscellaneous Purchased Services	1,500	(1,031)	469	213	256
General Supplies	15,000	(1,296)	13,704	12,854	850
Energy (Heat and Electricity)	259,350	(83,214)	176,136	147,694	28,442
Other Objects	1,760	11,250	13,010	7,536	5,474
Total Custodial Services	<u>1,032,757</u>	<u>(23,853)</u>	<u>1,008,904</u>	<u>967,395</u>	<u>41,509</u>
Student Transportation Services					
Salaries for Pupil Trans (Bet Home & Sch)-Sp Ed.	1,038,046	41,823	1,079,869	1,079,869	-
Contr Serv(Special Education)-Vendors	39,604,500	38,401,026	78,005,526	70,370,300	7,635,226
Total Student Transportation Services	<u>40,642,546</u>	<u>38,442,849</u>	<u>79,085,395</u>	<u>71,450,169</u>	<u>7,635,226</u>
Unallocated Employee Benefits					
Social Security Contributions	716,498	94,519	811,017	823,544	(12,527)
Other Retirement Contributions - PERS	528,986	(1,511)	527,475	574,524	(47,049)
Unemployment Compensation	93,382	(22,450)	70,932	61,551	9,381
Workers Compensation	274,483	(157,831)	116,652	115,063	1,589
Health Benefits	1,185,491	(83,691)	1,101,800	562,486	539,314
Tuition Reimbursements	6,500	5,945	12,445	8,939	3,506
Total Unallocated Employee Benefits	<u>2,805,340</u>	<u>(165,019)</u>	<u>2,640,321</u>	<u>2,146,107</u>	<u>494,214</u>
On-Behalf TPAF (Non-Budget)					
Pension Contribution	-	-	-	549,527	(549,527)
NCGI Premium	-	-	-	27,374	(27,374)
Post Retirement Medical Benefits	-	-	-	686,930	(686,930)
Social Security Contributions (Non-Budget)	-	-	-	502,351	(502,351)
Total TPAF Pension and Social Security Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,766,182</u>	<u>(1,766,182)</u>
Total Undistributed Expenditures	<u>50,728,668</u>	<u>37,897,086</u>	<u>88,625,754</u>	<u>80,006,527</u>	<u>8,619,227</u>
Total Current Expenditures	<u>59,333,522</u>	<u>38,778,150</u>	<u>98,111,672</u>	<u>89,359,190</u>	<u>8,752,482</u>

(Continued)

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final To Actual</u>
CAPITAL OUTLAY					
Facilities Acquisition and Constr. Services					
Lease Purchase Agreements - Principal	\$ 300,286	\$ 34,327	\$ 334,613	\$ 334,613	-
Total Facilities Acquisition and Constr. Services	300,286	34,327	334,613	334,613	-
Total Expenditures - Capital Outlay	300,286	34,327	334,613	334,613	-
SPECIAL SCHOOLS					
Summer School- Instruction					
Salaries of Teachers	14,000	6,500	20,500	20,500	-
Total Summer School- Instruction	14,000	6,500	20,500	20,500	-
Summer School- Support Services					
Purchase Professional and Technical Services	4,293	6,054	10,347	10,347	-
Personal Services - Employee Benefits	2,009	(134)	1,875	1,863	\$ 12
Other Objects	987	7,215	8,202	4,142	4,060
Total Summer School- Support Services	7,289	13,135	20,424	16,352	4,072
Total Expenditures - Special Schools	21,289	19,635	40,924	36,852	4,072
Total Expenditures - General Fund	59,655,097	38,832,112	98,487,209	89,730,655	8,756,554
Excess (Deficiency) of Revenues Over/(Under) Expenditures	-	-	-	4,033,815	4,033,815
Other Financing Sources (Uses)					
Proceeds from Insurance Recovery				23,334	23,334
Transfer In - Capital Projects Fund	-	-	-	36,052	36,052
Total Other Financing Sources (Uses)	-	-	-	59,386	59,386
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	-	-	-	4,093,201	4,093,201
Fund Balance, Beginning of Year	24,667,081	-	24,667,081	24,667,081	-
Fund Balance, End of Year	\$ 24,667,081	\$ -	\$ 24,667,081	\$ 28,760,282	\$ 4,093,201
Recapitulation of Fund Balance					
Assigned Fund Balance					
Designated for Capital Projects				\$ 2,779,970	
Designated for Repairs and Replacements				683,475	
Designated for Fairfield Building Lease				12,207,645	
Unassigned Fund Balance				13,089,192	
Fund Balance (Budgetary Basis/GAAP Basis)				\$ 28,760,282	

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
REVENUES					
Local Sources	\$ 8,694,604	\$ 1,317,803	\$ 10,012,407	\$ 9,820,751	\$ (191,656)
State		124,997	124,997	115,713	(9,284)
Federal	466,493	1,238,381	1,704,874	1,321,631	(383,243)
Total Revenues	<u>9,161,097</u>	<u>2,681,181</u>	<u>11,842,278</u>	<u>11,258,095</u>	<u>(584,183)</u>
EXPENDITURES					
Instruction					
Salaries of Teachers	3,845,516	227,234	4,072,750	3,771,223	301,527
Other Salaries for Instruction	279,618	664,210	943,828	905,654	38,174
Purchased Professional and Technical Services	11,200	28,128	39,328	40,917	(1,589)
Other Purchased Services	10,280	23,186	33,466	27,559	5,907
General Supplies	7,760	452,354	460,114	399,913	60,201
Textbooks	-	2,097	2,097	1,388	709
Other Objects	-	12,352	12,352	54,507	(42,155)
Total Instruction	<u>4,154,374</u>	<u>1,409,561</u>	<u>5,563,935</u>	<u>5,201,161</u>	<u>362,774</u>
Support Services					
Salaries of Supervisors of Instruction	280,976	9,290	290,266	290,222	44
Salaries of Principals/Program Directors	427,801	(70,108)	357,693	324,896	32,797
Salaries of Other Professional Staff	197,082	91,455	288,537	267,897	20,640
Salaries of Secretaries and Clerical Assistants	170,867	18,188	189,055	196,147	(7,092)
Other Salaries	822,546	283,478	1,106,024	1,013,295	92,729
Purchased Professional-Educational Services	1,116,000	352,427	1,468,427	1,452,608	15,819
Other Purchased Professional Services	14,000	(3,722)	10,278	10,266	12
Purchased Technical Services	16,000	(891)	15,109	13,500	1,609
Cleaning, Repairs and Maintenance	9,500	15,523	25,023	25,068	(45)
Rentals	50,000	34,498	84,498	75,000	9,498
Indirect Costs	334,704	23,211	357,915	469,211	(111,296)
Travel	16,250	14,040	30,290	21,464	8,826
Other Purchased Services	58,425	83,077	141,502	117,260	24,242
Supplies and Materials	57,717	212,568	270,285	211,609	58,676
Telephone	8,000	5,687	13,687	12,813	874
Energy	33,600	(2,312)	31,288	30,100	1,188
Other Objects	64,710	35,585	100,295	71,307	28,988
Total Support Services	<u>3,678,178</u>	<u>1,101,994</u>	<u>4,780,172</u>	<u>4,602,663</u>	<u>177,509</u>
Contracted Services - Transportation	-	83,264	83,264	45,482	37,782
Personal Services - Employee Benefits	1,317,045	85,264	1,402,309	1,396,399	5,910
Facilities Acquisition and Construction Services					
Construction Services	11,500	1,098	12,598	12,390	208
Total Facilities Acq. and Construction	<u>11,500</u>	<u>1,098</u>	<u>12,598</u>	<u>12,390</u>	<u>208</u>
Total Expenditures	<u>9,161,097</u>	<u>2,681,181</u>	<u>11,842,278</u>	<u>11,258,095</u>	<u>584,183</u>
Excess of Revenue over Expenditures	-	-	-	-	-
Fund Balances, Beginning of Year	-	-	-	-	-
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 accounting principles generally accepted in the United States of America, with the exception of the treatment of encumbrances in the special revenue fund as below. Encumbrance accounting is also employed as an extension of formal budgetary integration of 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 revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

The following presents a reconciliation of the General and Special Revenue Funds from the budgetary basis of accounting as presented in the Budgetary Comparison Schedule - General Fund and Special Revenue Fund to the GAAP basis of accounting as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds.

	General Fund	Special Revenue Fund
Sources/Inflows of Resources		
Actual revenue amounts (budgetary basis)	\$ 93,764,470	\$ 11,258,095
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.	<u>\$ 93,764,470</u>	<u>\$ 11,258,095</u>
Uses/Outflows of Resources		
Actual expenditure amounts (budgetary basis)	\$ 89,730,655	\$ 11,258,095
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 89,730,655</u>	<u>\$ 11,258,095</u>

REQUIRED SUPPLEMENTARY INFORMATION - PART III

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Last Three Fiscal Years ***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's Proportion of the Net Position Liability (Asset)	0.06146%	0.06023%	0.06396%
Commission's Proportionate Share of the Net Pension Liability (Asset)	\$ 13,796,195	\$ 11,277,307	\$ 12,224,394
Commission's Covered-Employee Payroll	\$ 4,080,778	\$ 4,036,385	\$ 4,098,734
Commission's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	338.08%	279.39%	298.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.93%	52.08%	48.72%

* The amounts presented for each fiscal year were determined as of the previous fiscal year end.

This schedule is presented to illustrate the requirement to show information for 10 years in accordance with GASB Statement No. 68. However, until a full 10-year trend is compiled, the Commission will only present information for those years for which information is available.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS**

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Last Three Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 528,378	\$ 496,554	\$ 481,940
Contributions in Relation to the Contractually Required Contributions	<u>528,378</u>	<u>496,554</u>	<u>481,940</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's Covered- Employee Payroll	\$ 4,080,778	\$ 4,036,385	\$ 4,098,734
Contributions as a Percentage of Covered-Employee Payroll	12.95%	12.30%	11.76%

This schedule is presented to illustrate the requirement to show information for 10 years in accordance with GASB Statement No. 68. However, until a full 10-year trend is compiled, the Commission will only present information for those years for which information is available.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

**TEACHERS' PENSION AND ANNUITY FUND
Last Three Fiscal Years ***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's Proportion of the Net Position Liability (Asset)	0.00%	0.00%	0.00%
Commission's Proportionate Share of the Net Pension Liability (Asset)	\$ -	\$ -	\$ -
State's Proportionate Share of the Net Pension Liability (Asset) Associated With the Commission	<u>51,495,835</u>	<u>42,303,700</u>	<u>42,289,363</u>
Total	<u>\$ 51,495,835</u>	<u>\$ 42,303,700</u>	<u>\$ 42,289,363</u>
Commission's Covered-Employee Payroll	\$ 6,692,070	\$ 7,355,503	\$ 7,705,990
Commission's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	0	0	0
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	28.71%	33.64%	33.76%

* The amounts presented for each fiscal year were determined as of the previous fiscal year end.

This schedule is presented to illustrate the requirement to show information for 10 years in accordance with GASB Statement No. 68. However, until a full 10-year trend is compiled, the Commission will only present information for those years for which information is available.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF COMMISSION'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF COMMISSION CONTRIBUTIONS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Change of Benefit Terms: None.

Change of Assumptions: Assumptions used in calculating the net pension liability and statutorily required employer contribution are presented in Note 4.

SCHOOL LEVEL SCHEDULES

(General Fund)

NOT APPLICABLE

SPECIAL REVENUE FUND

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SPECIAL REVENUE FUND
COMBINING SCHEDULE OF PROGRAM REVENUES AND EXPENDITURES - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Essex Detention Center Title I	Migrant Education Current	Migrant Education Prior	McKinney Homeless Education Current	McKinney Homeless Education Prior	Migrant Education Summer	Total Brought Forward (Ex. E-1a)	Totals
REVENUES								
Local Sources							\$ 9,820,751	\$ 9,820,751
State Sources							115,713	115,713
Federal Sources	\$ 507,062	\$ 156,134	\$ 341,162	\$ 139,415	\$ 144,489	\$ 33,369	-	1,521,631
Total Revenues	\$ 507,062	\$ 156,134	\$ 341,162	\$ 139,415	\$ 144,489	\$ 33,369	\$ 9,936,464	\$ 11,258,095
EXPENDITURES								
Instruction:								
Salaries of Teachers	\$ 240,693	\$ 22,134	\$ 94,506	\$ 45,233	\$ 38,375		\$ 3,330,282	\$ 3,771,223
Other Salaries for Instruction	50,000		14,290	-			841,364	905,654
Purchased Prof. and Technical Services					163		40,754	40,917
Other Purchased Services		593	15,959	-	11,007		-	27,559
General Supplies			19,308	4,490	5,232		370,883	399,913
Textbooks							1,388	1,388
Other Objects	-	-	37,252	139	13,747	-	3,369	54,507
Total Instruction	290,693	22,727	181,315	49,862	68,524	-	4,588,040	5,201,161
Support Services								
Salaries of Supervisors of Instruction				9,399	-		280,823	290,222
Salaries of Principals/Program Directors		15,580	-	8,616	-		300,700	324,896
Salaries of Other Professional Staff	90,799	1,077	6,685	11,946	2,229		155,161	267,897
Salaries of Secretaries and Clerical Assistants		21,305	1,200	18,745	7,050		147,847	196,147
Other Salaries		60,779	55,577	10,022	34,605		852,312	1,013,295
Personal Services - Employee Benefits	125,570	28,485	23,009	13,315	16,095		1,189,925	1,396,399
Purchased Professional-Educational Services					-		1,452,608	1,452,608
Other Purchased Professional Services			10,219				47	10,266
Purchased Technical Services							13,500	13,500
Cleaning, Repairs and Maintenance							25,068	25,068
Rentals			6,000				69,000	75,000
Contracted Services - Transportation			24,593	1,338	8,917		10,634	45,482
Indirect Costs							469,211	469,211
Travel		4,043	4,187	268	185		12,781	21,464
Other Purchased Services		1,905	504	6,745	531	\$ 33,369	74,206	117,260
Supplies and Materials		233	21,941	9,159	5,027		175,249	211,609
Telephone					1,326		11,487	12,813
Energy							30,100	30,100
Other Objects	-	-	5,932	-	-	-	65,375	71,307
Total Support Services	216,369	133,407	159,847	89,553	75,965	33,369	5,336,034	6,044,544
Facilities Acquisition and Construction								
Construction Services	-	-	-	-	-	-	12,390	12,390
Total Facilities Acquisition	-	-	-	-	-	-	12,390	12,390
Total Expenditures	\$ 507,062	\$ 156,134	\$ 341,162	\$ 139,415	\$ 144,489	\$ 33,369	\$ 9,936,464	\$ 11,258,095

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SPECIAL REVENUE FUND
COMBINING SCHEDULE OF PROGRAM REVENUES AND EXPENDITURES - BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Extended Day Program</u>	<u>Essex Detention Center</u>	<u>IDEA - B Services</u>	<u>Non Public Security Services</u>	<u>Non Public Technology Services</u>	<u>Chapter 192/193 Services</u>	<u>Title I Services</u>	<u>Non Public Nursing Services</u>	<u>Total Carried Forward</u>
REVENUES									
Local Sources		\$ 1,787,328	\$ 1,208,656	\$ 10,493	\$ 82,507	\$ 4,865,513	\$ 571,253	\$ 1,295,001	\$ 9,820,751
State Sources	\$ 115,713	-	-	-	-	-	-	-	115,713
Federal Sources	-	-	-	-	-	-	-	-	-
Total Revenues	\$ 115,713	\$ 1,787,328	\$ 1,208,656	\$ 10,493	\$ 82,507	\$ 4,865,513	\$ 571,253	\$ 1,295,001	\$ 9,936,464
EXPENDITURES									
Instruction:									
Salaries of Teachers		\$ 706,985	\$ 39,881			\$ 2,491,738	\$ 91,678		\$ 3,330,282
Other Salaries for Instruction	\$ 27,574	237,921	575,869						841,364
Other Salaries									-
Purchased Prof. and Technical Services		1,300				18,369	21,085		40,754
Other Purchased Services									-
General Supplies		429	132,113			13,620	224,721		370,883
Textbooks		1,388							1,388
Other Objects	3,369	-	-	-	-	-	-	-	3,369
Total Instruction	30,943	948,023	747,863	-	-	2,523,727	337,484	-	4,588,040
Support Services									
Salaries of Supervisors of Instruction						191,977	88,846		280,823
Salaries of Program Directors	15,700	258,169						\$ 26,831	300,700
Salaries of Other Professional Staff		155,161							155,161
Salaries of Secretaries and Clerical Assistants	6,700	24,213				113,782		3,152	147,847
Other Salaries	23,977					118,207		710,128	852,312
Personal Services - Employee Benefits	7,058	265,486	91,526			566,799	50,720	208,336	1,189,925
Purchased Professional-Educational Services		8,940	296,213			1,079,572		67,883	1,452,608
Other Purchased Professional Services							47	-	47
Purchased Technical Services						10,761	1,095	1,644	13,500
Cleaning, Repairs and Maintenance						25,068			25,068
Rentals	19,000					35,000	15,000		69,000
Contracted Services - Transportation	10,634								10,634
Indirect Costs	-	79,592	73,054	-	-	52,662	76,389	187,514	469,211
Travel						12,537	244		12,781
Other Purchased Services		12,292				46,164		15,750	74,206
Supplies and Materials	1,701	2,741		10,493	82,507	4,044		73,763	175,249
Telephone		4,364				7,123			11,487
Utilities						30,100			30,100
Other Objects	-	28,347	-	-	-	35,600	1,428	-	65,375
Total Support Services	84,770	839,505	460,793	10,493	82,507	2,329,396	233,769	1,295,001	5,336,034
Facilities Acquisition and Construction									
Construction Services	-	-	-	-	-	12,390	-	-	12,390
Total Facilities Acquisition	-	-	-	-	-	12,390	-	-	12,390
Total Expenditures	\$ 115,713	\$ 1,787,328	\$ 1,208,656	\$ 10,493	\$ 82,507	\$ 4,865,513	\$ 571,253	\$ 1,295,001	\$ 9,936,464

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SPECIAL REVENUE FUND
SCHEDULE OF PRESCHOOL EDUCATION AID EXPENDITURES
BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOT APPLICABLE

CAPITAL PROJECTS FUND

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 CAPITAL PROJECTS FUND
 SUMMARY SCHEDULE OF PROJECT EXPENDITURES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Issue/Project Title</u>	<u>Appropriation</u>	<u>Transfers</u>	<u>Expenditures Prior Years</u>	<u>Cancelled</u>	<u>Project Balance June 30, 2016</u>
Fairfield Building Security Screens	\$ 150,000	\$ 1,300	\$ 115,248	\$ 36,052	\$ -
	<u>\$ 150,000</u>	<u>\$ 1,300</u>	<u>\$ 115,248</u>	<u>\$ 36,052</u>	<u>\$ -</u>

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
CAPITAL PROJECTS FUND
SUMMARY SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Revenues and Other Financing Sources

Other Financing Sources	
Transfer from General Fund	\$ <u> -</u>
 Total Revenues and Other Financing Sources	 <u> -</u>

Expenditures and Other Financing Uses

Expenditures:	
Capital Outlay	
Facilities Acquisition and Construction	
Construction Services	
Cancellations - Transferred to General Fund	<u> 36,052</u>
 Total Expenditures	 <u> 36,052</u>

Excess (Deficiency) of Revenues and Other Financing Sources	
Over (Under) Expenditures and Other Financing Uses	(36,052)
 Fund Balance, Beginning of Year	 <u> 36,052</u>
 Fund Balance, End of Year	 <u><u> -</u></u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
CAPITAL PROJECTS FUND
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS
FAIRFIELD BUILDING SECURITY SCREENS
FROM INCEPTION THROUGH THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Cost</u>
Revenues and Other Financing Sources				
Local Sources - Transfer from Capital Reserve	\$ 150,000	\$ (36,052)	\$ 113,948	\$ 113,948
Transfer (to) from Other Capital Projects	<u>1,300</u>	<u>-</u>	<u>1,300</u>	<u>1,300</u>
Total Revenues and Other Financing Sources	<u>151,300</u>	<u>(36,052)</u>	<u>115,248</u>	<u>115,248</u>
Expenditures and Other Financing Uses				
Purchased Professional and Technical Services	7,171		7,171	7,171
Construction Services	<u>108,077</u>	<u>\$ -</u>	<u>108,077</u>	<u>108,077</u>
Total Expenditures and Other Financing Uses	<u>115,248</u>	<u>-</u>	<u>115,248</u>	<u>115,248</u>
Excess (Deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	<u>\$ 36,052</u>	<u>\$ (36,052)</u>	<u>\$ -</u>	<u>\$ -</u>
Additional Project Information:				
Original Authorized Cost	\$ 81,300			
Additional Authorized Cost	\$ 33,948			
Revised Authorized Cost	\$ 115,248			
Percentage Increase Over Original Authorized Cost		42%		
Percentage Completion		100%		
Original Target Completion Date		November 30, 2014		
Revised Target Completion Date		November 30, 2014		

PROPRIETARY FUND

EXHIBIT G-1

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FOOD SERVICE ENTERPRISE FUND
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2016**

FINANCIAL STATEMENTS ARE PRESENTED ON EXHIBIT B-4

EXHIBIT G-2

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS ARE PRESENTED ON EXHIBIT B-5

EXHIBIT G-3

**COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS ARE PRESENTED ON EXHIBIT B-6

FIDUCIARY FUNDS

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FIDUCIARY FUNDS
COMBINING STATEMENT OF AGENCY ASSETS AND LIABILITIES
AS OF JUNE 30, 2016**

	<u>Student Activity</u>	<u>Payroll Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,534	\$ 194,459	\$ 195,993
Total Assets	<u>\$ 1,534</u>	<u>\$ 194,459</u>	<u>\$ 195,993</u>
LIABILITIES			
Due to Student Groups	\$ 1,534		\$ 1,534
Payroll Deductions and Withholdings		\$ 181,344	181,344
Accrued Salaries and Wages		8,115	8,115
Due to Other Funds	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Total Liabilities	<u>\$ 1,534</u>	<u>\$ 194,459</u>	<u>\$ 195,993</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOT APPLICABLE

**STUDENT ACTIVITY AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Balance</u> <u>July 1, 2015</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disburse-</u> <u>ments</u>	<u>Balance</u> <u>June 30, 2016</u>
Essex Junior Academy	\$ 335	\$ 1,160	\$ 926	\$ 569
Essex High School	229	566	300	495
Essex Campus Academy	<u>544</u>	<u>4,630</u>	<u>4,704</u>	<u>470</u>
	<u>\$ 1,108</u>	<u>\$ 6,356</u>	<u>\$ 5,930</u>	<u>\$ 1,534</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
PAYROLL AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Balance, July 1, <u>2015</u>	Cash <u>Receipts</u>	Cash <u>Disbursements</u>	Balance, June 30, <u>2016</u>
ASSETS				
Cash and Cash Equivalents	\$ 197,348	\$ 36,163,916	\$ 36,166,805	\$ 194,459
Total Assets	<u>\$ 197,348</u>	<u>\$ 36,163,916</u>	<u>\$ 36,166,805</u>	<u>\$ 194,459</u>
LIABILITIES				
Payroll Deductions and Withholdings	\$ 194,183	\$ 22,400,939	\$ 22,413,778	\$ 181,344
Accrued Salaries and Wages	(1,835)	13,762,933	13,752,983	8,115
Due to Other Funds	<u>5,000</u>	<u>44</u>	<u>44</u>	<u>5,000</u>
Total Liabilities	<u>\$ 197,348</u>	<u>\$ 36,163,916</u>	<u>\$ 36,166,805</u>	<u>\$ 194,459</u>

LONG-TERM DEBT

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 LONG-TERM DEBT
 SCHEDULE OF SERIAL BONDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOT APPLICABLE

SCHEDULE OF CAPITAL LEASES PAYABLE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>Issue</u>	<u>Interest Rate</u>	<u>Amount of Original Issue</u>	<u>Balance, July 1, 2015</u>	<u>Paid</u>	<u>Balance, June 30, 2016</u>
Fairfield Building	4.64%	\$ 12,500,000	\$ 9,035,008	\$ 334,613	\$ 8,700,395
			<u>\$ 9,035,008</u>	<u>\$ 334,613</u>	<u>\$ 8,700,395</u>

DEBT SERVICE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOT APPLICABLE

STATISTICAL SECTION

This part of the Essex Regional Educational Services Commission'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 Commission's overall financial health.

Contents

Exhibits

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

J-1 to J-5

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

J-6 to J-9

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

J-10 to J-13

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

J-14 and J-15

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

J-16 to J-20

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Unaudited)
(accrual basis of accounting)

	Fiscal Year Ended June 30,									
	2007	2009	2009	2010	2011	2012	2013	2014 (Restated)	2015	2016
Governmental Activities										
Net Investment in Capital Assets	\$ 2,829,300	\$ 2,697,515	\$ 2,805,918	\$ 3,392,027	\$ 3,411,282	\$ 3,123,390	\$ 2,976,864	\$ 2,831,476	\$ 2,756,573	\$ 2,591,880
Restricted		230,000	2,119,098	1,815,535	1,761,854	1,697,005	1,414,198	88,212	36,052	-
Unrestricted	24,675,177	25,751,791	24,254,803	25,031,661	25,777,639	26,373,107	26,679,257	17,995,299	18,809,424	23,060,890
Total Governmental Activities Net Position	\$ 27,504,477	\$ 28,679,306	\$ 29,179,819	\$ 30,239,223	\$ 30,950,775	\$ 31,193,502	\$ 31,070,319	\$ 20,914,987	\$ 21,602,049	\$ 25,652,770
Business-Type Activities										
Investment in Capital Assets					\$ 5,736	\$ 4,302	\$ 2,868	\$ 1,434		
Unrestricted	\$ 7,940	\$ 6,026	\$ 6,026	\$ 6,026	7,371	14,807	18,842	25,163	\$ 40,253	\$ 22,631
Total Business-Type Activities Net Position	\$ 7,940	\$ 6,026	\$ 6,026	\$ 6,026	\$ 13,107	\$ 19,109	\$ 21,710	\$ 26,597	\$ 40,253	\$ 22,631
Commission-Wide										
Net Investment in Capital Assets	\$ 2,829,300	\$ 2,697,515	\$ 2,805,918	\$ 3,392,027	\$ 3,417,018	\$ 3,127,692	\$ 2,979,732	\$ 2,832,910	\$ 2,756,573	\$ 2,591,880
Restricted		230,000	2,119,098	1,815,535	1,761,854	1,697,005	1,414,198	88,212	36,052	-
Unrestricted	24,683,117	25,757,817	24,260,829	25,037,687	25,785,010	26,387,914	26,698,099	18,020,462	18,849,677	23,083,521
Total Commission Net Position	\$ 27,512,417	\$ 28,685,332	\$ 29,185,845	\$ 30,245,249	\$ 30,963,882	\$ 31,212,611	\$ 31,092,029	\$ 20,941,584	\$ 21,642,302	\$ 25,675,401

Source: Commission's financial statements

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Unaudited)
(accrual basis of accounting)

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental Activities										
Instruction										
Regular	\$ 3,524,336	\$ 3,738,088	\$ 3,882,148	\$ 4,088,268	\$ 4,098,815	\$ 3,631,613	\$ 4,122,477	\$ 3,480,682	\$ 4,470,116	\$ 3,871,547
Special Education	3,794,669	4,200,043	3,545,921	3,835,227	2,910,254	8,530,077	9,136,576	9,773,594	10,245,503	10,717,912
Other Instruction	6,300,982	7,027,823	6,796,615	7,436,822	6,760,567	6,321,903	4,875,645	5,099,113	5,331,868	5,739,014
Support Services:										
Student & Instruction Related Services	7,709,704	7,346,768	7,583,760	7,884,319	12,979,070	7,860,385	6,420,782	6,234,603	6,322,752	6,144,644
General Administrative Services	672,801	830,519	835,610	718,073	774,117	683,125	934,794	2,276,788	1,784,255	1,683,334
School Administrative Services	1,128,423	1,017,907	1,013,099	1,068,755	1,054,926	1,136,124	1,255,294	1,207,752	1,171,115	1,361,735
Central Services	1,005,528	802,040	644,228	798,615	900,040	770,527	782,318	725,075	727,272	712,869
Administrative Info. Technology	45,170	120,382	129,664	133,380	159,899	234,833	194,258	151,218	132,698	137,436
Plant Operations And Maintenance	2,006,369	1,541,027	1,497,997	1,491,935	1,595,476	1,642,414	1,690,455	1,487,824	1,488,500	1,530,426
Pupil Transportation	51,517,118	41,421,483	40,495,522	39,939,543	38,457,959	42,106,886	43,751,326	43,201,600	55,971,127	71,711,850
Interest On Long-Term Debt	495,274	492,546	489,389	479,404	472,165	461,169	384,009	436,410	422,747	407,624
Total Governmental Activities Expenses	78,200,374	68,538,626	66,913,953	67,874,341	70,163,288	73,379,056	73,547,934	74,074,659	88,067,953	104,018,391
Business-Type Activities										
Food Service	88,000	70,588	64,551	62,433	71,978	78,552	68,163	94,109	87,471	68,942
Total Business-Type Activities Expense	88,000	70,588	64,551	62,433	71,978	78,552	68,163	94,109	87,471	68,942
Total District Expenses	\$ 78,288,374	\$ 68,609,214	\$ 66,978,504	\$ 67,936,774	\$ 70,235,266	\$ 73,457,608	\$ 73,616,097	\$ 74,168,768	\$ 88,155,424	\$ 104,087,333
Program Revenues										
Governmental Activities:										
Charges For Services:										
Instruction (Regular)	\$ 3,544,679	\$ 3,647,413	\$ 3,847,060	\$ 4,519,577	\$ 3,472,176	\$ 3,053,560	\$ 2,783,443	\$ 2,201,921	\$ 2,493,540	\$ 2,449,612
Special Education	7,671,748	7,514,537	6,155,795	6,323,649	6,021,136	5,972,108	5,530,256	5,656,240	5,009,749	4,906,330
Other Instruction	5,238,430	5,362,818	5,377,201	6,922,642	5,948,585	5,612,115	4,630,818	4,846,085	4,299,240	3,501,992
Student and Instruction Related Services	7,543,475	7,803,937	8,028,872	7,637,326	12,763,421	12,621,977	11,611,081	12,465,347	13,243,687	13,062,651
General Administrative Services	153,760	154,183	149,460	169,870	577,577	434,196	262,489	1,764,771	1,110,950	636,931
Central Services					475,278	298,455	106,842			
Administration Info. Technology					84,437	90,960	26,609			
Plant Operations and Maintenance									13,866	37,458
Pupil Transportation	52,658,003	42,277,892	41,396,747	41,189,384	39,447,997	43,475,789	45,303,697	45,293,817	56,991,948	77,109,790
Interest on Long-Term Debt				54,000						
Operating Grants And Contributions	2,585,753	2,651,295	2,211,435	2,005,024	2,034,702	2,210,734	2,659,389	2,299,589	4,654,659	5,809,409
Total Governmental Activities Program Revenues	79,395,848	69,412,075	67,166,570	68,821,472	70,825,309	73,769,894	72,914,624	74,527,770	87,817,639	107,514,173

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Unaudited)
(accrual basis of accounting)

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Business-Type Activities:										
Charges For Services										
Food Service	\$ 10,962	\$ 3,377	\$ 1,600	\$ 351	\$ 322					
Operating Grants And Contributions	78,134	65,297	55,864	55,410	67,036	\$ 82,873	\$ 70,764	\$ 98,996	\$ 101,127	\$ 51,320
Capital Grants and Contributions	-	-	-	-	7,170	-	-	-	-	-
Total Business Type Activities Program Revenues	89,096	68,674	57,464	55,761	74,528	82,873	70,764	98,996	101,127	51,320
Total District Program Revenues	\$ 79,484,944	\$ 69,480,749	\$ 67,224,034	\$ 68,877,233	\$ 70,899,837	\$ 73,852,767	\$ 72,985,388	\$ 74,626,766	\$ 87,918,766	\$ 107,565,493
Net (Expense)/Revenue										
Governmental Activities	\$ 1,195,474	\$ 873,449	\$ 252,617	\$ 947,131	\$ 662,021	\$ 390,838	\$ (633,310)	\$ 453,111	\$ (250,314)	\$ 3,495,782
Business-Type Activities	1,096	(1,914)	(7,087)	(6,672)	2,550	4,321	2,601	4,887	13,656	(17,622)
Total District-Wide Net Expense	\$ 1,196,570	\$ 871,535	\$ 245,530	\$ 940,459	\$ 664,571	\$ 395,159	\$ (630,709)	\$ 457,998	\$ (236,658)	\$ 3,478,160
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Miscellaneous Income	400,249	421,588	291,900	169,372	54,062	117,164	510,127	1,615,851	937,376	554,939
Loss on Disposal of Capital Assets	(32,208)	(120,208)	(36,917)	(50,427)						
Transfers	-	-	(7,087)	(6,672)	(4,531)	(1,681)	-	-	-	-
Total Governmental Activities	368,041	301,380	247,896	112,273	49,531	115,483	510,127	1,615,851	937,376	554,939
Business-Type Activities:										
Transfers	-	-	7,087	6,672	4,531	1,681	-	-	-	-
Total Business-Type Activities	-	-	7,087	6,672	4,531	1,681	-	-	-	-
Total Commission-Wide	\$ 368,041	\$ 301,380	\$ 254,983	\$ 118,945	\$ 54,062	\$ 117,164	\$ 510,127	\$ 1,615,851	\$ 937,376	\$ 554,939
Change in Net Position										
Governmental Activities	\$ 1,563,515	\$ 1,174,829	\$ 500,513	\$ 1,059,404	\$ 711,552	\$ 506,321	\$ (123,183)	\$ 2,068,962	\$ 687,062	\$ 4,050,721
Business-Type Activities	1,096	(1,914)	-	-	7,081	6,002	2,601	4,887	13,656	(17,622)
Total Commission	\$ 1,564,611	\$ 1,172,915	\$ 500,513	\$ 1,059,404	\$ 718,633	\$ 512,323	\$ (120,582)	\$ 2,073,849	\$ 700,718	\$ 4,033,099

Source: Commission's financial statements

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 FUND BALANCES - GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (Unaudited)
 (modified accrual basis of accounting)

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Reserved		\$ 230,000	\$ 2,000,000							
Unreserved	\$ 23,177,835	26,207,140	23,992,189	\$ 25,032,511						
Assigned					\$ 5,012,173	\$ 4,533,122	\$ 16,441,121	\$ 17,134,018	\$ 16,385,038	\$ 15,671,090
Unassigned	-	-	-	-	19,972,123	20,443,335	7,611,329	7,610,158	8,282,043	13,089,192
Total General Fund	<u>\$ 23,177,835</u>	<u>\$ 26,437,140</u>	<u>\$ 25,992,189</u>	<u>\$ 25,032,511</u>	<u>\$ 24,984,296</u>	<u>\$ 24,976,457</u>	<u>\$ 24,052,450</u>	<u>\$ 24,744,176</u>	<u>\$ 24,667,081</u>	<u>\$ 28,760,282</u>
All Other Governmental Funds										
Unreserved			\$ 119,098	\$ 1,815,535						
Restricted	-	-	-	-	\$ 1,761,854	\$ 1,697,005	\$ 1,414,198	\$ 88,212	\$ 36,052	\$ -
Total All Other Governmental Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,098</u>	<u>\$ 1,815,535</u>	<u>\$ 1,761,854</u>	<u>\$ 1,697,005</u>	<u>\$ 1,414,198</u>	<u>\$ 88,212</u>	<u>\$ 36,052</u>	<u>\$ -</u>

Source: Commission's financial statements

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Unaudited)
(modified accrual basis of accounting)

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Tuition Charges	\$ 5,728,041	\$ 5,578,707	\$ 4,119,640	\$ 4,689,320	\$ 4,505,166	\$ 4,767,441	\$ 4,733,809	\$ 3,867,628	\$ 4,679,444	\$ 3,848,879
Transportation Fees	54,756,134	44,022,551	41,206,038	41,143,289	39,522,391	42,790,390	44,296,463	43,808,107	54,508,463	77,827,845
Miscellaneous	19,556,726	20,357,069	20,413,386	22,489,071	25,043,753	24,218,331	20,531,007	23,266,126	24,109,079	20,142,315
State Sources	1,834,276	1,853,167	1,426,093	1,426,946	1,400,857	1,620,817	1,915,432	1,592,682	1,811,978	1,881,895
Federal Sources	751,477	798,128	785,342	570,036	633,845	589,917	743,957	706,907	1,906,830	1,321,631
Total Revenue	82,626,654	72,609,622	67,950,499	70,318,662	71,106,012	73,986,896	72,220,668	73,241,450	86,115,794	105,022,565
Expenditures										
Instruction										
Regular Instruction	3,501,064	3,745,121	3,881,257	4,086,428	4,101,707	3,633,314	4,124,419	3,456,189	3,259,296	3,223,866
Special Education Instruction	3,757,139	4,182,027	3,504,060	3,782,426	2,866,453	8,479,605	9,107,491	9,713,583	10,136,081	10,264,996
Other Instruction	6,266,731	7,045,758	6,801,189	7,440,226	6,760,567	6,330,597	4,875,645	5,099,113	5,331,868	4,824,129
Support Services										
Student and Inst. Related Services	7,683,233	7,359,159	7,585,888	7,886,846	12,997,008	7,878,960	6,423,908	6,226,591	6,003,875	5,696,875
General Administration	1,464,784	1,794,103	1,786,575	1,761,518	1,730,966	1,328,410	928,168	2,268,945	1,743,482	1,472,773
School Administrative Services	1,087,329	985,591	979,828	1,044,182	1,034,202	1,121,016	1,240,552	1,189,158	1,050,228	1,159,525
Central Services	1,001,404	803,585	644,573	798,926	901,066	770,824	780,663	722,882	727,501	700,842
Admin. Information Technology	44,919	120,726	129,744	133,450	160,140	235,181	194,422	150,289	133,282	134,202
Plant Operations And Maintenance	1,584,543	1,179,055	1,146,913	1,094,485	1,165,627	1,209,822	1,201,781	1,049,769	1,057,239	1,080,251
Pupil Transportation	51,511,655	41,424,404	40,496,196	39,940,116	38,459,828	42,108,609	43,752,176	43,199,016	55,975,710	71,681,291
Capital Outlay	238,542	304,541	446,795	970,380	355,966	241,718	153,257	79,635	96,487	
Debt Service										
Principal	20,971	141,695	145,332	152,016	193,345	252,965	255,073	277,160	300,286	334,613
Interest and Other Charges	495,430	494,552	490,915	484,232	476,302	466,882	389,927	442,840	429,714	415,387
Total Expenditures	78,657,744	69,580,317	68,039,265	69,575,231	71,203,377	74,057,903	73,427,482	73,875,710	86,245,049	100,988,750
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	3,968,910	3,029,305	(88,766)	743,431	(97,365)	(71,007)	(1,206,814)	(634,260)	(129,255)	4,033,815
Other Financing Sources (Uses)										
Insurance Recovery										23,334
Capital Leases (Non-Budgeted)	89,880									
Transfers In			230,000	2,000,000				1,562,898	18,980	36,052
Transfers Out			(237,087)	(2,006,672)	(4,531)	(1,681)		(1,562,898)	(18,980)	(36,052)
Total Other Financing Sources (Uses)	89,880	-	(7,087)	(6,672)	(4,531)	(1,681)	-	-	-	23,334
Net Change in Fund Balances	\$ 4,058,790	\$ 3,029,305	\$ (95,853)	\$ 736,759	\$ (101,896)	\$ (72,688)	\$ (1,206,814)	\$ (634,260)	\$ (129,255)	\$ 4,057,149
Debt Service as a Percentage of										
Noncapital Expenditures	0.66%	0.92%	0.94%	0.93%	0.95%	0.98%	0.88%	0.98%	0.85%	0.74%

* Noncapital expenditures are total expenditures less Capital Outlay.

Source: Commission's financial statements

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
GENERAL FUND OTHER LOCAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year Ended June 30	Local Education Agency Fees	Indirect Cost Fees	Interest	Miscellaneous	Total
2007	\$ 4,156,615	\$ 857,079	\$ 380,884	\$ 19,365	\$ 5,413,943
2008	3,813,695	991,991	376,654	44,934	5,227,274
2009	3,969,280	965,132	163,678	28,222	5,126,312
2010	4,244,377	1,055,997	132,867	8,725	5,441,966
2011	9,471,705	968,497	22,608	31,454	10,494,264
2012	10,414,271	654,016	17,007	117,164	11,202,458
2013	8,958,318	228,221	26,577	483,550	9,696,666
2014	9,655,402	1,597,052	7,012	11,788	11,271,254
2015	11,688,846	937,376			12,626,222
2016	9,766,625	469,212	2,757	82,970	10,321,564

Source: Commission's financial statements

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN YEARS
(Unaudited)**

NOT APPLICABLE

**DRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN YEARS
(Unaudited)**

NOT APPLICABLE

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

NOT APPLICABLE

**PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS
(Unaudited)**

NOT APPLICABLE

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year Ended June 30,	Governmental Activities			County Population	Per Capita
	General Obligation Bonds	Capital Leases	Total Commission		
2007		\$ 10,760,922	\$ 10,760,922	769,139	\$ 14
2008		10,619,227	10,619,227	767,075	14
2009		10,473,895	10,473,895	769,644	14
2010		10,313,837	10,313,837	784,597	13
2011		10,120,492	10,120,492	787,006	13
2012		9,867,527	9,867,527	787,707	13
2013		9,612,454	9,612,454	790,935	12
2014		9,335,294	9,335,294	794,962	12
2015		9,035,008	9,035,008	797,434	11
2016		8,700,395	8,700,395	797,434 (E)	11

Source: Commission records

(E) - Estimate

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Unaudited)**

NOT APPLICABLE

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES BONDED DEBT
LAST TEN FISCAL YEARS
(Unaudited)**

NOT APPLICABLE

**LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)**

NOT APPLICABLE

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
DEMOGRAPHIC STATISTICS - COUNTY OF ESSEX
LAST TEN YEARS
(Unaudited)**

<u>Year Ended December 31,</u>	<u>Unemployment Rate</u>	<u>Per Capita Income</u>	<u>County Population</u>
2007	5.3%	\$ 51,568	769,139
2008	6.0%	53,136	767,075
2009	10.5%	51,288	769,644
2010	11.0%	52,324	784,597
2011	10.8%	55,014	787,006
2012	10.8%	55,404	787,707
2013	10.8%	55,692	790,935
2014	9.5%	58,319	794,962
2015	7.9%	58,319 (E)	797,434
2016	6.7%	58,319 (E)	797,434 (E)

Note: Information represents County of Essex demographics

Source: New Jersey Department of Work Force Development

E = Estimate

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
PRINCIPAL EMPLOYERS,
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

NOT APPLICABLE

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 FULL-TIME EQUIVALENT DISTRICT EMPLOYEES BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS
 (Unaudited)**

<u>Function/Program</u>	<u>Fiscal Year Ended June 30,</u>									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Instruction	176	160	160	150	150	140	140	145	142	393
Support Services:										
Student and Instruction Related Services	80	69	106	106	324	280	290	292	298	10
General Administration	4	6	5	5	5	5	5	5	5	8
School Administrative Services	26	14	11	10	10	10	10	10	9	12
Central and Other Support Services	9	20	18	17	17	16	17	18	18	6
Plant Operations And Maintenance	8	8	7	7	6	6	6	6	6	4
Pupil Transportation	13	16	17	17	13	15	15	15	17	17
Total	316	293	324	312	525	472	483	491	495	450

Source: District Personnel Records

Note - Beginning in FY 2016, the Commission's FTE's were calculated based on the function as detailed in the State Chart of Accounts.

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
OPERATING STATISTICS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year Ended June 30,	Enrollment	Operating Expenditures	Teaching Staff	Pupil/Teacher Ratio		Average Daily Enrollment (ADE)	Average Daily Attendance (ADA)	% Change in Average Daily Enrollment	Student Attendance Percentage
				Elementary/ Middle School	High School				
2007	186.6	\$ 77,902,801	28	5.1:1	8.9:1	186.6	131.7	35.49%	66
2008	203.1	68,639,529	24	6.6:1	6.9:1	203.1	125.4	-4.78%	62
2009	157.1	66,956,223	24	5.2:1	6.0:1	157.1	103.8	-17.22%	66
2010	122.0	67,968,603	17	8.7:1	6.3:1	122.0	89.4	-13.87%	60
2011	128.0	70,177,564	19	7.0:1	6.6:1	128.0	90.0	0.67%	70
2012	135.0	73,096,338	17	11.0:1	7.1:1	135.0	104.1	15.67%	76
2013	126.8	72,629,225	20	7.5:1	6.2:1	126.8	96.9	-6.92%	76
2014	120.0	73,076,075	20	6.8:1	5.6:1	120.0	106.5	9.91%	90
2015	122.0	85,418,562	20	7.0:1	5.7:1	122.0	105.0	-1.41%	85
2016	118.0	100,238,750	N/A	N/A	N/A	118.0	93.3	-11.12%	79

Sources: District records

N/A - Not Available

Note - Commission's operating expenditures represent cost for services rendered to other local education agencies as well as Commission students. The cost per pupil is not representative of cost associated with students included in the Commission's enrollment. Therefore, cost per pupil has not been calculated

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHOOL BUILDING INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)

	Fiscal Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<u>District Building</u>										
<u>Dr. Jacqueline A. Young Education Center</u>										
Square Feet	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Capacity (students)										
Enrollment										
<u>Essex Campus Academy</u>										
Square Feet	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Capacity (students)	125	125	125	125	125	125	125	125	125	125
Enrollment	91	110	83	52	52	46	36	40	40	41
<u>Essex Junior Academy</u>										
Square Feet	33,276	33,276	32,276	33,276	33,276	33,276	38,000	38,000	38,000	38,000
Capacity (students)	192	192	192	192	192	192	220	220	220	220
Enrollment	59	53	32	35	35	46	44	41	42	41
<u>Essex High School</u>										
Square Feet	6,260	6,260	6,260	7,580	7,580	7,580	7,580	7,580	7,580	7,580
Capacity (students)	48	48	36	48	48	48	48	48	48	48
Enrollment	84	40	42	35	35	44	46	39	40	36
Number of Schools at June 30, 2016										
Elementary/Middle School	1	1	1	1	1	1	1	1	1	1
Senior High School	3	2	2	2	2	2	2	2	2	2

Source: District Records

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
GENERAL FUND
SCHEDULE OF REQUIRED MAINTENANCE FOR SCHOOL FACILITIES
(Unaudited)

NOT APPLICABLE

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF INSURANCE
JUNE 30, 2016
(Unaudited)

	<u>Coverage</u>	<u>Deductible</u>
School Package Policy		
Property	\$ 400,000,000	\$ 1,000
Extra Expense	50,000,000	1,000
Valuable Papers	10,000,000	1,000
EDP	250,000	1,000
Equipment Breakdown	100,000,000	1,000
Crime and Bonds		
Faithful Performance	500,000	1,000
Forgery and Alteration	500,000	1,000
Money and Securities	100,000	500
Money Orders/Counterfeit	100,000	500
Computer Fraud	500,000	1,000
General Liability	31,000,000	N/A
Bodily Injury and Property Damage	31,000,000	N/A

Note: Unless otherwise noted all Insurance Policies are with the New Jersey Schools Insurance Fund

Source: School District's records

SINGLE AUDIT SECTION



LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

EXHIBIT K-1

DIETER P. LERCH, CPA, RMA, PSA
GARY J. VINCI, CPA, RMA, PSA
GARY W. HIGGINS, CPA, RMA, PSA
JEFFREY C. BLISS, CPA, RMA, PSA
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ROBERT AMPONSAH, CPA

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

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Directors
Essex Regional Educational Services Commission
Fairfield, New Jersey

We have audited, in accordance with the 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 prescribed by the Office of School Finance, Department of Education, State of New Jersey, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Essex Regional Educational Services Commission as of and for the fiscal year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Essex Regional Educational Services Commission's basic financial statements and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Essex Regional Educational Services Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Essex Regional Educational Services Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Essex Regional Educational Services Commission's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Essex Regional Educational Services Commission's financial statements are free from 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 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 and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002.

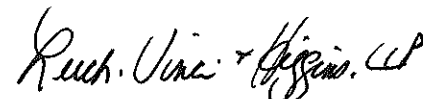
We also noted certain matters that are not required to be reported under Government Auditing Standards that we reported to management of the Essex Regional Educational Services Commission in a separate report entitled, "Auditor's Management Report on Administrative Findings – Financial, Compliance and Performance" dated November 28, 2016.

Essex Regional Educational Services Commission's Responses to Findings

The Essex Regional Educational Services Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Essex Regional Educational Services Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Essex Regional Educational Services Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Essex Regional Educational Services Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Public School Accountants



Gary J. Vinci
Public School Accountant
PSA Number CS00829

Fair Lawn, New Jersey
November 28, 2016



LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

EXHIBIT K-2

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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE
U.S. UNIFORM GUIDANCE AND SCHEDULE OF EXPENDITURES OF STATE FINANCIAL
ASSISTANCE AS REQUIRED BY NEW JERSEY OMB CIRCULAR 15-08**

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Directors
Essex Regional Educational Services Commission
Fairfield, New Jersey

Report on Compliance for Each Major Federal and State Program

We have audited the Essex Regional Educational Services Commission's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement and the New Jersey OMB Circular 15-08 State Aid/Grant Compliance Supplement that could have a direct and material effect on each of the Essex Regional Educational Services Commission's major federal and state programs for the fiscal year ended June 30, 2016. The Essex Regional Educational Services Commission's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal and state statutes, regulations, and the terms and conditions of its federal awards and state financial assistance applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Essex Regional Educational Services Commission's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and New Jersey OMB Circular 15-08, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, U.S. Uniform Guidance and New Jersey Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Essex Regional Educational Services Commission'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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Essex Regional Educational Services Commission's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Essex Regional Educational Services Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the U.S. Uniform Guidance and New Jersey OMB Circular 15-08 and which is described in the accompanying schedule of findings and questioned costs as item 2016-003. Our opinion on each major federal and state program is not modified with respect to these matters.

The Essex Regional Educational Services Commission's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Essex Regional Educational Services Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Essex Regional Educational Services Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Essex Regional Educational Services Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the U.S. Uniform Guidance and New Jersey OMB Circular 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Essex Regional Educational Services Commission'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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.


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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-003 that we consider to be a significant deficiency.


The Essex Regional Educational Services Commission's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Essex Regional Educational Services Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the U.S. Uniform Guidance and New Jersey OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the U.S. Uniform Guidance and Schedule of Expenditures of State Financial Assistance Required by New Jersey OMB Circular 15-08

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 Essex Regional Educational Services Commission, as of and for the fiscal year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Board of Education's basic financial statements. We issued our report thereon dated November 28, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards as required by the U.S. Uniform Guidance and schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 15-08 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Public School Accountants


Gary J. Vinci
Public School Accountant
PSA Number CS00829

Fair Lawn, New Jersey
November 28, 2016

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	FAIN Number	Grant Period	Award Amount	Balance July 1, 2015		Carryover Amount	Cash Received	Budgetary Expenditures	Adjustment	Balance June 30, 2016			Memo GAAP Receivable
					(Accounts Receivable)	Unearned Revenue					(Accounts Receivable)	Unearned Revenue	Due to LEA	
U.S. Department of Education														
Passed Through State Department of Education														
<u>Special Revenue Fund:</u>														
Migrant Education	84.011A	S011A150030	1/1/16-12/31/16	\$ 518,391				\$ 38,004	\$ 156,134		\$ (480,387)	\$ 362,257		\$ (118,130)
Migrant Education	84.011A		1/1/14-12/31/14	518,391	\$ (202,203)			201,753		\$ 450				
Migrant Education	84.011A		1/1/15-12/31/15	518,391	(518,391)	\$ 346,244		518,391	341,162			5,082		
Migrant Education -Summer	84.011A	S011A150030	7/1/15-8/31/16	33,369	-	-		33,369	33,369					
Total Migrant Education					(720,594)	346,244		791,517	530,665	450	(480,387)	367,339		(118,130)
Homeless Children and Youth Ed.	84.196	S196A150031	9/1/15-8/31/16	139,415				53,033	139,415		(86,382)			(86,382)
Homeless Children and Youth Ed.	84.196		9/1/14-9/30/15	335,393	(241,443)	157,596		241,443	144,489			13,107		
Total Homeless Children and Youth					(241,443)	157,596		294,476	283,904		(86,382)	13,107		(86,382)
Title I	84.010	S010A150030	7/1/15-6/30/16	507,062				507,062	507,062					
Total Special Revenue Fund					(962,037)	503,840		1,593,055	1,321,631	450	(566,769)	380,446		(204,512)
U.S. Department of Education														
Passed Through State Department of Education														
<u>Enterprise Fund:</u>														
National School Lunch Program	10.555	1616NJ304N1099	7/1/15-6/30/16	30,810				10,171	30,810		(20,639)			(20,639)
National School Lunch Program	10.555		7/1/14-6/30/15	61,343	(4,364)			4,364						
National School Breakfast Program	10.553	1616NJ304N1099	7/1/15-6/30/16	19,884				6,511	19,884		(13,373)			(13,373)
National School Breakfast Program	10.553		7/1/14-6/30/15	37,572	(2,805)			2,805						
Total Enterprise Fund					(7,169)			23,851	50,694		(34,012)			(34,012)
Total Federal Financial Awards					\$ (969,206)	\$ 503,840	\$ -	\$ 1,616,906	\$ 1,372,325	\$ 450	\$ (600,781)	\$ 380,446	\$ -	\$ (238,524)

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

State Department of Education	Grant or State Project Number	Grant Period	Award Amount	Balance July 1, 2015	Carryover Amount	Cash Received	Budgetary Expenditures	Repayment of Prior Year Balances	Balance June 30, 2016			MEMO			
									(Accts. Receivable)	Unearned Revenue	Due to LEA	GAAP Receivable	Cumulative Total Expenditures		
<u>General Fund:</u>															
TPAF On-Behalf															
			\$ 549,527			\$ 549,527	\$ 549,527							\$ 549,527	
	16-495-034-5094-006	7/1/15-6/30/16				27,374	27,374							27,374	
	16-495-034-5094-007	7/1/15-6/30/16	686,930	-	-	686,930	686,930	-	-	-	-	-	-	686,930	
	16-495-034-5094-001	7/1/15-6/30/16													
	Total On-Behalf TPAF Pension			-	-	1,263,831	1,263,831	-	-	-	-	-	-	1,263,831	
	15-495-034-5094-003	7/1/14-6/30/15	547,226	\$ (52,396)		52,396									
	16-495-034-5095-002	7/1/15-6/30/16	502,351	-	-	457,292	502,351	-	\$ (45,059)	-	-	\$ (45,059)	-	502,351	
	Total General Fund			(52,396)	-	1,773,519	1,766,182	-	(45,059)	-	-	(45,059)	-	1,766,182	
<u>Special Revenue Fund:</u>															
State Division of Youth and Family Serv. Extended Day Care															
	16AJGM	7/1/15-6/30/16	124,997	-	-	124,997	115,713	-	-	\$ 9,284	-	-	-	115,713	
	Total Special Revenue Fund			-	-	124,997	115,713	-	-	9,284	-	-	-	115,713	
<u>Enterprise Fund:</u>															
State School Lunch Program															
	15-100-034-5120-122	7/1/14-6/30/15	1,142	(109)		109									
	16-100-034-5120-122	7/1/15-6/30/16	612	-	-	188	612	-	(424)	-	-	(424)	-	612	
	Total Enterprise Fund			(109)	-	297	612	-	(424)	-	-	(424)	-	612	
	Total State Financial Assistance Subject to Single Audit Determination			(52,505)	-	1,898,813	1,882,507	-	(45,483)	9,284	-	(45,483)	-	1,882,507	
<u>General Fund</u>															
	TPAF Pension Contributions					(549,527)	(549,527)							(549,527)	
	TPAF Pension - NCGI Premium					(27,374)	(27,374)							(27,374)	
	TPAF Pension-Post Retirement Medical					(686,930)	(686,930)							(686,930)	
	Total State Assistance Subject to Major Program Determination			\$ (52,505)	\$ -	\$ 634,982	\$ 618,676	\$ -	\$ (45,483)	\$ 9,284	\$ -	\$ (45,483)	\$ -	\$ 618,676	

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
 NOTES TO THE SCHEDULES OF EXPENDITURES OF
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 1 GENERAL

The accompanying schedules present the activity of all federal and state financial assistance programs of the Essex Regional Educational Services Commission. The Commission is defined in Note 1(A) to the Commission’s financial statements. All federal financial assistance received directly from federal agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards and state financial assistance.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedules are prepared and presented using the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These basis of accounting are described in Notes 1(C) to the Commission's financial statements. The information in these schedules is presented in accordance with the requirements of 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (U.S. Uniform Guidance) and New Jersey OMB Circular 15-08, “Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid”. Therefore, some amounts presented in these schedules may differ from the amounts presented in, or used in the preparation of, the financial statements.

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

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

The general fund is presented in the accompanying schedules on a modified accrual basis with the exception of the revenue recognition of the delayed state aid payments in the current budget year, which is mandated pursuant to N.J.S.A. 18A:22-44.2. For GAAP purposes, those payments are not recognized until the subsequent year due to the state deferral and recording of certain 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 revenues, which may include the delayed state aid payments, whereas the GAAP basis does not. The special revenue fund also recognizes the delayed state aid payments in the current budget year, consistent with N.J.S.A. 18A:22-44.2.

There were no required adjustments to reconcile from the budgetary basis to the GAAP basis for the general and special revenue funds. See the Notes to Required Supplementary Information for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the Commission’s financial statements on a GAAP basis as presented as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund		\$ 1,766,182	\$ 1,766,182
Special Revenue Fund	\$ 1,321,631	115,713	1,437,344
Food Service Fund	<u>50,694</u>	<u>612</u>	<u>51,306</u>
 Total Financial Assistance	 <u>\$ 1,372,325</u>	 <u>\$ 1,882,507</u>	 <u>\$ 3,254,832</u>

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
NOTES TO THE SCHEDULES OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016****NOTE 4 RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS**

Amounts reported in the accompanying schedules may not necessarily agree with the amounts reported in the related federal and state financial reports due to timing differences between the Commission's fiscal year and grant program years.

NOTE 5 OTHER INFORMATION

TPAF Social Security contributions in the amount of \$502,351 represents the amount reimbursed by the State for the employer's share of social security contributions for TPAF members for the fiscal year ended June 30, 2016. The amount reported as TPAF Pension System Contributions in the amount of \$576,901 and TPAF Post-Retirement Medical Benefits Contributions in the amount of \$686,930 represents the amount paid by the State on behalf of the Commission for the fiscal year ended June 30, 2016.

NOTE 6 ON-BEHALF PROGRAMS NOT SUBJECT TO STATE SINGLE AUDIT

On-behalf State Programs for TPAF Pension and Post-Retirement Medical Benefits Contributions are not subject to a State single audit and, therefore, are excluded from major program determination. The Schedule of State Financial Assistance provides a reconciliation of State financial assistance reported in the Commission's financial statements and the amount subject to State single audit and major program determination.

NOTE 7 DE MINIMIS INDIRECT COST RATE

The Commission has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Part I – Summary of Auditor’s Results

Financial Statement Section

Type of auditors' report issued Unmodified

Internal control over financial reporting:

1) Material weakness(es) identified: yes X no

2) Significant deficiency(ies) identified? X yes none reported

Noncompliance material to the basic financial statements noted? X yes no

Federal Awards Section

Internal Control over major programs:

1) Material weakness(es) identified: yes X no

2) Significant deficiency(ies) identified? X yes none reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section .516(a) of Uniform Guidance X yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>FAIN Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>S010A150030</u>	<u>Title I</u>
<u>84.196</u>	<u>S196A150031</u>	<u>Education for Homeless Children and Youth</u>
<u> </u>	<u> </u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Part I – Summary of Auditor’s Results

State Awards Section

Dollar threshold used to distinguish between
Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X yes no

Internal Control over major programs:

(1) Material weaknesses identified?

 yes X no

(2) Significant deficiencies identified that are not
considered to be material weaknesses?

 yes X none reported

Type of auditor's report issued on compliance for
major programs

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with NJ OMB Circular Letter 15-08?

 yes X no

Identification of major state programs:

State Grant/Project Number
495-034-5094-003

Name of State Program
TPAF Social Security Contribution

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Part 2 – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements in accordance with Government Auditing Standards.

Finding 2016-001:

Our audit of the Commission's financial accounting records revealed the following:

- a) The Commission's cash balance in the year end financial reports reflected a cash overdraft in excess of three million.
- b) The Commission's year end accounts payable was overstated by over \$2.5 million in the General Fund \$86,492 in the Special Revenue Fund and \$27,058 in the Food Service Enterprise Fund.
- c) The TPAF FICA reimbursement for Federally Funded Programs was not accrued in the Commission's financial reports as of June 30, 2016.

Criteria or Specific Requirement:

Internal Controls Over Financial Reporting
New Jersey State Statutes and Administrative Code

Condition:

The Commission's year end unadjusted financial statements reported a cash overdraft of \$3,390,851 due to accounts payable being recorded as June 30, 2016 cash disbursements. An audit adjustment was made to record the subsequent payments as accounts payable, thereby eliminating the cash overdraft. In addition, amounts recorded as accounts payable at June 30, 2016 were primarily residual balances on purchase orders resulting in the cancellation of over \$2.6 million by audit adjustment. The Commission did not accrue on a timely basis the TPAF FICA reimbursement of \$149,588 in the June 30, 2016 financial reports.

Context:

The Commission's June 30, 2016 assets and liabilities were over (under) stated.

Effect:

Cash balances were understated and accounts payable and other liabilities were overstated resulting in the understatement of fund balance.

Cause:

Unknown.

Recommendation:

Internal control procedures be reviewed and enhanced to ensure that all liabilities are properly reported in the Commission's year end financial reports.

Views of Responsible Officials and Planned Corrective Action Plan:

Management has reviewed this finding and has indicated that corrective action will be taken.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Part 2 – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements in accordance with Government Auditing Standards.

Finding 2016-002:

The Commission's financial reports reflected additional appropriations of revenues from fees, however, the additional appropriations were not always authorized by a Board resolution. In addition, several budgetary line items were overexpended at June 30, 2016.

Criteria or Specific Requirement:

New Jersey State Statutes and Administrative Code

Condition:

Certain additional appropriations were not authorized by Board resolution. Several budgetary line items were overexpended.

Context:

Resolutions authorizing the additional appropriation of revenue were not presented to the Board for approval. In certain instances, transfers were not made to offset deficits in the budgetary line items.

Effect:

The Commission had sufficient appropriation balances in other budgetary line accounts to adequately fund the budget expenditures.

Cause:

Unknown.

Recommendation:

Internal control procedures be reviewed and enhanced to ensure that budget transfers are made prior to the overexpenditure of budgetary line items. Furthermore, all additional appropriations of revenue be authorized by Board resolution.

Views of Responsible Officials and Planned Corrective Action Plan:

Management has reviewed this finding and has indicated that corrective action will be taken.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Part 3 – Schedule of Federal and State Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by U.S. Uniform Guidance and New Jersey OMB's Circular 15-08.

CURRENT YEAR FEDERAL AWARDS

Finding 2016-003:

Our audit of federal grant awards revealed the following:

- Expenditures reported on the various federal grant reports were not in agreement with the Commission's budgetary accounting records.
- Time and activity reports were not maintained for employees charged to a federal grant.
- Employees charged to federal programs were not detailed by name, salary and percentage of salary charged to the grant program in the Commission's official minutes.

Information on the Federal Program:

84.010	Title I
84.196	Education for Homeless Children and Youth

Criteria or Specific Requirement:

Uniform Guidance

Conditions:

- The Commission's budgetary accounting reports were not in agreement with the grant reports.
- Time and activity reports were not maintained for employees charged to federal programs.
- The Commission's official minutes did not contain the required salary resolutions for employees charged to federal programs.

Questioned Costs:

Unknown.

Context:

See Conditions.

Effects:

Grant expenditures may be over(under) stated.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Part 3 – Schedule of Federal and State Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by U.S. Uniform Guidance and New Jersey OMB's Circular 15-08.

CURRENT YEAR FEDERAL AWARDS

Finding 2016-003: (Continued)

Cause:

Unknown.

Recommendation:

- Grant financial reports be reconciled to the Commission's budgetary accounting records.
- Time and activity reports be completed for all employees charged to the Title I grant.
- All employees charged to a federal grant program be included by name and pro-rata salary on a resolution approved by the Board.

Views of Responsible Officials and Planned Corrective Action Plan:

Management has reviewed this finding and has indicated that corrective action will be taken.

ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Part 3 – Schedule of Federal and State Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by U.S. Uniform Guidance and New Jersey OMB's Circular 15-08.

CURRENT YEAR STATE AWARDS

THERE ARE NONE.

**ESSEX REGIONAL EDUCATIONAL SERVICES COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with U.S. Uniform Guidance and New Jersey OMB's Circular 15-08.

STATUS OF PRIOR YEAR FINDINGS

THERE WERE NONE.