

MERCER COUNTY
SPECIAL
SERVICES
SCHOOL DISTRICT

County of Mercer
Board of Education
New Jersey

*Comprehensive Annual Financial Report
For the Year Ended
June 30, 2016*

Mercer County Special Services School District

**Mercer County Special Services School District
Hamilton
Mercer County, New Jersey**

Comprehensive Annual Financial Report
For the Year Ended June 30, 2016

Prepared by
Business Office

Table of Contents (continued)

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	1
Organizational Chart	5
Roster of Officials	6
Independent Auditors and Advisors	7
Certificate of Excellence in Financial Reporting	8
FINANCIAL SECTION	
Independent Auditors' Report	9
Required Supplementary Information – Part I	
Management's Discussion and Analysis	12
Basic Financial Statements	
Government-wide Financial Statements:	
A-1 Statement of Net Position	22
A-2 Statement of Activities	23
Fund Financial Statements:	
Governmental Funds:	
B-1 Balance Sheet	24
B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances	25
B-3 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Proprietary Funds:	
B-4 Statement of Net Position	27
B-5 Statement of Revenues, Expenses and Changes in Net Position	28
B-6 Statement of Cash Flows	29
Fiduciary Funds:	
B-7 Statement of Fiduciary Net Position	30
B-8 Statement of Changes in Fiduciary Net Position	31
Notes to the Basic Financial Statements	32

Table of Contents (continued)

	<u>Page</u>
FINANCIAL SECTION (continued)	
Required Supplementary Information – Part II	
Schedule of the District’s Proportionate Share of the Net Pension Liability – Public Employee’s Retirement System (PERS)	67
Schedule of District Contributions – Public Employee’s Retirement System (PERS)	68
Schedule of State’s Proportionate Share of the Net Pension Liability Associated with the District – Teacher’s Pension and Annuity Fund (TPAF)	69
Required Supplementary Information – Part III	
Budgetary Comparison Schedules:	
C-1 Budgetary Comparison Schedule – General Fund (Budgetary-Basis)	70
C-1a Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – (Budgetary-Basis) - Not Applicable	N/A
C-1b Community Development Block Grant – Budget and Actual – (Budgetary-Basis) – Not Applicable	N/A
C-2 Budgetary Comparison Schedule – Special Revenue Fund (Budgetary-Basis)	73
Note to Required Supplementary Information	
C-3 Budget to GAAP Reconciliation	74
Supplementary Information	
D School Based Budget Schedules – Not Applicable	N/A
Special Revenue Fund:	
E-1 Combining Schedule of Program Revenues and Expenditures – Budgetary Basis	75
E-2 Schedule of Preschool Education Program Aid Expenditures – Budgetary Basis - Not Applicable	N/A
Capital Projects Fund:	
F-1 Summary Schedule of Project Revenues, Expenditures, and Changes in Fund Balance	76
F-1a- Schedule of Project Revenues, Expenditures, Project Balance and	
F-1c Project Status – Budgetary Basis	77
F-2 Summary Schedule of Project Expenditures – Not Applicable	N/A
Enterprise Funds:	
G-1 Combining Statement of Net Position – Not Applicable	N/A
G-2 Combining Statement of Revenues, Expenses, and Changes in Net Position – Not Applicable	N/A

G-3 Combining Statement of Cash Flows – Not Applicable N/A

Table of Contents (continued)

	<u>Page</u>
FINANCIAL SECTION (continued)	
Supplementary Information (continued)	
Fiduciary Funds:	
H-1 Combining Statement of Fiduciary Net Position	80
H-2 Combining Statement of Changes in Fiduciary Net Position – Not Applicable	81
H-3 Schedule of Cash Receipts and Cash Disbursements – Student Activity Agency Fund	82
H-4 Schedule of Cash Receipts and Cash Disbursements – Payroll Agency Fund	83
Long-Term Debt:	
I-1 Schedule of Serial Bonds Payable – Not Applicable	N/A
I-2 Schedule of Obligations Under Capital Leases	84
I-3 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund – Not Applicable	N/A
STATISTICAL SECTION (Unaudited) – Other Information	
Financial Trends:	
J-1 Net Position by Component	85
J-2 Changes in Net Position	86
J-3 Fund Balances-Governmental Funds	89
J-4 Changes in Fund Balances, Governmental Funds	90
J-5 General Fund - Other Local Revenue by Source	91
Revenue Capacity:	
J-6 Assessed Value and Actual Value of Taxable Property	N/A
J-7 Direct and Overlapping Property Tax Rates	N/A
J-8 Principal Property Taxpayers (Current Year and Nine Years Ago)	N/A
J-9 Property Tax Levies and Collections	N/A
Debt Capacity:	
J-10 Ratios of Outstanding Debt by Type	N/A
J-11 Ratios of General Bonded Debt Outstanding	N/A
J-12 Ratios of Overlapping Governmental Activities Debt	N/A
J-13 Legal Debt Margin Information	N/A

Table of Contents (continued)

	Page
STATISTICAL SECTION (Unaudited) – Other Information (continued)	
Demographic and Economic Information:	
J-14 Demographic and Economic Statistics	92
J-15 Principal Employers	N/A
Operating Information:	
J-16 Full-time Equivalent District Employees by Function/Program	93
J-17 Operating Statistics	94
J-18 School Building Information	95
J-19 Schedule of Required Maintenance	96
J-20 Insurance Schedule	97
 SINGLE AUDIT SECTION	
K-1 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	98
K-2 Report on Compliance For Each Major Federal and State Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and New Jersey OMB 15-08	100
K-3 Schedule A – Schedule of Expenditures of Federal Awards – Supplementary Information	103
K-4 Schedule B – Schedule of Expenditures of State Financial Assistance – Supplementary Information	104
K-5 Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance	105
K-6 Schedule of Findings and Questioned Costs – Part I – Summary of Auditor’s Results	108
K-7 Schedule of Findings and Questioned Costs – Parts II and III – Schedule of Financial Statement Findings and Schedule of Federal and State Award Findings and Questioned Costs	110
K-8 Summary Schedule of Prior Year Audit Findings	112

Introductory Section



Kimberly J. Schneider, Ed. D.
Superintendent

Tanya Dawson
Business Administrator/Board Secretary

November 28, 2016

Honorable President and
Members of the Board of Education
Mercer County Special Services School District
County of Mercer
Hamilton, New Jersey 08690

Dear Board Members and Constituents:

The comprehensive annual financial report of the Mercer County Special Services School District ("District") for the fiscal year ended June 30, 2016, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the administration of the Board of Education. To the best of our knowledge and belief, the data presented in this report is accurate in all material aspects and is reported in a manner designed to present fairly the financial position and results of operations of the governmental-type activities, the business-type activities, each major fund of the District and the remaining aggregate fund information. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The comprehensive annual financial report is presented in four (4) sections: Introductory, Financial, Statistical and Single Audit. The Introductory section includes this transmittal letter (designed to complement Management's Discussion and Analysis and should be read in conjunction with it), the District's organizational chart, a list of principal officials and the Certificate of Excellence in Financial Reporting. The Financial section includes Management's Discussion and Analysis (immediately following the independent auditors' report) and the basic financial statements, footnotes and schedules, as well as the auditor's report thereon. The Statistical section includes selected financial and demographic information, generally presented on a multi-year basis and is unaudited. The District is required to undergo an annual single audit in conformity with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements of Federal Awards* (Uniform Guidance), and the State OMB Circular Letter 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid Payments*. Information related to this single audit, including the auditors' report on the internal controls over compliance and compliance with applicable laws and regulations and any related findings and questioned costs are included in the Single Audit section of this report.

1) REPORTING ENTITY AND ITS SERVICES:

Mercer County Special Services School District is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board (“GASB”) Statement No. 14. All major funds of the District and the government-wide financial statements are included in this report. The Mercer County Special Services Board of Education and its schools constitute the District’s reporting entity.

The District provides a full range of special needs educational services appropriate to grade levels pre-K through 12; servicing students up to the age of 21 as per Individualized Education Plans (IEPs). The District completed the 2016 fiscal year with an average daily enrollment of 627 students, which is fifty-five (55.6) students less than the previous year’s average daily enrollment. The following details the changes in the average daily enrollment of the District over the last ten (10) years.

Average Daily Enrollment

<u>Fiscal Year Ending</u>	<u>Student Enrollment</u>	<u>Percent Change</u>
2015-2016	627.0	(8.14)%
2014-2015	682.6	1.04%
2013-2014	675.6	1.21%
2012-2013	667.5	(3.08)%
2011-2012	688.7	(1.57)%
2010-2011	699.7	(6.41)%
2009-2010	747.6	(4.63)%
2008-2009	783.9	2.27%
2007-2008	766.5	(3.91)%
2006-2007	797.7	2.69%

2) MAJOR INITIATIVES/LONG RANGE PLANNING:

The District has reviewed input from local school districts and is expanding program options to include an Early Childhood Behavioral Disabilities Program at the Joseph Cappello School. The District has expanded its partnership with the ARC, moving them from the Regional Day School to the Joseph Cappello School with increased space and room usage to further expand offerings related to transition planning. Through recommendations of the District Curriculum Committee, the District has purchased additional technology including iPads, staff professional development and the materials for piloting the Reading Horizons Program to address dyslexia and reading difficulties for learners at the Elementary and High School levels. The District is also adopting additional curriculum at the Early Childhood Level, with staff being trained in the Tools of the Mind Curriculums in an effort to expand self-regulation for learners. Finally, the district is increasing efforts focused on staff professional development related to self-regulation and neurological development through training offered by Dr. Reggie Melrose, author of The 60 Second Fix and Brain Charge Curriculum.

The District focused efforts on educating the community regarding the services available for learners with professional photographs being taken which will be available for viewing on the district website. The District also intends to increase publicity efforts with the institution of an Admissions and Professional Development Event to be held for local Child Study Team members in an effort to help them learn more about the District.

The District is in the process of creating a General Advisory Committee of Business Partners and local community members in order to increase its focus on Career and Technical Education programs for learners.

The District’s buildings range in age from 11 years to 32 years (built dates are detailed on the J-18 schedule). The District provides for the maintenance of the building in the annual budget. The District continues to pursue long range planning initiatives. For example, the District continues to engage in the analysis of program costs

and enrollments necessary to properly forecast tuition costs and revenues. Additionally, the District has been aggressive in addressing facilities needs by continuing to engage in facilities planning. Numerous capital projects and facilities improvements have resulted from these budget and facilities planning activities.

3) ECONOMY AND ECONOMIC OUTLOOK:

Mercer County is home of a wide range of industries including education, health services, business services, leisure and hospitality. The highly skilled workforce includes those in the professional, scientific and technical services industries. The county's unemployment rate is 4.4%, which is 1.2 percentage points better than the national average of 5.6%. During the period 2012-2022 it is projected that Mercer County will add 19,550 jobs. The county's employment is projected to grow by 8.0%, while the statewide rate is expected to be 7.5%.

The District experienced a decrease in enrollment during the 2015-2016 school year. The District cannot accurately forecast future enrollment. While the district does not anticipate a significant change in enrollment for the 2016-2017 school year, the District is aware that requirements for controlling out of District placements from sending districts and the 2% cap on the sending district's tax levy increases have the potential to impact future enrollment.

For the 2015-16 school year, the Mercer County Special Services School District was able to sustain its budget through tuition revenues, the county tax levy, and out of county fees.

4) INTERNAL CONTROLS:

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

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

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

5) BUDGETARY CONTROLS:

In addition to internal controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Chosen Freeholders of the County of Mercer. Annual appropriated budgets are adopted for the General Fund and the Special Revenue Fund. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the Minimum Chart of Accounts referenced in N.J.A.C. 6A:23. Project-length budgets are approved for the capital improvements accounted for in the Capital Projects Fund. The final budget amount as amended for the fiscal year is reflected in the financial section. An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either cancelled or are included as re-appropriations of fund balance in the subsequent year. Those amounts to be re-appropriated are reported as a portion of fund balance at June 30, 2016.

6) ACCOUNTING SYSTEM AND REPORTS:

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

7) FINANCIAL INFORMATION AT FISCAL YEAR-END:

As demonstrated by the various statements and schedules included in the Financial section of this report, the District continues to meet its responsibility for sound financial management. Financial summaries and detail should be reviewed in the Management's Discussion and Analysis for the fiscal year ended June 30, 2016.

8) OTHER INFORMATION:

Independent Audit – State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Wiss & Company LLP was selected by the Board. In addition to meeting the requirements set forth in State statutes, the audit also was designed to meet the requirements of the Uniform Guidance and State OMB Circular Letter OMB 15-08. The auditors' report on the basic financial statements and specific required supplementary information, other supplementary information and the combining and individual fund statements and schedules are included in the financial section of this report. The auditors' report related specifically to the single audit is included in the single audit section of this report.

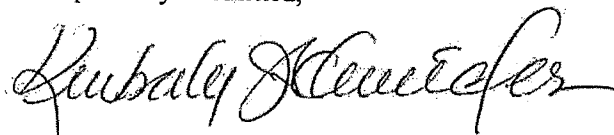
Awards – The District had applied to the Association of School Business Officials (ASBO) International for the "Certificate of Excellence in Financial Reporting" for its comprehensive annual financial report for the fiscal year ended June 30, 2015 and was again granted the award. In order to be awarded this certificate, the District published an easily readable and efficiently organized comprehensive annual financial report and satisfied both generally accepted accounting principles and applicable legal requirements. This is the fourth consecutive year the District has received this award.

We believe that our current comprehensive annual financial report continues to meet the Program's rigorous requirements, and we are submitting it to ASBO to determine its eligibility for the fiscal year 2015-2016 award.

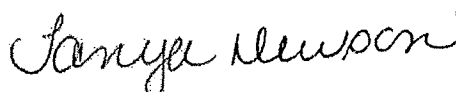
9) ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Mercer County Special Services School District Board of Education for their concern in providing fiscal accountability to the citizens and taxpayers of the County and District and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our Business Office staff.

Respectfully Submitted,

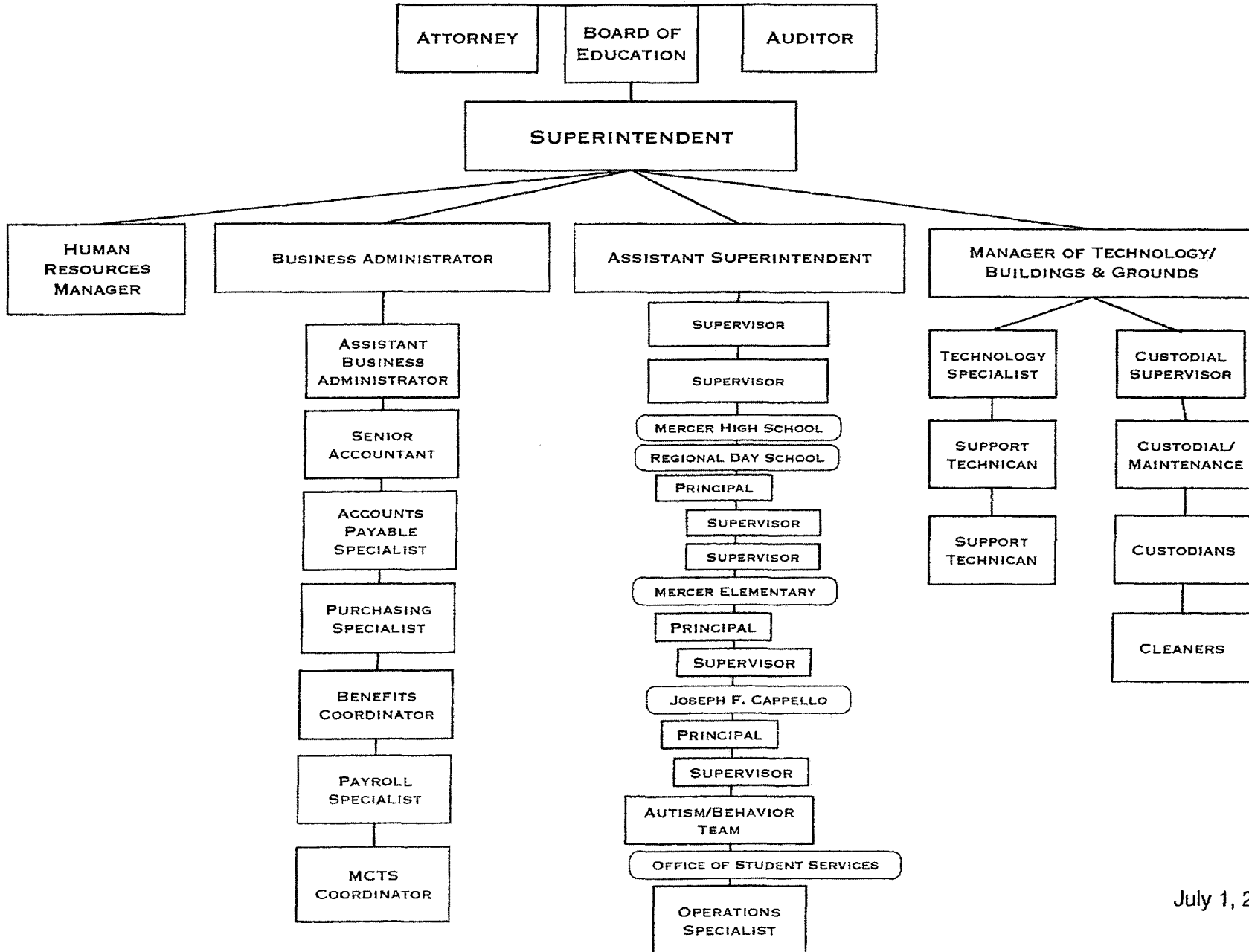


Dr. Kimberly J. Schneider
Superintendent



Tanya Dawson
School Business Administrator/
Board Secretary

Mercer County Special Services School District
2015-2016



July 1, 2015

Mercer County Special Services School District
Mercer County, New Jersey

Roster of Officials

June 30, 2016

<u>Members of the Board of Education</u>	<u>Term Expires</u>
Camille Rainiero, President	2017
Russell White, Vice-President	2018
Samuel J. Floyd	2017
Salley Gillispie	2016
Jan Lewis	2017
Lisa Vena	2016
Dr. Laura Morana, Executive County Superintendent of Schools	Ex-Officio

Other Officials

Dr. Kimberly J. Schneider, Superintendent of Schools
Tanya Dawson, School Business Administrator / Board Secretary
David Miller, Treasurer of School Monies

Mercer County Special Services School District
Mercer County, New Jersey

Independent Auditors and Advisors

Independent Auditors

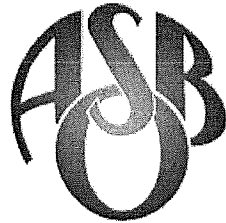
Wiss and Company, LLP
354 Eisenhower Parkway
Livingston, New Jersey 07039

Attorney

Walter R. Bliss, Jr.
321 W. State Street
Trenton, New Jersey 08618

Official Depositories

New Jersey Cash Management
PNC Bank



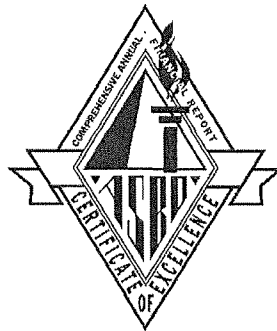
ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

**The Certificate of Excellence in Financial Reporting Award
is presented to**

**MERCER COUNTY SPECIAL SERVICES SCHOOL
DISTRICT**

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2015.**

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards.



Brenda Burkett

Brenda R. Burkett, CPA, CSBA, SFO
President

John D. Musso

John D. Musso, CAE, RSBA
Executive Director

Financial Section

Independent Auditors' Report

Honorable President and
Members of the Board of Education
Mercer County Special Services School District
Hamilton, New Jersey
County of Mercer

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 Mercer County Special Services School District, County of Mercer, New Jersey (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District'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.

Auditors' 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; audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and requirements 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 auditors' 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 District'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 District'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 District as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the 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 management's discussion and analysis, schedule of the District's proportionate share of the net pension liability-PERS, schedule of District contributions-PERS, schedule of the State's proportionate share of the net pension liability associated with the District-TPAF and budgetary comparison information as identified in the table of contents 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

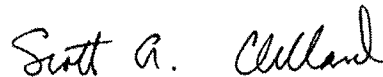
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual fund financial statements, long-term debt schedules and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis, 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 New Jersey OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, respectively, and are also not a required part of the basic financial statements.

The combining and individual fund financial statements and long-term debt schedules and the schedules of expenditures for federal awards and 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 fund financial statements and long-term debt schedules and the schedules of expenditures for 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 and statistical sections 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 District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Scott A. Clelland
Licensed Public School Accountant
No. 1049



WISS & COMPANY, LLP

November 28, 2016
Livingston, New Jersey

Required Supplementary Information
Part I

Management's Discussion and Analysis

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The discussion and analysis of Mercer County Special Services School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board (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 and the prior year is required to be presented in the MD&A.

Financial Highlights

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

- The District's average daily enrollment decreased 8.2% from 683 in 2015 to 627 in 2016.
- Revenues from tuition from other districts decreased in 2016 by \$846,631 or 2.62%, partially due to a decrease in enrollment.
- The District's on behalf TPAF Pension Contribution made by the State of New Jersey increased 22% to \$2,637,858.

Using this Comprehensive Annual Financial Report (CAFR)

This CAFR consists of a series of basic financial statements and notes to those basic statements. These statements are organized so the reader can understand the Mercer County Special Services School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities. The three components that comprise the District's basic financial statements are: government-wide financial statements; fund financial statements; and notes to the basic financial statements. The CAFR also contains required and other supplementary information in addition to the basic financial statements themselves.

Reporting the School District as a Whole

Government-wide Activities

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. In the case of the Mercer County Special Services School District, the General Fund is by far the most significant fund.

While this document contains a number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015/16?" The Statement of Net Position and the Statement of Activities helps answer this question. These statements include all assets, deferred inflows and outflows of resources and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, whether the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's County property tax base, current laws in New Jersey restricting districts' revenue growth, facility condition, required educational programs, student enrollment and other factors.

In the Statement of Net Position and the Statement of Activities, the District is divided into two distinct kinds of activities:

- ◆ Governmental-Type Activities – All of the District's programs and services are reported here including, but not limited to, instruction, support services, operation and maintenance of plant facilities and extracurricular activities.
- ◆ Business-Type Activities – These services are provided on a charge for goods or services basis to recover all the expense of the goods or services provided. Various enterprise funds are reported as business-type activities and are listed in the Notes to Basic Financial Statements, Note 1C.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major (all) funds is included in the 2015-16 Comprehensive Annual Financial Report as presented by the District. Fund financial statements provide detailed information about the District's major funds. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The fund financial statements are utilized for District financial decision making.

Governmental Funds

The District's activities are mainly reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future years. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, special revenue fund and capital projects fund, all of which are considered to be major funds.

The District adopts an annual appropriated budget for its general fund and special revenue fund. Budgetary comparison statements have been provided as required supplementary information for the general fund and special revenue fund to demonstrate compliance with this budget. The basic governmental fund financial statements are Schedules B-1, B-2 and B-3.

General Fund

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,703,215, while total fund balance was \$14,096,467. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11.5% of the total general fund expenditures while total fund balance represents 34.4% of that same amount.

The fund balance of the District's general fund increased by \$2,450,279 during the current fiscal year. Key factors in this increase are as follows:

- Revenues realized from Medicaid reimbursements and miscellaneous revenues exceeding original budget estimates by \$210,930 and 147,201, respectively, offset by revenues realized from tuition from other LEA's falling short of budget estimates by \$252,599.
- Actual expenditures for employee health benefits and the operation and maintenance of plant being less than final budget estimates by \$1,220,659 and \$633,832, respectively, both being the result of conservative fiscal policy.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. The District expended \$247,262 in state financial assistance, \$35,190 in federal awards and \$224,735 from other sources.

Capital Projects Fund

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). During the current year, the District incurred budgetary basis expenditures of \$1,031,677 which was comprised of expenditures of \$92,906 for the Mercer High School and Joseph F. Cappello School HVAC controls and Mercer High School dryvit replacement projects, \$421,601 for the Mercer High School boiler and chiller project and \$517,170 for the Joseph F. Cappello School Boiler and Chiller project.

Enterprise Funds

The District maintains eight (8) enterprise funds, which are proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for the operations of its food service program, Mercer Cooperative Transportation System, NJ State Regional Day School at Hamilton, integrated preschool, clinic parent, community resources, special aides and Chuck's Place programs. The District considers all of its enterprise funds to be major funds. The basic enterprise fund financial statements are Schedules B-4, B-5 and B-6.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District uses trust funds to account for the activity in its private-purpose scholarship fund, AFLAC trust fund and unemployment compensation trust fund. The District uses agency funds to account for resources held for student activities and groups and payroll-related liabilities. The basic fiduciary fund financial statements are Schedules B-7 and B-8.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 32 through 66 of this report.

The School District as a Whole (Statements A-1 and A-2)

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve as an indicator of a government's financial position. However, as noted earlier, net position is not the primary basis for decision making for each budget cycle. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the increase and decrease of compensated absences, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table provides a summary comparison of the District's net position for 2016 and 2015.

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

	2016			2015		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Current and other assets	\$15,472,975	\$1,171,241	\$16,644,216	\$ 13,118,382	\$ 1,231,341	\$ 14,349,723
Capital assets, net	37,098,492	275,629	37,374,121	37,297,064	285,403	37,582,467
Total assets	52,571,467	1,446,870	54,018,337	50,415,446	1,516,744	51,932,190
Deferred outflow of resources	4,528,211		4,528,211	1,709,420		1,709,420
Current liabilities	2,207,036	97,510	2,304,546	1,887,653	133,958	2,021,611
Net pension liability	26,497,421		26,497,421	22,089,103		22,089,103
Long-term liabilities outstanding	1,806,449		1,806,449	1,938,209		1,938,209
Total liabilities	30,510,906	97,510	30,608,416	25,914,965	133,958	26,048,923
Deferred inflow of resources	519,987		519,987	1,431,514		1,431,514
Net position:						
Net Investment in Capital Assets	37,059,204	275,629	37,334,833	37,242,158	285,403	37,527,561
Restricted	3,094,454		3,094,454	2,851,151		2,851,151
Unrestricted (deficit)	(14,084,873)	1,073,731	(13,011,142)	(15,314,922)	1,097,383	(14,217,539)
Total net position	\$26,068,785	\$1,349,360	\$27,418,145	\$ 24,778,387	\$ 1,382,786	\$ 26,161,173

Current and other assets increased \$2,294,493, of which \$1,196,497 is attributed to an increase in cash and cash equivalents and \$1,097,996 is attributable to an increase in accounts receivable. This increase in cash and cash equivalents is mostly a result of the positive operations and continued cost savings measures taken by the District and the increase in accounts receivable is attributed to less timely tuition payments by certain school districts.

The decrease in Net Investment in Capital Assets is the result of current year depreciation expense exceeding current year capital asset additions.

The increase in current liabilities, as well as the deferred outflow, deferred inflow and net pension liability, are all a result of the effects of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*.

Unrestricted net position in the governmental activities increased \$1,230,049 primarily due to the positive results in operations offset by the impact of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. See Note 6 to the financial statements for further information.

The following table provides a comparison analysis of government-wide changes in net position from fiscal years 2016 and 2015.

Changes in Net Position

Years ended June 30, 2016 and 2015

	2016			2015		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services		\$10,696,063	\$10,696,063		\$11,465,148	\$11,465,148
Operating grants and contributions	\$507,187	426,515	933,702	\$ 517,051	418,377	935,428
Capital grants and contributions	471,052		471,052	305,709		305,709
General revenues:						
County appropriation	2,874,529		2,874,529	2,874,529		2,874,529
Tuition – LEA’s	35,911,594		35,911,594	36,911,372		36,911,372
Nonresident Fees	175,230		175,230	178,474		178,474
State and Federal Sources	8,809,936		8,809,936	7,707,492		7,707,492
Interest Earnings	10,481	19	10,500	3,782		3,782
Miscellaneous	421,701		421,701	319,247		319,247
Total revenues	49,181,710	11,122,597	60,304,307	48,817,656	11,883,525	60,701,181
Expenses:						
Instructional services	28,627,147	2,039,883	30,667,030	26,226,591	2,980,861	29,207,452
Support services	19,264,165	8,339,223	27,603,388	19,105,991	8,288,712	27,394,703
Operation of non-instructional services		776,917	776,917		728,992	728,992
Total expenses	47,891,312	11,156,023	59,047,335	45,332,582	11,998,565	57,331,147
Change in net position	1,290,398	(33,426)	1,256,972	3,485,074	(115,040)	3,370,034
Net position-beginning of year (as restated)	24,778,387	1,382,786	26,161,173	21,293,313	1,497,826	22,791,139
Net position – end of year	\$26,068,785	\$1,349,360	\$27,418,145	\$ 24,778,387	\$1,382,786	\$ 26,161,173

Governmental-type Activities

At June 30, 2016, Governmental-Type Activities net position accounted for 95.1% of the District’s total net position.

The Governmental-Type Activities net position increased \$1,290,398 from \$24,778,387 at June 30, 2015 to \$26,068,785 at June 30, 2016, mostly as a result of the positive results of operations, offset in part by the impact of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*.

In FY 2016, Governmental-Type Activities revenues were \$49,181,710 or 81.6% of total revenues, of which the County Appropriation of \$2,874,529 made up 4.8%, and Tuition from LEA’s of \$35,911,594 made up 59.6%.

In FY 2016, the District’s Governmental-Type Activities expenses were \$47,891,312 compared to \$45,332,582 for FY 2015, an increase of \$2,558,730.

Business-type Activities

At June 30, 2016, Business-Type Activities net position accounted for 4.9% of the District's total net position.

Business-Type Activities net position decreased \$33,426 from \$1,382,786 at June 30, 2015 to \$1,349,360 at June 30, 2016.

In FY 2016, Business-Type Activities revenues were \$11,122,597.

Charges for Services and Operating Grants and Contributions for Business-Type Activities were \$11,122,578 in FY 2016 compared to \$11,883,525 in FY 2015, a 6.4% decrease. The decrease was attributed to a decrease of NJ State Regional Day School revenue, offset by an increase in Mercer Cooperative Transportation System revenue.

Expenses for Business-Type Activities were \$11,156,023 in FY 2016 compared to \$11,998,565 in FY 2015, a 7.0% decrease. The decrease was related to a decrease in expenses for NJ State Regional Day School, offset by an increase in expenses related to the Mercer Cooperative Transportation System.

Financial Analysis of the District's Funds

The District uses funds to control and manage money for particular purposes. The Fund's basic financial statements allow the District to demonstrate its stewardship over and accountability for resources received from the County of Mercer, State of New Jersey and other entities. These statements also allow the reader to obtain more insight into the financial workings of the District, and assess further the District's overall financial health.

Governmental Funds (Schedules B-1 and B-2)

Governmental funds are accounted for using the modified accrual basis of accounting. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources. Such information is essential in assessing the District's financing requirements.

As demonstrated by the various statements and schedules included in the financial section of this report, the District continues to meet its responsibility of sound financial management. The following schedules represent revenues and expenditures from a New Jersey budgetary viewpoint. The first schedule presents a summary of the revenues of the General Fund and Special Revenue Fund for the fiscal year ended June 30, 2016, and the amount and percentage of increases and decreases in relation to prior year revenues.

Revenues
Year Ended June 30, 2016

<u>Revenue</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>(Decrease)/ Increase from 2015</u>	<u>Percent of (Decrease)/ Increase</u>
Local sources	\$ 39,618,270	90.1%	\$ (892,369)	(2.2)%
State sources	3,913,616	8.9	402,511	11.4
Federal sources	421,120	1.0	(253,341)	(37.6)
Total	\$ 43,953,006	100.0%	\$ (743,199)	(1.7)%

The decrease in local sources is mainly attributed to a decrease in tuition from LEA's. State sources increased as a result of an increase in the on-behalf TPAF Pension contribution made by the State of New Jersey. Federal sources decreased due to a decrease in Medicaid reimbursement.

The following schedule presents a summary of General Fund and Special Revenue Fund expenditures for the year ended June 30, 2016, and the amounts and percentage of increases in relation to prior year expenditures.

Expenditures
Year Ended June 30, 2016

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2015</u>	<u>Percent Increase/ (Decrease)</u>
Current:				
Instruction	\$15,960,393	38.5%	\$ 436,918	2.8%
Support services	25,437,502	61.3	820,437	3.3
Capital outlay	104,832	0.2	(197,246)	(65.3)
Total	\$41,502,727	100.0%	\$1,060,109	2.6%

The decrease in capital outlay is attributed to decreases in expenditures for equipment and construction services. Instruction and support services did not have significant fluctuations from the prior year.

General Fund Budgetary Highlights

The District's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

Throughout the year, budget transfers were effectuated between budget accounts to re-align the FY 2016 budget to meet the District's needs. The final budgetary basis revenue estimate was \$39,556,802, which was \$72,136 less than the original budget estimate, attributed to a decrease in anticipated other tuition revenue.

The District received \$3,666,354 in reimbursed TPAF Social Security Aid and TPAF Pension and Post-Retirement Medical Contributions. These reimbursements are reflected as revenue and expenditures in the General Fund Budgetary Comparison Schedule and have no corresponding budget amounts.

The final budgetary basis expenditure appropriations totaled \$40,275,013, which was \$43,631 greater than the original budget estimate, due to the rollover of prior year encumbrances offset by the \$72,136 reduction in appropriations related to tuition revenue reductions cited above.

A schedule showing the District’s original and final budget compared with actual operating results is provided in Section C of the CAFR, entitled Budgetary Comparison Schedule. The District generally did better than had been budgeted in its General Fund since it practices conservative budgetary practices in which revenues are forecasted very conservatively and expenditures are budgeted with worst-case scenarios in mind.

The General Fund finished the fiscal year \$222,663 better than had been budgeted in terms of revenues and \$2,945,827 better in terms of expenditures. Both the revenues and appropriations were adjusted for \$3,666,354 of non-budgeted amounts reflected in the comparison schedule for reimbursed TPAF social security contributions and on-behalf TPAF pension contributions.

Capital Assets

At the end of fiscal years 2016 and 2015, the District had \$37,098,492 and \$37,297,064, respectively invested in a broad range of governmental activities capital assets, including construction in progress, buildings, furniture, vehicles, computers, instructional equipment and other equipment. This amount is net of accumulated depreciation to date. Increases during the year represent additions to those categories, while decreases represent retirement of assets during the year, and depreciation of depreciable assets for the year. The table below shows the net book value of governmental activities capital assets at the end of 2016 and 2015 fiscal years.

Capital Assets (Net of Depreciation)

	<u>2016</u>	<u>2015</u>
Construction in Progress	\$1,465,734	\$1,789,739
Site Improvements	98,941	82,870
Buildings and Building Improvements	34,996,783	34,830,542
Machinery and Equipment	<u>537,034</u>	<u>593,513</u>
Total	<u>\$37,098,492</u>	<u>\$37,297,064</u>

During the current fiscal year, \$1,041,254 of capital assets were capitalized as additions, of which \$915,920 represented ongoing projects. Increases in capital assets were offset by depreciation expense for the year.

The District also has business-type activities capital assets, net of accumulated depreciation at June 30, 2016 and 2015 in the amount of \$275,629 and \$285,403, respectively.

For more detailed information, please refer to Note 4 in the Notes to the Basic Financial Statements.

Debt Administration

At June 30, 2016, the District had \$28,303,870 of outstanding long-term liabilities. Of this amount, \$26,497,421 represents the District's net pension liability, \$1,767,161 is for compensated absences and \$39,288 is for capital leases. The District had no bonded indebtedness during the fiscal year. For more detailed information, refer to Note 5 of the basic financial statements.

Economic Factors and Next Year's Budget

For the 2015-16 school year, the Mercer County Special Services School District was able to sustain its budget through tuition revenues, the county tax levy, and out of county fees.

The 2015-16 budget was adopted in May, 2015 based in part on a Board decision not to increase tuition rates and by closely matching services and expenditures to actual enrollment. Due to the State of New Jersey State Financing Reform Act ("SFRA"), funding from the sending districts for the current year was slightly above the previous year.

The District anticipates a slight decrease in enrollment for the 2016-17 fiscal year. The District cannot accurately forecast future enrollment. If the District were to experience a significant increase in enrollment with no appreciable increase in the County Tax Levy for future budgets, the District will be faced with the following alternatives: (a) limiting programs and services; (b) increasing tuition rates for the sending districts; or (c) increasing other related fees.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Dr. Kimberly J. Schneider, Superintendent at the Board of Education Mercer County Special Services School District, 1020 Old Trenton Road, Hamilton, New Jersey 08690. Also, please visit our website to learn more about our District at www.mcsssd.org.

Basic Financial Statements

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 7,648,839	\$ 756,426	\$ 8,405,265
Internal Balances	2,159,606	(2,159,606)	-
Accounts Receivable	2,780,637	2,544,035	5,324,672
Inventories		30,386	30,386
Restricted assets:			
Cash and Cash Equivalents	2,883,893		2,883,893
Capital Assets, Non-Depreciable	1,465,734		1,465,734
Capital Assets, Depreciable, Net	35,632,758	275,629	35,908,387
Total Assets	<u>52,571,467</u>	<u>1,446,870</u>	<u>54,018,337</u>
Deferred Outflows of Resources			
Pension deferrals	<u>4,528,211</u>		<u>4,528,211</u>
	4,528,211		4,528,211
Liabilities			
Accounts Payable	1,638,750	96,352	1,735,102
Accrued Liabilities	568,286		568,286
Unearned Revenue		1,158	1,158
Net Pension Liability	26,497,421		26,497,421
Noncurrent Liabilities:			
Due Within One Year	124,359		124,359
Due Beyond One Year	1,682,090		1,682,090
Total Liabilities	<u>30,510,906</u>	<u>97,510</u>	<u>30,608,416</u>
Deferred Inflows of Resources			
Pension deferrals	<u>519,987</u>		<u>519,987</u>
	519,987		519,987
Net Position			
Net Investment in Capital Assets	37,059,204	275,629	37,334,833
Restricted For:			
Capital projects	210,561		210,561
Capital reserve	2,883,893		2,883,893
Unrestricted (deficit)	(14,084,873)	1,073,731	(13,011,142)
Total Net Position	<u>\$ 26,068,785</u>	<u>\$ 1,349,360</u>	<u>\$ 27,418,145</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses) 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:							
Special Education	\$ 28,568,929		\$ 26,329		\$ (28,542,600)		\$ (28,542,600)
School Sponsored/Other Instructional	58,218				(58,218)		(58,218)
Support Services:							
Student and Instruction Related Services	11,904,674		480,858		(11,423,816)		(11,423,816)
General Administrative Services	376,694				(376,694)		(376,694)
School Administrative Services	1,703,450				(1,703,450)		(1,703,450)
Central Administrative Services	1,377,548				(1,377,548)		(1,377,548)
Administrative Information Technology	537,750				(537,750)		(537,750)
Plant Operations and Maintenance	3,337,049			\$ 471,052	(2,865,997)		(2,865,997)
Pupil Transportation	27,000				(27,000)		(27,000)
Total Governmental Activities	<u>47,891,312</u>		<u>507,187</u>	<u>471,052</u>	<u>(46,913,073)</u>		<u>(46,913,073)</u>
Business-type Activities:							
Food Service	565,591	\$ 124,727	426,515		\$ (14,349)		(14,349)
Mercer Cooperative Transportation System	6,915,392	6,915,391			(1)		(1)
NJ State Regional Day School	441,799	472,627			30,828		30,828
Community Resources	71,098	75,838			4,740		4,740
Special Aides	3,021,915	3,021,915					
Clinic Parent	492	9,075			8,583		8,583
Chuck's Place	77,560	76,489			(1,071)		(1,071)
Integrated Preschool	62,176				(62,176)		(62,176)
Total Business-type Activities	<u>11,156,023</u>	<u>10,696,062</u>	<u>426,515</u>		<u>(33,446)</u>		<u>(33,446)</u>
Total Primary Government	<u>\$ 59,047,335</u>	<u>\$ 10,696,062</u>	<u>\$ 933,702</u>	<u>\$ 471,052</u>	<u>(46,913,073)</u>	<u>(33,446)</u>	<u>(46,946,519)</u>
General Revenues:							
County appropriation/taxes					2,874,529		2,874,529
Tuition					35,911,594		35,911,594
Nonresident Fees					175,230		175,230
State and Federal Sources					8,809,936		8,809,936
Interest Earnings					10,481	19	10,500
Miscellaneous					421,701		421,701
Total General Revenues					<u>48,203,471</u>	<u>19</u>	<u>48,203,490</u>
Change in Net Position					<u>1,290,398</u>	<u>(33,427)</u>	<u>1,256,971</u>
Net Position - Beginning					<u>24,778,387</u>	<u>1,382,787</u>	<u>26,161,174</u>
Net Position - Ending					<u>\$ 26,068,785</u>	<u>\$ 1,349,360</u>	<u>\$ 27,418,145</u>

Fund Financial Statements

Governmental Funds

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2016

	Major Funds			Total Governmental Funds
	General Fund	Special Revenue Fund	Capital Projects Fund	
Assets				
Cash and Cash Equivalents	\$ 7,648,839			\$ 7,648,839
Interfund Receivable	2,779,498			2,779,498
Accounts Receivable:				
State	50,438	\$ 83,973	\$ 602,648	737,059
Federal		6,320		6,320
Other	1,891,460	70,923	74,875	2,037,258
Restricted Cash and Cash Equivalents	2,883,893			2,883,893
Total Assets	\$ 15,254,128	\$ 161,216	\$ 677,523	\$ 16,092,867
Liabilities and Fund Balances				
Liabilities:				
Interfund Payable		\$ 152,930	\$ 466,962	\$ 619,892
Accounts Payable	\$ 597,661			597,661
Accrued Liabilities	560,000	8,286		568,286
Total Liabilities	1,157,661	161,216	466,962	1,785,839
Fund Balances:				
Restricted for:				
Capital Reserve	2,883,893			2,883,893
Capital Projects			210,561	210,561
Assigned to:				
Designated for Subsequent Years' Expenditures	6,368,914			6,368,914
Other Purposes	140,445			140,445
Unassigned	4,703,215			4,703,215
Total Fund Balances	14,096,467		210,561	14,307,028
Total Liabilities and Fund Balances	\$ 15,254,128	\$ 161,216	\$ 677,523	

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 governmental funds. The cost of the assets is \$57,475,055 and the accumulated depreciation is \$20,376,563 (See Note 4).	37,098,492
Deferred pension costs in governmental activities are not financial resources and are therefore not reported in the funds.	4,008,224
Net pension liability is not due and payable in the current period and therefore is not reported as a liability in the funds.	(26,497,421)
Accrued pension contributions for the June 30, 2016 plan year end are not paid with current economic resources and are therefore not reported as a liability in the funds, but are included in accounts payable in the government-wide statement of net position.	(1,041,089)
Long-term liabilities, including compensated absences and capital leases are not due and payable in the current period and therefore are not reported as liabilities in the Fund (See Note 5).	(1,806,449)
Net Position of Governmental Activities	\$ 26,068,785

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year ended June 30, 2016

	Major Funds			Total Governmental Funds
	General Fund	Special Revenue Fund	Capital Projects Fund	
Revenues:				
Local Sources:				
County Appropriation/Tax Levy	\$ 2,874,529			\$ 2,874,529
Tuition from Other Districts	32,290,735			32,290,735
Other Tuition	3,620,859			3,620,859
Non-Resident Fees	175,230			175,230
Interest	10,481			10,481
Miscellaneous	421,701	\$ 224,735	\$ 92,906	739,342
Total - Local Sources	39,393,535	224,735	92,906	39,711,176
State Sources	3,666,354	247,262	378,146	4,291,762
Federal Sources	385,930	35,190		421,120
Total Revenues	43,445,819	507,187	471,052	44,424,058
Expenditures:				
Current:				
Instruction:				
Special Education Instruction	15,895,423	26,329		15,921,752
School Sponsored	38,641			38,641
Support Services:				
Student and Instruction Related Services	6,520,881	480,858		7,001,739
General Administration	301,874			301,874
School Administration	980,913			980,913
Central Services	792,047			792,047
Administrative Information Technology	355,388			355,388
Plant Operations and Maintenance	2,451,927			2,451,927
Pupil Transportation	40,804			40,804
Unallocated Benefits	9,846,456			9,846,456
On-behalf TPAF FICA and Pension	3,666,354			3,666,354
Capital Outlay	104,832		1,031,677	1,136,509
Total Expenditures	40,995,540	507,187	1,031,677	42,534,404
Net change in fund balances	2,450,279	-	(560,625)	1,889,654
Fund Balance, July 1	11,646,188	-	771,186	12,417,374
Fund Balance, June 30	\$ 14,096,467	\$ -	\$ 210,561	\$ 14,307,028

The reconciliation of the fund balances of the governmental funds to the net position of the governmental activities in the statement of activities is presented in an accompanying schedule (B-3).

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds (from B-2)	\$	1,889,654
Amounts reported for governmental activities in the Statement of Activities (A-2) are different because:		
<p>Capital outlays are reported in governmental funds as expenditures. However, on the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital additions in the current fiscal year.</p>		
Depreciation Expense	\$	(1,239,610)
Capital Additions		<u>1,041,254</u>
		(198,356)
Loss on disposal of assets		(216)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Pension expense		(704,269)
<p>In the Statement of Activities, certain operating expenses, e.g., compensated absences (vacation and sick pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an reduction to the reconciliation.</p>		
		287,967
<p>Repayment of capital lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.</p>		
		15,618
Change in Net Position of Governmental Activities	<u>\$</u>	<u>1,290,398</u>

Proprietary Funds

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ENTERPRISE FUNDS

COMBINING STATEMENT OF NET POSITION

June 30, 2016

	Major Enterprise Funds								Totals
	Food Service Fund	Mercer Cooperative Transportation System	NJ State Regional Day School at Hamilton	Integrated Preschool	Clinic Parent	Community Resources	Special Aides	Chuck's Place	
Assets									
Current Assets:									
Cash and Cash Equivalents	\$ 24,920			\$ 299,574	\$ 58,078	\$ 363,673		\$ 10,181	\$ 756,426
Accounts Receivable:									
State	975								975
Federal	71,133								71,133
Other	12,694	\$ 528,863	\$ 304,881			30,953	\$ 1,593,189	1,347	2,471,927
Inventories	28,466							1,920	30,386
Total Current Assets	138,188	528,863	304,881	299,574	58,078	394,626	1,593,189	13,448	3,330,847
Capital Assets									
Site Improvements			13,100						13,100
Equipment	200,360		50,666	10,400		46,754		9,699	317,879
Building and Building Improvements			298,823						298,823
Accumulated Depreciation	(192,191)		(115,088)	(8,493)		(36,574)		(1,827)	(354,173)
Total Capital Assets, Net	8,169		247,501	1,907		10,180		7,872	275,629
Total Assets	146,357	528,863	552,382	301,481	58,078	404,806	1,593,189	21,320	3,606,476
Liabilities									
Current:									
Interfund Payable		528,863	40,214				1,590,529		2,159,606
Accounts Payable	90,430		225			3,037	2,660		96,352
Unearned Revenue	1,158								1,158
Total Current Liabilities	91,588	528,863	40,439			3,037	1,593,189		2,257,116
Net Position									
Net Investment in Capital Assets	8,169		247,501	1,907		10,180		7,872	275,629
Unrestricted	46,600	-	264,442	299,574	58,078	391,589	-	13,448	1,073,731
Total Net Position	\$ 54,769	\$ -	\$ 511,943	\$ 301,481	\$ 58,078	\$ 401,769	\$ -	\$ 21,320	\$ 1,349,360

See accompanying notes to the basic financial statements.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ENTERPRISE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended June 30, 2016

	Major Enterprise Funds								Totals
	Food Service Fund	Mercer Cooperative Transportation System	NJ State Regional Day School at Hamilton	Integrated Preschool	Clinic Parent	Community Resources	Special Aides	Chuck's Place	
Operating Revenues:									
Local Sources									
Daily Sales - Reimbursable Programs	\$ 65,803								\$ 65,803
Daily Sales - Non-Reimbursable Programs	58,924								58,924
Transportation Fees		\$ 6,915,391							6,915,391
Non-Resident Fees			\$ 4,770						4,770
Miscellaneous					\$ 9,075	\$ 75,838	\$ 3,021,915	\$ 76,489	3,183,317
Tuition			467,857						467,857
Total Operating Revenues	124,727	6,915,391	472,627		9,075	75,838	3,021,915	76,489	10,696,062
Operating Expenses:									
Salaries	186,519	222,190	213,834	\$ 43,937	492	63,162	1,826,049		2,556,183
Employee Benefits	48,302	49,839	54,923	16,159		565	1,195,866		1,365,654
Purchased Professional/Technical Services	657	4,000							4,657
Cleaning, Repair and Maintenance								1,960	1,960
Contracted Services	24,240	6,617,728							6,641,968
Other Purchased Services			32,249						32,249
Insurance	4,558		6,850						11,408
Miscellaneous Purchased Services	2,422								2,422
Supplies and Materials	23,363	8,216	44,615			1,498		72,868	150,560
Energy	1,049		64,443						65,492
Telephone/Communications/Postage	1,012	12,824	8,095				125		22,056
Travel						1,019			1,019
Cost of Sales - Program	237,853								237,853
Cost of Sales - Non-program	2,197								2,197
Miscellaneous Expenditures		595						1,210	1,805
Admin & Supervision	21,210								21,210
Other	9,138								9,138
Depreciation Expense	3,071		16,790	2,080		4,729		1,522	28,192
Total Operating Expenses	565,591	6,915,392	441,799	62,176	492	71,098	3,021,915	77,560	11,156,023
Operating (Loss) Income	(440,864)	(1)	30,828	(62,176)	8,583	4,740	-	(1,071)	(459,961)
Nonoperating Revenues:									
Local Sources:									
Interest on Investments	19								19
State Sources:									
State School Lunch Program	5,299								5,299
Federal Sources:									
National School Lunch Program	259,522								259,522
National School Breakfast Program	127,366								127,366
Food Donation Program	34,328								34,328
Total Nonoperating Revenues	426,534								426,534
Change in Net Position	(14,330)	(1)	30,828	(62,176)	8,583	4,740	-	(1,071)	(33,427)
Total Net Position - Beginning	69,099	1	481,115	363,657	49,495	397,029	-	22,391	1,382,787
Total Net Position - Ending	\$ 54,769	\$ -	\$ 511,943	\$ 301,481	\$ 58,078	\$ 401,769	\$ -	\$ 21,320	\$ 1,349,560

See accompanying notes to the basic financial statements.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS

Year ended June 30, 2016

	Major Enterprise Funds								Total
	Food Service Fund	Mercer Cooperative Transportation System	NJ State Regional Day School at Hamilton	Integrated Preschool	Clinic Parent	Community Resources	Special Aides	Chuck's Place	
Cash Flows From Operating Activities:									
Receipts from Customers	\$ 124,727	\$ 7,110,722	\$ 393,956		\$ 9,075	\$ 55,323	\$ 1,989,027	\$ 76,217	\$ 9,759,047
Payments to Employees	(186,519)	(222,190)	(213,834)	\$ (43,937)	(492)	(63,162)	(1,826,049)		(2,556,183)
Payments for Employee Benefits	(48,302)	(49,839)	(54,923)	(16,159)		(565)	(1,195,866)		(1,365,654)
Payments to Suppliers	(320,663)	(6,644,070)	(178,515)	-		(1,276)	(4,970)	(79,602)	(7,229,096)
Net Cash (Used In) / Provided By Operating Activities	(430,757)	194,623	(53,316)	(60,096)	8,583	(9,680)	(1,037,858)	(3,385)	(1,391,886)
Cash Flows From Noncapital Financing Activities:									
Cash Received From State and Federal Reimbursements	429,683								429,683
(Repayments) Advances (to) from other funds		(194,623)	68,151				1,037,858		911,386
Net Cash Provided By (Used In) Noncapital Financing Activities	429,683	(194,623)	68,151				1,037,858		1,341,069
Cash Flows From Capital and Related Financing Activities:									
Purchase of Capital Assets - Equipment			(14,835)					(3,583)	(18,418)
Net Cash (Used In) Capital and Related Financing Activities			(14,835)					(3,583)	(18,418)
Cash Flows From Investing Activities:									
Interest Income	19								19
Net Cash Provided By Investing Activities	19								19
Net (Decrease) Increase in Cash and Cash Equivalents	(1,055)	-	-	(60,096)	8,583	(9,680)	-	(6,968)	(69,216)
Cash and Cash Equivalents, Beginning of Year	25,975	-	-	359,670	49,495	373,353	-	17,149	825,642
Cash and Cash Equivalents, End of Year	\$ 24,920	\$ -	\$ -	\$ 299,574	\$ 58,078	\$ 363,673	\$ -	\$ 10,181	\$ 756,426
Reconciliation of Operating (Loss) Income To Net Cash (Used In) Provided By Operating Activities:									
Operating (Loss) Income	\$ (440,864)	\$ (1)	\$ 30,828	\$ (62,176)	\$ 8,583	\$ 4,740	\$ -	\$ (1,071)	\$ (459,961)
Adjustments To Reconcile Operating (Loss) Income To Net Cash (Used In) Provided By Operating Activities:									
Depreciation	3,071		16,790	2,080		4,729		1,522	28,192
Changes in Assets and Liabilities:									
Decrease (Increase) in Accounts Receivable	14,933	195,331	(78,671)			(20,514)	(1,032,888)	(272)	(922,081)
(Increase) Decrease in Inventory	(3,419)							96	(3,323)
(Decrease) Increase in Accounts Payable	(4,478)	(707)	(22,263)	-		1,365	(4,970)	(3,660)	(34,713)
Net Cash (Used In) / Provided By Operating Activities	\$ (430,757)	\$ 194,623	\$ (53,316)	\$ (60,096)	\$ 8,583	\$ (9,680)	\$ (1,037,858)	\$ (3,385)	\$ (1,391,886)

Noncash Noncapital Financing Activities

The District received \$32,593 of food commodities from the U.S. Department of Agriculture for the year ended June 30, 2016.

See accompanying notes to the basic financial statements.

Fiduciary Funds

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>Private - Purpose Scholarship Fund</u>	<u>AFLAC Trust Fund</u>	<u>Unemployment Compensation Trust Fund</u>	<u>Agency Funds</u>
Assets				
Cash and Cash Equivalents	\$ 15,593	\$ 58	\$ 171,511	\$ 239,216
Total Assets	<u>15,593</u>	<u>58</u>	<u>171,511</u>	<u>\$ 239,216</u>
Liabilities				
Payroll Deductions and Withholdings				\$ 218,270
Payable To Student Groups				20,946
Total Liabilities				<u>\$ 239,216</u>
Net Position				
Held in Trust for Scholarships and Other Purposes	<u>\$ 15,593</u>	<u>\$ 58</u>		
Held in Trust for Unemployment Claims and Other Purposes			<u>\$ 171,511</u>	

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year ended June 30, 2016

	Private-Purpose Scholarship Fund	AFLAC Trust Fund	Unemployment Compensation Trust Fund
Additions			
Interest Income			\$ 102
Employee Contributions		\$ 13,697	45,287
Other Contributions	\$ 4,799		
Total Additions	4,799	13,697	45,389
Deductions			
Scholarship Payments	5,403		
Medical Reimbursements		13,666	
Unemployment Benefit Payments			61,771
Total Deductions	5,403	13,666	61,771
Change in Net Position	(604)	31	(16,382)
Net Position - Beginning of Year	16,197	27	187,893
Net Position - End of Year	\$ 15,593	\$ 58	\$ 171,511

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies

The financial statements of the Mercer County Special Services School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are disclosed below.

The District is an instrumentality of the State of New Jersey, established to function as an educational institution. The Board consists of appointed officials and is responsible for the fiscal control of the District. The Board is comprised of six members appointed to three year terms as well as the Executive County Superintendent of Schools. The purpose of the School District is to provide programs adapted to each student's unique needs and abilities, in grades pre-K through 12. Focusing on students' capabilities, the District provides specialized academic instructional recreational activities combined with the specialized therapeutic interventions needed to assure that each child reaches their full potential. By carefully structuring each student's program on an individual basis, the District strives to have each student become a productive, self-sufficient member of the community. The Mercer County Special Services School District has an approximate enrollment at June 30, 2016 of 627 students.

A. Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The District, as the primary government for financial reporting entity purposes, has oversight responsibility and control over all activities related to the Mercer County Special Services School District in Hamilton, New Jersey. The District receives funding from county, state, and federal government sources and must comply with the requirements of these funding source entities. The District is a component unit of Mercer County, however, the County reports its financial statements

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

on a regulatory-basis of accounting which does not recognize or report component units.

The District has no component units that are required to be included within the reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements. The New Jersey Department of Education requires that all funds be reported as major to promote consistency among the school districts in the State of New Jersey.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. County 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

as 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 District considers all revenues, to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

County taxes 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 year. All other revenue items are considered to be measurable and available only when the District receives cash.

The District has reported the following major governmental funds:

General Fund: The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment, which are classified in the capital outlay sub-fund.

Special Revenue Fund: The District maintains one special revenue fund which includes the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes, other than debt service or capital projects.

Capital Projects Fund: The capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds). The financial resources are derived from approved county funds.

The District reports several major enterprise funds, which are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e., expenses including depreciation and indirect costs) of providing goods or services to the students or other entities on a continuing basis are financed or recovered primarily through user charges. The major enterprise funds include the following funds:

Food Service Fund: The food service enterprise fund accounts for all revenues and expenses pertaining to the food service operations of the District.

Mercer Cooperative Transportation Systems – The Mercer cooperative transportation systems fund accounts for the financial transactions related to the transportation of students into the District as well as transportation to other Districts.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

NJ State Regional Day School – The NJ State regional day school fund accounts for the financial transactions related to educational services provided to State students.

Integrated Preschool – The integrated preschool fund accounts for the financial transactions related to varied integrated preschool services in the community.

Community Resources – The community resources fund accounts for the financial transactions related to various related therapy services provided to other school districts.

Special Aides – The special aides fund accounts for the financial transactions related to special one-on-one aides for students.

Clinical Parent Program – The clinical parent program fund accounts for the financial transactions related to the therapy and related services of non-classified preschool children who exhibit delays in the areas of speech/language, fine motor, gross motor, and readiness skills.

Chuck's Place – The Chuck's Place fund accounts for the financial transactions related to the workforce training and education provided to the school district's students.

Additionally, the District reports the following fiduciary fund types:

Fiduciary Funds of the District include the unemployment compensation, private-purpose scholarship and AFLAC trust funds and agency funds. The trust funds are reported using the economic resources measurement focus. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurements of results of operations. The following is a description of the fiduciary funds of the District.

Trust and Agency Funds: The trust and agency funds are used to account for assets held by the District on behalf of outside parties, including other governments, or on behalf of other funds within the District.

Trust Funds: The unemployment compensation, private-purpose scholarship and AFLAC trust funds are accounted for using the economic resources measurement focus. The unemployment compensation fund is used to account for contributions from the District and employees and interest earned on the balance as well as payments to the State for reimbursement of unemployment claims. The private-purpose scholarship trust fund is utilized to provide scholarships to students and to account for the related transactions. The AFLAC trust fund is utilized to account for contributions from employees and payment of medical reimbursements for employees.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

Agency Funds (Payroll and Student Activity Fund): Agency funds are used to account for the assets that the District holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (1) fees charges to customers or applicants for goods, services, or privileges 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 all taxes.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges for sales of food, tuition and reimbursements for services provided to other entities. Operating expenses for the enterprise fund include the cost of sales, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unearned revenue arises when resources are received by the District before it has legal claim to them, as when federal or state assistance is received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet and revenue is recognized.

Ad Valorem (Property) taxes are susceptible to accrual as, under New Jersey State Statute, a County is required to remit to the school district the entire balance of taxes in the amount certified prior to the end of the school year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available.

The County Board of Taxation is responsible for the assessment of properties. Assessments are certified and taxes are levied on January 1; taxes are due February 1, May 1, August 1 and November 1. Unpaid taxes are considered delinquent the following January 1 and are then subject to lien.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

D. Budgets/Budgetary Control

Annual appropriated budgets are prepared in the spring of each year for the general and special revenue funds. The budgets are submitted to the County Office for approval and are approved by the Board of School Estimate. Budgets are prepared using the modified accrual basis of accounting, except the Special Revenue Fund. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6A:23.

All budget amendments / transfers must be approved by Board resolution. All budget amounts presented in the accompanying required supplementary information reflect the original budget and the amended budget (which have been adjusted for legally-authorized revisions of the annual budgets during the year). The over-expenditures in the general fund are due to the inclusion of the non-budgeted on behalf payments made by the State of New Jersey as District expenditures. These amounts are offset by related revenues and as such do not represent over-expenditures.

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 special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year-end.

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

E. Cash and Cash Equivalents

Cash and cash equivalents include petty cash, amounts on deposit, money market accounts, and short-term investments and certificates of deposit with original maturities of three months or less.

F. Tuition Receivable/Payable

Tuition charges were established by the District based on estimated costs. The charges are subject to adjustment when the final costs are determined. These adjustments are recorded upon certification by the State Department of Education, which is two years following the contract year. The cumulative adjustments through June 30, 2016 which have not been recorded, are not determinable.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

G. Interfund Receivables/Payables

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

H. Inventories

Enterprise fund inventories are valued at cost, which approximates market using the first-in, first-out (FIFO) method. The District uses the consumption method to account for inventories. At June 30, 2016, the unused U.S.D.A. Food Donation Program Commodities of \$1,158 are reported as unearned revenue.

I. Capital Assets

Capital assets, which include land, construction in progress, site improvements, buildings and improvements and machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost through estimation procedures performed by an independent appraisal company. Donated capital assets are valued at their estimated fair market value on the date of donation. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Capital assets, being depreciated, of the District are depreciated using the straight line method. The following estimated useful lives are used to compute depreciation:

	<u>Years</u>
School Buildings	40
Building Improvements	20
Electrical/Plumbing	20
Light Vehicles	10
Heavy Vehicles	15
Office and Computer Equipment	10
Instructional Equipment	10
Grounds Equipment	15
Proprietary Fund Equipment	12
Software	5

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

J. Compensated Absences

A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits. The District uses the “vesting method” for estimating its accrued sick and vacation leave liability.

District employees are granted vacation and sick leave in varying amounts under the District’s personnel policies and collective bargaining agreements. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave benefits provide for ordinary sick pay and begin vesting with the employee after one year of service.

Upon retirement, employees shall be paid by the District for the unused sick time in accordance with the District’s agreements with the various employee unions. Under terms of association agreements, employees earn vacation and sick leave in amounts varying with tenure and classification by the District for the unused sick leave in accordance with the District’s agreements with the various employee unions.

The liability for vested compensated absences of the District is recorded in the government-wide financial statements and includes salary related payments.

As of June 30, 2016, a liability existed for compensated absences in the government-wide financial statements in the amount of \$1,767,161 and no liability existed for compensated absences in the proprietary fund types.

K. Unearned Revenue

Unearned revenue in the enterprise fund represents the unused portion of U.S.D.A. commodities on hand at June 30, 2016.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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. Currently, the District has one item that qualifies for reporting in this category, deferred amounts related to pensions. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*,

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, deferred amounts related to pensions.

M. Long-Term Obligations

In the government-wide financial statements and enterprise 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 enterprise fund type statement of net position.

Bonds are authorized in accordance with State law by the Board of Chosen Freeholders of the County through bond ordinances. All bonds are retired in serial installments within the statutory period of usefulness. The bonds are issued by the Mercer County Improvement Authority and are general obligation bonds. As of January 1, 2008, the County Government of Mercer assumed the outstanding debt service.

N. Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54") established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under GASB 54, fund balances in the governmental funds financial statements are reported under the modified accrual basis of accounting and classified into the following five categories, as defined below:

- 1) Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Assets included in this fund balance category include prepaid assets, inventories, long-term receivables, and corpus of any permanent funds.
- 2) Restricted - includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- 3) Committed - includes amounts that can be used only for the specific purposes imposed by a formal action of the government's highest level of decision-making authority. The District's highest level of decision-making authority is the Board of Education (the "Board") and formal action is taken by resolution of the Board at publicly held meetings. Once committed, amounts cannot be used for other purposes unless the Board revises or changes the specified use by taking the same action (resolution) taken to originally commit these funds.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

- 4) Assigned – amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent is expressed by either the Board or Business Administrator, to whom the Board has delegated the authority to assign amounts to be used for specific purposes, including the encumbering of funds.
- 5) Unassigned - includes all spendable amounts not contained in the other classifications in the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In the other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. For the unrestricted fund balance, the District first spends committed funds, then assigned funds, and finally, unassigned funds.

Of the \$14,096,467 of fund balance in the General Fund, \$140,445 of encumbrances is assigned to other purposes, \$2,883,893 has been restricted in the capital reserve account, \$6,368,914 has been classified as assigned fund balance designated for subsequent year expenditures, and the remaining \$4,703,215 is classified as unassigned.

O. Net Position

Net position represents the difference between assets, deferred inflows of resources, deferred outflows of resources and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net positions are reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

P. Management Estimates

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

Q. On-Behalf Payments

Revenues and expenditures of the general fund include payments made by the State of New Jersey for social security contributions and post-retirement medical contributions for certified teachers and other members of the New Jersey Teachers Pension and Annuity Fund. Additionally, revenues and expenses related to on-behalf pension contributions in the government-wide financial statements have been increased by \$4,757,652 to adjust for the full accrual basis incurred by the State of New Jersey during the most recent measurement period. The amounts are not required to be included in the District's annual budget.

R. Recently Issued and Adopted Accounting Principles

GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). The objective of this Statement is to provide guidance for applying fair value for certain assets and liabilities and disclosures related to all fair value measurements. The requirements of this Statement mandate the use of valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The District has adopted GASB No. 72 during the year ended June 30, 2016 and it did not have a significant impact on the financial statements.

S. Recently Issued and Adopted Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"). 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 government employers about financial support for OPEB that is provided by other entities.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

The Statement will become effective for the District in the 2018 fiscal year. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB No. 75”). 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 government employers about financial support for OPEB that is provided by other entities. The Statement will become effective for the District in the 2018 fiscal year. Management has not yet determined the impact of this Statement on the financial statements.

T. Subsequent Events

Management has reviewed and evaluated all events and transactions that occurred from June 30, 2016 through November 28, 2016, the date that the financial statements were issued for possible disclosure and recognition in the financial statements, and no items have come to the attention of the District that would require disclosure.

2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including compensated absences and capital leases are not due and payable in the current period and therefore are not reported in the funds. This difference represents adjustments to increase fund balance-total governmental funds to arrive at net position – governmental activities of \$ 1,806,449.

3. Deposits and Investments

Investments are stated at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools” and Statement No. 72 “Fair Value Measurement and Application.” The Board classifies certificates of deposit, which have original maturity dates of

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

3. Deposits and Investments (continued)

more than three months but less than twelve months from the date of purchase, as investments and are stated at cost. All other investments are stated at fair value.

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

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

Deposits

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

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

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

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

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

3. Deposits and Investments (continued)

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

Operating cash accounts are held in the District's name by commercial banking institutions. At June 30, 2016, the District's carrying amount of deposits was \$8,406,470 and the bank balance was \$8,893,872. Of the bank balance, \$250,000 of the District's cash deposits on June 30, 2016 was secured by federal depository insurance. The New Jersey Governmental Unit Deposit Protection Act (GUDPA) covered the bank balance of \$8,320,669. \$323,203 held in the District's agency accounts are not covered by GUDPA.

At least five percent of the District's deposits were fully collateralized by funds held by the financial institution, but not in the name of the District. Due to the nature of GUDPA, further information is not available regarding the full amount that is collateralized.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the District's operating cash accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the District would not be able to recover the value of its deposits and investments). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the government's name.

The District does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. At least five percent of the District's deposits were fully collateralized by funds held by the financial institution, but not in the name of the District. Due to the nature of GUDPA, further information is not available regarding the full amount that is collateralized.

Investments

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

- a. Bonds and other obligations of the United States or obligations guaranteed by the United States.
- b. Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal National Mortgage Agency or of any United States Bank which have a maturity date not greater than twelve months from the date of purchase.

Mercer County Special Services School District

Notes to the Basic Financial Statements Year ended June 30, 2016

3. Deposits and Investments (continued)

- c. State of New Jersey Cash Management Fund and New Jersey Asset and Rebate Management Fund.

Custodial Credit Risk: The District does not have a policy for custodial credit risk other than to maintain a safekeeping account for the securities at a financial institution.

Credit Risk: The District does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government.

Concentration of Credit Risk: The District places no limit on the amount the District may invest in any one issuer. At June 30, 2016, the District had no investments, other than in the New Jersey Cash Management Fund.

Interest Rate Risk: The District does not have a policy to limit interest rate risk. The District did not have any funds held as investments during the year ended June 30, 2016, other than in the New Jersey Cash Management Fund.

New Jersey Cash Management Fund

In order to maximize liquidity, the District utilizes the New Jersey Cash Management Fund ("NJCMF") as an investment. The NJCMF is administered by the State of New Jersey, Department of the Treasury and issues a separate report that can be obtained directly from the Department of the Treasury. It invests pooled monies from various State and non-State agencies in primarily short-term investments. The fair value of the District's portion in the pool is the same as the fair value of the pool shares. These investments include: U.S. Treasuries, short-term Commercial Paper, U.S. Agency Bonds, Corporate Bonds, and Certificates of Deposit. Agencies that participate in the NJCMF typically earn returns that mirror short-term investments rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At June 30, 2016, the District's balance was \$3,309,063 and is classified as cash equivalents due to its short-term nature.

All investments in the Fund are governed by the regulations of the Investment Council, which prescribes specific standards designed to ensure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment's existence, the Division has

Mercer County Special Services School District

Notes to the Basic Financial Statements Year ended June 30, 2016

3. Deposits and Investments (continued)

never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the "Other-than-State" participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis.

4. Capital Assets

The following schedule is a summarization of the governmental activities changes in capital assets for the year ended June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 1,789,739	\$ 915,920	\$ (1,239,925)	\$ 1,465,734
Total capital assets, not being depreciated	1,789,739	915,920	(1,239,925)	1,465,734
Capital assets, being depreciated:				
Site improvements	462,249	29,274		491,523
Buildings & building improvements	53,054,405	1,286,688		54,341,093
Machinery and equipment	1,129,567	49,297	(2,159)	1,176,705
Total capital assets, being depreciated	54,646,221	1,365,259	(2,159)	56,009,321
Less accumulated depreciation for:				
Site improvements	(379,379)	(13,203)		(392,582)
Buildings & building improvements	(18,223,863)	(1,120,447)		(19,344,310)
Machinery and equipment	(535,654)	(105,960)	1,943	(639,671)
Total accumulated depreciation	(19,138,896)	(1,239,610)	1,943	(20,376,563)
Total capital assets, being depreciated, net	35,507,325	125,649	(216)	35,632,758
Governmental activities capital assets, net	\$ 37,297,064	\$ 1,041,569	\$ (1,240,141)	\$ 37,098,492

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

4. Capital Assets (continued)

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

Special education instruction	\$	707,787
School sponsored instruction		1,718
Student and instruction related services		311,257
School administrative services		43,606
General administrative services		13,420
Central services		35,210
Administrative information technology		15,799
Plant operations and maintenance		108,999
Pupil transportation		1,814
		\$ 1,239,610

The following schedule is a summarization of business-type activities changes in capital assets for the year ended June 30, 2016:

	Beginning Balance	Increases	Ending Balance
Business-type activities:			
Capital assets being depreciated:			
Site Improvements	\$ 13,100		\$ 13,100
Equipment	299,461	\$ 18,418	317,879
Building and Building Improvements	298,823		298,823
Less accumulated depreciation	(325,981)	(28,192)	(354,173)
Total business-type activities			
Capital assets, net	\$ 285,403	\$ (9,774)	\$ 275,629

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

5. Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
Governmental activities:					
Compensated absences payable	\$ 2,055,128		\$287,967	\$1,767,161	\$108,384
Capital leases	54,906		15,618	39,288	15,975
Subtotal	2,110,034		303,585	1,806,449	124,359
Net pension liability	22,089,103	\$4,408,318		26,497,421	
Total governmental activities long-term liabilities	\$ 24,199,137	\$4,408,318	\$303,585	\$28,303,870	\$124,359

The District expects to liquidate the compensated absences, the net pension liability and capital leases payable with payments made from the District's general fund.

Bonds Payable and Bonds Authorized but Not Issued

As of June 30, 2016, the District had no bonds payable and no authorized but not issued bonds.

Capital Leases

The District has commitments to lease various machinery and equipment under capital leases that expire in fiscal year 2019. These items are included in machinery and equipment in the District's capital assets. Total capital lease payments, including interest, made during the year ended June 30, 2016 were \$16,874. Future minimum lease payments are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2017	\$16,874
2018	16,874
2019	7,135
Total minimum lease payments	40,883
Less amount representing interest	1,595
Present value of net minimum lease payments	\$ 39,288

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans

Description of Systems

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

Teachers' Pension and Annuity Fund

The Teachers' Pension and Annuity Fund was 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 public school employees in the State. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for health care coverage. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 60, and 62, respectively with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively, with an annual benefit generally determined to be 1/60th of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

Public Employee's Retirement System

The Public Employees' Retirement System was 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 Board or public agency provided the employee is not a member of another State-administered retirement system. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 60, and 62, respectively with an annual benefit generally determined to be $1/55^{\text{th}}$ of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively with an annual benefit generally determined to be $1/60^{\text{th}}$ of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information for TPAF and PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, employee contribution rates for TPAF and PERS increased from 5.5% to 6.5% of employees' annual compensation. An additional increase is to be phased in annually through July 2018 that will bring the total pension contribution rate to 7.5% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate in both the TPAF and PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the Board is a non-contributing employer of the TPAF.

During the year ended June 30, 2016, the State of New Jersey contributed \$2,637,858 to the TPAF for on-behalf pension and post-retirement medical benefits on behalf of the District. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the District \$1,028,496 during the year ended June 30, 2016 for the employer's share of social security contributions for TPAF members as calculated on their base salaries.

The District's actuarially determined contributions to PERS for each of the years ended June 30, 2016, 2015 and 2014 were \$1,014,820, \$961,925, and \$894,329, respectively.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

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 PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For the 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.

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

Public Employee's Retirement System (PERS)

At June 30, 2016, the District reported a liability of \$26,497,421 for its proportionate share of the 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 July 1, 2014, which was rolled forward to June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.1180391368 percent, which was an increase of 0.0000590281 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized full accrual pension expense of \$1,719,089 in the government-wide financial statements. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 632,135	\$ -
Changes of assumptions	2,845,611	-
Net difference between projected and actual earnings on pension plan investments	-	426,028
Changes in proportion and differences between District contributions and proportionate share of contributions	9,376	93,959
District contributions subsequent to the measurement date	1,041,089	-
	\$ 4,528,211	\$ 519,987

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

\$1,041,089 is reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 536,427
2018	536,427
2019	536,429
2020	865,525
2021	492,327
	<u>\$ 2,967,135</u>

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 included 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%

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

Mortality Rates

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees.

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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 expecting future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 Markets	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%
	<u>100.00%</u>	

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

Discount rate

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015 based on 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. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability as of June 30, 2015 calculated using the discount rate as disclosed above as well as what the District's proportionate share of the 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:

	At 1% Decrease (3.90%)	At Current Discount Rate (4.90%)	At 1% Increase (5.90%)
District's proportionate share of the net pension liability	\$ 32,933,052	\$ 26,497,421	\$ 21,101,834

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report for the State of New Jersey Public Employees Retirement System.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

Additional Information

Collective balances of the Local Group at June 30, 2015 are as follows:

Collective deferred outflows of resources	\$	3,578,755,666
Collective deferred inflows of resources	\$	993,410,455
Collective net pension liability	\$	22,447,996,119

District's Proportion	0.1180391368%
-----------------------	---------------

Collective pension expense for the Local Group for the measurement period ended June 30, 2015 is \$1,472,586,715.

The average of the expected remaining service lives of all employees that are provided with pension through the pension plan (active and inactive employees) determined at July 1, 2014 (the beginning of the measurement period ended June 30, 2015) is 5.72 years and 6.44 years for the measurement period ended June 20, 2014.

Teachers Pensions and Annuity Fund (TPAF)

The employer contributions for local participating employers are legally required to be funded by the State in accordance with N.J.S.A. 18:66-33. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the net pension liability that is associated with the local participating employer.

The State's proportionate share of the TPAF net pension liability associated with the District as of June 30, 2015 was \$97,639,310. The District's proportionate share was \$0.

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 July 1, 2014, which was rolled forward to June 30, 2015. The State's proportionate share of the net pension liability associated with the District was based on a projection of the State's long-term contributions to the pension plan associated with the District relative to the projected

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

contributions by the State associated with all participating school districts, actuarially determined. At June 30, 2015, the State's proportionate share of the TPAF net pension liability associated with the District was 0.1544821417 percent, which was a decrease of 0.0072366296 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2015, the District recognized on-behalf pension expense and revenue in the government wide financial statements of \$7,395,510 for contributions incurred by the State.

Actuarial assumptions

The actuarial valuation used the following actuarial assumptions, applied to all periods included 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 Rates

Mortality rates were based on the RP-2000 Health Annuitant Mortality Tables for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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 expecting future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 Market Equities	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%
	100.00%	

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

6. Pension Plans (continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.13% as of June 30, 2015. This single blended discount rate was based on the long-term rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015 based on 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. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the State's proportionate share of the net pension liability associated with the District to changes in the discount rate

The following presents the State's proportionate share of the net pension liability associated with the District as of June 30, 2016 calculated using the discount rate as disclosed above as well as what the State's proportionate share of the net pension liability associated with the District 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:

	Decrease (3.13%)	Discount Rate (4.13%)	Increase (5.13%)
State's proportionate share of the net pension liability associated with the District	\$ 116,040,414	\$ 97,639,310	\$ 81,785,437

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TPAF financial report.

Mercer County Special Services School District

Notes to the Basic Financial Statements Year ended June 30, 2016

6. Pension Plans (continued)

Additional Information

Collective balances of the Local Group at June 30, 2015 are as follows:

Collective deferred outflows of resources	\$	7,522,890,856
Collective deferred inflows of resources	\$	623,365,110
Collective net pension liability - Local Group	\$	63,204,270,305
State's proportionate share associated with the District		0.1544821417%

Collective pension expense of the Local Group for the plan for the measurement period ended June 30, 2015 is \$3,854,529,454.

The average of the expected remaining service lives of all employees that are provided with pension through the pension plan (active and inactive employees) determined at July 1, 2014 (the beginning of the measurement period ended June 30, 2015) is 8.3 years, and 8.5 years for the measurement period ended June 30, 2014.

7. Post-Retirement Benefits

Plan Description

The District contributes to the New Jersey School Employees Health Benefits Program ("SEHBP"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of New Jersey Division of Pension and Benefits. SEHBP provide medical, prescription drug, mental health/substance abuse and Medicare Part B reimbursement to retirees and their covered dependents. The School Employees Health Benefits Program 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 Pension and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SEHBP. That report may be obtained by writing to Division of Pension and Benefits, PO Box 295, Trenton, NJ 08625-0295.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

7. Post-Retirement Benefits (continued)

Funding Policy

P.L. 1987, Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required TPAF and PERS, respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2015, there were 107,314 retirees eligible for 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 in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributable to P.L. 1992, c. 126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$214.1 million toward Chapter 126 benefits for 19,056 eligible retired members in fiscal year 2015.

The State will set the contribution rate based on the *annual required contribution of the employers* (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents the 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 SEHBP Fund for TPAF retirees' post-retirement benefits on behalf of the District for the years ended June 30, 2016, 2015 and 2014 were \$1,433,754, \$1,325,859, and \$1,121,726, respectively, which equaled the required contributions for each year. The State's contributions to the SEHBP Fund for PERS retirees' post-retirement benefits on behalf of the District was not determined or made available by the State of New Jersey.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

8. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance

The District maintains insurance coverage for property, liability, student accident and employee health and surety bonds and does not retain risk of loss. There have been no significant reductions in insurance coverage from the prior year and no settlements have exceeded insurance coverage over the past three years. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

New Jersey Unemployment Compensation Insurance

The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The District is billed quarterly for amounts due to the State.

The following is a summary of District contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the District's unemployment trust fund for the past three years:

Fiscal Year	Board and RDS Contributions	Employee Contributions	Interest on Investments	Amount Paid or Accrued	Ending Balance
2015-16		\$45,287	\$102	\$61,771	\$171,511
2014-15		49,003	30	40,858	187,893
2013-14	\$60,000	56,889	76	83,273	179,718

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

8. Risk Management (continued)

Joint Insurance Pool

The District is a member of the Burlington County Insurance Pool Joint Insurance Fund.

The Fund provides the District with the following coverage:

- Property, Inland Marine and Automobile Physical Damage
- Boiler and Machinery
- Crime
- Cyber Liability
- General and Automobile Liability
- Workers' Compensation
- Educators' Legal Liability
- Pollution Legal Liability

Annual contributions to the Fund are determined by the Fund's Board of Trustees. The District is jointly and personally liable for claims insured by the Fund and its members during the period of its membership, including liability for supplemental assessments, if necessary. The Fund's Board of Trustees may authorize refunds to its members in any fund year for which contributions exceed the amount necessary to fund all obligations for that year.

9. Deferred Compensation

The District offers its employees a choice of various deferred compensation plans created in accordance with Internal Revenue Code Sections 403(b) and 457(b). The plans, which are administered by various insurance companies, permit participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death or unforeseeable emergency.

Participants' rights under the plan are equal to those of general creditors in an amount equal to the fair market value of the deferred account of each participant. The District has no liability for losses under the plan. Since the District does not hold the assets in a trustee capacity, the related assets are not included in the District's Fiduciary Fund Financial Statements.

The plan members' contributions to the deferred compensation plans for the years ended June 30, 2016, 2015 and 2014 were \$1,221,096, \$1,243,748 and \$1,197,684, respectively. The District does not contribute to these plans on behalf of plan members.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

10. Interfund Receivables and Payables

The total interfund accounts receivables and payables for the District are as follows at June 30, 2016:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 2,779,498	
Special Revenue Fund		\$152,930
Capital Projects Fund		466,962
NJ State Regional Day School at Hamilton		40,214
Special Aides Enterprise Fund		1,590,529
Cooperative Transportation Enterprise Fund		528,863
	<u>\$ 2,779,498</u>	<u>\$ 2,779,498</u>

The interfund receivable of \$2,779,498 in the General Fund is offset with an interfund payable in the Special Revenue Fund for \$152,930, the Capital Projects Fund for \$466,962, the NJ State Regional Day School Enterprise Fund for \$40,214, the Special Aides Enterprise Fund for \$1,590,529 and the Cooperative Transportation Enterprise Fund for \$528,863, which represents funds advanced to these funds to cover temporary pooled cash flow shortages.

11. Economic Dependency

The District receives a substantial amount of its support from federal, state and county governments. A significant reduction in the level of support, if this were to occur, could have an effect on the District's programs and activities.

12. Contingent Liabilities

The District is also involved in several claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the District. In addition, the District is currently in a dispute with another New Jersey school district regarding use of one-on-one aides. Based on a recent Administrative Law Judge ruling, which was upheld by the Commissioner of Education, the District believes the outstanding accounts receivable balance is collectible, however, it has not been received to the date of the financial statements.

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired. In addition, the District is receiving funding from the New Jersey Schools

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

12. Contingent Liabilities (continued)

Development Authority (NJSDA), in connection with capital projects. The costs associated with the funding received from the NJSDA are subject to a final review of eligible costs and compliance by the New Jersey Department of Education and the NJSDA. To the extent that the District has not complied with the rules and regulations governing the NJSDA funds or has not met the final eligible costs requirements, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired.

In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations or final eligible cost requirements governing the respective grants or funding; therefore, no provisions have been recorded in the accompanying basic financial statements for such contingencies.

13. Capital Reserve Account

A capital reserve account was established by the District for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the District's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the Department, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfers by Board resolution at year end (June 1 and June 30) of any unanticipated revenue or unexpended line item appropriation amounts, or both. Pursuant to N.J.A.C. 6A:23A-5.1(d)7, the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

The activity of the capital reserve for the July 1, 2015 to June 30, 2016 fiscal year is as follows:

Beginning balance, July 1, 2015	\$ 2,079,965
Increased by:	
June resolution	800,000
Interest earnings	3,928
Ending balance, June 30, 2016	<u>\$ 2,883,893</u>

At June 30, 2016, the amount deposited in the capital reserve account does not exceed the District's local share reported in its Long-Range Facility Plan.

Mercer County Special Services School District

Notes to the Basic Financial Statements

Year ended June 30, 2016

14. Commitments

The District has contractual commitments at June 30, 2016 to various vendors, which are recorded in the general fund as fund balance assigned to other purposes in the amount of \$140,445.

The District also has \$180,116 of encumbrances outstanding at June 30, 2016 for various construction contracts recorded in the capital projects fund as restricted for capital projects in accordance with GASB 54.

15. Restricted Assets

The District has \$2,883,893 of capital reserve funds that are classified as restricted assets on the statement of net position because they are restricted by the New Jersey Department of Education to be utilized for future capital projects that have been approved in the District's Long-Range Facility Plan.

16. Calculation of Excess Surplus

Special service school districts are subject to an excess surplus calculation in accordance with N.J.S.A. 18A:46-31, as amended. This calculation will be performed by the Department of Education during the tuition rate certification process.

Required Supplementary Information
Part II

Mercer County Special Services School District
 Schedule of the District's Proportionate Share of the Net Pension Liability
 Public Employee's Retirement System

Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
District's proportion of the net pension liability (asset) - Local Group	0.1180391368%	0.1179801087%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
District's proportionate share of the net pension liability (asset)	\$ 26,497,421	\$ 22,089,103	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
District's covered-employee payroll	\$ 7,926,175	\$ 7,907,079	\$ 8,012,451	\$ 8,033,594	\$ 8,055,127	\$ 8,441,389	\$ 9,139,961	\$ 8,548,448	\$ 8,349,746	n/a
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	334.30%	279.36%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Plan fiduciary net position as a percentage of the total pension liability - Local Group	47.93%	52.08%	52.08%	52.08%	52.08%	52.08%	52.08%	52.08%	52.08%	52.08%

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

Notes to Required Supplementary Information:

Benefit Changes

None

Changes of Assumptions

The discount rate changed from 5.39% as of June 30, 2014 to 4.90% as of June 30, 2015.

Mercer County Special Services School District
Schedule of District Contributions
Public Employee's Retirement System

Last Ten Fiscal Years

	Year Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 1,041,089	\$ 1,014,820	\$ 961,925	\$ 894,329	\$ 900,516	\$ 1,014,658	\$ 1,013,517	\$ 784,473	\$ 680,516	\$ 623,941
Contributions in relation to the contractually required contribution	(1,041,089)	(1,014,820)	(961,925)	(894,329)	(900,516)	(1,014,658)	(1,013,517)	(784,473)	(680,516)	(623,941)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 7,945,602	\$ 7,926,175	\$ 7,907,079	\$ 8,012,451	\$ 8,033,594	\$ 8,055,127	\$ 8,441,389	\$ 9,139,961	\$ 8,548,448	\$ 8,349,746
Contributions as a percentage of covered-employee payroll	13.10%	12.80%	12.17%	11.16%	11.21%	12.60%	12.01%	8.58%	7.96%	7.47%

Mercer County Special Services School District
 Schedule of the State's Proportionate Share of the Net Pension Liability Associated With the District
 Teachers' Pension and Annuity Fund

Last Ten Fiscal Years*

	Year Ended June 30,	
	2015	2016
State's proportion of the net pension liability (asset) associated with the District - Local Group	0.1617187713%	0.1544821417%
District's proportionate share of the net pension liability (asset)	\$ -	\$ -
State's proportionate share of the net pension liability (asset) associated with the District	\$ 86,433,420	\$ 97,639,310
Total proportionate share of the net pension liability (asset) associated with the District	<u>\$ 86,433,420</u>	<u>\$ 97,639,310</u>
Plan fiduciary net position as a percentage of the total pension liability	33.64%	28.71%

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

Covered payroll information is not presented since the Teachers' Pension and Annuity Fund is a special funding situation in which the District does not make contributions to this plan.

* This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, governments should present information for those years for which information is available.

Notes to Required Supplementary Information:

Benefit Changes

None

Changes of Assumptions

The discount rate changed from 4.68% as of June 30, 2014 to 4.13% as of June 30, 2015.

Required Supplementary Information
Part III

Budgetary Comparison

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GENERAL FUND

BUDGETARY COMPARISON SCHEDULE
(BUDGETARY BASIS)

Year ended June 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final To Actual
REVENUES:					
Local Sources:					
County Tax Levy	\$ 2,874,529		\$ 2,874,529	\$ 2,874,529	
Tuition From LEA's	32,543,334		32,543,334	32,290,735	\$ (252,599)
Other Tuition	3,610,575	\$ (72,136)	3,538,439	3,620,859	82,420
Non-Resident Fees	150,000		150,000	175,230	25,230
Interest Earned				6,553	6,553
Interest Earned on Capital Reserve Funds	1,000		1,000	3,928	2,928
Unrestricted Miscellaneous Revenues	274,500		274,500	421,701	147,201
Total Local Sources	39,453,938	(72,136)	39,381,802	39,393,535	11,733
State Sources:					
On-Behalf TPAF Pension Contributions				2,637,858	2,637,858
Reimbursed TPAF Social Security				1,028,496	1,028,496
Total State Sources				3,666,354	3,666,354
Federal Sources:					
Medicaid Reimbursement	175,000		175,000	385,930	210,930
Total Federal Sources	175,000		175,000	385,930	210,930
Total Revenues	39,628,938	(72,136)	39,556,802	43,445,819	3,889,017
EXPENDITURES:					
Current Expense:					
Special Education - Instruction:					
Behavioral Disabilities:					
Salaries of Teachers	1,004,745	(38,304)	966,441	963,208	3,233
Other Salaries for Instruction	326,029	20,904	346,933	345,506	1,427
General Supplies	23,500	7,609	31,109	31,068	41
Textbooks	3,000	(2,000)	1,000	786	214
Other Objects	8,250	(4,281)	3,969	3,779	190
Total Behavioral Disabilities	1,365,524	(16,072)	1,349,452	1,344,347	5,105
Multiple Disabilities:					
Salaries of Teachers	3,656,570	(62,575)	3,593,995	3,581,931	12,064
Other Salaries for Instruction	1,632,018	(7,289)	1,624,729	1,618,467	6,262
Other Purchased Services	6,475		6,475	5,615	860
General Supplies	135,200	14,183	149,383	148,412	971
Textbooks	13,800	(11,076)	2,724	2,701	23
Other Objects	6,250	(705)	5,545	5,532	13
Total Multiple Disabilities	5,450,313	(67,462)	5,382,851	5,362,658	20,193
Autism:					
Salaries of Teachers	2,654,654	42,460	2,697,114	2,697,098	16
Other Salaries for Instruction	1,752,358	(14,003)	1,738,355	1,727,659	10,696
General Supplies	24,250	25,264	49,514	49,511	3
Textbooks	3,500	(2,565)	935	934	1
Other Objects	3,100	113	3,213	3,209	4
Total Autism	4,437,862	51,269	4,489,131	4,478,411	10,720
Preschool Disabilities - Full-Time:					
Salaries of Teachers	491,557	68,405	559,962	559,962	
Other Salaries for Instruction	418,985	24,940	443,925	443,925	
General Supplies	15,000	(5,242)	9,758	9,757	1
Other Objects	200	(200)			
Total Preschool Disabilities - Full-Time	925,742	87,903	1,013,645	1,013,644	1
Extended School Year:					
Salaries of Teachers	1,597,935	(105,472)	1,492,463	1,492,463	
Salaries of Supervisors of Instruction	182,852	(20,097)	162,755	162,755	
Other Salaries for Instruction	820,495	(30,333)	790,162	790,162	
Other Purchased Services	163,186	(74,379)	88,807	88,807	
Total Extended School Year	2,764,468	(230,281)	2,534,187	2,534,187	
Cognitive - Severe:					
Salaries of Teachers	585,153	23,025	608,178	605,559	2,619
Other Salaries for Instruction	567,532	(26,025)	541,507	539,997	1,510
General Supplies	16,450	695	17,145	16,299	846
Textbooks	900	(400)	500	500	
Other Objects	1,100	(304)	796	321	475
Total Cognitive - Severe	1,171,135	(3,009)	1,168,126	1,162,176	5,950
Total Special Education - Instruction	16,115,044	(177,652)	15,937,392	15,895,423	41,969
School-Sponsored Co Curriculum Instruction:					
Salaries	34,390		34,390	23,366	11,024
Supplies and Materials	19,290		19,290	15,275	4,015
Total School-Sponsored Co/Extra-Curr. Activities - Instruction	53,680	-	53,680	38,641	15,039
Total Instruction	16,168,724	(177,652)	15,991,072	15,934,064	57,008

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GENERAL FUND

BUDGETARY COMPARISON SCHEDULE
(BUDGETARY BASIS)

Year ended June 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final To Actual
EXPENDITURES (CONTINUED):					
Undistributed Expenditures					
Health Services:					
Salaries	\$ 490,739	\$ (14,836)	\$ 475,903	\$ 473,612	\$ 2,291
Purchased Professional and Technical Services	51,500	(1,250)	50,250	49,940	310
Other Purchased Services	6,970	13,574	20,544	20,131	413
Supplies and Materials	21,250	(1,943)	19,307	19,236	71
Total Health Services	570,459	(4,455)	566,004	562,919	3,085
Other Support Serv. - Students - Related Services:					
Salaries	4,197,155	(90,518)	4,106,637	4,086,925	19,712
Purchased Professional - Educational Services	156,344	122,188	278,532	263,749	14,783
Supplies and Materials	22,600	(10,199)	12,401	12,299	102
Total Other Support Serv. - Students - Related Services	4,376,099	21,471	4,397,570	4,362,973	34,597
Child Study Team:					
Salaries of Other Professional Staff	1,036,644	(29,500)	1,007,144	1,002,505	4,639
Purchased Professional - Educational Services	250		250		250
Supplies and Materials	1,550	500	2,050	1,458	592
Total Child Study Team	1,038,444	(29,000)	1,009,444	1,003,963	5,481
Imp. of Instruct. Serv./Other Supp. Serv. - Instruct. Staff:					
Salaries of Other Professional Staff	223,819	(50,000)	173,819	159,932	13,887
Salaries of Secretarial and Clerical Assistants	198,447		198,447	172,288	26,159
Other Salaries		50,000	50,000	13,846	36,154
Other Purchased Services	92,900		92,900	70,888	22,012
Supplies and Materials	7,150		7,150	5,133	2,017
Other Objects	9,340		9,340	1,366	7,974
Total Imp. of Instruct. Serv./Other Supp. Serv. - Instruct. Staff	531,656	-	531,656	423,453	108,203
Educational Media Services/School Library:					
Salaries	140,847		140,847	112,316	28,531
Supplies and Materials	9,950		9,950	9,400	550
Total Educational Media Services/School Library	150,797	-	150,797	121,716	29,081
Instructional Staff Training Services:					
Other Salaries	300		300		300
Other Purchased Professional and Technical Services	33,020	(850)	32,170	20,654	11,516
Other Purchased Services	9,800	350	10,150	7,099	3,051
Supplies and Materials	17,980	500	18,480	18,104	376
Total Instructional Staff Training Services	61,100	-	61,100	45,857	15,243
Support Services - General Administration:					
Salaries	94,180		94,180	80,334	13,846
Legal Services	76,000	12,635	88,635	79,028	9,607
Architectural/Engineering Services	12,000	(3,500)	8,500		8,500
Other Purchased Professional Services	51,000		51,000	51,000	
Purchased Technical Services	15,900	(10,735)	5,165	4,040	1,125
Communications/Telephone	58,500		58,500	40,084	18,416
BOE Other Purchased Services	4,000		4,000		4,000
Miscellaneous Purchased Services	37,500	1,600	39,100	32,729	6,371
General Supplies	2,500	402	2,902	2,274	628
Judgments Against School District	3,500		3,500		3,500
Miscellaneous Expenditures	4,000	2,500	6,500	5,689	811
BOE Membership Dues and Fees	10,215	(2,500)	7,715	6,696	1,019
Total Support Services - General Administration	369,295	402	369,697	301,874	67,823
Support Services - School Administration:					
Salaries of Principals/Assistant Principals	371,524	(9,000)	362,524	282,089	80,435
Salaries of Other Professional Staff	349,961	(6,000)	343,961	294,119	49,842
Salaries of Secretarial and Clerical Assistants	380,889	(14,000)	366,889	311,826	55,063
Unused Vacation Payment to Term/Ret Staff		31,500	31,500	28,664	2,836
Other Purchased Services	47,700		47,700	30,881	16,819
Supplies and Materials	34,580	(2,500)	32,080	27,180	4,900
Other Objects	9,800		9,800	6,154	3,646
Total Support Services - School Administration	1,194,454	-	1,194,454	980,913	213,541
Support Services - Central Services:					
Salaries	803,419	(5,000)	798,419	719,925	78,494
Purchased Technical Services	37,500	8,689	46,189	45,456	733
Miscellaneous Purchased Services	18,000	(1,622)	16,378	6,509	9,869
Supplies and Materials	12,200	(2,202)	9,998	9,997	1
Miscellaneous Expenditures	10,000	537	10,537	10,160	377
Total Support Services - Central Services	881,119	402	881,521	792,047	89,474
Support Services - Admin. Info. Tech. Services:					
Salaries	282,391		282,391	217,908	64,483
Purchased Professional Services	13,000	5,100	18,100	5,977	12,123
Other Purchased Services	1,000		1,000	265	735
Supplies and Materials	70,000		70,000	56,075	13,925
Other Objects	85,000		85,000	75,163	9,837
Total Support Services - Admin. Info. Tech. Services	451,391	5,100	456,491	355,388	101,103
Required Maintenance for School Facilities:					
Cleaning, Repair and Maintenance Services	81,042	8,149	89,191	85,122	4,069
Required Maintenance for School Facilities	81,042	8,149	89,191	85,122	4,069

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
GENERAL FUND

BUDGETARY COMPARISON SCHEDULE
(BUDGETARY BASIS)

Year ended June 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final To Actual
EXPENDITURES (CONTINUED):					
Custodial Services:					
Salaries	\$ 1,127,017	\$ (3,535)	\$ 1,123,482	\$ 1,015,731	\$ 107,751
Unused Vacation Payment to Term/Ret Staff		3,535	3,535	3,534	1
Purchased Professional and Technical Services	61,000		61,000	53,280	7,720
Cleaning, Repair and Maintenance Services	314,000	77,145	391,145	200,490	190,655
Other Purchased Property Services	60,500		60,500	35,071	25,429
Insurance	181,000		181,000	154,057	26,943
Miscellaneous Purchased Services	850		850	184	666
General Supplies	200,625		200,625	185,884	14,741
Energy (Natural Gas)	203,000		203,000	113,211	89,789
Energy (Electricity)	845,000	(70,000)	775,000	604,988	170,012
Other Objects	500		500	375	125
Total Custodial Services	2,993,492	7,145	3,000,637	2,366,805	633,832
Student Transportation Services:					
Cleaning, Repair and Maintenance Services	5,500	(682)	4,818	2,488	2,330
Contracted Services (Other Than Bot. Home & School) - Vendors	12,800	10,320	23,120	16,554	6,566
Miscellaneous Purchased Services - Transportation	22,000	(238)	21,762	21,762	
Total Student Transportation Services	40,300	9,400	49,700	40,804	8,896
Special Programs - Instruction - Employee Benefits:					
Social Security Benefits	198,999	(11,928)	187,071	187,071	
Health Benefits	647,108	170,074	817,182	817,182	
Total Special Programs - Instruction - Employee Benefits	846,107	158,146	1,004,253	1,004,253	
Unallocated Benefits - Employee Benefits:					
Social Security Contributions	575,000	40,000	615,000	568,663	46,337
TPAF Contribution - ERIP	47,500		47,500	46,545	955
Other Retirement Contributions - PERS	1,090,000		1,090,000	1,014,631	75,369
Unemployment Compensation	40,000	(1,350)	38,650	38,650	
Workmen's Compensation	1,130,955	(70,044)	1,060,911	1,011,451	49,460
Health Benefits	7,049,173	(128,025)	6,921,148	5,700,489	1,220,659
Tuition Reimbursement	51,000	2,256	53,256	34,657	18,599
Other Employee Benefits	308,900	157,162	466,062	465,767	295
Total Unallocated Benefits - Employee Benefits	10,292,528	(1)	10,292,527	8,842,203	1,450,324
On-behalf payments:					
On-Behalf TPAF Pension Contributions				2,637,858	(2,637,858)
Reimbursed TPAF Social Security				1,028,496	(1,028,496)
Total On-Behalf Contributions				3,666,354	(3,666,354)
Total Undistributed Expenditures	23,878,283	176,759	24,055,042	24,956,644	(901,602)
Total Expenditures - Current Expense	40,047,007	(893)	40,046,114	40,890,708	(844,594)
CAPITAL OUTLAY					
Interest Deposit To Capital Reserve	1,000		1,000		1,000
Equipment:					
Multiple Disabilities	15,000		15,000	2,520	12,480
Undist. Expend. - Admin. Info. Technology Services	30,000		30,000	27,862	2,138
Undist. Expend. - Custodial Services	24,375	20,000	44,375	35,789	8,586
Total Equipment	69,375	20,000	89,375	66,171	23,204
Facilities Acquisition and Construction Services:					
Architectural/Engineering Services	15,000	8,787	23,787	9,029	14,758
Construction Services	100,000	15,737	115,737	29,632	86,105
Total Facilities Acquisition and Construction Services	115,000	24,524	139,524	38,661	100,863
Total Expenditures - Capital Outlay	185,375	44,524	229,899	104,832	125,067
Total Expenditures	40,232,382	43,631	40,276,013	40,995,540	(719,527)
(Deficiency)/Excess of Revenues (Under)/Over Expenditures	(603,444)	115,767	(487,677)	2,450,279	2,937,956
Fund Balances, July 1	11,646,188	-	11,646,188	11,646,188	-
Fund Balances, June 30	\$ 11,042,744	\$ 115,767	\$ 11,158,511	\$ 14,096,467	\$ 2,937,956
Recapitulation of Fund Balance:					
Restricted Fund Balance:					
Capital Reserve				\$ 2,883,893	
Assigned to:					
Designated for Subsequent Years Expenditures				6,368,914	
Encumbrances				140,445	
Unassigned Fund Balance				4,703,215	
Fund Balance per Governmental Funds (GAAP and budgetary basis)				<u>\$ 14,096,467</u>	

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE
BUDGETARY BASIS

SPECIAL REVENUE FUND

Year ended June 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final To Actual
Revenues:					
State Sources	\$ 251,000	\$ (3,738)	\$ 247,262	\$ 247,262	
Federal Sources	33,000	20,553	53,553	35,190	\$ (18,363)
Other Sources	223,674	-	223,674	223,674	
Total Revenues	507,674	16,815	524,489	506,126	(18,363)
Expenditures:					
Instruction:					
Other Salaries	7,500	33,449	40,949	26,329	14,620
Total Instruction	7,500	33,449	40,949	26,329	14,620
Support Services:					
Salaries	474,674	(107,778)	366,896	366,896	
Personal Services - Employee Benefits	25,500	78,918	104,418	101,325	3,093
Miscellaneous Purchased Services		2,766	2,766	2,766	
Travel		4,938	4,938	4,588	350
Supplies & Materials		4,522	4,522	4,222	300
Total Support Services	500,174	(16,634)	483,540	479,797	3,743
Total Expenditures	507,674	16,815	524,489	506,126	18,363
Excess/(Deficiency) of Revenues Over/(Under) Expenditures and Other Financing Uses	\$ -	\$ -	\$ -	\$ -	\$ -

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2016

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>Special Revenue Fund</u>
SOURCES/INFLOWS OF RESOURCES	
Actual amounts (budgetary) "revenues" from the Budgetary Comparison Schedules (C-2)	\$ 506,126
Difference - budget to GAAP:	
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.	
Current Year Encumbrances	(439)
Prior Year Encumbrances	<u>1,500</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds (B-2)	<u>\$ 507,187</u>
USES/OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total outflows" from the Budgetary Comparison Schedule (C-2)	\$ 506,126
Difference - budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	
Current Year Encumbrances	(439)
Prior Year Encumbrances	<u>1,500</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds (B-2)	<u>\$ 507,187</u>

Supplementary Information

Special Revenue Fund

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

SPECIAL REVENUE FUND

COMBINING SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS

Year ended June 30, 2016

	Projects Adult County	Case Management - Special Child Health Services		Clinic Project Program Child	WIA Out-of-School Youth	Totals
		State	County			
Revenues:						
State Sources		\$ 247,262				\$ 247,262
Federal Sources					\$ 35,190	35,190
Other Sources	\$ 100,000		\$ 104,345	\$ 19,329		223,674
Total Revenues	<u>\$ 100,000</u>	<u>\$ 247,262</u>	<u>\$ 104,345</u>	<u>\$ 19,329</u>	<u>\$ 35,190</u>	<u>\$ 506,126</u>
Expenditures:						
Instruction:						
Other Salaries					\$ 26,329	\$ 26,329
Total Instruction					<u>26,329</u>	<u>26,329</u>
Support Services:						
Salaries	\$ 65,584	\$ 202,357	\$ 81,233	\$ 17,722		366,896
Personal Services - Employee Benefits	33,499	36,424	23,112	970	7,320	101,325
Miscellaneous Purchased Services		2,766				2,766
Travel	290	4,298				4,588
Supplies & Materials	627	1,417		637	1,541	4,222
Total Support Services	<u>100,000</u>	<u>247,262</u>	<u>104,345</u>	<u>19,329</u>	<u>8,861</u>	<u>479,797</u>
Total Expenditures	<u>\$ 100,000</u>	<u>\$ 247,262</u>	<u>\$ 104,345</u>	<u>\$ 19,329</u>	<u>\$ 35,190</u>	<u>\$ 506,126</u>

Capital Projects Fund

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

CAPITAL PROJECTS FUND

SUMMARY SCHEDULE OF PROJECT REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

(BUDGETARY BASIS)

Year ended June 30, 2016

	<u>Current Year</u>
Expenditures:	
Architectural Services	\$ 115,757
Construction Services	897,889
Land and Improvements	18,031
Total expenditures	<u>1,031,677</u>
(Deficiency) of revenues (under) expenditures	(1,031,677)
Fund Balance, July 1	1,600,811
Fund Balance, June 30	<u>\$ 569,134</u>
 <u>Reconciliation to GAAP Financial statements</u>	
Fund Balance, June 30, 2016 - Budgetary - Basis	\$ 569,134
GAAP Basis Revenues Not Recognized - SDA Awards	(140,372)
GAAP Basis Revenues Not Recognized - County/Local	(218,201)
Fund Balance, June 30, 2016 - GAAP basis	<u>\$ 210,561</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

CAPITAL PROJECTS FUND

SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE,
AND PROJECT STATUS - BUDGETARY BASIS

(BUDGETARY BASIS)

Mercer High School and Joseph Cappello HVAC Controls
and Mercer High School Dryvit Replacement

Year ended June 30, 2016

	Prior Periods	Current Year	Totals	Revised Authorized Cost
Revenues and Other Financing Sources:				
County Sources	\$ 1,533,000	\$ -	\$ 1,533,000	\$ 1,533,000
State Sources	-	-	-	-
Transfer from Capital Reserve	-	-	-	-
Total Revenues	<u>1,533,000</u>	<u>-</u>	<u>1,533,000</u>	<u>1,533,000</u>
Expenditures and Other Financing Sources:				
Architectural services				
Construction Services	1,009,631	74,875	1,084,506	1,362,212
Land Improvements	212,262	18,031	230,293	170,788
Total Expenditures	<u>1,221,893</u>	<u>92,906</u>	<u>1,314,799</u>	<u>1,533,000</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>\$ 311,107</u>	<u>\$ (92,906)</u>	<u>\$ 218,201</u>	<u>\$ -</u>

Additional Project Information:

Project Number	3103-055-02-0690
Grant Date/Letter of Notification	various
Bond Authorization (Referendum) Date	N/A
Bonds Authorized	N/A
Bonds Issued	N/A
Original Authorized Cost	\$ 950,500
Additional Authorized Cost	582,500
Revised Authorized Cost	1,533,000

Percentage Increase over Original

Authorized Cost	61%
Percentage Completion	85.77%
Original Target Completion Date	November 2011
Revised Target Completion Date	June 2017

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

CAPITAL PROJECTS FUND

SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE,
AND PROJECT STATUS - BUDGETARY BASIS

(BUDGETARY BASIS)

Mercer High School: Boiler and Chiller

Year ended June 30, 2016

	Prior Periods	Current Year	Totals	Revised Authorized Cost
Revenues and Other Financing Sources:				
County Sources				
State Sources	\$ 310,570	\$ -	\$ 310,570	\$ 310,570
Transfer from Capital Reserve	465,855	-	465,855	465,855
Total Revenues	<u>776,425</u>	<u>-</u>	<u>776,425</u>	<u>776,425</u>
Expenditures and Other Financing Sources:				
Architectural services	6,592	48,618	55,210	55,210
Construction Services	200,801	372,983	573,784	721,215
Land Improvements	-	-	-	-
Total Expenditures	<u>207,393</u>	<u>421,601</u>	<u>628,994</u>	<u>776,425</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>\$ 569,032</u>	<u>\$ (421,601)</u>	<u>\$ 147,431</u>	<u>\$ -</u>

Additional Project Information:

Project Number	3103-055-14-1002
Grant Date/Letter of Notification	June 27, 2014
Bond Authorization (Referendum) Date	N/A
Bonds Authorized	N/A
Bonds Issued	N/A
Original Authorized Cost	\$ 776,425
Additional Authorized Cost	-
Revised Authorized Cost	776,425

Percentage Increase over Original

Authorized Cost	N/A
Percentage Completion	81.01%
Original Target Completion Date	November 2015
Revised Target Completion Date	January 2017

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT

CAPITAL PROJECTS FUND

SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE,
AND PROJECT STATUS - BUDGETARY BASIS

(BUDGETARY BASIS)

Joseph F. Cappello School: Boiler and Chiller

Year ended June 30, 2016

	Prior Periods	Current Year	Totals	Revised Authorized Cost
Revenues and Other Financing Sources:				
County Sources				
State Sources	\$ 432,450	\$ -	\$ 432,450	\$ 432,450
Transfer from Capital Reserve	648,675	-	648,675	648,675
Total Revenues	<u>1,081,125</u>	<u>-</u>	<u>1,081,125</u>	<u>1,081,125</u>
Expenditures and Other Financing Sources:				
Architectural Services		67,139	67,139	67,139
Construction Services	360,453	450,031	810,484	1,013,986
Land Improvements				
Total Expenditures	<u>360,453</u>	<u>517,170</u>	<u>877,623</u>	<u>1,081,125</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>\$ 720,672</u>	<u>\$ (517,170)</u>	<u>\$ 203,502</u>	<u>\$ -</u>
Additional Project Information:				
Project Number	3103-050-14-1001			
Grant Date/Letter of Notification	June 27, 2014			
Bond Authorization (Referendum) Date	N/A			
Bonds Authorized	N/A			
Bonds Issued	N/A			
Original Authorized Cost	\$ 1,081,125			
Additional Authorized Cost	-			
Revised Authorized Cost	1,081,125			
Percentage Increase over Original Authorized Cost	N/A			
Percentage Completion	81.18%			
Original Target Completion Date	November 2015			
Revised Target Completion Date	November 2016			

Fiduciary Funds

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
TRUST AND AGENCY FUNDS

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	Trust				Agency		
	Private Purpose Scholarship	AFLAC	Unemployment Compensation	Total Trust	Student Activity	Payroll	Total Agency
Assets:							
Cash and Cash Equivalents	\$ 15,593	\$ 58	\$ 171,511	\$ 187,162	\$ 20,946	\$ 218,270	\$ 239,216
Total Assets	15,593	58	171,511	187,162	20,946	218,270	239,216
Liabilities:							
Payroll Deductions and Withholdings						\$ 218,270	\$ 218,270
Due to Student Groups					\$ 20,946		20,946
Total Liabilities					\$ 20,946	\$ 218,270	\$ 239,216
Net Position:							
Held in Trust for Unemployment Claims			171,511	171,511			
Held in Trust for Scholarships and Other Purposes	15,593	58		15,651			
Total Net Position	\$ 15,593	\$ 58	\$ 171,511	\$ 187,162			

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
TRUST AND AGENCY FUNDS

COMBINING STATEMENT OF FIDUCIARY NET POSITION

Year ended June 30, 2016

	Private Purpose Scholarship	AFLAC Trust Fund	Unemployment Compensation Trust Fund	Total Trust
Additions:				
Interest Income			\$ 102	\$ 102
Contributions / Donations	\$ 4,799	\$ 13,697	45,287	63,783
Total Additions	<u>4,799</u>	<u>13,697</u>	<u>45,389</u>	<u>63,885</u>
Deductions:				
Scholarship Payments	5,403			5,403
Medical Reimbursements		13,666		13,666
Unemployment Benefit Payments			61,771	61,771
Total Deductions	<u>5,403</u>	<u>13,666</u>	<u>61,771</u>	<u>80,840</u>
Change in Net Position	(604)	31	(16,382)	(16,955)
Net Position - Beginning of Year	16,197	27	187,893	204,117
Net Position - End of Year	<u>\$ 15,593</u>	<u>\$ 58</u>	<u>\$ 171,511</u>	<u>\$ 187,162</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
STUDENT ACTIVITY AGENCY FUND

SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year ended June 30, 2016

	Balance July 1, 2015	Cash Receipts	Cash Disbursements	Balance June 30, 2016
Capello	\$ 1,460	\$ 1,599	\$ 1,606	\$ 1,453
High School	9,788	29,693	33,767	5,714
Regional Day	-	14,696	917	13,779
Total	<u>\$ 11,248</u>	<u>\$ 45,988</u>	<u>\$ 36,290</u>	<u>\$ 20,946</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
PAYROLL AGENCY FUND

SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS

Year ended June 30, 2016

	Balance July 1, 2015	Cash Receipts	Cash Disbursements	Balance June 30, 2016
Assets				
Cash and Cash Equivalents	\$ 217,001	\$ 30,892,276	\$ 30,891,007	\$ 218,270
Total Assets	\$ 217,001	\$ 30,892,276	\$ 30,891,007	\$ 218,270
Liabilities				
Payroll Deductions and Withholdings	\$ 217,001	\$ 30,892,276	\$ 30,891,007	\$ 218,270
Total Liabilities	\$ 217,001	\$ 30,892,276	\$ 30,891,007	\$ 218,270

Long-Term Debt

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
LONG-TERM DEBT

SCHEDULE OF OBLIGATIONS UNDER CAPITAL LEASES

Year ended June 30, 2016

Description	Date of Lease	Term of Lease	Interest Rate	Amount of Original Issue	Balance July 1, 2015	Retired	Balance June 30, 2016
Tractor	12/3/2013	4 years	2.243%	\$ 46,363	\$ 27,952	\$ 9,111	\$ 18,841
Ford Truck	1/15/2015	4 years	2.330%	34,089	26,954	6,507	20,447
					<u>\$ 54,906</u>	<u>\$ 15,618</u>	<u>\$ 39,288</u>

Statistical Section
(Unaudited)

**Statistical Section
Unaudited**

Contents

Financial Trends

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

Demographic and Economic Information

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

Operating Information

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

Revenue Capacity

These schedules contain information to help the reader assess the district's most significant local revenue source, the property tax. These schedules are not applicable to Mercer County Special Services School District as property taxes are not a revenue source for the district.

Debt Capacity

These schedules present information to help the reader assess the affordability of the district's current levels of outstanding debt and the district's ability to issue additional debt in the future. These schedules are not applicable to Mercer County Special Services School District as the district does not hold any debt.

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

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 NET POSITION BY COMPONENT
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 UNAUDITED

	As of June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Government Activities:										
Net Investment in Capital Assets	\$ 12,052,157	\$ 38,326,912	\$ 41,004,526	\$ 40,373,584	\$ 39,417,476	\$ 38,822,787	\$ 38,046,878	\$ 37,556,142	\$ 37,242,158	\$ 37,059,204
Restricted	658,289	1,726,193	2,356,854	499,821	750,824	1,151,066	1,551,784	2,393,633	2,851,151	3,094,454
Unrestricted	2,632,365	1,608,031	2,843,187	3,894,508	5,812,175	6,649,120	5,513,720	4,028,166	(15,314,922)	(14,084,873)
Total Government Activities Net Position	\$ 15,342,811	\$ 41,661,136	\$ 46,204,567	\$ 44,767,913	\$ 45,980,475	\$ 46,622,973	\$ 45,112,382	\$ 43,977,941	\$ 24,778,387	\$ 26,068,785
Business-Type Activities:										
Net Investment in Capital Assets	\$ 297,513	\$ 1,159,833	\$ 107,121	\$ 285,595	\$ 372,482	\$ 362,945	\$ 341,717	\$ 309,756	\$ 285,403	\$ 275,629
Restricted	1,175	10,852	206,854							
Unrestricted	2,469,575	2,262,860	1,997,726	2,311,234	2,167,994	2,083,546	1,544,319	1,188,070	1,097,383	1,073,731
Total Business-Type Activities Net Position	\$ 2,768,263	\$ 3,433,545	\$ 2,311,701	\$ 2,596,829	\$ 2,540,476	\$ 2,446,491	\$ 1,886,036	\$ 1,497,826	\$ 1,382,786	\$ 1,349,360
Government-Wide:										
Net Investment in Capital Assets	\$ 12,349,670	\$ 39,486,745	\$ 41,111,647	\$ 40,659,179	\$ 39,789,958	\$ 39,185,732	\$ 38,388,595	\$ 37,865,898	\$ 37,527,561	\$ 37,334,833
Restricted	659,464	1,737,045	2,563,708	499,821	750,824	1,151,066	1,551,784	2,393,633	2,851,151	3,094,454
Unrestricted	5,101,940	3,870,891	4,840,913	6,205,742	7,980,169	8,732,666	7,058,039	5,216,236	(14,217,539)	(13,011,142)
Total District Net Position	\$ 18,111,074	\$ 45,094,681	\$ 48,516,268	\$ 47,364,742	\$ 48,520,951	\$ 49,069,464	\$ 46,998,418	\$ 45,475,767	\$ 26,161,173	\$ 27,418,145

Source: CAFR Schedule A-1 and District records.

GASB 63 was implemented in the 2013 fiscal year, which required the reclassification of balances previously reported as net assets to net position.

GASB 68 was implemented in the 2015 fiscal year, which required a restatement of beginning net position in the amount of \$22,684,628. This amount is not reflected in the June 30, 2014 net position above.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
UNAUDITED

	Year ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses:										
Governmental Activities:										
Instruction:										
Special Education	\$ 17,905,103	\$ 18,998,691	\$ 19,014,032	\$ 24,841,406	\$ 23,108,085	\$ 23,177,728	\$ 23,457,196	\$ 23,079,131	\$ 26,157,918	\$ 28,568,929
Other Special Education	908,497	923,038	142,124		50,107	44,458	51,177	53,306	68,673	58,218
Support Services:										
Student and Instruction Related Services	7,644,536	7,735,774	8,000,395	11,074,334	10,695,312	9,831,565	10,565,290	10,152,663	11,682,237	11,904,674
General Administration	421,672	339,293	401,045	497,896	449,249	335,027	344,767	345,575	330,894	376,694
School Administrative Services	944,566	1,168,139	1,281,183	1,631,985	1,417,875	1,462,521	1,724,486	1,735,911	1,952,019	1,703,450
Central Administrative Services	1,701,401	623,804	660,076	1,058,708	883,952	842,546	1,044,154	1,237,868	1,268,737	1,377,548
Administrative Information Technology	505,978	512,777	484,963	455,442	429,035	438,483	467,688	491,039	538,884	537,750
Plant Operations and Maintenance	2,272,453	2,473,666	2,439,231	2,999,265	2,943,122	2,829,359	2,661,520	2,966,316	3,311,854	3,337,049
Pupil Transportation	28,580	37,751	25,706	29,498	68,936	19,774	16,594	71,917	21,366	27,000
Unallocated Benefits	11,285,762	11,160,252	11,964,492							
Interest on Lease Purchase Agreements	513,890	678,001								
Unallocated Depreciation	311,551									
Total Governmental Activities Expenses	44,443,989	44,651,186	44,413,247	42,588,534	40,045,673	38,981,461	40,332,872	40,133,726	45,332,582	47,891,312
Business-Type Activities:										
Target Evaluation Team										
Project Adults	16,019	6,403	2,159	45,289						
Food Service	398,237	403,871	423,811	423,955	472,240	466,037	492,515	535,018	546,225	565,591
Mercer County Cooperative Transportation System	9,422,281	8,832,061	8,518,210	8,410,047	6,377,813	6,047,738	5,674,532	6,741,427	6,767,252	6,915,392
NJ State Regional Day School at Hamilton	1,450,516	2,018,921	2,242,112	2,237,440	2,257,360	2,207,361	2,521,195	2,411,332	1,476,116	441,799
Integrated Preschool	480,392	498,762	217,889	196,322	160,782	231,902	62,298	60,707	59,982	62,176
Capital Academy				20,671						
Assisted Augmentative Technology	51,781	73,911	42,158	47,036	34,813	24,685	20,936			
Respite				506						
Clinic Parent				22,296	37,904	26,566	7,728	9,956	2,811	492
Community Resources				372,160	274,074	80,279	148,491	172,061	51,703	71,098
Chuck's					82,129	72,387	65,123	64,742	68,271	77,560
Special Aides				1,912,584	1,737,379	1,743,632	2,085,488	2,370,250	3,026,205	3,021,915
Social Skills	864			1,350						
Emergency Treatment Services	8,963			28,788						
Total Business-Type Activities Expenses	11,950,599	11,833,929	11,446,339	13,718,444	11,634,494	10,900,587	11,078,306	12,365,493	11,998,565	11,156,023
Total District Expenses	\$ 56,394,588	\$ 56,485,115	\$ 55,859,586	\$ 56,306,978	\$ 51,680,167	\$ 49,882,048	\$ 51,411,178	\$ 52,499,219	\$ 57,331,147	\$ 59,047,335

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
UNAUDITED

	Year ended June 30.									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Program Revenues:										
Governmental Activities:										
Charges for Services:										
Special Education	\$ 2,551,476	\$ 2,586,453	\$ 2,626,585							
Operating Grants and Contributions:										
Special Education	1,137,245	995,847	852,079	\$ 692,465	\$ 502,352	\$ 220,813	\$ 218,546	\$ 25,382	23,102	\$ 26,329
Student and Instruction Related Services	929,542	1,078,503	978,777	1,050,167	893,492	683,905	672,866	485,675	493,949	480,858
Unallocated Benefits	3,277,205	3,256,617	2,722,819							
Capital Grants and Contributions					38,274	252,101	296,667	553,644	305,709	471,052
Total Governmental Activities Program Revenues	<u>7,895,468</u>	<u>7,917,420</u>	<u>7,180,260</u>	<u>1,742,632</u>	<u>1,434,118</u>	<u>1,156,819</u>	<u>1,188,079</u>	<u>1,064,701</u>	<u>822,760</u>	<u>978,239</u>
Business-Type Activities:										
Charges for Services:										
Project Adults	6,433	12,278		42,974						
Food Service	122,158	110,448	103,951	88,637	97,432	85,117	76,413	110,074	126,761	124,727
Mercer County Cooperative Transportation System	9,459,372	8,805,282	8,518,210	8,410,047	6,578,015	6,047,738	5,674,330	6,741,427	6,767,252	6,915,391
NJ State Regional Day School at Hamilton	2,510,607	2,106,183	2,215,156	2,143,476	2,113,580	2,093,495	2,087,454	2,186,112	1,418,563	472,627
Integrated Preschool	480,411	333,062	360,026	206,289	328,626	266,112				
Assisted Augmentative Technology	65,657	24,649	36,233	36,752	24,354	25,665				
Respite				506						
Clinic Parent				49,360	29,350	32,570	18,775	17,400	9,300	9,075
Community Resources				358,427	243,104	99,021	117,655	72,150	42,238	75,838
Chuck's Place					83,197	73,605	72,967	70,445	74,829	76,489
Special Aides				1,912,584	1,737,379	1,737,884	2,086,195	2,369,543	3,026,205	3,021,915
Social Skills	200									
Emergency Treatment Services	35,000									
Operating Grants and Contributions:										
Food Service	281,898	275,440	303,823	294,311	342,975	345,345	384,041	410,132	418,364	426,515
Total Business-Type Activities Program Revenues	<u>12,961,736</u>	<u>11,667,342</u>	<u>11,537,399</u>	<u>13,543,363</u>	<u>11,578,012</u>	<u>10,806,552</u>	<u>10,517,830</u>	<u>11,977,283</u>	<u>11,883,512</u>	<u>11,122,577</u>
Total District Program Revenues	<u>\$ 20,857,204</u>	<u>\$ 19,584,762</u>	<u>\$ 18,717,659</u>	<u>\$ 15,285,995</u>	<u>\$ 13,012,130</u>	<u>\$ 11,963,371</u>	<u>\$ 11,705,909</u>	<u>\$ 13,041,984</u>	<u>\$ 12,706,272</u>	<u>\$ 12,100,816</u>
Net (Expense)/Revenue:										
Governmental Activities	\$ (36,548,521)	\$ (36,733,766)	\$ (37,232,987)	\$ (40,845,902)	\$ (38,611,555)	\$ (37,824,642)	\$ (39,144,793)	\$ (39,069,025)	\$ (44,509,822)	\$ (46,913,073)
Business-Type Activities	1,011,137	(166,587)	91,060	(175,081)	(56,482)	(94,035)	(560,476)	(388,210)	(115,053)	(33,446)
Total District-wide Net (Expense)/Revenue	<u>\$ (35,537,384)</u>	<u>\$ (36,900,353)</u>	<u>\$ (37,141,927)</u>	<u>\$ (41,020,983)</u>	<u>\$ (38,668,037)</u>	<u>\$ (37,918,677)</u>	<u>\$ (39,705,269)</u>	<u>\$ (39,457,235)</u>	<u>\$ (44,624,875)</u>	<u>\$ (46,946,519)</u>

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
UNAUDITED

	Year ended June 30.									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Revenues and Other Changes in Net Assets:										
Governmental Activities:										
County Appropriation Taxes	\$ 4,305,000	\$ 5,492,269	\$ 3,460,178	\$ 2,870,529	\$ 2,870,529	\$ 2,870,529	\$ 2,870,529	\$ 2,874,529	\$ 2,874,529	\$ 2,874,529
Tuition - LEAs	34,064,034	32,612,267	34,214,361	33,538,814	33,395,981	32,065,344	30,503,693	31,490,169	36,911,372	35,911,594
Nonresident Fees	567,943	573,370	183,847	175,880	170,013	183,485	174,791	156,155	178,474	175,230
Interest Earned on Investments	131,136	174,481	44,522	21,885	14,235	7,821	13,924	5,053	3,782	10,481
Miscellaneous Income	245,967	442,903	502,805	306,151	355,192	287,643	323,430	327,583	319,247	421,701
Federal and State Aid Not Restricted				2,955,850	2,818,167	3,052,318	3,747,835	3,081,095	7,707,492	8,809,936
Special Items:										
Capital Asset Inventory Adjustment										
Long-Term Debt Assumed by County of Mercer		25,000,000								
Cancellation of Net Position			(34,481)							
Transfers			(41,207)							
Total Governmental Activities	39,314,080	64,295,290	38,330,025	39,869,109	39,824,117	38,467,140	37,634,202	37,934,584	47,994,896	48,203,471
Business-Type Activities:										
Interest Earned on Investments	3,002	2,567	292	348	127	51	21	-	13	19
Special Items:										
Cancellation of Prior Year Accounts Payable	125									
Refund of Prior Year Revenue	(61,838)		(10,314)							
Cancellation of Net Position			(182,823)							
Transfers			41,207							
Total Business-Type Activities	(58,711)	2,567	(151,638)	348	127	51	21	-	13	19
Total District-wide	\$ 39,255,369	\$ 64,297,857	\$ 38,178,387	\$ 39,869,457	\$ 39,824,244	\$ 38,467,191	\$ 37,634,223	\$ 37,934,584	\$ 47,994,909	\$ 48,203,490
Changes in Net Position:										
Governmental Activities	\$ 2,765,559	\$ 27,561,524	\$ 1,097,038	\$ (976,793)	\$ 1,212,562	\$ 642,498	\$ (1,510,591)	\$ (1,134,441)	\$ 3,485,074	\$ 1,290,398
Business-Type Activities	952,426	(164,020)	(60,578)	(174,733)	(56,355)	(93,984)	(560,455)	(388,210)	(115,040)	(33,427)
Total District	\$ 3,717,985	\$ 27,397,504	\$ 1,036,460	\$ (1,151,526)	\$ 1,156,207	\$ 548,514	\$ (2,071,046)	\$ (1,522,651)	\$ 3,370,034	\$ 1,256,971

Source: CAFR Schedules A-2 and District records

GASB 63 was implemented in the 2013 fiscal year, which required the reclassification of balances previously reported as net assets to net position.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 UNAUDITED

	As of June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund:										
Reserved	\$ 623,808	\$ 884,719	\$ 828,766	\$ 610,612						
Unreserved	3,032,465	4,111,789	6,282,263	6,008,461						
Restricted					\$ 750,824	\$ 1,151,066	\$ 1,551,784	\$ 2,393,633	\$ 2,079,965	\$ 2,883,893
Assigned					1,359,823	3,736,862	5,417,142	735,595	873,790	6,509,359
Unassigned					6,560,006	5,130,643	2,419,207	5,343,814	8,692,433	4,703,215
Total General Fund	\$ 3,656,273	\$ 4,996,508	\$ 7,111,029	\$ 6,619,073	\$ 8,670,653	\$ 10,018,571	\$ 9,388,133	\$ 8,473,042	\$ 11,646,188	\$ 14,096,467
All Other Governmental Funds:										
Restricted	\$ 34,481	\$ 34,481							\$ 771,186	\$ 210,561
Total All Other Governmental Funds	\$ 34,481	\$ 34,481	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 771,186	\$ 210,561

Source: CAFR Schedule B-1 and District records.

GASB # 54 was implemented in the 2011 fiscal year, which required the presentation of fund balances to be reported in different classifications from those presented in prior years (See footnote 1.N. in the basic financial statements). Prior years have not been restated above and are not required to be.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 UNAUDITED

	Year ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues:										
County Appropriation/Taxes	\$ 4,305,000	\$ 5,492,269	\$ 3,460,178	\$ 2,870,529	\$ 2,908,803	\$ 3,122,630	\$ 3,167,196	\$ 3,428,173	\$ 2,955,736	\$ 2,874,529
Tuition - LEA's	34,064,034	32,612,267	34,214,361	33,538,834	33,595,981	32,065,344	30,503,693	31,490,169	36,911,372	35,911,594
Nonresident Fees	567,943	573,370	183,848	175,860	170,013	183,485	174,791	156,155	178,474	175,230
Interest Earned on Investment	131,136	174,481	44,522	21,885	14,235	7,821	13,924	5,053	3,782	10,481
Miscellaneous	245,967	442,903	502,805	306,151	355,192	287,643	323,430	327,583	319,247	421,701
State Sources	3,981,473	4,024,581	3,464,359	3,574,464	3,269,005	3,322,120	4,039,891	3,221,612	3,735,607	4,291,762
Federal Sources	465,737	402,035	265,853	487,560	434,942	343,865	367,458	146,866	674,461	421,120
Other Sources	896,781	904,351	823,463	636,458	510,064	291,051	231,898	223,674	223,235	317,641
Total Revenues	44,658,071	44,626,257	42,959,389	41,611,741	41,258,235	39,623,959	38,822,281	38,999,285	45,001,914	44,424,058
Expenditures:										
Current:										
Special Education Instruction	14,389,976	15,129,911	16,312,545	16,044,545	14,975,700	15,049,479	15,164,909	15,111,117	15,477,872	15,921,752
Other Special Instruction	908,497	914,056	66,691		36,001	31,495	37,908	39,796	45,603	38,641
Support Services and Undistributed Costs:										
Student and Instruction Related Services	7,644,536	7,646,203	7,944,634	7,886,748	7,592,858	7,028,694	7,091,331	6,919,887	6,959,270	7,001,739
General Administration	297,075	305,866	376,457	343,876	317,327	296,246	292,161	294,708	261,845	301,874
School Administration	958,174	1,090,139	1,221,402	1,162,056	1,006,393	990,978	1,130,417	1,157,838	1,129,048	980,913
Central Services	1,701,402	618,247	648,128	734,441	613,412	594,996	685,844	829,811	747,070	792,047
Administrative Information Technology	505,978	475,089	447,088	358,615	332,388	344,075	338,370	362,991	363,751	355,388
Plant Operations and Maintenance	2,210,155	2,309,094	2,318,292	2,478,416	2,460,992	2,401,436	2,155,718	2,474,912	2,527,708	2,451,927
Pupil Transportation	28,580	37,751	25,706	28,391	32,795	35,745	32,548	33,637	35,873	40,804
Unallocated Benefits	11,113,299	11,160,252	11,081,761	12,569,952	11,599,852	11,065,267	12,154,781	11,918,838	12,592,500	13,512,810
Debt Service:										
Interest on Lease Purchase Agreements	513,890	1,090,434								
Lease Purchase Agreements - Principal	1,965,000	2,320,000								
Capital Outlay	541,491	188,980	360,957	496,657	273,632	437,630	368,732	770,841	951,131	1,136,509
Total Expenditures	42,778,053	43,286,022	40,803,661	42,103,697	39,241,350	38,276,041	39,452,719	39,914,376	41,091,671	42,534,404
Excess/(Deficiency) of Revenues	1,880,018	1,340,235	2,155,728	(491,956)	2,016,885	1,347,918	(630,438)	(915,091)	3,910,243	1,889,654
Over/(Under) Expenditures										
Other Financing Sources/(Uses):										
Transfers In									1,114,530	
Transfers Out			(41,207)						(1,114,530)	
Cancelled Excess Fund Balance			(34,481)							
Capital Lease Proceeds					34,696				34,089	
Total Other Financing Sources/(Uses)	-	-	(75,688)	-	34,696	-	-	-	(1,080,441)	-
Net Change in Fund Balances	\$ 1,880,018	\$ 1,340,235	\$ 2,080,040	\$ (491,956)	\$ 2,051,581	\$ 1,347,918	\$ (630,438)	\$ (915,091)	\$ 2,829,802	\$ 1,889,654

Source: District CAFR Records and Schedule B-2

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 GENERAL FUND - OTHER LOCAL REVENUE BY SOURCE
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 UNAUDITED

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tuition - LEA's	\$ 34,064,034	\$ 32,842,337	\$ 34,214,361	\$ 33,538,835	\$ 33,595,981	\$ 32,065,344	\$ 30,503,693	\$ 31,490,169	\$ 36,911,372	\$ 35,911,594
Nonresident Fees	567,943	573,371	183,848	175,860	170,013	183,485	174,791	156,155	178,474	175,230
Interest Earned on Investments	131,137	174,481	44,522	21,885	14,235	7,821	13,924	5,053	3,782	10,481
County Appropriation	1,826,110	5,492,269	3,460,178	2,870,529	2,870,529	2,870,529	2,870,529	2,874,529	2,874,529	2,874,529
Rental	64,496	258,100			267,317	257,011	290,000			
Miscellaneous	181,470	184,803		306,151	87,875	30,632	33,430	327,583	319,247	421,701
Total	\$ 36,835,190	\$ 39,525,361	\$ 37,902,909	\$ 36,913,260	\$ 37,005,950	\$ 35,414,822	\$ 33,886,367	\$ 34,853,489	\$ 40,287,404	\$ 39,393,535

Source: District records.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 UNAUDITED

Year	Population ^a	Personal Income ^b	Per Capita Personal Income ^c	Unemployment Rate ^d
2007	89,803	\$ 4,668,588,561	\$ 51,987	3.80%
2008	90,279	4,741,543,359	52,521	4.90%
2009	90,605	4,620,039,555	50,991	7.80%
2010	88,577	4,579,962,362	51,706	7.80%
2011	88,522	4,694,941,314	53,037	7.70%
2012	88,786	4,966,067,338	55,933	7.80%
2013	89,063	5,068,219,078	56,906	6.70%
2014	89,136	5,337,018,000	59,875	5.70%
2015	89,030	Not Available	Not Available	4.70%
2016	Not Available	Not Available	Not Available	Not Available

Source:

- ^a US Bureau of the Census, Population Division, provided by the NJ Dept of Labor and Workforce Development
- ^b Personal income has been estimated based upon the County population and per capita personal income presented.
- ^c Per capita personal income by municipality estimated based upon the 2010 Census published by the US Bureau of Economic Analysis.
- ^d New Jersey Department of Labor and Workforce Development, labor Planning and Analysis

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 FULL-TIME EQUIVALENT DISTRICT EMPLOYEES BY FUNCTION/PROGRAM
 LAST TEN FISCAL YEARS
 UNAUDITED

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Instruction:										
Special Education	92.0	89.0	90.2	75.2	90.1	91.1	250.8	234.9	234.5	232.7
Other Instruction	23.0	26.2	18.8	24.6	19.7	20.6	3.4			
Support Services:										
Student and Instruction Related Services	286.1	283.6	234.6	240.0	250.0	250.4	76.5	73.4	76.8	76.6
General Administration	4.0	2.0	3.0	3.0	4.0	4.0	1.0	1.0	1.0	1.0
School Administrative Services	12.0	15.0	12.0	16.0	15.9	20.5	14.0	13.0	14.0	13.0
Other Administrative Services	22.5	4.0	8.9	6.0	5.0	5.0	4.0	3.5	3.5	3.6
Central Services	20.0	12.0	48.0	32.0	35.6	31.5	32.0	29.6	34.0	33.8
Total	459.6	431.8	415.5	396.8	420.3	423.1	381.7	355.4	363.8	360.7

Source: District Personnel Records

Note: For the 2013 fiscal year, the District was able to more accurately calculate the number of employees charged to each function/program. In addition, the District no longer included Regional Day School and Special Aides employees in the count as had been done in past years. Prior year employee counts have not been restated.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
OPERATING STATISTICS
LAST TEN FISCAL YEARS
UNAUDITED

Fiscal Year	Enrollment	Operating Expenditures ^a	Cost Per Pupil	Percentage Change	Teaching Staff ^b	Pupil/Teacher Ratio	Average Daily Enrollment (ADE) ^c	Average Daily Attendance (ADA) ^c	Percentage Change in Average Daily Enrollment	Student Attendance Percentage
2007	797.70	\$ 39,758,671	\$ 49,842	6.21%	92	8.67	797.70	723.60	2.69%	90.71%
2008	766.50	38,846,385	50,680	1.68%	89	8.61	766.50	705.60	-3.91%	92.05%
2009	783.90	38,746,815	49,428	-2.47%	90	8.71	783.90	714.80	2.27%	91.19%
2010	747.60	39,878,829	53,342	7.92%	75	9.97	747.60	682.30	-4.63%	91.27%
2011	699.70	38,967,718	55,692	4.40%	90	7.77	699.70	652.00	-6.41%	93.18%
2012	688.70	37,838,411	54,942	-1.35%	91	7.56	688.70	635.10	-1.57%	92.22%
2013	667.50	39,083,987	58,553	6.57%	251	2.66	667.50	617.90	-3.08%	92.57%
2014	675.60	39,143,535	57,939	-1.05%	235	2.88	675.60	606.90	1.21%	89.83%
2015	682.60	40,140,540	58,805	1.50%	235	2.90	682.60	616.70	1.04%	90.35%
2016	627.04	41,397,895	66,021	12.27%	233	2.69	627.04	562.59	-8.14%	89.72%

Source: District records

Note: Enrollment based on annual October District count.

- a Operating expenditures equal total expenditures less debt service and capital outlay.
- b Teaching staff includes only full-time equivalents of certificated staff.
- c Average daily enrollment and average daily attendance are obtained from the School Register Summary (SRS).

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 SCHOOL BUILDING INFORMATION
 LAST TEN FISCAL YEARS
 UNAUDITED

District/Building	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Elementary:										
Joseph F. Cappello (1993)										
Square Feet	73,745	73,745	73,745	73,745	73,745	73,745	73,745	73,745	73,745	73,745
Capacity (Students)	262	262	262	262	262	262	262	262	262	262
Enrollment	234	170	193	161	141	141	125	139	128	114
Mercer Elementary (2005)										
Square Feet	88,421	88,421	88,421	88,421	88,421	88,421	88,421	88,421	88,421	88,421
Capacity (Students)	246	265	265	265	265	265	265	265	265	265
Enrollment	251	246	261	262	242	208	205	186	213	219
High School:										
Mercer JR/SR (1987)										
Square Feet	86,858	86,858	86,858	96,858	96,858	96,858	96,858	96,858	96,858	96,858
Capacity (Students)	318	318	318	318	318	318	318	318	318	318
Enrollment	286	292	273	273	271	279	278	265	279	275
Other:										
Regional Day School (1984)										
Square Feet	25,411	25,411	25,411	25,411	25,411	25,411	25,411	25,411	25,411	25,411
Capacity (Students)	60	60	60	60	60	60	60	60	60	60
Enrollment	60	47	50	48	47	42	46	45	32	12

Number of Schools at June 30, 2016

- Elementary = 2
- Senior High School = 1
- Other = 1

Source: District records, ASSA

Note: Increases in square footage and capacity are the result of additions.

Enrollment is based on the annual October district count.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 SCHEDULE OF REQUIRED MAINTENANCE
 LAST TEN FISCAL YEARS
 UNAUDITED

	JR/SR High School	Joseph C. Cappelo	Mercer Elementary	Alfred Reed	Total
2007	\$ 36,268	\$ 22,457	\$ 20,345	\$ 2,257	\$ 81,327
2008	23,970	18,657	13,846	11,367	67,840
2009	19,069	16,530	28,840	6,866	71,305
2010	28,770	24,667	31,867	8,182	93,486
2011	25,471	22,472	25,368	9,822	83,133
2012	26,841	21,091	25,288	9,822	83,042
2013	24,841	21,091	25,288	9,822	81,042
2014	24,841	21,091	25,288	7,918	79,138
2015	21,778	21,091	20,399	11,529	74,797
2016	27,904	17,022	30,177	10,019	85,122
Total School Facilities	\$ 259,753	\$ 206,169	\$ 246,706	\$ 87,604	\$ 800,232

Source: District records.

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 INSURANCE SCHEDULE
 JUNE 30, 2016
 UNAUDITED

	Coverage	Deductible
Burlington County Insurance Pool Joint Insurance Fund:		
Property, Inland Marine and Automobile Physical Damages	\$ 150,000,000	\$ 500
Boiler and Machinery	125,000,000	1,000
Crime	250,000	500
General and Automobile Liability	15,000,000	
Workers' Compensation	Statutory	
Educator's Legal Liability	15,000,000	
Pollution Legal Liability	3,000,000	25,000
Cyber Liability	1,000,000	25,000

Source: District records

Single Audit Section

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 Auditors' Report

Honorable President and
Members of the Board of Education
Mercer County Special Services School District
Hamilton, New Jersey
County of Mercer

We have audited, in accordance with the auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mercer County Special Services School District, in the County of Mercer, New Jersey (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District'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 District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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.

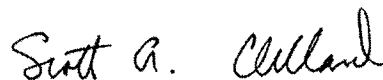
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Scott A. Clelland
Licensed Public School Accountant
No. 1049



WISS & COMPANY, LLP

November 28, 2016
Livingston, New Jersey

Report on Compliance For Each Major Federal and State Program and
Report on Internal Control Over Compliance Required by the
Uniform Guidance and New Jersey OMB 15-08

Independent Auditors' Report

Honorable President and
Members of the Board of Education
Mercer County Special Services School District
Hamilton, New Jersey
County of Mercer

Report on Compliance for Each Major Federal and State Program

We have audited the Mercer County Special Services School District's, in the County of Mercer, New Jersey (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of the District's major federal and state programs for the year ended June 30, 2016. The District's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal and state programs based on an 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; the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance); and New Jersey OMB's Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, the Uniform Guidance and New Jersey OMB Circular 15-08 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 and state program occurred.

An audit includes examining, on a test basis, evidence about the District'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 on the District's compliance.

Opinion on Each Major Federal and State Program

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

Report on Internal Control Over Compliance

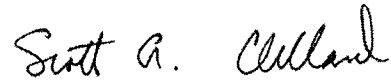
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the 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 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 District'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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 Uniform Guidance and New Jersey OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.



Scott A. Clelland
Licensed Public School Accountant
No. 1049



WISS & COMPANY, LLP

November 28, 2016
Livingston, New Jersey

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Award Identification Number	Program or Award Amount	Grant Period		Balance, June 30, 2015			Cash Received	Budgetary Expenditures	Adjustments	Repayment of Prior Year's Balances	Balance, June 30, 2016				
				From	To	Unearned Revenue	(Accounts Receivable)	Due to Grantor					(Accounts Receivable)	Unearned Revenue	Due To Grantor		
U.S. Department of Health and Human Services - Passed - Through State Department of Education:																	
General Fund:																	
Medicaid Assistance Program - SEMI Program	93.778	S1605NJ5MAP	\$ 385,930	07/01/15	06/30/16				\$ 385,930	\$ (385,930)							
Total General Fund									<u>385,930</u>	<u>(385,930)</u>							
U.S. Department of Labor - Passed - Through N.J. Department of Labor:																	
Workforce Investment Area - Out-of-School Youth	17.258	Not Available	35,000	10/01/15	09/30/16				12,232	(18,552)			\$ (6,320)				
Workforce Investment Area - Out-of-School Youth	17.258	Not Available	33,000	10/01/14	09/30/15				26,605	(16,638)							
Total Special Revenue Fund									<u>(9,967)</u>	<u>(9,967)</u>			<u>(6,320)</u>				
Enterprise Fund																	
U.S. Department of Agriculture:																	
Passed-Through State Department of Education:																	
School Breakfast Program	10.553	16161NJ304N109	127,366	07/01/15	06/30/16				104,349	(127,366)			(23,017)				
School Breakfast Program	10.553	16161NJ304N109	125,488	07/01/14	06/30/15				25,013								
National School Lunch Program	10.555	16161NJ304N109	257,440	07/01/14	06/30/15				50,778								
National School Lunch Program	10.555	16161NJ304N109	259,522	07/01/15	06/30/16				211,406	(259,522)			(48,116)				
Food Donation Program (NC)	10.555	16161NJ304N109	29,443	07/01/14	06/30/16	\$ 2,893				(2,893)							
Food Donation Program (NC)	10.555	16161NJ304N109	32,593	07/01/15	06/30/16				32,593	(31,435)							
Total Enterprise Fund						<u>2,893</u>	<u>(75,791)</u>		<u>424,139</u>	<u>(421,216)</u>			<u>(71,133)</u>	<u>1,158</u>			
Total Federal Awards						<u>\$ 2,893</u>	<u>\$ (85,758)</u>	<u>\$ -</u>	<u>\$ 848,906</u>	<u>\$ (842,336)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(77,453)</u>	<u>\$ 1,158</u>			

NC - noncash expenditures

MERCER COUNTY SPECIAL SERVICES SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

K-4
 Schedule B

Year ended June 30, 2016

State Grantor/Program Title	Grant or State Project Number	Program or Award Amount	Grant Period		Balance, June 30, 2015			Cash Received	Budgetary Expenditures	Repayments of Prior Years' Balance	Balance, June 30, 2016			Memo	
			From	To	Unearned Revenue	(Accounts Receivable)	Due to Grantor				(Accounts Receivable)	Unearned Revenue	Due To Grantor	Budgetary Receivable	Cumulative Total Expenditures
State Department of Education															
General Fund:															
On Behalf TPAF Pension and Medical Contributions	495-034-5095-001/006/007	\$ 2,637,858	07/01/15	06/30/16			\$ 2,637,858	\$ (2,637,858)							\$ (2,637,858)
Reimbursed TPAF Social Security Contributions	495-034-5094-003	1,028,496	07/01/15	06/30/16			978,058	(1,028,496)		\$ (50,438)					(1,028,496)
Reimbursed TPAF Social Security Contributions	495-034-5094-003	1,088,786	07/01/14	06/30/15	\$ (54,363)		54,363								
Total General Fund					<u>(54,363)</u>		<u>3,670,279</u>	<u>(3,666,354)</u>		<u>(50,438)</u>					<u>(3,666,354)</u>
Special Revenue Fund:															
State Department of Health															
Special Revenue Fund:															
Case Management - SCHS	4572-129-6140-2080	247,262	07/01/15	06/30/16			163,289	(247,262)		(83,973)					(247,262)
Case Management - SCHS	4572-129-6140-2080	261,127	07/01/14	06/30/15	(31,137)		31,137								
Total Special Revenue Fund					<u>(31,137)</u>		<u>194,426</u>	<u>(247,262)</u>		<u>(83,973)</u>					<u>(247,262)</u>
State Department of Agriculture															
Enterprise Fund:															
State School Lunch Program	100-010-3350-023	5,299	07/01/15	06/30/16			4,324	(5,299)		(975)					(5,299)
State School Lunch Program	100-010-3350-023	5,620	07/01/14	06/30/15	(1,220)		1,220								
Total Enterprise Fund					<u>(1,220)</u>		<u>5,544</u>	<u>(5,299)</u>		<u>(975)</u>					<u>(5,299)</u>
Capital Projects Fund:															
NJ Schools Development Authority	various	743,020	indefinite		(224,502)			(378,146)		(602,648)					(378,146)
Total Capital Projects Fund					<u>(224,502)</u>			<u>(378,146)</u>		<u>(602,648)</u>					<u>(378,146)</u>
Total State Financial Assistance							\$ -	\$ (311,222)	\$ -	\$ 3,870,249	\$ (4,297,061)	\$ -	\$ (738,034)	\$ -	\$ (4,297,061)
State Financial Assistance Not Subject to Single Audit Determination:															
On-Behalf TPAF Pension and Medical Contributions	495-034-5095-001/006/007	2,637,858	07/01/15	06/30/16			2,637,858	(2,637,858)							(2,637,858)
Total State Financial Assistance Subject to Single Audit Determination							\$ -	\$ (311,222)	\$ -	\$ 1,232,391	\$ (1,659,203)	\$ -	\$ (738,034)	\$ -	\$ (1,659,203)

The accompanying notes to schedules of expenditures of federal awards and state financial assistance are an integral part of this schedule.

Mercer County Special Services School District

Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance

Year ended June 30, 2016

1. General

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

2. Basis of Accounting

The accompanying schedules of expenditures of federal awards and state financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the enterprise fund, which are presented using the accrual basis of accounting and those recorded in the special revenue fund, which are presented using the budgetary basis of accounting. These bases of accounting are described in Note 1 to the District's basic financial statements. The information in these schedules are presented in accordance with the requirements of 2 CFR 200-*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Basic Financial Statements

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

Mercer County Special Services School District

Notes to Schedules of Expenditures of
Federal Awards and State Financial Assistance

Year ended June 30, 2016

3. Relationship to Basic Financial Statements (continued)

The general fund is presented in the accompanying schedules on the modified accrual basis of accounting with the exception of the revenue recognition of the last two state aid payments in the current 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 the last two state aid payments in the subsequent year. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis, which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. The special revenue fund also recognizes the last state aid payment in the current budget year, consistent with N.J.S.A. 18A:22-44.2.

The net adjustment to reconcile from the budgetary basis to the GAAP basis is \$1,061 for the special revenue fund. See note 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 (C-3). Federal and State award revenues are reported in the District's basic financial statements on a GAAP basis as follows:

	Federal	State	Total
General Fund	\$ 385,930	\$3,666,354	\$ 4,052,284
Special Revenue Fund	35,190	247,262	282,452
Capital Projects Fund		378,146	378,146
Food Service Enterprise Fund	421,216	5,299	426,515
Total award revenues	<u>\$842,336</u>	<u>\$ 4,297,061</u>	<u>\$ 5,139,397</u>

4. Relationship to Federal and State Financial Reports

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

Mercer County Special Services School District

Notes to Schedules of Expenditures of
Federal Awards and State Financial Assistance

June 30, 2016

5. Other

Revenues and expenditures reported under the Food Donation Program represent current year value received and current year distributions respectively. TPAF Social Security contributions represent the amount reimbursed by the State for the employer's share of social security for TPAF members for the year ended June 30, 2016.

The post retirement pension and medical benefits received on-behalf of the District for the year ended June 30, 2016 amounted to \$2,637,858. Since on-behalf post retirement pension and medical benefits are paid by the State directly, these expenditures are not subject to a single audit in accordance with New Jersey OMB Circular 15-08, however they are reported on the Schedule of Expenditures of State Financial Assistance, as directed by the funding agency.

6. Indirect Costs

The District did not use the 10% de minimis indirect cost rate.

Mercer County Special Services School District
Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2016

Part I - Summary of Auditor's Results (continued)

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified? Yes X No

Are any significant deficiencies identified? Yes X None Reported

Is any noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

Are any material weaknesses identified? Yes X No

Are any significant deficiencies identified? Yes X None Reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major federal programs:

CFDA Number(s)	FAIN Number	Name of Federal Program or Cluster
10.553/10.555	16161NJ304N109	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? X Yes No

Mercer County Special Services School District
 Schedule of Findings and Questioned Costs (continued)
 Year ended June 30, 2016

Part I - Summary of Auditor's Results (continued)

State Awards

Internal control over major state programs:

Are any material weaknesses identified? _____ Yes X No

Are any significant deficiencies identified? _____ Yes X None reported

Type of auditors' report issued on compliance for major state programs: _____ Unmodified _____

Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular 15-08? _____ Yes X No

Identification of major state programs:

GMIS/Program Number	Name of State Program or Cluster
495-034-5094-003	Reimbursed TPAF Social Security Tax

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

Auditee qualified as low-risk auditee? X Yes _____ No

Mercer County Special Services School District
Schedule of Findings and Questioned Costs (continued)

Year ended June 30, 2016

Part II – Schedule of Financial Statement Findings

No financial statement findings noted that are required to be reported under *Government Auditing Standards*.

Mercer County Special Services School District
Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2016

**Part III - 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 2 CFR 200 Section 516(a) and New Jersey Treasury Circular OMB 15-08, respectively.

Federal Award Programs

No compliance or internal control findings noted that are required to be reported in accordance with 2 CFR 200 Section 516(a).

State Award Programs

No compliance or internal control findings noted that are required to be reported in accordance with New Jersey Treasury Circular OMB 15-08.

Mercer County Special Services School District
Summary Schedule of Prior Year Audit Findings
Year ended June 30, 2016

Not Applicable