

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

of

**The Educational Services Commission of Morris County
Board of Directors
Morristown, New Jersey**

For the Fiscal Year Ended June 30, 2016

Prepared by

**The Educational Services Commission of Morris County
Board of Directors
Finance Department**

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INTRODUCTORY SECTION (Unaudited) | |
| Letter of Transmittal | 1-4 |
| Organizational Chart | 5 |
| Roster of Officials | 6 |
| Consultants and Advisors | 7 |
| FINANCIAL SECTION | |
| INDEPENDENT AUDITOR'S REPORT | |
| Independent Auditor's Report on Basic Financial Statements and Supplementary Schedules of Expenditures of Federal Awards and State Financial Assistance | 10-12 |
| REQUIRED SUPPLEMENTARY INFORMATION – PART I | |
| Management's Discussion and Analysis (Unaudited) | 14-27 |
| BASIC FINANCIAL STATEMENTS | |
| A. District – wide Financial Statements: | |
| A-1 Statement of Net Position | 30 |
| A-2 Statement of Activities | 31 |
| B. Fund Financial Statements: | |
| Governmental Funds: | |
| B-1 Balance Sheet | 34 |
| B-2 Statement of Revenues, Expenditures and Changes in Fund Balances | 35 |
| B-3 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 36 |
| Proprietary Funds: | |
| B-4 Statement of Net Position | 38 |
| B-5 Statement of Revenues, Expenses and Changes in Fund Net Position | 39 |
| B-6 Statement of Cash Flows | 40 |
| Fiduciary Funds: | |
| B-7 Statement of Fiduciary Net Position | 42 |
| B-8 Statement of Changes in Fiduciary Net Position | N/A |
| NOTES TO FINANCIAL STATEMENTS | 44-71 |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

TABLE OF CONTENTS
CONTINUED

| | <u>Page</u> |
|--|-------------|
| REQUIRED SUPPLEMENTARY INFORMATION – PART II | |
| C. Budgetary Comparison Schedules: | |
| C-1 Budgetary Comparison Schedule – General Fund | 74-76 |
| C-2 Budgetary Comparison Schedule – Special Revenue Fund | 77 |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PART II | |
| C-3 Budget to GAAP Reconciliation | 79 |
| REQUIRED SUPPLEMENTARY INFORMATION – PART III | |
| C-4 Schedule of the Commission’s Proportionate Share of Net Pension Liability – TPAF/PERS | 81 |
| C-5 Schedule of Commission Contributions - PERS | 82 |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PART III | |
| C-6 Pension Schedules | 84 |
| OTHER SUPPLEMENTARY INFORMATION | |
| D. School Level Schedules: Fund Financial Statements: | |
| D-1 Combining Balance Sheet | N/A |
| D-2 Blended Resource Fund – Schedule of Expenditures Allocated by Resource Type-Actual | N/A |
| D-3 Blended Resource Fund – Schedule of Blended Expenditures - Budget and Actual | N/A |
| E. Special Revenue Fund: | |
| E-1 Combining Schedule of Program Revenues and Expenditures - Budgetary Basis | 88-90 |
| E-2 Preschool Education Aid Schedule of Expenditures – Budgetary Basis | N/A |
| F. Capital Projects Fund: | |
| F-1 Summary Schedule of Project Expenditures | N/A |
| F-2 Schedule of Revenues, Expenditures and Change in Fund Balance | N/A |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

TABLE OF CONTENTS
CONTINUED

| | <u>Page</u> |
|---|-------------|
| OTHER SUPPLEMENTARY INFORMATION (CONTINUED) | |
| G. Proprietary Funds: | |
| Enterprise Fund: | |
| G-1 Combining Statement of Net Position | N/A |
| G-2 Combining Statement of Revenues, Expenses and Changes in Fund Net Position | N/A |
| G-3 Combining Statement of Cash Flows | N/A |
| Internal Service Fund: | |
| G-4 Combining Statement of Net Position | N/A |
| G-5 Combining Statement of Revenues, Expenses and Changes in Fund Net Position | N/A |
| G-6 Combining Statement of Cash Flows | N/A |
| H. Fiduciary Fund | |
| H-1 Combining Statement of Fiduciary Net Position | N/A |
| H-2 Combining Statement of Changes in Fiduciary Net Position | N/A |
| H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements | 96 |
| H-4 Payroll Agency Fund Schedule of Receipts and Disbursements | 97 |
| I. Long -- Term Debt | |
| I-1 Schedule of Morris County Improvement Authority Bonds | 99 |
| I-2 Schedule of Obligation Under Capital Leases | N/A |
| I-3 Debt Service Fund Budgetary Comparison Schedule | N/A |
| STATISTICAL SECTION (UNAUDITED) | |
| J. Financial Trends: | |
| J-1 Net Assets/Position by Component | 101 |
| J-2 Changes in Net Assets/Position | 102-103 |
| J-3 Fund Balances -- Governmental Funds | 104 |
| J-4 Changes in Fund Balances -- Governmental Funds | 105-106 |
| J-5 General Fund -- Other Local Revenue by Source | 107 |
| Revenue Capacity: | |
| J-6 Assessed Value and Estimated Actual Value of Taxable Property | 108 |
| J-7 Direct and Overlapping Property Tax Rates | 109 |
| J-8 Principal Property Taxpayers | 110 |
| J-9 Property Tax Levies and Collections | 111 |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

TABLE OF CONTENTS
CONCLUDED

| | <u>Page</u> |
|--|-------------|
| STATISTICAL SECTION (UNAUDITED) (CONTINUED) | |
| Debt Capacity: | |
| J-10 Ratios of Outstanding Debt by Type | 112 |
| J-11 Ratios of Net General Bonded Debt Outstanding | 113 |
| J-12 Direct and Overlapping Governmental Activities Debt as of June 30 | 114 |
| J-13 Legal Debt Margin Information | 115 |
| Demographic and Economic Information: | |
| J-14 Demographic and Economic Statistics | 116 |
| J-15 Principal Employers | 117 |
| Operating Information: | |
| J-16 Full-time Equivalent District Employees by Function/Program | 118 |
| J-17 Operating Statistics | 119 |
| J-18 School Building Information | 120 |
| J-19 Schedule of Required Maintenance for School Facilities | 121 |
| J-20 Insurance Schedule | 122 |
| SINGLE AUDIT SECTION | |
| K-1 Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards" | 124-125 |
| K-2 Independent Auditors' Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of State Financial Assistance Required by New Jersey OMB Circular Letter 15-08 | 126-128 |
| K-3 Schedule of Expenditures of Federal Awards, Schedule A | 129 |
| K-4 Schedule of Expenditures of State Financial Assistance, Schedule B | 130 |
| K-5 Notes to Schedules of Expenditures of Awards and Financial Assistance | 131-132 |
| K-6 Schedules of Findings and Questioned Costs | |
| Part 1 Summary of Auditor's Results | 133-134 |
| Part 2 Schedule of Financial Statement Findings | 135 |
| Part 3 Schedule of Federal Awards and State Financial Assistance Findings and Questioned Costs | 136 |
| K-7 Summary Schedule of Prior-Year Audit Findings and Questioned Costs as Prepared by Management | 137 |

INTRODUCTORY SECTION

EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

PO BOX 1944

MORRISTOWN, NJ 07962-1944

www.escmorris.com 973-540-8844

December 9, 2016

Honorable President and
Members of the Board of Directors
Educational Services Commission of Morris County
Morristown, New Jersey

Dear Board Members:

The comprehensive annual financial report (CAFR) of the Educational Services Commission of Morris County for the fiscal year ended June 30, 2016 is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of presentation, including all disclosures, rests with the management of the Commission. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in the manner designed to 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 Educational Services Commission of Morris County as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes this transmittal letter, the Commission's organizational chart and a list of principal officials. The financial section includes the basic financial statements and schedules, as well as the auditor's report thereon. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The Commission is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, "Audits of State and Local Governments and Non-profit Organizations", and the State Treasury Circular Letter 15-08 OMB, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid Payments". Information related to this single audit, including the auditor's report on the internal control structure and compliance with applicable laws and regulations and findings and recommendations, are included in the single audit section of this report.

1) Reporting Entity and Its Services

The Educational Services Commission of Morris County is an independent reporting agency formed by the constituent districts of Morris County within the criteria adopted by the GASB, Statement No. 14. The Commission, its schools, and programs located throughout the County of Morris, constitute the reporting entity.

The Commission provides educational services to districts in Morris County either on a cooperative or a direct service basis. These services include: Cooperative Bid Purchasing; Coordinated Public, Special and Private School Transportation; Member District Bus Leasing; Two Special Education Schools; Child Study Team Services; Shared Business Services; Professional Support Services; Health and Environmental Safety Services; Nonpublic Services: Chapters 192/193 Handicapped and Auxiliary Services, Nursing Services, Textbook Purchase and Processing, and Computer Support Services.

2) Economic Condition and Outlook

The need to develop economies of scale and cost effective measures to control spending amid sparse resources continues to create the demand for the Commission's services and cooperative activities. Our programs and requests for additional types of programs are increasing. Budgeting estimates based on the amount of business we expect to do are increasing each year. As we continue to be receptive to the needs of the districts, we expect to increase our economic condition. A sound infrastructure will enable us to take the lead in developing new and innovative strategies for cost effective programming, which relieves districts of many administrative burdens, and redirect saved resources to needed programs to enhance the quality of education for the children in the community.

3) Major Initiatives

Park Lake School has developed a new approach to instructional and therapeutic services for our students. It is hoped that the new approach will help increase student enrollment. A face-lift to the historic facility was conducted this past year to assist in upgrading the facility.

Regional Day School has undergone upgrades to its environmental control of the climate in the building to accommodate the extensive health issues of our students. The Regional Day School is scheduled for a roof replacement being performed by the Department of Education.

4) Internal Accounting Controls

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

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

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

5) Budgetary Controls

In addition to internal accounting controls, the Commission maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by Representative Assembly of the Educational Services Commission. Annual appropriated budgets are adopted for the general fund, the special revenue fund, and the debt service fund. Project-length budgets are approved for the capital improvements accounted for in the capital projects fund. The final budget amount as amended for the fiscal year is reflected in the financial section.

An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either canceled or are included as re-appropriation of fund balance in the subsequent year. Those amounts to be re-appropriated are reported as reservations of fund balance at June 30, 2016.

6) Accounting System and Reports

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

7) Debt Administration

The Commission's facility funding agreement with the Morris County Improvement Authority for the issuance of \$4.9 million in bonds to finance old debt and new construction at the Park Lake School was refinanced this year. The new refunding amount of \$2,075,000 issued will realize \$76,575.94 in overall savings for the Commission, which is funded by its fees for services. The ESC had previously retired its funding agreement with the Morris County Improvement Authority for \$1.7 million in bonds to finance busses for use by member districts to meet their transportation needs.

8) Cash Management

The investment policy of the Commission is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 2. The Commission has adopted a cash management plan, which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

9) Risk Management

The Board carries various forms of insurance, including but not limited to general liability, automobile liability and comprehensive/ collision, hazard and theft insurance on property and contents, and fidelity bonds.

10) Other Information

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of VM Associates, Inc., was selected. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of Single Audit Act Amendments of 1996 and the related Federal Uniform Guidance and State Treasury Circular Letter 15-08 OMB. The auditor's report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the single audit section of this report.

11) Acknowledgment

We would like to express our appreciation to the members of the Educational Services Commission of Morris County Board of Directors for their commitment in providing fiscal accountability to the citizens and taxpayers of Morris County and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,

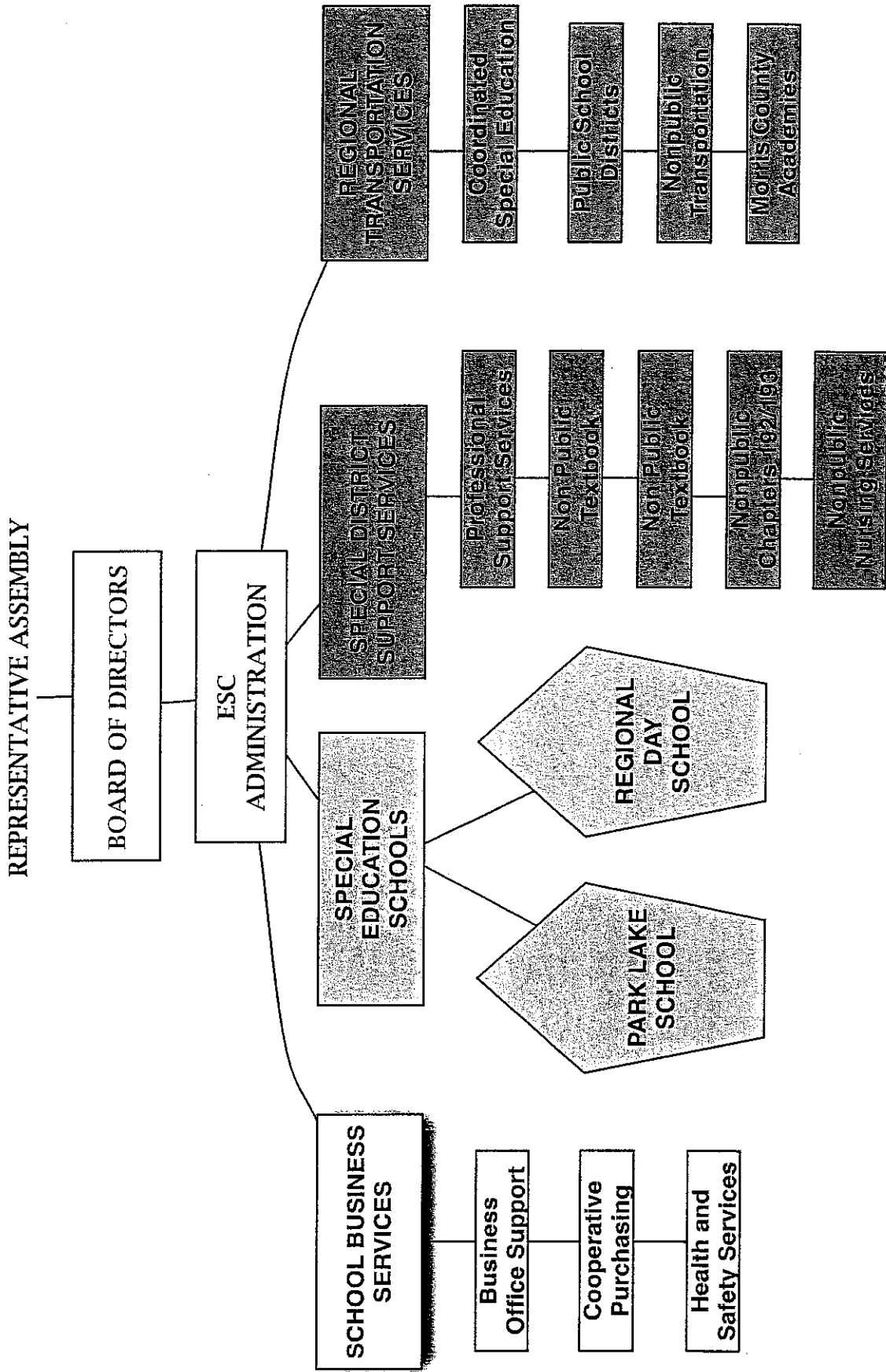


Angelo A. Vilardi
Superintendent



Catarina Bilotta
Business Administrator

EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY CHART OF PROGRAMS AND SERVICE



**Educational Services Commission of Morris County
Morristown, New Jersey**

**ROSTER OF OFFICIALS
2015-2016
Board of Directors**

| <u>Members</u> | <u>Term Expires</u> |
|--|---------------------|
| Perry Kwok, President Washinton Township Board of Education | 2016 |
| Irene LeFebvre Boonton Town Board of Education | 2016 |
| Barry Bratner Boonton Township Board of Education | 2016 |
| Alan Bocchino Dover Town Board of Education | 2016 |
| Melissa Senatore Jefferson Township Board of Education | 2016 |
| Lou Nazarro Lincoln Park Board of Education | 2016 |
| Karen Nyquist Long Hill Township Board of Education | 2016 |
| John Morella Montville Township Board of Education | 2016 |
| Michael Bertram, Vice President Morris Hill Regional Board of Education | 2016 |
| Anthony Giordano Mt. Olive Township board of Education | 2016 |
| Kenneth Wilbur Morris Plains Board of Education | 2016 |
| Terri Murphy Morris School Board of Education | 2016 |

Administrative Officials

Angelo A. Vilardi, Superintendent
Catarina Bilotta, Business Administrator/Board Secretary
Kathryn Lucas, Director of Special Services
Marci Spadafora, Principal, Park Lake School
Elaine Goodman, Principal, Regional Day School
Francis X. Romano, Transportation Director

**Educational Services Commission of Morris County
Morristown, NJ**

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Architect

Parette Somjen Architects
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT



VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

INDEPENDENT AUDITOR'S REPORT

The Honorable President and
Members of the Board of Education
Educational Services Commission of Morris County
County of Morris, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Educational Services Commission of Morris County 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.

Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Office of School Finance, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on Schedules C-1 and C-2 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 State 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

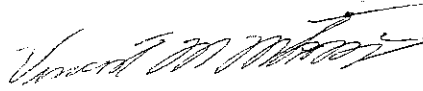
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Educational Services Commission of Morris County's basic financial statements. The accompanying supplementary information such as the combining and individual fund financial statements and Schedules of Expenditures of Federal Awards and State Financial Assistance, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Audits of States, Local Governments, and Non-Profit Organizations; and New Jersey OMB's Circular 15-08, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, and other information such as the introductory section and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and Schedules of Expenditures of Federal Awards and State Financial Assistance are the responsibility of management and were derived from and relates 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 Schedules of Expenditures of Federal Awards and State Financial Assistance are fairly stated, in all material aspects, in relation to the basic financial statements as a whole.

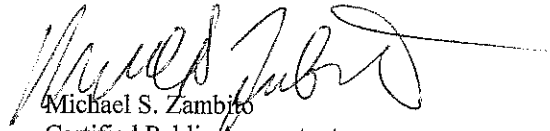
The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards and the Office of School Finance, Department of Education, State of New Jersey

In accordance with Government Auditing Standards and the Office of School Finance, Department of Education, State of New Jersey, we have also issued our report dated December 9, 2016 on our consideration of the Educational Services Commission of Morris County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and the Office of School Finance, Department of Education, State of New Jersey in considering Educational Services Commission of Morris County's internal control over financial reporting and compliance.



Vincent M. Montanino
Public School Accountant
License No. CS000495



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

December 9, 2016

**REQUIRED SUPPLEMENTARY INFORMATION -
PART I**

EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(UNAUDITED)

The discussion and analysis of the Educational Services Commission of Morris County's ("ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the transmittal letter at the front of this report and the ESC's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required and Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

Financial Highlights

- The assets of the ESC were exceeded by its liabilities at the close of the most recent fiscal year by \$(2,010,941.46) (net position) as a result of showing net pension liability of \$5,611,922.00.
- The ESC's total net position increased \$171,004.23. The increase is attributable to the transportation programs.
- General revenues accounted for \$4,325,783.31 in revenue or 13.9 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions and capital grants accounted for \$26,766,536.24 or 86.1 percent of total revenues of \$31,092,319.55.
- The ESC had \$26,450,256.64 in expenses related to governmental activities; only \$22,152,504.48 were offset by program specific charges for services, grants or contributions. General revenues (primarily tuition) of \$4,304,610.53 were adequate to provide for these programs.
- Among governmental funds, the General Fund had \$22,500,720.14 in revenues and \$22,406,046.89 in expenditures. The General Fund's fund balance increased \$73,500.47 from the June 30, 2015 fund balance. The Capital Projects Fund had no capital grants, and the Fund's fund balance decreased \$40,373.00 from the June 30, 2015, and is reserved to pay debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the ESC as a whole and present a longer-term view on the ESC's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the ESC's operation in more detail than the government-wide statements by providing information about the ESC's most financially significant funds.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the ESC's finances is "Is the ESC as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the ESC as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the ESC's *net position* and changes in them. You can think of the ESC's net position, the difference between assets and liabilities, as one way to measure the ESC's financial health, or *financial position*. Over time, *increases* or *decreases* in the ESC's net position are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the ESC's property tax base, and the condition of the ESC's capital assets to assess the overall *health* of the ESC.

In the Statement of Net Position and the Statement of Activities, we divide the ESC into two kinds of activities:

- **Governmental Activities:** Most of the ESC's basic programs and services are reported here, including general administration. Local Government fees, tuition and transportation fees finance most of these activities.
- **Business-Type Activities:** These services are provided on a charge for goods or services basis to recover the cost of the goods and services provided. The ESC's food service, Regional Day School, BOSS, and transport leasing programs are each reported as a business-type activity.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the ESC as a whole. Some funds are required to be established by State law. The ESC's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental funds: most of the ESC's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed *short-term view* of the ESC's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources than can be spent in the near future to finance the ESC's 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.

Proprietary funds: when the ESC charges customers for the full cost of the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the ESC's enterprise funds (a component of business type funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The ESC as Trustee

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or *fiduciary*, for the Student Activity and Agency Funds. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the ESC's other financial statements because the ESC cannot use these assets to finance its operations. The ESC is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Basic Financial Statements: The notes provided additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Other Information: The combining statements referred to earlier in connection with governmental funds and enterprise funds are presented immediately following the notes to the basic financial statements.

Figure A-1 summarizes the major features of the ESC's financial statements, including the portion of the ESC's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Major Features of the Educational Services Commission of Morris County's
Government-Wide and Fund Financial Statements
(Figure A-1)**

| Scope | Government wide Statements | Fund Statements | | |
|--|--|---|--|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire ESC (except fiduciary funds) | The activities of the ESC that are not proprietary or fiduciary, such as food service and student activities | Activities the ESC operates similar to private businesses; N/A | Instances in which the ESC is the trustee or agent for someone else's resources, such as payroll agency and student activities. |
| Required financial statements | Statement of net position Statement of activities | Balance sheet Statement of revenues, expenditures, and changes in fund balance | Statement of net position Statement of revenues, expenses, and changes in net position Statement of cash flows | Statement of fiduciary net position Statement of changes in fiduciary net position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets, deferred inflows/outflows and liabilities, both financial and capital, and short-term and long term. | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included. | All assets and liabilities, both financial and capital, and short-term and long-term. | All assets and liabilities, both short-term and long-term. |
| Type of inflow/outflow information | All revenues and expenses during the year, regardless of when cash is received or paid. | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter. | All revenues and expenses, regardless of when cash is received or paid. | All revenues and expenses during the year, regardless of when cash is received or paid. |

Financial Analysis of the ESC as a Whole

The ESC's *combined* net position changed from a year ago, *increasing* from \$(1.22) million to \$(1.05) million. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the ESC's governmental and business-type activities as of June 30. But since the ESC does not receive state aid, nor ad valorem taxes, the true measure of the success of the ESC operation of programs of shared services needs to be constructed using a cost efficiency business model, not available through this mandated reporting mechanism.

Table 1

Net Position

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--------------------------------------|----------------------------|--------------------------|-----------------------------|----------------------|-----------------------------|--------------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current and Other Assets | \$ 3,435,146.11 | \$ 1,804,391.66 | \$ 850,056.25 | \$ 558,766.80 | \$ 4,285,202.36 | \$ 2,363,158.46 |
| Capital Assets Not Being Depreciated | 3,667,182.62 | 3,623,475.62 | | | 3,667,182.62 | 3,623,475.62 |
| Capital Assets, Net | <u>781,330.13</u> | <u>854,738.16</u> | <u>126,788.39</u> | <u>253,576.78</u> | <u>908,118.52</u> | <u>1,108,314.94</u> |
| Total Assets | <u>7,883,658.86</u> | <u>6,282,605.44</u> | <u>976,844.64</u> | <u>812,343.58</u> | <u>8,860,503.50</u> | <u>7,094,949.02</u> |
| Deferred Outflows | <u>736,577.00</u> | <u>369,557.00</u> | | | <u>736,577.00</u> | <u>369,557.00</u> |
| Long-term Debt Outstanding | 2,199,302.34 | 2,319,021.27 | - | - | 2,199,302.34 | 2,319,021.27 |
| Other Liabilities | <u>7,209,548.98</u> | <u>4,896,317.00</u> | <u>14,759.95</u> | <u>14,404.75</u> | <u>7,224,308.93</u> | <u>4,910,721.75</u> |
| Total Liabilities | <u>9,408,851.32</u> | <u>7,215,338.27</u> | <u>14,759.95</u> | <u>14,404.75</u> | <u>9,423,611.27</u> | <u>7,229,743.02</u> |
| Deferred Inflows | <u>1,222,306.00</u> | <u>1,454,624.00</u> | | | <u>1,222,306.00</u> | |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | | | | | | |
| of Related Debt | 2,373,512.75 | 2,363,213.78 | 126,788.39 | 253,576.78 | 2,500,301.14 | 2,616,790.56 |
| Restricted | 255,254.76 | 295,627.76 | - | - | 255,254.76 | 295,627.76 |
| Unrestricted (deficit) | <u>(4,639,708.97)</u> | <u>(4,676,641.37)</u> | <u>835,296.30</u> | <u>544,362.05</u> | <u>(3,804,412.67)</u> | <u>(4,132,279.32)</u> |
| Total Net Position | <u>\$ (2,010,941.46)</u> | <u>\$ (2,017,799.83)</u> | <u>\$ 962,084.69</u> | <u>\$ 797,938.83</u> | <u>\$ (1,048,856.77)</u> | <u>\$ (1,219,861.00)</u> |

- Net position of the ESC's governmental activities increased by .34 percent.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operation without constraints established by debt covenants, enabling legislation, or other legal requirements – increased \$36,932.40.
- Restricted net position, those restricted mainly for capital projects decreased \$40,373.00.
- The investment in capital assets, net of debt category increased by \$10,298.97.

Table 2

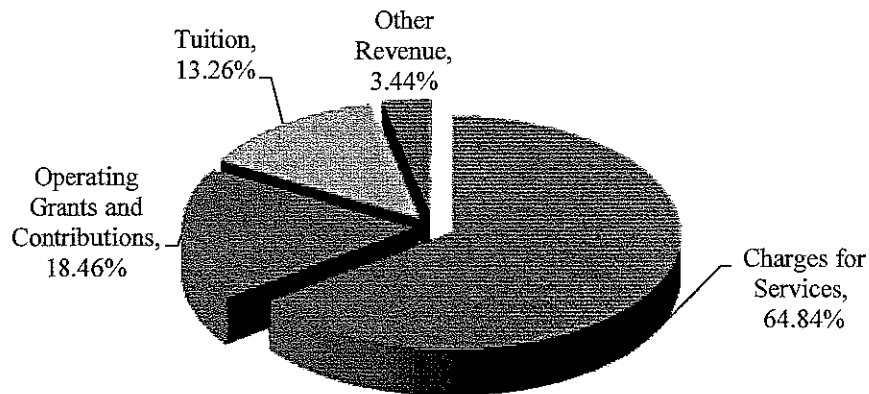
Changes in Net Position

| | Governmental | | Business-Type | | Total | |
|---|--------------------------|--------------------------|----------------------|----------------------|--------------------------|--------------------------|
| | Activities | | Activities | | Primary Government | |
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| <u>Revenues</u> | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 17,243,076.64 | \$ 17,106,950.34 | \$ 4,344,031.76 | \$ 4,562,710.04 | \$ 21,587,108.40 | \$ 21,669,660.38 |
| Operating Grants and Contributions | 4,909,427.84 | 3,268,607.11 | - | - | 4,909,427.84 | 3,268,607.11 |
| General Revenues: | | | | | | |
| Local Government Units | 933,213.68 | 1,045,638.11 | | | 933,213.68 | 1,045,638.11 |
| Tuition | 3,526,770.75 | 3,203,599.43 | | | 3,526,770.75 | 3,203,599.43 |
| Transfers | (21,172.78) | (18,937.64) | 21,172.78 | 18,937.64 | - | - |
| Interest and Investment Earnings | - | 6.21 | - | - | - | 6.21 |
| Other General Revenues | 798.88 | 514.87 | - | - | 798.88 | 514.87 |
| Total Revenues: | <u>26,592,115.01</u> | <u>24,657,282.28</u> | <u>4,365,204.54</u> | <u>4,581,647.68</u> | <u>30,957,319.55</u> | <u>29,238,929.96</u> |
| <u>Program Expenses Including Indirect Expenses</u> | | | | | | |
| Instruction: | | | | | | |
| Regular | - | - | | | - | - |
| Special | 4,017,729.73 | 3,036,153.67 | | | 4,017,729.73 | 3,036,153.67 |
| Support Services: | | | | | | |
| Student and Instruction Related Services | 3,469,025.51 | 2,992,881.45 | | | 3,469,025.51 | 2,992,881.45 |
| School Administrative Services | 554,039.44 | 357,765.84 | | | 554,039.44 | 357,765.84 |
| General & Business Administrative Services | 734,364.65 | 784,178.56 | | | 734,364.65 | 784,178.56 |
| Plant Operations and Maintenance | 427,005.09 | 394,660.08 | | | 427,005.09 | 394,660.08 |
| Pupil Transportation | 17,207,719.22 | 16,770,316.18 | | | 17,207,719.22 | 16,770,316.18 |
| Special Item-Refinancing Debt Increase | 135,000.00 | - | | | 135,000.00 | - |
| Interest on Long-Term Debt | 40,373.00 | 59,008.39 | | | 40,373.00 | 59,008.39 |
| Business-Type Activities: | | | | | | |
| Food Services | | | 50,479.51 | 50,544.36 | 50,479.51 | 50,544.36 |
| Regional Day School | | | 2,627,702.25 | 2,940,372.78 | 2,627,702.25 | 2,940,372.78 |
| BOSS | | | 347,634.25 | 414,421.27 | 347,634.25 | 414,421.27 |
| Transportation Leasing | - | - | 1,175,242.67 | 1,084,348.09 | 1,175,242.67 | 1,084,348.09 |
| Total Expenses | <u>26,585,256.64</u> | <u>24,394,964.17</u> | <u>4,201,058.68</u> | <u>4,489,686.50</u> | <u>30,786,315.32</u> | <u>28,884,650.67</u> |
| Increase in Net Position | <u>6,858.37</u> | <u>262,318.11</u> | <u>164,145.86</u> | <u>91,961.18</u> | <u>171,004.23</u> | <u>354,279.29</u> |
| Net Position-Beginning 7/1 | (2,017,799.83) | (2,280,117.94) | 797,938.83 | 705,977.65 | (1,219,861.00) | (1,574,140.29) |
| Net Position-Ending 6/30 | <u>\$ (2,010,941.46)</u> | <u>\$ (2,017,799.83)</u> | <u>\$ 962,084.69</u> | <u>\$ 797,938.83</u> | <u>\$ (1,048,856.77)</u> | <u>\$ (1,219,861.00)</u> |

Governmental Activities

Revenue Sources. The ESC's total revenue for the 2015/2016 school year was \$26,592,115.01 (See Table 2). Service charges accounted for most of the ESC's revenue, with transportation charges accounting for \$17,243,076.64 of the total, or 70.5 percent (See Figure 1). State formula aid and categorical grants accounted for 20.07 percent and the remainder was from other miscellaneous sources. The ESC primarily conducts its operations from the revenue it receives from its pupil transportation services. Revenues generated from enterprise funds which include the operation of the Regional Day School, and direct transportation with ESC vehicles is not included in this report.

Figure 1



The total cost of all programs and services was \$26,585,256.64. The ESC's expenses are predominantly related to instructing, caring for (pupil and instruction services) and transporting students (93.36 percent) (See Figure 2). The ESC's administrative and maintenance activities accounted for 6.48 percent of total costs. It is important to note that depreciation of \$73,408.03 is included in expenses for the year.

Figure 2

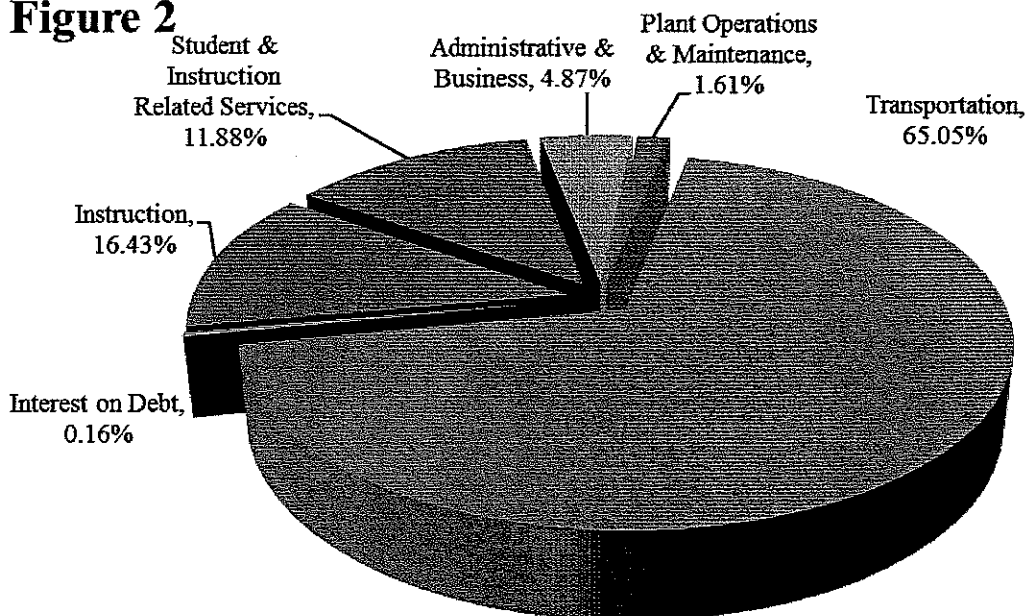


Table 3 presents the cost of the ESC’s major activities. The table also shows each activity’s net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the ESC’s taxpayers by each of these functions:

Table 3
Net Cost of Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|----------------------------------|-------------------------|-------------------------|------------------------|------------------------|
| | 2015/2016 | 2014/2015 | 2015/2016 | 2014/2015 |
| Instruction | \$ 4,017,729.73 | \$ 3,036,153.67 | \$ 432,113.57 | \$ 1,146,218.39 |
| Student and Instruction Services | 3,469,025.51 | 2,992,881.45 | 2,341,082.06 | 1,786,317.37 |
| Administrative and Business | 1,288,404.09 | 1,141,944.40 | 1,092,535.86 | 969,836.65 |
| Maintenance and Operations | 427,005.09 | 394,660.08 | 427,005.09 | 394,660.08 |
| Interest on Debt | 40,373.00 | 59,008.39 | 40,373.00 | 59,008.39 |
| Transportation | 17,207,719.22 | 16,770,316.18 | (35,357.42) | (336,634.16) |
| | <u>\$ 26,450,256.64</u> | <u>\$ 24,394,964.17</u> | <u>\$ 4,297,752.16</u> | <u>\$ 4,019,406.72</u> |

- The cost of all governmental activities this year was \$26.45 million.
- The federal and state governments subsidized certain programs with grants and contributions.
- Most of the ESC’s costs, however, were financed by pupil transportation charges (\$17.2 million).
- The remainder of governmental activities funding came from charges for services, local grants, investment earnings and miscellaneous revenue.

THE ESC'S FUNDS

The ESC uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds: The ESC's governmental fund is comprised of the general fund, special revenue fund, and capital projects fund and is accounted for using the modified accrual basis of accounting.

The focus of the ESC's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the ESC's financing requirements. The unrestricted fund balance is divided between assigned to and unassigned balances. The ESC has assigned portions of the unrestricted fund balance to earmark resources for the payment of certain government-wide liabilities that are not recognized in the governmental funds.

General Fund: The general fund is the main operating fund of the ESC. At the end of the current fiscal year, unassigned fund balance was \$1,582,264.37, and total fund balance was \$1,582,264.37

As demonstrated by the various statements, the ESC maintains a sound financial position. The information below compares revenues for 2015-2016 and 2014-2015.

Table 4

| <u>Revenues by Source:</u> | <u>2015-2016</u> | <u>2014-2015</u> | <u>% Change</u> |
|--------------------------------|-------------------------|-------------------------|-----------------|
| Local Government Units | \$ 933,213.68 | \$ 1,045,638.11 | -10.75% |
| Tuition Charges | 3,526,770.75 | 3,203,599.43 | 10.09% |
| Transportation Fees | 17,243,076.64 | 17,106,950.34 | 0.80% |
| Interest Earned to Investments | - | 6.21 | -100.00% |
| Miscellaneous | 798.88 | 51,418.72 | -98.45% |
| Total - Local Sources | 21,703,859.95 | 21,407,612.81 | 1.38% |
| State Sources | 3,124,513.38 | 2,949,628.43 | 5.93% |
| Federal Sources | 514,173.46 | 318,978.68 | 61.19% |
| Total Revenues | <u>\$ 25,342,546.79</u> | <u>\$ 24,676,219.92</u> | 2.70% |

The decrease in Local Government Units is mainly attributable to a decrease in participation.

The decrease in Miscellaneous is the result of elimination of a temporary shared service in teacher evaluations.

The increase in State Sources is a result of an increase in non public school services funding as a result of the restoration of non public technology services and the addition of non public school security services.

The increase in Federal Sources is primarily due an increase in the use of IDEA by the ESC to provide additional services to classified students attending non public school and an increase in the number of students served.

THE ESC'S FUNDS (Continued)

Governmental Activities (Continued)

The information below compares expenditures for 2015-2016 and 2014-2015:

Table 5

| <u>Expenditures by Function:</u> | <u>2015-2016</u> | <u>2014-2015</u> | <u>% Change</u> |
|--|-------------------------|-------------------------|-----------------|
| Current: | | | |
| Regular Instruction | \$ - | \$ - | 0.00% |
| Special Education | 2,417,454.77 | 2,209,934.94 | 9.39% |
| Support Services and Undistributed Costs: | | | |
| Student and Instruction Related Services | 2,587,604.60 | 2,535,354.01 | 2.06% |
| School Administrative Services | 248,749.11 | 221,231.68 | 12.44% |
| General and Business Administrative Services | 600,420.69 | 604,532.45 | -0.68% |
| Plant Operations and Maintenance | 351,302.83 | 368,985.31 | -4.79% |
| Pupil Transportation | 16,792,754.95 | 16,626,575.32 | 1.00% |
| Employee Benefits | 2,030,879.59 | 1,851,466.07 | 9.69% |
| Capital Outlay | 43,707.00 | | 100.00% |
| Debt Service: | | | |
| Principal | 175,000.00 | 170,000.00 | 0.00% |
| Interest on Long-Term Debt | 40,373.00 | 59,008.39 | 0.00% |
| Total Expenditures | <u>\$ 25,288,246.54</u> | <u>\$ 24,647,088.17</u> | 2.60% |

The Special Education Instruction expenditures increased \$207,519.83 due to IEP requirements to provide additional services for students in ESC schools.

The School Administrative Services increased \$27,517.43 due to added responsibilities assigned to supervisory personnel.

Employee Benefits increased \$179,413.52 because of an increase in health care premiums.

All other fluctuations are within the normal range of plus or minus 10% and therefore further explanation is not provided.

Business-type activities

The ESC's major Enterprise Funds consist of the Food Services, BOSS, Transportation Leasing and the Regional Day School. Revenues for the Food Service Program were comprised of charges for services. Food Service expenses exceeded revenues by \$43,092.07. Charges for food service represent \$7,387.44 of revenue, this is the amount paid by patrons for daily food service and special functions. Regional Day School expenses exceeded revenues by \$122,145.94, and charges for services represent \$2,749,848.19 of revenue. BOSS revenues exceeded expenditures by \$3,862.75, and transportation leasing revenues exceeded expenditures by \$60,056.46. Charges for BOSS and transportation leasing represent \$351,497.00 and \$1,235,299.13, respectively. The ESC received no Federal and State reimbursements for its business-type activities.

THE ESC'S FUNDS (Continued)

Business-type Activities (Continued)

The basic financial statements for the major funds are included in this report. Because the focus on business-type funds is a cost of service measurement or capital maintenance, we have included these funds in Table 6, which demonstrates return on ending assets and return on ending net position.

Table 6

| | <u>Food Service</u> | <u>Regional Day School</u> | <u>BOSS</u> | <u>Transportation Leasing</u> |
|-------------------------------|-------------------------|------------------------------------|---------------|-----------------------------------|
| Total Assets | \$ 1,243.61 | \$ (1,718.26) | \$ 219,776.95 | \$ 630,753.95 |
| Net Position | 1,243.61 | (2,073.46) | 205,372.20 | 757,542.34 |
| Change in Net Position | (266.93) | 100,493.58 | 3,862.75 | 60,056.46 |
| Return on Ending Total Assets | -21.46% | -5848.57% | 1.76% | 9.52% |
| Return on Ending Net Position | -21.46% | -4846.66% | 1.88% | 7.93% |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 7

**Capital Assets at Year-End
(Net of Depreciation)**

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Totals</u> | |
|--------------------------|------------------------------------|------------------------|-------------------------------------|----------------------|------------------------|------------------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Buildings | \$ 1,750,000.00 | \$ 1,750,000.00 | \$ - | \$ - | \$ 1,750,000.00 | \$ 1,750,000.00 |
| Machinery and Equipment | 375,161.00 | 375,161.00 | 1,410,444.88 | 1,410,444.88 | 1,785,605.88 | 1,785,605.88 |
| Construction-in-Progress | 3,667,182.62 | 3,623,475.62 | - | - | 3,667,182.62 | 3,623,475.62 |
| Subtotal | 5,792,343.62 | 5,748,636.62 | 1,410,444.88 | 1,410,444.88 | 7,202,788.50 | 7,159,081.50 |
| Accumulated Depreciation | (1,343,830.87) | (1,270,422.84) | (1,283,656.49) | (1,156,868.10) | (2,627,487.36) | (2,427,290.94) |
| Totals | <u>\$ 4,448,512.75</u> | <u>\$ 4,478,213.78</u> | <u>\$ 126,788.39</u> | <u>\$ 253,576.78</u> | <u>\$ 4,575,301.14</u> | <u>\$ 4,731,790.56</u> |

During the year the ESC had no major additions in the Governmental or Business-type Activities.

The 2016-2017 budget calls for capital outlay expenditures in the amount of \$120,000.00 to continue basic upgrades to the ESC schools detailed information about the ESC capital assets is presented in the notes to the basic financial statements.

DEBT

At year-end the ESC had total debt of \$7.81 million outstanding versus \$7.22 last year – an increase of 8.26 percent – as shown in Table 8.

Outstanding Debt, at Year-End

Table 8

| | Governmental Activities | |
|---|----------------------------|------------------------|
| | <u>2016</u> | <u>2015</u> |
| Morris County Improvement Authority Bonds | \$ 2,075,000.00 | \$ 2,115,000.00 |
| Net Pension Liability | 5,611,922.00 | 4,896,317.00 |
| Compensated Absences | 124,302.34 | 204,021.27 |
| | <u>\$ 7,811,224.34</u> | <u>\$ 7,215,338.27</u> |

The ESC continued to pay down its debt as scheduled, retiring \$175,000 of its outstanding serial bonds. The ESC’s accrued Compensated Absences decreased by \$79,718.93 from 2015 due to there being a renegotiation of administrative contracts. An analysis of ESC Debt is presented in the notes to the basic financial statements.

BUDGETS

The ESC’s budget is prepared according to New Jersey Department of Education guidelines. The most significant budgetary fund is the General Fund. Revisions in the general fund budget were made through budget transfers to prevent over commitments in specific line item accounts. These transfers were made by a resolution of the Board of Education pursuant to N.J.S.A. 18A:22-8.1.

Described below are explanations for variations in expenditures for certain lines where the modified budgeted amounts differ from the original budget by significant amounts. All other fluctuations were considered immaterial and no explanations were deemed necessary.

Revenues

The modified budget for Other Local Governmental Units decreased \$311,045.32 due to a reduction of contracted services from member districts.

The modified budget for Transportation Fees decreased \$516,638.36 due to a reduction in contracted services.

BUDGETS (Continued)

Expenditures

The modified budget for Other Support Services-Related Services- Purchased Professional-Educational Service decreased \$152,439.00 due to decline in student enrollment.

The modified budget for Contracted Services (Special Education Students) - Vendors decreased \$324,116.93 due to a decline in student enrollment.

Described below are explanations for variations in expenditures for certain lines where the modified budget amounts differ from the actual budget by significant amounts. All other fluctuations were considered immaterial and no explanations were deemed necessary.

Revenues

Revenue from Other Local Governmental Units was equal to the modified budget.

Expenditures

The actual amounts expended for Transportation – Contracted Services (Between Home and School) – Joint Agreements was less than the final budget by approximately \$129,845.64 as a result of the cancellation of routes.

FACTORS BEARING ON THE ESC'S FUTURE

In preparing the 2016-2017 budget, the primary goal of the Board was to develop a budget that would meet the ESC's educational priorities, provide accountability to the taxpaying community, and comply with the stringent restrictions placed on ESC budgets by the new legislation. This legislation put a "2% cap" on the local tax levy for the local participating districts. Being mindful of our district limitations, the ESC prepares its budgets with cost containment to recognize district limitations on revenues. During the preparation of the 2016-2017 budget, the ESC continued to exercise restraint in budgeting to assist districts in sharing services, which keep district costs contained within their budgetary guidelines.

The Board has opted to prepare its 2016-2017 budget with a 0% tax increase. The 2016-2017 unrestricted fund balance will be limited to 2% of our expenditures as per the New Jersey Department of Education regulations. Thus, it will be important to prepare a budget that will closely reflect actual expenditures since the unrestricted fund balance will not permit much flexibility. Looking ahead to the development of the 2017-2018 budget, the new budget law put into effect by the State of New Jersey Department of Education will have a significant impact. The law goes beyond the capping of revenues for the budget but it also authorizes the Executive County Superintendent to look into the budget and challenge the ESC in their expenditure decisions.

CONTACTING THE ESC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School Business Official, Catarina Bilotta, by mail: Box 1944, Morristown, NJ 07962-1944, or by phone: 973-540-8844, Extension 24, or by email: bcatarina@escmorris.com.

BASIC FINANCIAL STATEMENTS

SECTION A
DISTRICT – WIDE FINANCIAL STATEMENTS

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Statement of Net Position
June 30, 2016

| | Governmental Activities | Business-type Activities | Total |
|--------------------------------------|------------------------------------|-------------------------------------|--------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 490,879.44 | \$ 638,180.25 | \$ 1,129,059.69 |
| Receivables, Net | 2,689,011.91 | 210,632.39 | 2,899,644.30 |
| Inventory | | 1,243.61 | 1,243.61 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 255,254.76 | - | 255,254.76 |
| Capital Assets Not Being Depreciated | 3,667,182.62 | | 3,667,182.62 |
| Capital Assets, Net | <u>781,330.13</u> | <u>126,788.39</u> | <u>908,118.52</u> |
| Total Assets | <u>7,883,658.86</u> | <u>976,844.64</u> | <u>8,860,503.50</u> |
| DEFERRED OUTFLOWS | | | |
| Pension Deferred Outflows | <u>736,557.00</u> | | <u>736,557.00</u> |
| LIABILITIES | | | |
| Accounts Payable | 1,590,659.04 | - | 1,590,659.04 |
| Amount Due Other Governmental Units | 6,967.94 | 14,759.95 | 21,727.89 |
| Net Pension Liability | 5,611,922.00 | | 5,611,922.00 |
| Noncurrent Liabilities: | | | |
| Due Within One Year | 220,000.00 | - | 220,000.00 |
| Due Beyond One Year | <u>1,979,302.34</u> | <u>-</u> | <u>1,979,302.34</u> |
| Total Liabilities | <u>9,408,851.32</u> | <u>14,759.95</u> | <u>9,423,611.27</u> |
| DEFERRED INFLOWS | | | |
| Pension Deferred Inflows | <u>1,222,306.00</u> | | <u>1,222,306.00</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 2,373,512.75 | 126,788.39 | 2,500,301.14 |
| Restricted For: | | | |
| Debt Service | 255,254.76 | - | 255,254.76 |
| Unrestricted | <u>(4,639,708.97)</u> | <u>835,296.30</u> | <u>(3,804,412.67)</u> |
| Total Net Position | <u>\$ (2,010,941.46)</u> | <u>\$ 962,084.69</u> | <u>\$ (1,048,856.77)</u> |

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

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**
Statement of Activities
For the Year Ended June 30, 2016

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|-------------------------|--|--|--|-----------------------------|--------------------------|
| Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental Activities: | | | | | | |
| Instruction: | | | | | | |
| Regular | \$ 4,017,729.73 | - | - | \$ (432,113.57) | - | \$ (432,113.57) |
| Special Education | | | | | | |
| Support Services: | | | | | | |
| Student and Instruction Related Services | 3,469,025.51 | 1,127,943.45 | | (2,341,082.06) | (2,341,082.06) | (2,341,082.06) |
| School Administrative Services | 554,039.44 | 96,499.77 | | (457,539.67) | (457,539.67) | (457,539.67) |
| General and Business Administrative Services | 734,364.65 | 99,368.46 | | (634,996.19) | (634,996.19) | (634,996.19) |
| Plant Operations and Maintenance | 427,005.09 | | | (427,005.09) | (427,005.09) | (427,005.09) |
| Pupil Transportation | 17,207,719.22 | 17,243,076.64 | | 35,357.42 | 35,357.42 | 35,357.42 |
| Interest on long-term debt | 40,373.00 | - | | (40,373.00) | (40,373.00) | (40,373.00) |
| Total Governmental Activities | <u>26,450,256.64</u> | <u>17,243,076.64</u> | <u>4,909,427.84</u> | <u>(4,297,752.16)</u> | <u>(4,297,752.16)</u> | <u>(4,297,752.16)</u> |
| Business-type Activities: | | | | | | |
| Food Service | 50,479.51 | 7,387.44 | | | (43,092.07) | (43,092.07) |
| Regional Day School | 2,627,702.25 | 2,749,848.19 | | | 122,145.94 | 122,145.94 |
| BOSS | 347,634.25 | 351,497.00 | | | 3,862.75 | 3,862.75 |
| Transportation Leasing | 1,175,242.67 | 1,235,299.13 | | | 60,056.46 | 60,056.46 |
| Total Business-type Activities | <u>4,201,058.68</u> | <u>4,344,031.76</u> | <u>-</u> | <u>-</u> | <u>142,973.08</u> | <u>142,973.08</u> |
| Total Primary Government | <u>\$ 30,651,315.32</u> | <u>\$ 21,587,108.40</u> | <u>\$ 4,909,427.84</u> | <u>\$ (4,297,752.16)</u> | <u>\$ 142,973.08</u> | <u>\$ (4,154,779.08)</u> |
| General Revenues: | | | | | | |
| Local Government Units | | | | 933,213.68 | 933,213.68 | 933,213.68 |
| Tuition (Other Than Special Schools) | | | | 3,526,770.75 | 3,526,770.75 | 3,526,770.75 |
| Miscellaneous Income | | | | 798.88 | - | 798.88 |
| Special Item - Refinancing Debt Increase | | | | (135,000.00) | - | (135,000.00) |
| Transfers | | | | (21,172.78) | 21,172.78 | - |
| Total General Revenues, Special Items, Extraordinary Items and Transfers | | | | <u>4,304,610.53</u> | <u>21,172.78</u> | <u>4,325,783.31</u> |
| Change in Net Position | | | | 6,858.37 | 164,145.86 | 171,004.23 |
| Net Position—Beginning (Restated) | | | | (2,017,799.83) | 797,938.83 | (1,219,861.00) |
| Net Position—Ending | | | | <u>\$ (2,010,941.46)</u> | <u>\$ 962,084.69</u> | <u>\$ (1,048,856.77)</u> |

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

SECTION B
FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Balance Sheet
Governmental Funds
June 30, 2016**

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|-------------------------------------|--------------------------------------|---|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 873,051.03 | \$ (382,177.80) | \$ 6.21 | \$ 490,879.44 |
| Interfunds Receivable | 6.21 | | | 6.21 |
| Receivables from Other Governments | 114,881.92 | 382,177.80 | | 497,059.72 |
| Tuition Receivable | 136,691.73 | | | 136,691.73 |
| Transportation Fees Receivable | 2,055,260.46 | - | | 2,055,260.46 |
| Restricted Cash and Cash Equivalents | - | - | 255,254.76 | 255,254.76 |
| Total Assets | <u>\$ 3,179,891.35</u> | <u>\$ -</u> | <u>\$ 255,260.97</u> | <u>\$ 3,435,152.32</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 1,590,659.04 | \$ - | \$ - | \$ 1,590,659.04 |
| Interfunds Payable | - | - | 6.21 | 6.21 |
| Amount Due Other Governmental Units | 6,967.94 | - | - | 6,967.94 |
| Total Liabilities | <u>1,597,626.98</u> | <u>-</u> | <u>6.21</u> | <u>1,597,633.19</u> |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Debt Service | | | 255,254.76 | 255,254.76 |
| Unreserved, Reported in: | | | | |
| General Fund | 1,582,264.37 | - | - | 1,582,264.37 |
| Total Fund Balances | <u>1,582,264.37</u> | <u>-</u> | <u>255,254.76</u> | <u>1,837,519.13</u> |
| Total Liabilities and Fund Balances | <u>\$ 3,179,891.35</u> | <u>\$ -</u> | <u>\$ 255,260.97</u> | |

Amounts reported for *governmental activities* in the statement of net position (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$5,792,343.62 and the accumulated depreciation is \$1,343,830.87. 4,448,512.75

Deferred Outflows related to pension contributions subsequent to the Net Pension Liability measurement date and other deferred items are not current financial resources and therefore are not reported in the fund statements. 736,557.00

Deferred Inflows related to pension actuarial gains from experience and differences in actual returns and assumed returns and other deferred items are not reported as liabilities in the fund statements. (1,222,306.00)

Long-term liabilities, including bonds payable and net pension liability are not due and payable in the current period and therefore are not reported as liabilities in the funds. (7,811,224.34)

Net position of governmental activities \$ (2,010,941.46)

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

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Statement of Revenues, Expenditures, And Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|-------------------------------------|--------------------------------------|---|
| REVENUES | | | | |
| Local Sources: | | | | |
| Local Government Units | \$ 933,213.68 | \$ - | \$ - | \$ 933,213.68 |
| Tuition Charges | 3,526,770.75 | | | 3,526,770.75 |
| Transportation Fees | 17,243,076.64 | | | 17,243,076.64 |
| Miscellaneous | <u>798.88</u> | <u>-</u> | <u>-</u> | <u>798.88</u> |
| Total - Local sources | 21,703,859.95 | - | - | 21,703,859.95 |
| State Sources | 796,860.19 | 2,327,653.19 | | 3,124,513.38 |
| Federal Sources | <u>-</u> | <u>514,173.46</u> | <u>-</u> | <u>514,173.46</u> |
| Total Revenues | <u>22,500,720.14</u> | <u>2,841,826.65</u> | <u>-</u> | <u>25,342,546.79</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Special Education Instruction | 1,458,883.75 | 958,571.02 | | 2,417,454.77 |
| Support Services and Undistributed Costs: | | | | |
| Student and Instruction Related Services | 853,051.62 | 1,734,552.98 | | 2,587,604.60 |
| School Administrative Services | 248,749.11 | | | 248,749.11 |
| General and Business Administrative Services | 600,420.69 | | | 600,420.69 |
| Plant Operations and Maintenance | 351,302.83 | | | 351,302.83 |
| Pupil Transportation | 16,792,754.95 | | | 16,792,754.95 |
| Unallocated Benefits | 1,882,176.94 | 148,702.65 | | 2,030,879.59 |
| Capital Outlay | <u>218,707.00</u> | <u>-</u> | <u>-</u> | <u>218,707.00</u> |
| Debt Service: | | | | |
| Principal | | | | - |
| Interest | <u>-</u> | <u>-</u> | <u>40,373.00</u> | <u>40,373.00</u> |
| Total Expenditures | <u>22,406,046.89</u> | <u>2,841,826.65</u> | <u>40,373.00</u> | <u>25,288,246.54</u> |
| Excess (Deficiency) of Revenues | | | | |
| Over Expenditures | <u>94,673.25</u> | <u>-</u> | <u>(40,373.00)</u> | <u>54,300.25</u> |
| OTHER FINANCING SOURCES AND (USES) | | | | |
| Transfers (Out) | <u>(21,172.78)</u> | <u>-</u> | | <u>(21,172.78)</u> |
| Total Other Financing Sources and (Uses) | <u>(21,172.78)</u> | <u>-</u> | <u>-</u> | <u>(21,172.78)</u> |
| Net Change in Fund Balances | 73,500.47 | - | (40,373.00) | 33,127.47 |
| Fund Balance—July 1 | <u>1,508,763.90</u> | <u>-</u> | <u>295,627.76</u> | <u>1,804,391.66</u> |
| Fund Balance—June 30 | <u>\$ 1,582,264.37</u> | <u>\$ -</u> | <u>\$ 255,254.76</u> | <u>\$ 1,837,519.13</u> |

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

BOARD OF EDUCATION
 THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2016

Total net change in fund balances - governmental funds (from B-2) \$ 33,127.47

Amounts reported for governmental activities in the statement of activities (A-2) are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlays exceeded depreciation in the period.

| | | | |
|--|----------------------|------------------|-------------|
| | Depreciation expense | \$ (73,408.03) | |
| | Capital outlays | <u>43,707.00</u> | |
| | | | (29,701.03) |

Pension contributions are reported in governmental funds as expenditures. However in the statement of activities, the contributions are adjusted for actuarial valuation adjustments, including service and interest costs, administrative costs, investment returns and experience or assumptions.

This is the amount by which net pension liability and deferred inflows/outflows related to pension changed during the period.

(116,287.00)

Repayment of debt principal is an expenditure 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.

175,000.00

Proceeds from debt issues are a financing source in the governmental funds. They are not revenue in the statement of activities; issuing debt increases long-term liabilities in the statement of net assets.

| | | | |
|--|----------------------------|--|--------------|
| | Proceeds of long-term debt | | (135,000.00) |
|--|----------------------------|--|--------------|

In the statement of activities, certain operating expenses, e.g., compensated absences (vacations and unused 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 reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition in the reconciliation (+).

79,718.93

Change in net position of governmental activities

\$ 6,858.37

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

PROPRIETARY FUNDS

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Statement of Net Position
Proprietary Funds
June 30, 2016

| | Business-type Activities - Enterprise Funds | | | | | <u>Totals</u> |
|-------------------------------------|--|----------------------|---------------------------------|----------------------|-----------------------------------|----------------------|
| | <u>Regional Day</u> | | <u>Food Service ESC</u> | <u>BOSS</u> | <u>Transportation Leasing</u> | |
| | <u>Food Service</u> | <u>Operating</u> | | | | |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ - | \$ (68,543.00) | \$ - | \$ 219,776.95 | \$ 486,946.30 | \$ 638,180.25 |
| Accounts Receivable | - | 66,824.74 | - | - | 143,807.65 | 210,632.39 |
| Inventories | 590.85 | - | 652.76 | - | - | 1,243.61 |
| Total Current Assets | <u>590.85</u> | <u>(1,718.26)</u> | <u>652.76</u> | <u>219,776.95</u> | <u>630,753.95</u> | <u>850,056.25</u> |
| Noncurrent Assets: | | | | | | |
| Furniture, Machinery and Equipment | - | 6,436.46 | 5,772.00 | - | 1,398,236.42 | 1,410,444.88 |
| Less Accumulated Depreciation | - | (6,436.46) | (5,772.00) | - | (1,271,448.03) | (1,283,656.49) |
| Total Noncurrent Assets | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>126,788.39</u> | <u>126,788.39</u> |
| Total Assets | <u>590.85</u> | <u>(1,718.26)</u> | <u>652.76</u> | <u>219,776.95</u> | <u>757,542.34</u> | <u>976,844.64</u> |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Amount Due Other Governmental Units | - | 355.20 | - | 14,404.75 | - | 14,759.95 |
| Total Current Liabilities | <u>-</u> | <u>355.20</u> | <u>-</u> | <u>14,404.75</u> | <u>-</u> | <u>14,759.95</u> |
| NET POSITION | | | | | | |
| Net Investment in Capital Assets | | | | | 126,788.39 | 126,788.39 |
| Unrestricted | 590.85 | (2,073.46) | 652.76 | 205,372.20 | 630,753.95 | 835,296.30 |
| Total Net Position | <u>\$ 590.85</u> | <u>\$ (2,073.46)</u> | <u>\$ 652.76</u> | <u>\$ 205,372.20</u> | <u>\$ 757,542.34</u> | <u>\$ 962,084.69</u> |

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

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016

**Business-type Activities -
Enterprise Funds**

| | <u>Regional Day</u> | | <u>Food Service</u> | | <u>BOSS</u> | <u>Transportation Leasing</u> | | <u>Totals</u> |
|---|---------------------|----------------------|---------------------|--------------------|----------------------|-------------------------------|----------------------|----------------------|
| | <u>Food Service</u> | <u>Operating</u> | <u>ESC</u> | <u>BOSS</u> | | <u>Leasing</u> | <u>Leasing</u> | |
| Operating Revenues: | | | | | | | | |
| Charges for Services: | | | | | | | | |
| Daily Sales - Non-reimbursable Programs | \$ 2,059.72 | - | \$ 5,327.72 | - | - | - | - | \$ 7,387.44 |
| Program Fees | - | 2,749,848.19 | - | - | 351,497.00 | - | - | 4,336,644.32 |
| Total Operating Revenues | <u>2,059.72</u> | <u>2,749,848.19</u> | <u>5,327.72</u> | <u>5,327.72</u> | <u>351,497.00</u> | <u>1,235,299.13</u> | <u>1,235,299.13</u> | <u>4,344,031.76</u> |
| Operating Expenses: | | | | | | | | |
| Cost of Sales | 8,153.39 | - | 10,346.40 | - | - | - | - | 18,499.79 |
| Salaries | 8,413.18 | 1,633,068.59 | 8,413.18 | - | 54,721.55 | - | - | 2,244,449.76 |
| Employee Benefits | 1,296.60 | 560,836.86 | 1,296.61 | - | - | - | - | 774,116.55 |
| Purchased Property Service | 5,000.00 | 153,053.68 | 5,000.00 | - | 82,058.70 | - | - | 10,000.00 |
| Other Purchased Professional Services | - | 75,380.06 | - | - | - | - | - | 237,807.38 |
| Cleaning, Repair and Maintenance Services | - | - | - | - | - | - | - | 153,040.31 |
| Rentals | - | - | - | - | - | - | - | 91,428.27 |
| Other Purchased Services | 1,240.18 | 71,218.42 | 1,280.15 | - | 210,854.00 | - | - | 289,999.39 |
| Utilities | - | 80,973.95 | - | - | - | - | - | 86,521.99 |
| General Supplies | - | 25,676.77 | - | - | - | - | - | 131,183.38 |
| Miscellaneous Expenditures | 16.00 | 27,493.92 | 23.82 | - | - | - | - | 37,223.47 |
| Depreciation | - | - | - | - | - | - | - | 126,788.39 |
| Total Operating Expenses | <u>24,119.35</u> | <u>2,627,702.25</u> | <u>26,360.16</u> | <u>26,360.16</u> | <u>347,634.25</u> | <u>1,175,242.67</u> | <u>1,175,242.67</u> | <u>4,201,058.68</u> |
| Operating Income (Loss) | <u>(22,059.63)</u> | <u>122,145.94</u> | <u>(21,032.44)</u> | <u>(21,032.44)</u> | <u>3,862.75</u> | <u>60,056.46</u> | <u>60,056.46</u> | <u>142,973.08</u> |
| Transfers In (Out) | 21,652.36 | (21,652.36) | 21,172.78 | - | - | - | - | 21,172.78 |
| Change in Net Position | (407.27) | 100,493.58 | 140.34 | - | 3,862.75 | - | - | 164,145.86 |
| Total Net Position—Beginning | 998.12 | (102,567.04) | 512.42 | - | 201,509.45 | - | - | 797,938.83 |
| Total Net Position—Ending | <u>\$ 590.85</u> | <u>\$ (2,073.46)</u> | <u>\$ 652.76</u> | <u>\$ 652.76</u> | <u>\$ 205,372.20</u> | <u>\$ 757,542.34</u> | <u>\$ 757,542.34</u> | <u>\$ 962,084.69</u> |

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

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2016

| | Business-type Activities - Enterprise Funds | | | | | |
|---|---|-----------------|----------------|---------------|-----------------|-----------------|
| | Regional Day | | Food Service | | Transportation | |
| | Food Service | Operating | ESC | BOSS | Leasing | Totals |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Receipts From Customers | \$ 2,059.72 | \$ 2,757,855.32 | \$ 5,327.72 | \$ 351,497.00 | \$ 1,241,552.48 | \$ 4,358,292.24 |
| Payments To Employees | (8,413.18) | (1,633,068.59) | (8,413.18) | (54,721.55) | (539,833.26) | (2,244,449.76) |
| Payments For Employee Benefits | (1,296.60) | (560,836.86) | (1,296.61) | - | (210,686.48) | (774,116.55) |
| Payments To Suppliers | (14,002.30) | (433,796.80) | (16,790.71) | (292,912.70) | (297,934.54) | (1,055,437.05) |
| Net Cash Provided By (Used For) Operating Activities | (21,652.36) | 130,153.07 | (21,172.78) | 3,862.75 | 193,098.20 | 284,288.88 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Operating Subsidies and Transfers To/From Other Funds | 21,652.36 | (21,652.36) | 21,172.78 | | | 21,172.78 |
| Net Cash Provided By (Used For) Non-capital Financing Activities | 21,652.36 | (21,652.36) | 21,172.78 | | | 21,172.78 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | - | 108,500.71 | - | 3,862.75 | 193,098.20 | 305,461.66 |
| Balances—Beginning of Year | - | (177,043.71) | - | 215,914.20 | 293,848.10 | 332,718.59 |
| Balances—End of Year | - | \$ (68,543.00) | - | \$ 219,776.95 | \$ 486,946.30 | \$ 638,180.25 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities: | | | | | | |
| Operating Income (Loss) | \$ (22,059.63) | \$ 122,145.94 | \$ (21,032.44) | \$ 3,862.75 | \$ 60,056.46 | \$ 142,973.08 |
| Adjustments To Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities: | | | | | | |
| Depreciation and Net Amortization | - | - | - | - | 126,788.39 | 126,788.39 |
| (Increase) Decrease in Accounts Receivable | - | 7,651.93 | - | - | 6,253.35 | 13,905.28 |
| (Increase) Decrease in Inventories | 407.27 | - | (140.34) | - | - | 266.93 |
| Increase (Decrease) in Accounts Payable | - | 355.20 | - | - | - | 355.20 |
| Total Adjustments | 407.27 | 8,007.13 | (140.34) | - | 133,041.74 | 141,315.80 |
| Net Cash Provided By (Used For) Operating Activities | (21,652.36) | 130,153.07 | (21,172.78) | 3,862.75 | 193,098.20 | 284,288.88 |

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

FIDUCIARY FUNDS

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

| | <u>Agency Fund</u> |
|-------------------------------------|-------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ <u>936.42</u> |
| Total Assets | \$ <u>936.42</u> |
| LIABILITIES | |
| Payable to Student Groups | \$ 936.42 |
| Payroll Deductions and Withholdings | - |
| Total Liabilities | \$ <u>936.42</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Board of Education (Board) of the Educational Services Commission of Morris County (Commission) have been prepared in conformity with generally accepted accounting principles (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. In its accounting and financial reporting, the Commission follows the pronouncements of the Governmental Accounting Standards Board (GASB). The more significant accounting policies established in GAAP and used by the Commission are discussed below.

B. Reporting Entity

The Educational Services Commission of Morris County 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 Commission. A superintendent is appointed by the Board and is responsible for the administrative control of the Commission.

Governmental Accounting Standards Board publication, Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. In addition, certain legally separate; tax exempt entities that meet specific criteria (i.e. benefit of economic resources, access/entitlement to economic resources, and significance) should be included in the financial reporting entity. The combined financial statements include all funds of the Commission over which the Board exercises operating control. The operations of the Commission include a special education and alternative school located in Morristown. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the Commission is not includable in any other reporting entity on the basis of such criteria.

C. Basic Financial Statements- Government-Wide Statements

The statement of net position and the statement of activities display information about the Commission. These statements include the financial activities of the Commission, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses are allocated to the functions using an appropriate allocation method or association with the specific function. Indirect expenses include health benefits, employer's share of payroll taxes, compensated absences and tuition reimbursements.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

C. Basic Financial Statements- Government-Wide Statements (Continued)

Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each government function or business segment is self-financing or draws from the general revenues of the Commission.

D. Basic Financial Statements- Fund Financial Statements

The financial transactions of the Commission are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Commission:

Governmental Fund Types

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Commission:

General Fund – The general fund is the general operating fund of the Commission. It 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 noninstructional equipment which are classified in the Capital Outlay subfund.

As required by the New Jersey State Department of Education, the Commission includes budgeted Capital Outlay in this fund. Generally accepted accounting principles as they pertain to governmental entities state that General Fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid, district taxes and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to Current Expense by board resolution.

Special Revenue Fund – The Special Fund is used to account for the proceeds of specific revenue from State and Federal Government, (other than major capital projects, Debt Service or the Enterprise Funds) and local appropriations that are legally restricted to expenditures for specified purposes.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The financial resources are derived from temporary notes or serial bonds that are specially authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

D. Basic Financial Statements- Fund Financial Statements (Continued)

Proprietary Fund Type

The focus of Proprietary Fund measurement is upon determination of net income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Funds of the Commission:

Enterprise Funds – The Enterprise Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the Commission is that the costs (i.e. expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis be financed or recovered primarily through user charges; or, where the Commission has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, and use it consistently from period to period. Transactions for which cash flows are reported as capital and related financing activities, non capital financing activities, or investing activities normally would not be reported as components of operating income.

The Commission's Enterprise Funds are comprised of the Food Service Fund, Regional Day School, BOSS and Transportation Leasing operations.

Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| | |
|--------------------|----------|
| Food Service Fund: | |
| Equipment | 12 Years |

| | |
|-------------------------|----------|
| Transportation Leasing: | |
| Vehicles | 12 Years |

In its accounting and financial reporting, the Commission follows the pronouncements of the GASB and the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor organizations issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Commission's business-type activities and enterprise funds have elected not to apply the standards issued by the FASB after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements, however, interfund services provided and used are not eliminated in the process of consolidation.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

D. Basic Financial Statements- Fund Financial Statements (Continued)

Proprietary Fund Type (Continued)

Amounts reported as program revenues include (1) 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 program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission enterprise funds are charges for daily sales of food, special functions and miscellaneous receipts. Operating expenses for proprietary funds 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.

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Commission programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expense of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

The Commission's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

In accordance with GASB Statement 34, fiduciary funds are not included in the government-wide financial statements.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

E. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, grants entitlements and donations.

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

F. 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. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. All budget amendments must be approved by School Board resolution. The significant budget transfers and amendments approved in the school year are presented on Exhibit C-1. For the year ended June 30, 2016, there were no expenditures that exceeded appropriations in the General Fund.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles with the exception of legally mandated revenue recognition of the last state aid payment for budgetary purposes only and 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.

The special revenue fund had no encumbrances at June 30, 2016.

The reconciliation of the general and special revenue funds from the budgetary basis of accounting to the GAAP basis of accounting is presented on Exhibit C-3.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be Investments. U.S. Treasury and Agency Obligations and Certificates of Deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey School Commissions 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 Commissions.

Additionally, the Commission has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey.

2. Short – term Interfund Receivables/Payables

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

3. Inventories

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

Enterprise fund inventories are valued at cost, which approximates market, using the first-in-first-out (FIFO) method.

4. Capital Assets

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on the following assets is provided on the straight – line basis over the following estimated useful lives:

| | |
|-------------------------|-------------|
| Buildings | 20-50 years |
| Machinery and Equipment | 5-10 years |
| Land Improvements | 10-20 years |
| Other Infrastructure | 10-50 years |

Land and Construction in Progress are not depreciated.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity (Continued)

4. Capital Assets (Continued)

GASBS No. 34 requires the Commission to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, parking lots, underground pipe, etc. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The Commission has included all infrastructure assets in the current fiscal year.

5. Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. 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 Commission and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the Commission and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

In governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for the compensated absences. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government – wide presentations. (See Note VII)

6. Unearned Revenue

Unearned revenue in the special revenue fund represents cash which has been received but not yet earned. See Note I (F) regarding the special revenue fund.

7. Long – term Obligations

Long – term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the capital projects fund for payment early in the following year. For other long – term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government – wide presentations.

8. Fund Equity

Contributed capital represents the amount of fund capital contributed to the proprietary funds from other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent plans for future use of financial resources.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity (Continued)

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates

10. Net Position/Fund Balance

The Commission implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the current fiscal year. This statement defines net position as the residual of all other elements presented in statement of financial position. It is the difference between (1) assets and deferred outflows of resources and (2) liabilities and deferred inflows of resources. This Statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities.

In the Government-Wide Statements, there are three classes of net position:

Net Investment in Capital Assets-Consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets or related debt also should be included.

Restricted Net Position- reports net position when constraints placed on the residual amount of noncapital assets are either imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position- any portion of net position not already classified as either net investment in capital assets or net position-restricted.

H. Fund Balance Reserves

The Commission elected to implement GASB No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable-includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted- includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed- includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Board of Education, the Commission's highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of Education.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

H. Fund Balance Reserves (Continued)

Assigned- includes amounts that the Commission intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.

Unassigned- includes amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund. The Commission reports all amounts that meet the unrestricted General Fund Balance Policy described below as unassigned:

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Commission considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

I. Recent Accounting Pronouncements

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

GASB 72, "*Fair Value Measurement and Application*", will be effective beginning with the fiscal year ending June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", will be effective beginning with the fiscal year ending June 30, 2016. The objective of this Statement is to identify- in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

I. Recent Accounting Pronouncements (Continued)

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

GASB 73, "Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.

GASB 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB 82, "Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to address certain issues that have been raised with respect to the aforementioned Statements and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note II: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund, or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

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 Governmental Unit Deposit Protection Act (G.U.D.P.A.). 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.

At June 30, 2016 the Educational Services Commission of Morris County's cash and cash equivalents amounted to \$3,325,026.37. Of this amount, \$250,000.00 was covered by federal depository insurance (F.D.I.C.) and \$2,819,765.40 was covered by a collateral pool maintained by the banks as required by GUDPA. The amount of \$255,260.97 was on deposit with the Bank of New York Trust Department. The portfolio of the investment company is limited to bonds, certain repurchase agreements or other obligations of, or guaranteed by the United States of America.

At June 30, 2016 the Educational Services Commission of Morris County's did not participate in the State of New Jersey Cash Management Fund.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Educational Services Commission of Morris County will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party.

As of June 30, 2016 \$255,260.97 of the Educational Services Commission cash and cash equivalents of \$3,325,026.37 was exposed to custodial credit risk.

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

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note II: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 18A:20-37) permit the Educational Services Commission of Morris County to purchase the following types of securities:

a. When authorized by resolution adopted by a majority vote of all its members the board of education of any Commission may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the Commission;

(1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

(2) Government money market mutual funds;

(3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

(4) Bonds or other obligations of the Commission or bonds or other obligations of local unit or units within which the Commission is located;

(5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by Commission;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or

(8) Agreements for the repurchase of fully collateralized securities, if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;

(b) the custody of collateral is transferred to a third party;

(c) the maturity of the agreement is not more than 30 days;

(d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

The Educational Services Commission of Morris County had no investments as described in Note I:G.1 at June 30, 2016.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note II: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments (Continued)

Custodial Credit Risk: Pursuant to GASB 40, the Commission did not have any investments that were exposed to custodial credit risk. The Commission does not have a policy for custodial credit risk.

Credit Risk: The Commission does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosures 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. The Commission did not have any investments at June 30, 2016.

Interest Rate Risk: The Commission does not have a policy to limit interest rate risk. The Commission did not have any investments at June 30, 2016.

Concentration of Credit Risk: The Commission places no limit on the amount the Commission may invest in any one issuer. The Commission did not have any investments at June 30, 2016.

B. Interfund Receivables and Payables

As of June 30, 2016, interfund receivables and payables resulting from various interfund transactions were as follows:

| | <u>Due from Other Funds</u> | <u>Due to Other Funds</u> |
|-----------------------|---------------------------------|-------------------------------|
| General Fund | \$6.21 | \$ |
| Capital Projects Fund | <u>0.00</u> | <u>6.21</u> |
| | <u>\$6.21</u> | <u>\$6.21</u> |

New Jersey statute requires that interest earned on the investments in capital projects fund be credited to the general fund or debt service based on Board resolution. The Board had accrued interest as of June 30, 2016 in the amount of \$6.21. Accordingly, an interfund accounts receivable and payable for \$6.21 was established in the general fund and capital projects funds, respectively.

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BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note II: Detailed Disclosure Regarding Assets and Revenues (Continued)

C. Capital Assets

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirement</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------------|-------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Construction in Progress | \$ 3,623,475.62 | \$ 43,707.00 | \$ - | \$ 3,667,182.62 |
| Total Capital Assets Not Being Depreciated | <u>3,623,475.62</u> | <u>43,707.00</u> | <u>-</u> | <u>3,667,182.62</u> |
| Buildings and Improvements | 1,750,000.00 | - | - | 1,750,000.00 |
| Machinery and Equipment | <u>375,161.00</u> | <u>-</u> | <u>-</u> | <u>375,161.00</u> |
| Totals at Historical Cost | <u>2,125,161.00</u> | <u>-</u> | <u>-</u> | <u>2,125,161.00</u> |
| Less Accumulated Depreciation For: | | | | |
| Buildings and Improvements | (803,750.00) | (43,750.00) | - | (847,500.00) |
| Machinery and Equipment | <u>(466,672.84)</u> | <u>(29,658.03)</u> | <u>-</u> | <u>(496,330.87)</u> |
| Total Accumulated Depreciation | <u>(1,270,422.84)</u> | <u>(73,408.03) (1)</u> | <u>-</u> | <u>(1,343,830.87)</u> |
| Net Capital Assets Being Depreciated | <u>854,738.16</u> | <u>(73,408.03)</u> | <u>-</u> | <u>781,330.13</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 4,478,213.78</u> | <u>\$ (29,701.03)</u> | <u>\$ -</u> | <u>\$ 4,448,512.75</u> |
| Business - Type Activities: | | | | |
| Equipment | \$ 1,410,444.88 | \$ - | \$ - | \$ 1,410,444.88 |
| Less Accumulated Depreciation | <u>(1,156,868.10)</u> | <u>(126,788.39)</u> | <u>-</u> | <u>(1,283,656.49)</u> |
| Business - Type Activities Capital Assets, Net | <u>\$ 253,576.78</u> | <u>\$ (126,788.39)</u> | <u>\$ -</u> | <u>\$ 126,788.39</u> |

(1) Depreciation expense was charged to governmental functions as follows:

| | |
|--|---------------------|
| Special Education | \$ 46,562.40 |
| General and Business Administrative Services | <u>26,845.63</u> |
| | <u>\$ 73,408.03</u> |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note III: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Operating Leases

The District has commitments to lease telephone and postage equipment under operating leases which expire in 2018-2019. Total operating lease payments made during the year ended June 30, 2016 were \$7,460.64.

| <u>Year Ended</u> | <u>Amount</u> |
|-------------------------------------|---------------------|
| June 30, 2017 | \$ 7,460.64 |
| June 30, 2018 | 7,460.64 |
| June 30, 2019 | <u>2,939.67</u> |
| Total future minimum lease payments | <u>\$ 17,860.95</u> |

B. Long - Term Liabilities

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|---|------------------------------|----------------------|-------------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| Other Liabilities: | | | | | |
| Compensated Absences | \$ 204,021.27 | \$ 1,100.00 | \$ (80,818.93) | \$ 124,302.34 | \$ - |
| Morris County Improvement Authority Bonds | 2,115,000.00 | 135,000.00 | (175,000.00) | 2,075,000.00 | 220,000.00 |
| Net Pension Liability | <u>4,896,317.00</u> | <u>715,605.00</u> | <u>-</u> | <u>5,611,922.00</u> | <u>-</u> |
| Total Other Liabilities | <u>7,215,338.27</u> | <u>851,705.00</u> | <u>(255,818.93) (1)</u> | <u>7,811,224.34</u> | <u>220,000.00</u> |
| Governmental Activities | | | | | |
| Long - term Liabilities | <u>\$ 7,215,338.27</u> | <u>\$ 851,705.00</u> | <u>\$ (255,818.93)</u> | <u>\$ 7,811,224.34</u> | <u>\$ 220,000.00</u> |

(1) Paid by General Fund

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note III: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

B. Long – Term Liabilities (Continued)

1. Bonds Payable

Bonds are authorized in accordance with State law by the voters of the municipality through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Board are general obligation bonds.

Lease Purchase Bonds through the Morris County Improvement Authority outstanding as of June 30, 2016 consisted of the following:

GOVERNMENTAL ACTIVITIES

| <u>Description</u> | <u>Interest Rate</u> | <u>Due Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|--------------------------------------|----------------------|-----------------|----------------------|----------------------|---------------------------|
| Morris County ESC Project(Refunding) | 2.09% | 10/1/16 | 10/1/24 | \$2,075,000.00 | \$2,075,000.00 |

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

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-----------------------|----------------------|-----------------------|
| 2017 | \$ 220,000.00 | \$ 41,068.50 | \$ 261,068.50 |
| 2018 | 215,000.00 | 36,522.75 | 251,522.75 |
| 2019 | 220,000.00 | 31,977.00 | 251,977.00 |
| 2020 | 225,000.00 | 27,326.75 | 252,326.75 |
| 2021 | 230,000.00 | 22,572.00 | 252,572.00 |
| 2022 | 235,000.00 | 17,712.75 | 252,712.75 |
| 2023 | 240,000.00 | 12,749.00 | 252,749.00 |
| 2024 | 240,000.00 | 7,733.00 | 247,733.00 |
| 2025 | 250,000.00 | 2,612.50 | 252,612.50 |
| | <u>\$2,075,000.00</u> | <u>\$ 200,274.25</u> | <u>\$2,275,274.25</u> |

2. Bonds Authorized But Not Issued

As of June 30, 2016 the Board had no authorized but not issued bonds.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans

Description of Systems

Substantially all of the Board'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 New Jersey Division of Pensions and Benefits. The Teachers' Pension and Annuity Fund retirement system is considered a cost sharing plan with special funding situations as under current statute, all employer contributions are made by the State of New Jersey on behalf of the Board and the system's other related non-contributing employers. The PERS is considered a cost sharing multiple-employer plan.

According to the State of New Jersey Management Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information of each of the Public Employees Retirement System and the Teachers' Pension and Annuity Fund. These reports maybe obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

Teachers' Pension and Annuity Fund (TPAF)

The Teachers' Pension and Annuity Fund was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66 to provide retirement benefits, death, disability and medical benefits to certain qualified members. The TPAF is considered a cost-sharing multiple-employer plan with special funding situation, as under current statute, 100% of employer contributions are made by the State of New Jersey on behalf of the District and the system's other related non-contributing employers. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

Summary of Significant Accounting Policies-

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Pension and Annuity Fund (TPAF) and additions to/deductions from the TPAF's fiduciary net position have been determined on the same basis as they are reported by the TPAF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

The employer contributions for the district are legally required to be funded by the State in accordance with N.J.S.A. 18:66-33. Therefore, the district (employer) is considered to be in special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the district (employer) does not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflow or inflows to report in the financial statements of the district. However, the state's portion of the net pension liability that was associated with the district was \$20,811,689 as measured on June 30, 2015 and \$20,627,497 as measured on June 30, 2014.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

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

For the year ended June 30, 2016, the District recognized pension expense of \$1,270,741 and revenue of \$1,270,741 for support provided by the State. The measurement period for the pension expense and revenue reported in the commission's financial statements (A-2) at June 30, 2016 is based upon changes in the collective net pension liability with a measurement period of July 1, 2014 through June 30, 2015. Accordingly, the pension expense and the related revenue associated with the support provided by the State is based upon the changes in the collective net pension liability between July 1, 2014 and June 30, 2015.

Although the district does not report net pension liability or deferred outflows or inflows related to the TPAF, the following schedule illustrates the collective net pension liability and deferred items and the State's portion of the net pension liability associated with the district. The collective amounts are the total of all New Jersey local governments participating in the TPAF plan.

| | <u>6/30/15</u> | <u>6/30/14</u> |
|---|-----------------|-----------------|
| Collective Deferred Outflows of Resources | \$7,521,378,257 | \$2,306,623,861 |
| Collective Deferred Inflows of Resources | 554,399,005 | 1,763,205,593 |
| Collective Net Pension Liability (Nonemployer-State of NJ) | 63,577,864,440 | 53,446,745,367 |
| State's Portion of the Net Pension Liability that was associated with the Commission | 20,811,689 | 20,627,497 |
| State's Portion of the Net Pension Liability that was associated with the Commission as a percentage of the Collective Net Pension Liability | 0.032928% | 0.038594% |

Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013, which was rolled forward June 30, 2014. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

| | |
|---------------------------|----------------------------|
| Inflation | 2.5% |
| Salary Increases | Varies based on experience |
| Investment Rate of Return | 7.90% |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

Actuarial Assumptions (Continued)

Mortality rates were based on the RP-2000 Health Annuitant Mortality Table 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 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, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments 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. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2014 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|--------------------------|---|
| Cash | 6.00% | 0.50% |
| Core Fixed Income | 0.00% | 2.19% |
| Core Bonds | 1.00% | 1.38% |
| Short-Term Bonds | 0.00% | 1.00% |
| Intermediate-Term Bonds | 11.20% | 2.60% |
| Long-Term Bonds | 0.00% | 3.23% |
| Mortgages | 2.50% | 2.84% |
| High Yield Fixed Income | 5.50% | 4.15% |
| Non-US Fixed Income | 0.00% | 1.41% |
| Inflation-Indexed Bonds | 2.50% | 1.30% |
| Broad US Equities | 25.90% | 5.88% |
| Large Cap US Equities | 0.00% | 5.62% |
| Mid Cap US Equities | 0.00% | 6.39% |
| Small Cap US Equities | 0.00% | 7.39% |
| Developed Foreign Equities | 12.70% | 6.05% |
| Emerging Market Equities | 6.50% | 8.90% |
| Private Equity | 8.25% | 9.15% |
| Hedge Funds/Absolute Return | 12.25% | 3.85% |
| Real Estate (Property) | 3.20% | 4.43% |
| Real Estate (REITS) | 0.00% | 5.58% |
| Commodities | 2.50% | 3.60% |
| Long Credit Bonds | 0.00% | 3.74% |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

Discount Rate

The discount rate used to measure the State's total pension liability was 4.13% 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 employers' 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 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 payment 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

Since the District has no proportionate share of the net pension liability because of the special funding situation, the district would not be sensitive to any changes in the discount rate. Detailed information about the pension plan's sensitivity of the collective net pension liability to changes in the discount rate is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at <http://www.nj.gov/treasury/pensions/pdf/financial/gasb68-tpaf15.pdf>

Pension Plan Fiduciary Net Position

Information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at <http://www.nj.gov/treasury/pensions/financial-rpts-home.shtml>.

Public Employees' Retirement System (PERS)

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The PERS is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Summary of Significant Accounting Policies-

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

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

At June 30, 2016, the District reported a liability of \$5,611,922 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 to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013. The District's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2015 and 2014. At June 30, 2015, the District's proportion was 0.02450%, which was a decrease of 0.00165% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$115,615. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between Expected and Actual Experience | \$133,881 | |
| Changes of Assumptions | \$602,676 | |
| Net difference between Projected and Actual Earnings on Pension Plan Investments | | \$90,229 |
| Changes in proportion and differences between District Contributions and Proportionate Share of Contributions | | 1,132,077 |
| District Contributions Subsequent to the Measurement Date | <u>0.00</u> | <u>0.00</u> |
| Total | <u>\$736,557</u> | <u>\$1,222,306</u> |

The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30</u> | <u>Amount</u> |
|---------------------------|---------------------|
| 2016 | \$117,664.24 |
| 2017 | 117,664.24 |
| 2018 | 117,664.24 |
| 2019 | 187,399.17 |
| 2020 | <u>105,936.11</u> |
| Total | <u>\$646,328.00</u> |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

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

| | <u>6/30/15</u> | <u>6/30/14</u> |
|--|---------------------|-------------------|
| Collective Deferred Outflows of Resources | \$ 3,578,755,666.00 | \$ 952,194,675.00 |
| Collective Deferred Inflows of Resources | 993,410,455.00 | 1,479,224,662.00 |
| Collective Net Pension Liability (Non-State-Local Group) | 22,447,996,119.00 | 18,722,735,003.00 |
| Commission's Portion of Net Pension Liability | 5,611,922.00 | 4,896,317.00 |
| Commission's Proportion % | 0.0249997% | 0.0261517% |

Actuarial Assumptions

The collective 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:

| | |
|---------------------------|--------------------------|
| Inflation | 3.04% |
| Salary Increases: | |
| 2012-2021 | 2.15%-4.40% based on age |
| Thereafter | 3.15%-5.40% based on age |
| Investment Rate of Return | 7.90% |

Mortality 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.

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, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

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BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments 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. Best estimates of arithmetic real rates of return for each major asset class included in PER's target asset allocation as of June 30, 2015 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|--------------------------|---|
| Cash | 5.00% | 1.04% |
| U.S. Treasuries | 1.75% | 1.64% |
| Investment Grade Credit | 10.00% | 1.79% |
| Mortgages | 2.10% | 1.62% |
| High Yield Bonds | 2.00% | 4.03% |
| Inflation-Indexed Bonds | 1.50% | 3.25% |
| Broad US Equities | 27.25% | 8.52% |
| Developed Foreign Equities | 12.00% | 6.88% |
| Emerging Market Equities | 6.40% | 10.00% |
| Private Equity | 9.25% | 12.41% |
| Hedge Funds/Absolute Return | 12.25% | 4.72% |
| Real Estate (Property) | 2.00% | 6.83% |
| Commodities | 1.00% | 5.32% |
| Global Debt ex US | 3.50% | -0.40% |
| REIT | 4.25% | 5.12% |

Discount Rate

The discount rate used to measure the total pension 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 actuarially determined 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.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

Sensitivity of the Districts 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 measured as of June 30, 2015, calculated using the discount rate of 4.90%, 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%) or 1-percentage-point higher (5.90%) than the current rate:

| | 1% Decrease <u>(3.90%)</u> | Current Discount Rate <u>(4.90%)</u> | 1% Increase <u>(5.90%)</u> |
|--|-------------------------------|--|-------------------------------|
| District's proportionate share of the net pension liability | \$6,974,932.00 | \$5,611,922.00 | \$4,469,184.00 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report at <http://www.nj.gov/treasury/pensions/financial-rpts-home.shtml>.

Defined Contribution Retirement Plan (DCRP)

The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2007 under the provisions of Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et seq.). The DCRP is a cost-sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by N.J.S.A. 43:15C-1 et seq.

The contribution requirements of plan members are determined by state statute. In accordance with Chapter 92, "P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. The State Treasurer has the right under current law to make temporary reductions in member rates based on the existence of surplus plan assets in the retirement system: however statute also requires the return to the normal rate when such surplus pension assets no longer exist.

PERS and TPAF Vesting and Benefit Provisions

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B, and N.J.S.A. 18A:6C for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age.

The TPAF and PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% or related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members'

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the PERS operates and to the benefit provisions. New members of the PERS hire on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1 % for each month that the member is under age 65. The eligibility age to qualify for service retirement in the PERS is increased from age 63 to 65 for Tier 5 members. PERS and TPAF employee contribution rates will increase from 5.5% to 6.5% of salary effective October 2011. The second phase of the contribution rate increase from 6.5% to 7.5% is to be phased in equally over a 7 year period beginning July 2012. The contribution rate will increase by 0.14% each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018.

Under a provision of Chapter 78, P.L. 2011, Cost of Living Adjustments (COLA) are suspended for all current and future retirees of all retirement systems. Employees are required to contribute a certain percentage of the cost of health benefits. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary. In addition, this new legislation changes the method of amortizing the pension systems' unfunded accrued liability from a level percent of pay method to level dollar of pay.

Contribution Requirements – Requirements

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contribution employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 7.06 percent for TPAF and PERS and 5.5% for DCRP of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of living adjustments and noncontributory death benefits in the TPAF and PERS. In the PERS and TPAF, the employer contribution includes funding for post-retirement medical premiums.

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2015, for TPAF, annual pension cost differs from the annual required contribution. For PERS, the annual pension cost equals the annual required contribution made. For TPAF employer contributions are made annually by the Board to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, member contributions are matched by a 3% employer contribution.

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BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note IV: Pension Plans (Continued)

Contributions – Actual

The Commission's total payroll for the year ended June 30, 2016 was \$6,352,425.50 and covered payroll was \$2,980,111.00 for TPAF and \$1,300,552.00 for PERS. Contributions to the TPAF and the PERS for the last three years ended June 30 made by the employees, the Board, and the State of New Jersey on behalf of the Board were as follows:

| | | <u>TPAF</u> | Percent of Covered <u>Payroll</u> | <u>PERS</u> | Percent of Covered <u>Payroll</u> |
|------------------------|---------|-------------|---|-------------|---|
| Employees | 6/30/14 | 231,765.38 | 6.78% | 123,855.60 | 6.91% |
| | 6/30/15 | 220,064.22 | 6.95% | 98,817.19 | 7.06% |
| | 6/30/16 | 212,729.14 | 7.14% | 93,478.64 | 7.19% |
| Board of Education | 6/30/14 | | | 198,459.00 | 11.07% |
| | 6/30/15 | | | 215,591.00 | 15.40% |
| | 6/30/16 | | | 214,930.00 | 16.53% |
| State of New Jersey | 6/30/14 | 430,972.00 | 12.61% | | |
| | 6/30/15 | 460,623.00 | 14.55% | | |
| | 6/30/16 | 576,926.00 | 19.36% | | |

In accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the Board \$219,934.19 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. This amount and the State of New Jersey's Contribution to the TPAF have been included in the basic financial statements and the budgetary comparison schedule – General Fund as a revenue and expenditure in accordance with GASB 24.

Note V: Post-Retirement Medical Benefits

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required TPAF and PERS, respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c 103 amended the law to eliminate the funding of post-retirement medical benefits through 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 Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a prefunding 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 for employer paid health benefits to members of PERS 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.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note V: Post-Retirement Medical Benefits (Continued)

The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefit Plans Other Than Pension Plans* are not applicable for the Commission.

The Commission contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at www.state.nj.us/treasury/pensions/gasb43-sept2008.pdf.

Note VI: Risk Management

The Commission is a member of the Educational Services Commission of Morris County Workers' Compensation Insurance Fund of New Jersey ("Fund"). The Fund is an insured and self-administered workers' compensation liability pool. The Commission pays an annual assessment to the Fund and should it be determined that payments received by the Fund are deficient, additional assessments may be levied. Additionally, the Fund maintains a contract of excess insurance with a commercial reinsurer to secure the payment of statutory workers' compensation benefits. The Commission continues to carry commercial insurance coverage for all other risks of loss.

Note VII: Compensated Absences

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

Commission employees are granted vacation and sick leave in varying amounts under the Commission's personnel policies. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave benefits provide for ordinary sick pay and an employee is eligible to receive compensation upon announcing their retirement.

In the Commission-wide *Statement of Net Position*, the liabilities whose average maturities are greater than one year are reported in two components – the amount due within one year and the amount due in more than one year.

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BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
(CONTINUED)

Note VIII: Contingent Liabilities

The Attorney for the Educational Services Commission of Morris County has informed us that the Commission has no outstanding lawsuits as of the balance sheet date through the date of audit. Additional liabilities, if not covered by insurance, should not be material in amount.

Note IX: Subsequent Events

The Educational Services Commission of Morris County's management has informed us that there are no significant events that need to be disclosed after the balance sheet date through the date of audit.

**REQUIRED SUPPLEMENTARY INFORMATION -
PART II**

SECTION C
BUDGETARY COMPARISON SCHEDULES

BOARD OF EDUCATION
 THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Budgetary Comparison Schedule
 General Fund
 Fiscal Year Ended June 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|------------------------|---------------------|----------------------|----------------------|--------------------------------|
| REVENUES: | | | | | |
| Local Sources: | | | | | |
| Other Local Government Units | \$ 1,244,259.00 | \$ (311,045.32) | \$ 933,213.68 | \$ 933,213.68 | \$ - |
| Tuition | 3,579,619.00 | (52,848.25) | 3,526,770.75 | 3,526,770.75 | - |
| Transportation Fees | 17,759,715.00 | (516,638.36) | 17,243,076.64 | 17,243,076.64 | - |
| Miscellaneous | 10,000.00 | (9,201.12) | 798.88 | 798.88 | - |
| Total - Local Sources | <u>22,593,593.00</u> | <u>(889,733.05)</u> | <u>21,703,859.95</u> | <u>21,703,859.95</u> | <u>-</u> |
| State Sources: | | | | | |
| TPAF PRM (On-Behalf - Non-Budgeted) | - | - | - | 313,576.00 | 313,576.00 |
| TPAF Pension (On-Behalf - Non-Budgeted) | - | - | - | 263,350.00 | 263,350.00 |
| TPAF Social Security (Reimbursed - Non-Budgeted) | - | - | - | 219,934.19 | 219,934.19 |
| Total State Sources | <u>-</u> | <u>-</u> | <u>-</u> | <u>796,860.19</u> | <u>796,860.19</u> |
| Total Revenues | <u>22,593,593.00</u> | <u>(889,733.05)</u> | <u>21,703,859.95</u> | <u>22,500,720.14</u> | <u>796,860.19</u> |
| EXPENDITURES: | | | | | |
| Current Expense: | | | | | |
| SPECIAL EDUCATION - INSTRUCTION | | | | | |
| Multiple Disabilities: | | | | | |
| Salaries of Teachers | 212-100-101 769,794.00 | (77,680.64) | 692,113.36 | 692,113.36 | - |
| Other Salaries for Instruction | 212-100-105 42,000.00 | (4,440.00) | 37,560.00 | 37,560.00 | - |
| Other Salaries for Instruction | 212-100-106 451,835.00 | 41,831.54 | 493,666.54 | 493,666.54 | - |
| Other Salaries for Instruction | 212-100-110 2,000.00 | (2,000.00) | - | - | - |
| Purchased Professional-Educational Services | 212-100-320 145,000.00 | 77,165.00 | 222,165.00 | 222,165.00 | - |
| General Supplies | 212-100-610 19,099.00 | (14,245.65) | 4,853.35 | 4,853.35 | - |
| Other Objects | 212-100-800 5,320.00 | 3,205.50 | 8,525.50 | 8,525.50 | - |
| Total Multiple Disabilities | <u>1,435,048.00</u> | <u>23,835.75</u> | <u>1,458,883.75</u> | <u>1,458,883.75</u> | <u>-</u> |
| TOTAL SPECIAL EDUCATION - INSTRUCTION | <u>1,435,048.00</u> | <u>23,835.75</u> | <u>1,458,883.75</u> | <u>1,458,883.75</u> | <u>-</u> |
| Total Instruction | <u>1,435,048.00</u> | <u>23,835.75</u> | <u>1,458,883.75</u> | <u>1,458,883.75</u> | <u>-</u> |
| Undist. Expend. - Health Services | | | | | |
| Salaries | 000-213-100 68,580.00 | (10,088.99) | 58,491.01 | 58,491.01 | - |
| Purchased Professional and Technical Services | 000-213-300 12,470.00 | 58,302.50 | 70,772.50 | 70,199.50 | 573.00 |
| Supplies and Materials | 000-213-600 1,665.00 | (412.11) | 1,252.89 | 1,252.89 | - |
| Total Undistributed Expenditures - Health Services | <u>82,715.00</u> | <u>47,801.40</u> | <u>130,516.40</u> | <u>129,943.40</u> | <u>573.00</u> |
| Undist. Expend. - Other Supp. Serv. Students - Related Serv. | | | | | |
| Salaries of Other Professional Staff | 000-216-100 309,789.00 | 30,178.76 | 339,967.76 | 339,949.32 | 18.44 |
| Purchased Professional - Educational Services | 000-216-339 158,530.00 | (152,439.00) | 6,091.00 | 2,460.00 | 3,631.00 |
| Total Undist. Expend. - Other Supp. Serv. Students - Related Serv. | <u>468,319.00</u> | <u>(122,260.24)</u> | <u>346,058.76</u> | <u>342,409.32</u> | <u>3,649.44</u> |
| Undist. Expend. - Other Supp. Serv. Students-Special | | | | | |
| Salaries of Other Professional Staff | 000-219-104 143,511.00 | (78,241.28) | 65,269.72 | 35,991.53 | 29,278.19 |
| Salaries of Secretarial and Clerical Assistants | 000-219-106 126,867.00 | (107,222.00) | 19,645.00 | - | 19,645.00 |
| Salaries of Physical Therapists | 000-219-109 41,267.00 | - | 41,267.00 | 240.00 | 41,027.00 |
| Purchased Professional - Educational Services | 000-219-320 4,500.00 | 55,775.00 | 60,275.00 | 60,275.00 | - |
| Other Purchased Prof. and Tech. Services | 000-219-339 268,925.00 | (32,935.71) | 235,989.29 | 235,989.29 | - |
| Misc. Pur. Serv. (400-500 series) Other Than Residential Costs | 000-219-592 1,400.00 | - | 1,400.00 | 1,048.33 | 351.67 |
| Supplies and Materials | 000-219-600 23,827.00 | 11,100.00 | 34,927.00 | 32,207.23 | 2,719.77 |
| Other Objects | 000-219-800 37,831.00 | (18,980.00) | 18,851.00 | 14,947.52 | 3,903.48 |
| Total Undist. Expend. - Other Supp. Serv. Students-Spl. | <u>648,128.00</u> | <u>(170,503.99)</u> | <u>477,624.01</u> | <u>380,698.90</u> | <u>96,925.11</u> |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Budgetary Comparison Schedule
General Fund
Fiscal Year Ended June 30, 2016
Continued

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|--|---------------------------|---------------------|----------------------|----------------------|--------------------------------|
| Undist. Expend. - Supp. Serv. - General Admin. | | | | | |
| Salaries | 000-230-100 \$ 132,401.00 | \$ (56,441.93) | \$ 75,959.07 | \$ 75,959.07 | \$ - |
| BOE Other Purchased Services | 000-230-330 12,835.00 | (945.00) | 11,890.00 | 11,890.00 | - |
| Legal Services | 000-230-331 3,500.00 | 254.42 | 3,754.42 | 3,754.42 | - |
| Audit Fees | 000-230-332 19,500.00 | 150.00 | 19,650.00 | 19,650.00 | - |
| Other Purchased Professional Services | 000-230-339 5,035.00 | (4,214.42) | 820.58 | - | 820.58 |
| Purchased Technical Services | 000-230-340 3,972.00 | 5,185.00 | 9,157.00 | 9,140.50 | 16.50 |
| Communications/Telephone | 000-230-530 58,731.00 | 779.26 | 59,510.26 | 57,273.16 | 2,237.10 |
| Other Purchased Services (400-500 series) | 000-230-590 125,069.00 | 353.52 | 125,422.52 | 119,502.06 | 5,920.47 |
| Supplies and Materials | 000-230-600 23,822.00 | (2,869.61) | 20,952.39 | 14,601.85 | 6,350.54 |
| Miscellaneous Expenditures | 000-230-890 45,140.00 | (15,393.01) | 29,746.99 | 29,746.99 | - |
| BOE Membership Dues and Fees | 000-230-895 3,100.00 | (5.00) | 3,095.00 | 2,678.10 | 416.90 |
| Total Undist. Expend. - Supp. Serv. - General Admin. | 433,105.00 | (73,146.77) | 359,958.23 | 344,196.14 | 15,762.09 |
| Undist. Expend. - Support Serv. - School Admin. | | | | | |
| Salaries of Supervisors of Instruction | 000-240-102 36,360.00 | 614.72 | 36,974.72 | 36,974.72 | - |
| Salaries of Principals/Assistant Principals | 000-240-103 92,500.00 | 3,718.00 | 96,218.00 | 96,217.93 | 0.07 |
| Salaries of Other Professional Staff | 000-240-104 73,900.00 | (36,178.95) | 37,721.05 | 18,791.03 | 18,930.02 |
| Salaries of Secretarial and Clerical Assistants | 000-240-106 51,840.00 | 3,765.64 | 55,605.64 | 55,605.39 | 0.25 |
| Purchased Professional and Technical Services | 000-240-300 8,145.00 | 6,100.00 | 14,245.00 | 14,024.05 | 220.95 |
| Other Purchased Services (400-500 series) | 000-240-500 10,300.00 | 700.00 | 11,000.00 | 10,630.26 | 369.74 |
| Supplies and Materials | 000-240-600 9,920.00 | 558.95 | 10,478.95 | 10,478.95 | - |
| Other Objects | 000-240-800 5,535.00 | 491.78 | 6,026.78 | 6,026.78 | - |
| Total Undist. Expend. - Support Serv. - School Admin. | 288,500.00 | (20,229.86) | 268,270.14 | 248,749.11 | 19,521.03 |
| Undist. Expend. - Central Services | | | | | |
| Salaries | 000-251-100 176,478.00 | 8,824.21 | 185,302.21 | 176,797.10 | 8,505.11 |
| Purchased Professional and Technical Services | 000-251-300 10,850.00 | 1,456.20 | 12,306.20 | 12,306.20 | - |
| Supplies and Materials | 000-251-600 - | 33,149.95 | 33,149.95 | 21,028.55 | 12,121.40 |
| Interest for Lease Purchase Agreements | 000-251-832 83,306.00 | (64,412.00) | 18,894.00 | 18,893.97 | 0.03 |
| Miscellaneous Expenditures | 000-251-890 3,000.00 | (1,865.00) | 1,135.00 | 1,135.00 | - |
| BOE Member Dues and Fees | 000-251-895 2,215.00 | 300.00 | 2,515.00 | 2,515.00 | - |
| Total Undist. Expend. - Central Services | 275,849.00 | (22,546.64) | 253,302.36 | 232,675.82 | 20,626.54 |
| Undist. Expend. - Admin. Information Technology | | | | | |
| Salaries | 000-252-100 27,540.00 | (3,991.27) | 23,548.73 | 23,548.73 | - |
| Total Undist. Expend. - Admin. Information Technology | 27,540.00 | (3,991.27) | 23,548.73 | 23,548.73 | - |
| Undist. Expend. - Required Maint. for Sch. Facil. | | | | | |
| Cleaning, Repair and Maintenance Services | 000-261-420 80,500.00 | - | 80,500.00 | 79,946.74 | 553.26 |
| Total Undist. Expend. - Required Maint. for Sch. Facil. | 80,500.00 | - | 80,500.00 | 79,946.74 | 553.26 |
| Undist. Expend. - Oth. Oper. & Maint. of Plant | | | | | |
| Salaries | 000-262-100 58,451.00 | 1,530.90 | 57,981.90 | 57,981.90 | - |
| Purchased Professional and Technical Services | 000-262-300 1,500.00 | (1,500.00) | - | - | - |
| Cleaning, Repair and Maintenance Services | 000-262-420 57,000.00 | (36,410.23) | 20,589.77 | 20,589.77 | - |
| Rental of Land & Buildings Other than Lease Purchase Agreements | 000-262-441 117,866.00 | (7,358.72) | 110,507.28 | 109,503.82 | 1,003.46 |
| General Supplies | 000-262-610 13,300.00 | 100.00 | 13,400.00 | 13,386.61 | 13.39 |
| Energy (Natural Gas) | 000-262-621 44,000.00 | (16,219.48) | 27,780.52 | 22,563.93 | - |
| Energy (Electricity) | 000-262-622 50,000.00 | - | 50,000.00 | 39,102.68 | 10,897.32 |
| Other Objects | 000-262-800 900.00 | 214.38 | 1,114.38 | 1,114.38 | - |
| Total Undist. Expend. - Other Oper. & Maint. Of Plant | 341,017.00 | (59,643.15) | 281,373.85 | 264,243.09 | 17,130.76 |
| Care and Upkeep of Grounds | | | | | |
| Cleaning, Repair and Maintenance Services | 000-263-420 18,230.00 | - | 18,230.00 | 7,113.00 | 11,117.00 |
| Total Care and Upkeep of Grounds | 18,230.00 | - | 18,230.00 | 7,113.00 | 11,117.00 |
| Undist. Expend. - Student Transportation Serv. | | | | | |
| Salaries for Pupil Trans. (Other than Between Home & School) | 000-270-162 236,249.00 | (16,299.54) | 219,949.46 | 218,614.54 | 1,334.92 |
| Other Purchased Professional and Technical Services | 000-270-390 45,525.00 | (29,425.41) | 16,099.59 | 16,098.99 | 0.60 |
| Cleaning, Repair and Maintenance Services | 000-270-420 20,000.00 | (13,376.33) | 6,623.67 | 6,623.67 | - |
| Contracted Services (Between Home and School) - Vendors | 000-270-511 4,787,819.00 | (63,624.58) | 4,724,194.42 | 4,594,348.78 | 129,845.64 |
| Contracted Services (Special Education Students) - Vendors | 000-270-514 12,250,685.00 | (324,116.93) | 11,926,568.07 | 11,926,568.07 | - |
| Miscellaneous Purchased Services - Transportation | 000-270-593 250.00 | (250.00) | - | - | - |
| Supplies and Materials | 000-270-600 14,792.00 | 1,601.44 | 16,393.44 | 16,393.44 | - |
| Miscellaneous Expenditures | 000-270-890 13,000.00 | 1,107.46 | 14,107.46 | 14,107.46 | - |
| Total Undist. Expend. - Student Transportation Serv. | 17,368,320.00 | (444,363.89) | 16,923,956.11 | 16,792,754.95 | 131,181.16 |

BOARD OF EDUCATION
 THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Budgetary Comparison Schedule
 General Fund
 Fiscal Year Ended June 30, 2016
 Concluded

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|---|----------------------------|-----------------------------|-------------------------|------------------------|---|
| UNALLOCATED BENEFITS | | | | | |
| Social Security Contributions | 000-291-220 \$ 116,099.00 | \$ 27,982.62 | \$ 144,081.62 | \$ 135,378.06 | \$ 8,703.56 |
| Other Retirement Contributions - Regular | 000-291-241 118,416.00 | 3,721.59 | 122,137.59 | 120,490.02 | 1,647.57 |
| Unemployment Compensation | 000-291-250 13,561.00 | (870.00) | 12,691.00 | 7,864.06 | 4,826.94 |
| Workmen's Compensation | 000-291-260 76,810.00 | 5,490.00 | 82,300.00 | 59,965.00 | 22,335.00 |
| Health Benefits | 000-291-270 907,065.00 | (137,902.60) | 769,162.40 | 739,798.61 | 29,363.79 |
| Tuition Reimbursement | 000-291-280 13,169.00 | 8,707.00 | 21,876.00 | 21,821.00 | 55.00 |
| TOTAL UNALLOCATED BENEFITS | <u>1,245,120.00</u> | <u>(92,871.39)</u> | <u>1,152,248.61</u> | <u>1,085,316.75</u> | <u>66,931.86</u> |
| On-behalf TPAF PRM Contributions (non-budgeted) | | | | 313,576.00 | (313,576.00) |
| On-behalf TPAF Pension Contributions (non-budgeted) | | | | 263,350.00 | (263,350.00) |
| Reimbursed TPAF Social Security Contributions (non-budgeted) | | | | 219,934.19 | (219,934.19) |
| TOTAL ON-BEHALF CONTRIBUTIONS | <u>-</u> | <u>-</u> | <u>-</u> | <u>796,860.19</u> | <u>(796,860.19)</u> |
| TOTAL PERSONAL SERVICES - EMPLOYEE BENEFITS | <u>1,245,120.00</u> | <u>(92,871.39)</u> | <u>1,152,248.61</u> | <u>1,882,176.94</u> | <u>(729,928.33)</u> |
| TOTAL UNDISTRIBUTED EXPENDITURES | <u>21,277,343.00</u> | <u>(961,775.80)</u> | <u>20,315,567.20</u> | <u>20,728,456.14</u> | <u>(412,888.94)</u> |
| TOTAL GENERAL CURRENT EXPENSE | <u>22,712,391.00</u> | <u>(937,940.05)</u> | <u>21,774,450.95</u> | <u>22,187,339.89</u> | <u>(412,888.94)</u> |
| CAPITAL OUTLAY | | | | | |
| Facilities Acquisition and Construction Services | | | | | |
| Construction Services | 000-400-450 | 43,707.00 | 43,707.00 | 43,707.00 | - |
| Lease Purchase Agreements - Principal | 000-400-721 175,000.00 | - | 175,000.00 | 175,000.00 | - |
| Total Facilities Acquisition and Construction Services | <u>175,000.00</u> | <u>43,707.00</u> | <u>218,707.00</u> | <u>218,707.00</u> | <u>-</u> |
| TOTAL CAPITAL OUTLAY | <u>175,000.00</u> | <u>43,707.00</u> | <u>218,707.00</u> | <u>218,707.00</u> | <u>-</u> |
| TOTAL EXPENDITURES | <u>22,887,391.00</u> | <u>(894,233.05)</u> | <u>21,993,157.95</u> | <u>22,406,046.89</u> | <u>(412,888.94)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(293,798.00)</u> | <u>4,500.00</u> | <u>(289,298.00)</u> | <u>94,673.25</u> | <u>383,971.25</u> |
| Other Financing Sources/(Uses): | | | | | |
| Operating Transfer Out: | | | | | |
| Transfer to Food Service Fund | <u>(30,000.00)</u> | <u>-</u> | <u>(30,000.00)</u> | <u>(21,172.78)</u> | <u>8,827.22</u> |
| Total Other Financing Sources/(Uses): | <u>(30,000.00)</u> | <u>-</u> | <u>(30,000.00)</u> | <u>(21,172.78)</u> | <u>8,827.22</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses) | <u>(323,798.00)</u> | <u>4,500.00</u> | <u>(319,298.00)</u> | <u>73,500.47</u> | <u>392,798.47</u> |
| Fund Balance, July 1 | <u>1,508,763.90</u> | <u>-</u> | <u>1,508,763.90</u> | <u>1,508,763.90</u> | <u>-</u> |
| Fund Balance, June 30 | <u>\$ 1,184,965.90</u> | <u>\$ 4,500.00</u> | <u>\$ 1,189,465.90</u> | <u>\$ 1,582,264.37</u> | <u>\$ 392,798.47</u> |

BOARD OF EDUCATION
 THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Budgetary Comparison Schedule
 Special Revenue Fund
 For the Fiscal Year Ended June 30, 2016

| | Original <u>Budget</u> | Budget <u>Transfers</u> | Final <u>Budget</u> | <u>Actual</u> | Variance <u>Final to Actual</u> |
|---|---------------------------|----------------------------|------------------------|------------------------|------------------------------------|
| REVENUES: | | | | | |
| State Sources | \$2,005,051.00 | \$ 322,602.19 | \$ 2,327,653.19 | \$ 2,327,653.19 | \$ - |
| Federal Sources | <u>370,017.00</u> | <u>144,156.46</u> | <u>514,173.46</u> | <u>514,173.46</u> | <u>-</u> |
| Total Revenues | <u>2,375,068.00</u> | <u>466,758.65</u> | <u>2,841,826.65</u> | <u>2,841,826.65</u> | <u>-</u> |
| EXPENDITURES: | | | | | |
| Instruction | | | | | |
| Personal Services - Salaries | 716,543.00 | 26,055.43 | 742,598.43 | 742,598.43 | - |
| Textbooks | <u>211,612.00</u> | <u>4,360.59</u> | <u>215,972.59</u> | <u>215,972.59</u> | <u>-</u> |
| Total Instruction | <u>928,155.00</u> | <u>30,416.02</u> | <u>958,571.02</u> | <u>958,571.02</u> | <u>-</u> |
| Support Services | | | | | |
| Personal Services - Salaries | 855,000.00 | 78,390.62 | 933,390.62 | 933,390.62 | - |
| Personal Services - Employee Benefits | 151,342.00 | (2,639.35) | 148,702.65 | 148,702.65 | - |
| Purchased Professional and Technical Services | 211,998.00 | 185,421.18 | 397,419.18 | 397,419.18 | - |
| Other Purchased Services (400-500 series) | 1,000.00 | (924.27) | 75.73 | 75.73 | - |
| Travel | 2,144.00 | (575.90) | 1,568.10 | 1,568.10 | - |
| Supplies & Materials | <u>225,429.00</u> | <u>176,670.35</u> | <u>402,099.35</u> | <u>402,099.35</u> | <u>-</u> |
| Total Support Services | <u>1,446,913.00</u> | <u>436,342.63</u> | <u>1,883,255.63</u> | <u>1,883,255.63</u> | <u>-</u> |
| Total Expenditures | <u>2,375,068.00</u> | <u>466,758.65</u> | <u>2,841,826.65</u> | <u>2,841,826.65</u> | <u>-</u> |
| Total Outflows | <u>\$2,375,068.00</u> | <u>\$ 466,758.65</u> | <u>\$ 2,841,826.65</u> | <u>\$ 2,841,826.65</u> | <u>\$ -</u> |

**NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION – PART II**

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Required Supplementary Information
Budgetary Comparison Schedule
Note to RSI
For the Fiscal Year Ended

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

| | <u>Exhibit</u> | General <u>Fund</u> | Special Revenue <u>Fund</u> |
|---|----------------|-------------------------|-----------------------------------|
| Sources/inflows of resources | | | |
| Actual amounts (budgetary basis) "revenue" | | | |
| from the budgetary comparison schedule | [C-1,C-2] | \$ 22,406,046.89 | \$ 2,841,826.65 |
| Difference - budget to GAAP: | | | |
| The last State aid payment is recognized as revenue for budgetary purposes, and differs from GAAP which does not recognize this revenue until the subsequent year when the State recognizes the related expense in accordance with GASB 33. | | - | |
| Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized. | | - | - |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds. | [B-2] | <u>\$ 22,406,046.89</u> | <u>\$ 2,841,826.65</u> |
| Uses/outflows of resources | | | |
| Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule | [C-1,C-2] | \$ 22,406,046.89 | \$ 2,841,826.65 |
| Differences - budget to GAAP | | | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for <i>budgetary</i> purposes, but in the year the supplies are received for <i>financial reporting</i> purposes. | | | - |
| Transfers to and from other funds are presented as outflows of budgetary resources but are not expenditures for financial reporting purposes. | \$ - | | |
| Net transfers (outflows) to general fund | | - | - |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | [B-2] | <u>\$ 22,406,046.89</u> | <u>\$ 2,841,826.65</u> |

**REQUIRED SUPPLEMENTARY INFORMATION -
PART III**

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Schedule of the Commission's Proportionate Share of the Net Pension Liability
Last Ten Fiscal Years*

| | Teachers' Pension and Annuity Fund (TPAF) | | | | | | | | | |
|---|---|------------------|------------------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Commission's Proportion of the Net Pension Liability (Asset)** | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Commission's Proportionate Share of the Net Pension Liability (Asset)* | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Commission | \$ 20,811,689.00 | \$ 20,627,497.00 | \$ 22,104,254.00 | | | | | | | |
| Total | \$ 20,811,689.00 | \$ 20,627,497.00 | \$ 22,104,254.00 | | | | | | | |
| Commission's Covered Employee Payroll | \$ 3,166,724.00 | \$ 3,418,369.00 | \$ 3,379,176.00 | | | | | | | |
| Commission's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | N/A | N/A | N/A | | | | | | | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 28.71% | 33.64% | 33.76% | | | | | | | |

** Note: TPAF is a special funding situation as defined by GASB Statement No. 68 in which the State of New Jersey is 100% responsible for contributions to the plan. Since the Commission (employer) does not contribute directly to the plan there is no net pension liability to report in the financial statements of the Commission.

| | Public Employees Retirement System (PERS) | | | | | | | | | |
|---|---|-----------------|-----------------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Commission's Proportion of the Net Pension Liability (Asset) | 0.02500% | 0.02615% | 0.03340% | | | | | | | |
| Commission's Proportionate Share of the Net Pension Liability (Asset) | \$ 5,611,922.00 | \$ 4,896,317.00 | \$ 6,374,699.00 | | | | | | | |
| Commission's Covered Employee Payroll | \$ 1,400,231.00 | \$ 1,792,265.00 | \$ 1,752,290.00 | | | | | | | |
| Commission's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | 400.79% | 273.19% | 363.79% | | | | | | | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Local) | 47.93% | 52.08% | 48.72% | | | | | | | |

* Until a full ten year trend is compiled, information will be presented for those years for which information is available.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Schedule of Commission Contributions
 Last Ten Fiscal Years*

| | Teachers' Pension and Annuity Fund (TPAF) | | | | | | | | | |
|--|---|-----------------|-----------------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Contractually Required Contribution** | N/A | N/A | N/A | | | | | | | |
| Contributions in Relation to the Contractually Required Contribution | N/A | N/A | N/A | | | | | | | |
| Contribution Deficiency (excess) | N/A | N/A | N/A | | | | | | | |
| Commission's Covered Employee Payroll | \$ 3,166,724.00 | \$ 3,418,369.00 | \$ 3,379,176.00 | | | | | | | |
| Contributions as a Percentage of Covered Employee Payroll | N/A | N/A | N/A | | | | | | | |

** Note: TPAF is a special funding situation as defined by GASB Statement No. 68 in which the State of New Jersey is 100% responsible for contributions to the plan. The Commission (employer) does not contribute to the plan.

| | Public Employees Retirement System (PERS) | | | | | | | | | |
|--|---|-----------------|-----------------|------|------|------|------|------|------|------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Contractually Required Contribution | \$ 215,591.00 | \$ 198,459.00 | \$ 245,732.00 | | | | | | | |
| Contributions in Relation to the Contractually Required Contribution | (215,591.00) | (198,459.00) | (245,732.00) | | | | | | | |
| Contribution Deficiency (excess) | \$ - | \$ - | \$ - | | | | | | | |
| Commission's Covered Employee Payroll | \$ 1,400,231.00 | \$ 1,792,265.00 | \$ 1,752,290.00 | | | | | | | |
| Contributions as a Percentage of Covered Employee Payroll | 15.40% | 11.07% | 14.02% | | | | | | | |

* Until a full ten year trend is compiled, information will be presented for those years for which information is available.

**NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION – PART III**

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PENSION SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Teachers' Pension and Annuity Fund (TPAF)

Changes of Benefit Terms- The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members'

Changes of Assumptions- Mortality rates were based on the RP-2000 Health Mortality Table for Males or Females, as appropriate, with the adjustments for mortality improvements base on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA form 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

Public Employees Retirement System (PERS)

Changes of Benefit Terms- The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death, and disability benefits. All benefits vest after 10 years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

Changes of Assumptions- Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements form the base year of 2012 Based of Projection Scale AA.

OTHER SUPPLEMENTARY INFORMATION

SECTION D
SCHOOL LEVEL SCHEDULES

SECTION E
SPECIAL REVENUE FUND

BOARD OF EDUCATION
 THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Special Revenue Fund
 Combining Schedule of Program Revenues and Expenditures - Budgetary Basis
 For the Fiscal Year Ended June 30, 2016

| | | <u>Total</u> | <u>State Aid</u> | <u>Federal Aid</u> |
|---|---------|------------------------|-----------------------|------------------------|
| REVENUES | | | | |
| State Sources | | \$ 2,327,653.19 | \$2,327,653.19 | \$ - |
| Federal Sources | | <u>514,173.46</u> | <u>-</u> | <u>514,173.46</u> |
| Total Revenues | | <u>2,841,826.65</u> | <u>2,327,653.19</u> | <u>514,173.46</u> |
| EXPENDITURES: | | | | |
| Instruction: | | | | |
| Personal Services - Salaries | 100-100 | 742,598.43 | 472,552.03 | 270,046.40 |
| Textbooks | 100-640 | <u>215,972.59</u> | <u>215,972.59</u> | <u>-</u> |
| Total Instruction | | <u>958,571.02</u> | <u>688,524.62</u> | <u>270,046.40</u> |
| Support Services: | | | | |
| Personal Services - Salaries | 200-100 | 933,390.62 | 933,390.62 | - |
| Personal Services - Employee Benefits | 200-200 | 148,702.65 | 148,702.65 | |
| Purchased Professional and Technical Services | 200-300 | 397,419.18 | 344,864.80 | 52,554.38 |
| Other Purchased Services (400-500 series) | 200-500 | 75.73 | 75.73 | |
| Travel | 200-580 | 1,568.10 | 1,568.10 | |
| Supplies and Materials | 200-600 | <u>402,099.35</u> | <u>210,526.67</u> | <u>191,572.68</u> |
| Total Support Services | | <u>1,883,255.63</u> | <u>1,639,128.57</u> | <u>244,127.06</u> |
| Total Expenditures | | <u>\$ 2,841,826.65</u> | <u>\$2,327,653.19</u> | <u>\$ 514,173.46</u> |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Special Revenue Fund
 Combining Schedule of State Program Revenues and Expenditures - Budgetary Basis
 For the Fiscal Year Ended June 30, 2016

| | | N.J. | N.J. | N.J. | N.J. | N.J. | N.J. | N.J. | N.J. |
|---|---------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | | Nonpublic | Nonpublic | Nonpublic | Nonpublic | Nonpublic | Nonpublic | Nonpublic | Nonpublic |
| | | Security | Textbook | Auxiliary | Handicapped | Technology | Handicapped | Technology | Nursing |
| | | Aid | Aid | Services | Services | Initiative | Services | Initiative | Services |
| | | | | | | | | | |
| REVENUES | | | | | | | | | |
| State Sources | | \$ 136,504.50 | \$ 215,972.59 | \$ 293,243.26 | \$ 867,990.52 | \$ 187,143.58 | \$ 867,990.52 | \$ 187,143.58 | \$ 626,798.74 |
| Total State Revenues | | <u>136,504.50</u> | <u>215,972.59</u> | <u>293,243.26</u> | <u>867,990.52</u> | <u>187,143.58</u> | <u>867,990.52</u> | <u>187,143.58</u> | <u>626,798.74</u> |
| EXPENDITURES: | | | | | | | | | |
| Instruction: | | | | | | | | | |
| Personal Services - Salaries | 100-100 | - | - | 184,120.79 | 288,431.24 | - | 288,431.24 | - | - |
| Textbooks | 100-640 | - | 215,972.59 | - | - | - | - | - | - |
| Total Instruction | | <u>-</u> | <u>215,972.59</u> | <u>184,120.79</u> | <u>288,431.24</u> | <u>-</u> | <u>288,431.24</u> | <u>-</u> | <u>-</u> |
| Support Services: | | | | | | | | | |
| Personal Services - Salaries | 200-100 | - | - | 82,062.88 | 317,734.32 | 9,348.30 | 317,734.32 | 9,348.30 | 524,245.12 |
| Personal Services - Employee Benefits | 200-200 | - | - | 27,059.59 | 53,385.33 | - | 53,385.33 | - | 68,257.73 |
| Purchased Professional and Technical Services | 200-300 | 136,504.50 | - | - | 206,680.30 | - | 206,680.30 | - | 1,680.00 |
| Other Purchased Services (400-500 series) | 200-500 | - | 75.73 | - | 75.73 | - | 75.73 | - | - |
| Travel | 200-580 | - | 1,568.10 | - | 1,568.10 | - | 1,568.10 | - | - |
| Supplies & Materials | 200-600 | - | - | - | 115.50 | 177,795.28 | 115.50 | 177,795.28 | 32,615.89 |
| Total Support Services | | <u>136,504.50</u> | <u>-</u> | <u>109,122.47</u> | <u>579,559.28</u> | <u>177,795.28</u> | <u>579,559.28</u> | <u>187,143.58</u> | <u>626,798.74</u> |
| Total Expenditures | | <u>\$ 136,504.50</u> | <u>\$ 215,972.59</u> | <u>\$ 293,243.26</u> | <u>\$ 867,990.52</u> | <u>\$ 187,143.58</u> | <u>\$ 867,990.52</u> | <u>\$ 187,143.58</u> | <u>\$ 626,798.74</u> |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Special Revenue Fund
Combining Schedule of Federal Program Revenues and Expenditures - Budgetary Basis
For the Fiscal Year Ended June 30, 2016

| | | <u>Total</u> | <u>I.D.E.A. Part B Basic</u> |
|--|---------|----------------------|--------------------------------------|
| REVENUES | | | |
| Federal Sources | | <u>\$ 514,173.46</u> | <u>\$ 514,173.46</u> |
| Total Federal Revenues | | <u>514,173.46</u> | <u>514,173.46</u> |
| EXPENDITURES: | | | |
| Instruction: | | | |
| Personal Services - Salaries | 100-100 | <u>270,046.40</u> | <u>270,046.40</u> |
| Total Instruction | | <u>270,046.40</u> | <u>270,046.40</u> |
| Support Services: | | | |
| Purchased Professional and Technical Services | 200-300 | <u>52,554.38</u> | <u>52,554.38</u> |
| Supplies and Materials | 200-600 | <u>191,572.68</u> | <u>191,572.68</u> |
| Total Support Services | | <u>244,127.06</u> | <u>244,127.06</u> |
| Total Expenditures | | <u>\$ 514,173.46</u> | <u>\$ 514,173.46</u> |

SECTION F
CAPITAL PROJECTS FUND

SECTION G
PROPRIETARY FUNDS

ENTERPRISE FUND

INTERNAL SERVICE FUND

SECTION H
FIDUCIARY FUND

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Student Activity Agency Fund
Schedule of Receipts and Disbursements
For the Fiscal Year Ended June 30, 2016

| <u>Schools</u> | <u>Balance</u> <u>June 30, 2015</u> | <u>Cash</u> <u>Receipts</u> | <u>Cash</u> <u>Disbursements</u> | <u>Balance</u> <u>June 30, 2016</u> |
|----------------|--|--------------------------------|-------------------------------------|--|
| Park Lake | \$ 483.89 | \$ - | \$ - | \$483.89 |
| Regional Day | <u>452.53</u> | <u>-</u> | <u>-</u> | <u>452.53</u> |
| | <u>\$ 936.42</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$936.42</u> |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Payroll Agency Fund
Schedule of Receipts and Disbursements
For the Fiscal Year Ended June 30, 2016

| | <u>Balance</u> <u>June 30, 2015</u> | <u>Cash</u> <u>Receipts</u> | <u>Cash</u> <u>Disbursements</u> | <u>Balance</u> <u>June 30, 2016</u> |
|-------------------------------------|--|--------------------------------|-------------------------------------|--|
| Payroll Deductions and Withholdings | \$ - | \$ 2,987,178.09 | \$ 2,987,178.09 | \$ - |
| Net Salaries and Wages | <u>-</u> | <u>4,096,523.36</u> | <u>4,096,523.36</u> | <u>-</u> |
| | <u>\$ -</u> | <u>\$ 7,083,701.45</u> | <u>\$ 7,083,701.45</u> | <u>\$ -</u> |

SECTION I
LONG – TERM DEBT

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Long - Term Debt
 Schedule of MCIA Bonds
 For the Fiscal Year Ended June 30, 2016

| <u>Purpose</u> | <u>Date of Issue</u> | <u>Amount of Issue</u> | <u>Annual Maturities of Bonds Outstanding June 30, 2016</u> | | | <u>Interest Rate</u> | <u>Balance June 30, 2015</u> | <u>Issued Current Year</u> | <u>Retired Current Year</u> | <u>Balance June 30, 2016</u> |
|---|----------------------|------------------------|---|---------------|--------|------------------------|------------------------------|----------------------------|-----------------------------|------------------------------|
| | | | <u>Date</u> | <u>Amount</u> | | | | | | |
| COP'S Refunding and Various Improvements to Commission's School Buildings | 3/31/2004 | \$ 4,940,000.00 | 10/1/2016 | \$ 220,000.00 | 2.090% | \$ 2,115,000.00 | \$ 135,000.00 | \$ 175,000.00 | \$ 2,075,000.00 | |
| | | | 10/1/2017 | 215,000.00 | 2.090% | | | | | |
| | | | 10/1/2018 | 220,000.00 | 2.090% | | | | | |
| | | | 10/1/2019 | 225,000.00 | 2.090% | | | | | |
| | | | 10/1/2020 | 230,000.00 | 2.090% | | | | | |
| | | | 10/1/2021 | 235,000.00 | 2.090% | | | | | |
| | | | 10/1/2022 | 240,000.00 | 2.090% | | | | | |
| | | | 10/1/2023 | 240,000.00 | 2.090% | | | | | |
| | | | 10/1/2024 | 250,000.00 | 2.090% | | | | | |
| | | | | | | <u>\$ 2,115,000.00</u> | <u>\$ 135,000.00</u> | <u>\$ 175,000.00</u> | <u>\$ 2,075,000.00</u> | |

STATISTICAL SECTION (Unaudited)

Financial Trends

| | |
|-----|---|
| J-1 | Net Assets/Position by Component |
| J-2 | Changes in Net Assets/Position |
| J-3 | Fund Balances - Governmental Funds |
| J-4 | Changes in Fund Balances - Governmental Funds |
| J-5 | General Fund - Other Local Revenue by Source |

Revenue Capacity

| | |
|-----|---|
| J-6 | Assessed Value and Estimated Actual Value of Taxable Property |
| J-7 | Direct and Overlapping Property Tax Rates |
| J-8 | Principal Property Taxpayers |
| J-9 | Property Tax Levies and Collections |

Debt Capacity

| | |
|------|---|
| J-10 | Ratios of Outstanding Debt by Type |
| J-11 | Ratios of Net General Bonded Debt Outstanding |
| J-12 | Direct and Overlapping Governmental Activities Debt as of June 30 |
| J-13 | Legal Debt Margin Information |

Demographic and Economic Information

| | |
|------|-------------------------------------|
| J-14 | Demographic and Economic Statistics |
| J-15 | Principal Employers |

Operating Information

| | |
|------|---|
| J-16 | Full-time Equivalent District Employees by Function/Program |
| J-17 | Operating Statistics |
| J-18 | School Building Information |
| J-19 | Schedule of Required Maintenance for School Facilities |
| J-20 | Insurance Schedule |

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Net Assets/Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
Unaudited**

| | Fiscal Year Ending June 30, | | | | | | | | | |
|---|-----------------------------|--------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Governmental Activities | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 2,373,512.75 | \$ 2,363,213.78 | \$ 2,266,621.81 | \$ 2,175,029.84 | \$ 2,093,437.87 | \$ 1,993,345.90 | \$ 1,914,753.93 | \$ 1,660,825.99 | \$ 1,352,943.82 | \$ 929,860.06 |
| Restricted | 255,254.76 | 295,627.76 | 524,636.15 | 524,636.15 | 524,636.15 | 524,636.15 | 524,594.25 | 572,904.08 | 582,712.63 | 2,103,108.60 |
| Unrestricted | (4,839,708.97) | (4,676,641.37) | 1,087,623.10 | 1,095,502.23 | 1,256,042.20 | 2,457,735.59 | 2,452,852.27 | 2,659,799.14 | 2,399,281.08 | 2,141,826.41 |
| Total Governmental Activities Net Assets/Position | \$ (2,010,941.46) | \$ (2,017,799.83) | \$ 3,878,881.06 | \$ 3,795,168.22 | \$ 3,874,116.22 | \$ 4,975,717.64 | \$ 4,892,200.45 | \$ 4,893,519.21 | \$ 4,334,937.53 | \$ 5,174,794.07 |
| Business-Type Activities | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 126,788.39 | \$ 253,576.78 | \$ 360,365.18 | \$ 507,153.68 | \$ 363,340.86 | \$ 119,910.52 | \$ (25,104.40) | \$ (160,119.32) | \$ (280,134.24) | \$ (390,148.16) |
| Restricted | - | - | 6,977.79 | 6,977.79 | 144,360.12 | 198,640.08 | 198,640.08 | 198,640.08 | 196,281.90 | 196,281.90 |
| Unrestricted | 835,296.30 | 544,362.05 | 318,634.68 | 217,901.42 | 272,015.95 | (587,220.32) | (431,254.40) | 2,633.55 | 191,765.16 | 25,518.75 |
| Total Business-Type Activities Net Assets/Position | \$ 962,084.69 | \$ 797,938.83 | \$ 705,977.65 | \$ 732,032.79 | \$ 769,716.93 | \$ (268,669.72) | \$ (257,718.72) | \$ 41,154.31 | \$ 107,912.82 | \$ (168,348.51) |
| District-Wide | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 2,500,301.14 | \$ 2,616,790.56 | \$ 2,646,986.99 | \$ 2,682,183.42 | \$ 2,446,778.73 | \$ 2,113,256.42 | \$ 1,889,649.53 | \$ 1,500,706.67 | \$ 1,072,809.58 | \$ 539,710.90 |
| Restricted | 255,254.76 | 295,627.76 | 531,613.94 | 531,613.94 | 666,996.27 | 723,276.23 | 723,234.33 | 771,544.16 | 778,994.53 | 2,299,390.50 |
| Unrestricted | (3,804,412.67) | (4,132,279.32) | 1,406,257.78 | 1,313,403.65 | 1,528,058.15 | 1,870,515.27 | 2,021,597.87 | 2,662,422.69 | 2,591,046.24 | 2,167,344.16 |
| Total District Net Assets/Position | \$ (1,048,856.77) | \$ (1,219,861.09) | \$ 4,584,858.71 | \$ 4,527,201.01 | \$ 4,643,833.15 | \$ 4,707,047.92 | \$ 4,634,481.73 | \$ 4,934,673.52 | \$ 4,442,850.35 | \$ 5,006,445.56 |

Source: District Records

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

Changes in Net Assets/Position
Last Ten Fiscal Years
(accrual basis of accounting)
Unaudited

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|
| Expenses | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| Instruction | | | | | | | | | | |
| Regular | \$ 4,017,728.73 | \$ 3,036,153.67 | \$ 2,519,840.08 | \$ 2,516,031.95 | \$ 2,760,659.75 | \$ 132,481.14 | \$ 236,376.15 | \$ 260,068.67 | \$ 251,524.18 | \$ 293,493.61 |
| Special Education | | | | | | 2,665,112.47 | 2,853,623.74 | 2,877,609.81 | 2,968,997.37 | 2,698,912.67 |
| Support Services: | | | | | | | | | | |
| Tuition | | | | | | | 3,280.00 | 3,180.00 | 8,130.00 | 6,530.00 |
| Student and Instruction Related Services | 3,469,025.51 | 2,992,881.45 | 2,708,870.73 | 2,823,886.74 | 2,589,574.31 | 2,709,253.22 | 3,143,185.20 | 3,034,704.38 | 2,639,126.82 | 2,642,622.82 |
| School Administrative Services | 554,039.44 | 357,765.84 | 385,051.34 | 346,290.21 | 362,730.23 | 341,136.00 | 469,846.53 | 466,047.33 | 518,722.74 | 528,872.65 |
| General and Business Administrative Services | 734,364.65 | 784,178.56 | 781,389.23 | 899,183.71 | 952,783.38 | 1,007,247.57 | 909,266.78 | 1,206,346.59 | 1,191,497.63 | 1,147,815.95 |
| Plant Operations and Maintenance | 427,005.09 | 394,660.08 | 424,484.29 | 409,459.82 | 402,538.88 | 430,991.15 | 408,084.64 | 548,215.73 | 551,338.91 | 512,587.35 |
| Pupil Transportation | 17,207,719.22 | 16,770,316.18 | 16,538,088.59 | 16,149,219.46 | 14,725,657.29 | 14,828,152.38 | 15,264,024.10 | 15,530,007.65 | 16,472,428.07 | 13,913,002.38 |
| Interest on Long-Term Debt | 40,373.00 | 59,008.39 | | | | | | | | |
| Total Governmental Activities Expenses | 26,450,256.64 | 24,394,964.17 | 23,359,290.52 | 23,144,071.89 | 21,793,944.84 | 22,114,373.93 | 23,287,697.14 | 23,926,180.16 | 24,591,765.72 | 21,743,837.43 |
| Business-Type Activities: | | | | | | | | | | |
| Food Service | 50,479.51 | 50,544.36 | 58,598.34 | 53,418.39 | 74,643.25 | 82,665.11 | 79,537.77 | 84,463.16 | 75,326.79 | 75,600.41 |
| Regional Day School | 2,627,702.25 | 2,940,372.78 | 3,469,956.29 | 3,375,679.80 | 3,629,848.85 | 3,993,499.72 | 4,491,832.83 | 4,747,032.29 | 4,624,511.40 | 4,072,973.10 |
| Cornerstone College | | | | | | 27,781.36 | 92,109.87 | 54,226.22 | | |
| BOSS | 347,634.25 | 414,421.27 | 445,516.19 | 283,356.50 | 412,905.53 | 510,137.00 | 591,593.87 | 211,900.89 | | |
| Transportation Leasing | 1,175,242.67 | 1,084,348.09 | 974,397.91 | 771,703.21 | 1,078,816.41 | 1,053,232.29 | 1,006,335.03 | 911,456.39 | 1,050,454.01 | 1,200,454.39 |
| Total Business-Type Activities Expense | 4,201,058.68 | 4,489,685.50 | 4,948,488.73 | 4,485,157.90 | 5,196,212.04 | 5,667,295.48 | 6,261,409.47 | 6,009,078.95 | 5,750,292.20 | 5,349,027.90 |
| Total District-Wide Expenses | 30,651,316.32 | 28,884,650.67 | 28,307,759.25 | 27,629,229.79 | 26,990,156.88 | 27,781,669.41 | 29,549,106.61 | 29,935,259.11 | 30,342,057.92 | 27,092,865.33 |
| Program Revenues | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| Pupil Transportation | 17,243,076.64 | 17,106,950.34 | 16,912,765.80 | 16,417,352.03 | 15,025,163.57 | 15,058,641.34 | 15,564,270.83 | 15,908,866.56 | 15,332,647.89 | 15,078,527.20 |
| Operating Grants and Contributions | 4,909,427.84 | 3,268,607.11 | 2,678,762.26 | 2,741,817.89 | 2,686,079.16 | 2,466,732.31 | 2,634,010.01 | 2,848,674.98 | 2,912,443.56 | 2,687,031.86 |
| Total Governmental Activities Program Revenues | 22,152,504.48 | 20,375,557.45 | 19,591,548.06 | 19,159,169.92 | 17,711,242.73 | 17,525,373.65 | 18,198,280.84 | 18,757,541.54 | 18,245,091.45 | 18,365,559.06 |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

Changes in Net Assets/Position
Last Ten Fiscal Years
(accrual basis of accounting)
Unaudited

| | Fiscal Year Ending June 30, | | | | | | | | | |
|--|-----------------------------|----------------|----------------|-----------------|----------------|----------------|-----------------|----------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Business-Type Activities: | | | | | | | | | | |
| Charges for Services | \$ 7,387.44 | \$ 8,797.60 | \$ 8,593.00 | \$ 8,636.05 | \$ 9,988.78 | \$ 11,212.01 | \$ 13,672.43 | \$ 14,274.78 | \$ 15,077.87 | \$ 16,159.17 |
| Food Service | 2,749,848.19 | 2,856,253.72 | 3,557,990.41 | 3,401,407.54 | 3,674,720.68 | 4,131,243.13 | 4,357,419.31 | 4,803,766.61 | 4,739,277.75 | 4,264,265.89 |
| Regional Day School | | | | | | | 88,814.94 | 70,205.57 | | |
| Cornelstone College | | | | | | | 644,986.25 | 223,009.95 | | |
| BOSS | 351,497.00 | 431,377.00 | 399,601.75 | 398,563.00 | 470,393.00 | 562,409.75 | 644,986.25 | 788,938.98 | | |
| Transportation/Leasing | 1,235,299.13 | 1,264,281.72 | 931,373.78 | 673,560.25 | 1,001,800.64 | 929,207.18 | 836,456.26 | | 1,135,094.68 | 706,836.15 |
| Child Care | | | | | | | | | | |
| Operating Grants and Contributions | | | | | | | | | | |
| Food Service | | | | | | | | | | 1,522.50 |
| Regional Day School | | | | | | | | | | |
| Total Business-Type Activities Program Revenues | 4,344,031.76 | 4,562,710.04 | 4,897,568.94 | 4,423,166.84 | 5,156,883.10 | 5,634,072.07 | 5,941,349.19 | 5,900,195.89 | 5,889,450.30 | 4,988,583.71 |
| Total District-Wide Program Revenues | 26,496,536.24 | 24,938,287.49 | 24,489,107.00 | 23,562,336.76 | 22,868,125.83 | 23,159,445.72 | 24,139,630.03 | 24,657,937.43 | 24,134,541.75 | 23,354,142.77 |
| Net (Expense)/Revenue | (4,297,752.16) | (4,019,406.72) | (3,767,742.46) | (3,984,901.97) | (4,062,702.11) | (4,589,000.28) | (5,089,416.30) | (5,168,438.62) | (6,346,674.27) | (3,378,278.37) |
| Governmental Activities | 142,973.08 | 73,023.54 | (50,909.79) | (61,991.06) | (38,328.94) | (33,223.41) | (320,060.28) | (108,883.08) | 139,158.10 | (360,444.19) |
| Business-Type Activities | (4,154,779.08) | (3,946,383.18) | (3,818,652.25) | (4,046,893.03) | (4,122,031.05) | (4,622,223.69) | (5,409,476.58) | (5,277,321.68) | (6,207,516.17) | (3,738,722.56) |
| General Revenues and Other Changes in Net Assets/Position | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Local Government Units | 933,213.68 | 1,045,638.11 | 998,592.78 | 1,154,185.29 | 922,205.45 | 1,089,389.46 | 1,254,146.80 | 1,559,022.31 | 1,174,292.67 | 1,034,475.53 |
| Tuition (other than special schools) | 3,526,770.75 | 3,203,599.43 | 2,789,773.59 | 2,716,638.23 | 3,088,317.40 | 3,563,163.80 | 3,883,481.23 | 4,103,350.94 | 4,239,114.23 | 4,074,371.22 |
| Investment Earnings | | 6.21 | 2.02 | 2.01 | 7.42 | 61.26 | 23.75 | 13,728.23 | 86,458.68 | 103,918.46 |
| Miscellaneous Income | 798.88 | 51,418.72 | 87,941.56 | 59,435.36 | 43,813.99 | 42,148.57 | 19,601.35 | 73,341.80 | 25,200.96 | 60,810.79 |
| Refunding Debt Increase | (135,000.00) | | | | | | | | | |
| Transfers | (21,172.78) | (18,937.64) | (24,854.65) | (24,306.92) | (1,073,243.57) | (22,245.62) | (21,181.73) | (21,422.97) | (18,248.83) | (556,673.46) |
| Total Governmental Activities | 4,304,610.53 | 4,281,724.83 | 3,851,455.30 | 3,905,953.97 | 2,881,100.69 | 4,672,517.47 | 5,136,071.40 | 5,727,020.31 | 5,506,817.73 | 4,716,902.56 |
| Business-Type Activities: | | | | | | | | | | |
| Investment Earnings | | | | | 3.27 | 26.79 | 5.52 | 5,624.54 | 8,983.75 | 16,015.58 |
| Miscellaneous Income | | | | | | | | | 109,870.66 | 107,352.00 |
| Transfers | 21,172.78 | 18,937.64 | 24,854.65 | 24,306.92 | 1,077,712.32 | 22,245.62 | 21,181.73 | 21,422.97 | 18,248.83 | 391,819.29 |
| Total Business-Type Activities | 21,172.78 | 18,937.64 | 24,854.65 | 24,306.92 | 1,077,715.59 | 22,272.41 | 21,187.25 | 27,047.51 | 137,103.23 | 515,186.87 |
| Total District-Wide General Revenues | 4,325,783.31 | 4,300,662.47 | 3,876,309.95 | 3,930,260.89 | 4,058,816.28 | 4,694,789.88 | 5,157,258.65 | 5,754,067.82 | 5,643,920.96 | 5,232,089.43 |
| Change in Net Assets/Position | 6,868.37 | 262,318.11 | 83,712.84 | (78,948.00) | (1,101,601.42) | 83,517.19 | 46,665.10 | 558,661.69 | (839,856.54) | 1,338,624.19 |
| Governmental Activities | 164,145.86 | 91,961.18 | (26,055.14) | (37,684.14) | 1,038,386.65 | (10,951.00) | (298,873.03) | (81,835.55) | 276,261.33 | 154,742.68 |
| Business-Type Activities | \$ 171,004.23 | \$ 364,279.29 | \$ 57,657.70 | \$ (115,632.14) | \$ (63,214.77) | \$ 72,568.19 | \$ (252,217.93) | \$ 476,746.74 | \$ (563,595.21) | \$ 1,493,366.87 |

Source: District Records

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

Fund Balances - Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)
Unaudited

| | Fiscal Year Ending June 30, | | | | | | | | | |
|---|-----------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| General Fund | | | | | | | | | | |
| Reserved | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,750.00 | \$ 1,393,741.53 |
| Unreserved | 1,582,264.37 | 1,508,763.90 | 1,269,561.40 | 1,269,559.38 | 1,456,485.13 | 2,663,538.68 | 2,620,375.77 | 2,819,255.11 | 2,548,303.82 | 2,304,694.07 |
| Total General Fund | <u>\$ 1,582,264.37</u> | <u>\$ 1,508,763.90</u> | <u>\$ 1,269,561.40</u> | <u>\$ 1,269,559.38</u> | <u>\$ 1,456,485.13</u> | <u>\$ 2,663,538.68</u> | <u>\$ 2,620,375.77</u> | <u>\$ 2,819,255.11</u> | <u>\$ 2,561,053.82</u> | <u>\$ 3,698,435.60</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved | \$ 255,254.76 | \$ 295,627.76 | \$ 524,636.15 | \$ 524,636.15 | \$ 524,636.15 | \$ 524,636.15 | \$ 524,594.25 | \$ 572,568.11 | \$ 569,583.46 | \$ 552,187.73 |
| Unreserved, Reported In: | | | | | | | | | | |
| Special Revenue Fund | - | - | - | - | - | - | - | 335.97 | 379.17 | 157,179.34 |
| Capital Projects Fund | 255,254.76 | 295,627.76 | 524,636.15 | 524,636.15 | 524,636.15 | 524,636.15 | 524,594.25 | 572,904.08 | 569,962.63 | 709,367.07 |
| Total All Other Governmental Funds | <u>\$ 255,254.76</u> | <u>\$ 295,627.76</u> | <u>\$ 524,636.15</u> | <u>\$ 524,636.15</u> | <u>\$ 524,636.15</u> | <u>\$ 524,636.15</u> | <u>\$ 524,594.25</u> | <u>\$ 572,904.08</u> | <u>\$ 569,962.63</u> | <u>\$ 709,367.07</u> |
| Total Fund Balances | <u>\$ 1,837,519.13</u> | <u>\$ 1,804,391.66</u> | <u>\$ 1,794,197.55</u> | <u>\$ 1,794,195.53</u> | <u>\$ 1,981,121.28</u> | <u>\$ 3,188,174.83</u> | <u>\$ 3,144,970.02</u> | <u>\$ 3,392,159.19</u> | <u>\$ 3,131,016.45</u> | <u>\$ 4,407,802.67</u> |

Source: District Records

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Changes in Fund Balances - Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)
Unaudited

| | Fiscal Year Ending June 30, | | | | | | | | | |
|---|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Revenues | | | | | | | | | | |
| Local Government Units | \$ 933,213.68 | \$ 1,045,636.11 | \$ 998,592.78 | \$ 1,154,185.29 | \$ 922,205.45 | \$ 1,089,389.46 | \$ 1,254,146.80 | \$ 1,558,022.31 | \$ 1,174,292.67 | \$ 1,034,475.53 |
| Tuition Charges | 3,526,770.75 | 3,203,599.43 | 2,769,773.59 | 2,716,638.23 | 3,088,317.40 | 3,563,163.80 | 3,883,481.23 | 4,103,360.94 | 4,239,114.23 | 4,074,371.22 |
| Transportation Fees | 17,243,076.64 | 17,106,950.34 | 16,912,765.80 | 16,417,352.03 | 15,025,163.57 | 15,058,641.34 | 15,564,270.83 | 15,908,866.56 | 15,332,647.89 | 15,678,527.20 |
| Interest Earnings | - | 6.21 | 2.02 | 2.01 | 7.42 | 61.26 | 23.75 | 13,728.23 | 86,458.68 | 103,918.48 |
| Miscellaneous | 798.88 | 51,418.72 | 87,941.56 | 59,435.36 | 43,813.99 | 42,148.57 | 19,601.35 | 73,341.80 | 25,200.98 | 60,810.79 |
| State Sources | 3,124,513.38 | 2,949,628.43 | 2,431,014.34 | 2,547,760.87 | 2,334,318.68 | 2,218,857.27 | 2,372,828.50 | 2,658,452.39 | 2,783,499.56 | 2,589,337.27 |
| Federal Sources | 514,173.46 | 318,978.68 | 247,767.92 | 194,057.02 | 351,760.48 | 247,875.04 | 281,181.51 | 190,422.59 | 129,944.00 | 97,743.77 |
| Total Revenues | 25,342,546.79 | 24,876,219.92 | 23,467,858.01 | 23,089,430.81 | 21,765,566.99 | 22,220,136.74 | 23,355,533.97 | 24,506,184.82 | 23,770,158.01 | 23,639,184.26 |
| Expenditures | | | | | | | | | | |
| Instruction | | | | | | | | | | |
| Regular Instruction | | | 1,556.26 | | | 132,481.14 | 236,376.15 | 260,068.67 | 251,524.18 | 283,493.61 |
| Special Education Instruction | | 2,209,834.94 | 1,622,540.91 | 1,455,492.67 | 1,682,186.10 | 1,639,176.62 | 1,734,516.78 | 1,879,886.92 | 1,903,608.59 | 1,643,194.02 |
| Other Instruction | | | | | | | | | | |
| Support Services: | | | | | | | | | | |
| Tuition | | | | | | | 3,280.00 | 3,180.00 | 8,130.00 | 6,530.00 |
| Student and Instruction Related Services | 2,587,604.60 | 2,535,354.01 | 2,212,809.83 | 2,330,152.10 | 2,076,493.15 | 2,188,266.52 | 2,549,322.75 | 2,547,182.02 | 2,163,447.07 | 2,150,152.93 |
| School Administrative Services | 248,749.11 | 221,231.68 | 222,333.01 | 152,406.44 | 165,795.04 | 210,607.91 | 269,988.20 | 288,014.24 | 315,925.86 | 326,678.23 |
| General and Business | | | | | | | | | | |
| Administrative Services | 600,420.69 | 604,532.45 | 617,638.25 | 718,654.55 | 725,346.02 | 799,650.21 | 672,791.57 | 983,205.49 | 948,664.65 | 993,341.19 |
| Plant Operations and Maintenance | 351,302.83 | 368,985.31 | 393,571.66 | 373,348.04 | 375,391.56 | 379,235.45 | 376,628.21 | 521,116.87 | 522,180.63 | 483,666.55 |
| Pupil Transportation | 16,792,754.95 | 16,626,575.32 | 16,373,584.74 | 15,958,299.78 | 14,676,610.17 | 14,670,959.06 | 15,202,140.67 | 15,475,861.92 | 16,419,789.08 | 13,860,772.26 |
| Employee Benefits | 2,030,879.59 | 1,851,466.07 | 1,833,966.68 | 2,107,686.06 | 2,024,084.93 | 1,982,309.40 | 2,161,188.25 | 1,883,832.78 | 1,998,953.55 | 1,955,442.51 |
| Debt Service | 40,373.00 | 229,008.39 | | | | | | | | |
| Capital Outlay | 218,707.00 | - | 165,000.00 | 155,000.00 | 173,500.00 | 152,000.00 | 327,335.97 | 381,290.20 | 496,491.79 | 446,678.40 |
| Total Expenditures | 25,288,246.54 | 24,847,098.17 | 23,443,001.34 | 23,262,049.64 | 21,899,396.87 | 22,154,686.31 | 23,533,587.55 | 24,223,619.11 | 25,028,695.40 | 22,159,949.70 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 54,300.25 | 29,131.75 | 24,856.67 | (162,618.83) | (133,809.88) | 65,450.43 | (178,033.58) | 282,565.71 | (1,258,537.39) | 1,479,234.56 |

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

Changes in Fund Balances - Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)
Unaudited

| | Fiscal Year Ending June 30, | | | | | | | | | |
|---|-----------------------------|---------------------|--------------------|------------------------|--------------------------|---------------------|------------------------|----------------------|--------------------------|----------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Transfers In | \$ - | \$ 6.21 | \$ 2.02 | \$ 2.01 | \$ 7.42 | \$ 19.36 | \$ 21.04 | \$ 1,412.55 | \$ 9,122.34 | \$ 11,359.04 |
| Transfers Out | (21,172.78) | (18,943.85) | (24,856.67) | (24,305.93) | (1,073,250.99) | (22,254.98) | (21,202.77) | (22,835.52) | (27,371.17) | (568,032.50) |
| Total Other Financing Sources (Uses) | (21,172.78) | (18,937.64) | (24,854.65) | (24,306.92) | (1,073,243.57) | (22,245.62) | (21,181.73) | (21,422.97) | (18,248.83) | (556,673.46) |
| Net Change in Fund Balances | \$ 33,127.47 | \$ 10,194.11 | \$ 2.02 | \$ (186,925.75) | \$ (1,207,953.55) | \$ 43,204.81 | \$ (199,215.31) | \$ 261,142.74 | \$ (1,276,786.22) | \$ 922,561.10 |
| Debt Service as a Percentage of Noncapital Expenditures | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Source: District Records

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**General Fund - Other Local Revenue by Source
Last Ten Fiscal Years
(modified accrual basis of accounting)
Unaudited**

| <u>Fiscal Year Ended June 30,</u> | <u>Total</u> | <u>Interest</u> | <u>Refunds/Other</u> |
|---------------------------------------|---------------|-----------------|----------------------|
| 2007 | \$ 127,777.28 | \$ 66,966.49 | \$ 60,810.79 |
| 2008 | 85,141.59 | 59,940.61 | 25,200.98 |
| 2009 | 87,070.03 | 13,728.23 | 73,341.80 |
| 2010 | 19,625.10 | 23.75 | 19,601.35 |
| 2011 | 42,148.57 | - | 42,148.57 |
| 2012 | 43,821.41 | 7.42 | 43,813.99 |
| 2013 | 59,437.37 | 2.01 | 59,435.36 |
| 2014 | 87,943.58 | 2.02 | 87,941.56 |
| 2015 | 51,424.93 | 6.21 | 51,418.72 |
| 2016 | 798.88 | | 798.88 |

Source: District Records

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Assessed Value and Estimated Actual Value of Taxable Property,
Last Ten Fiscal Years
Unaudited**

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years**
(rate per \$100 of assessed value)
Unaudited

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Principal Property Taxpayers
Current Year and Nine Years Ago
Unaudited**

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Property Tax Levies and Collections
Last Ten Fiscal Years
Unaudited**

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
Unaudited**

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years
Unaudited**

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Direct and Overlapping Governmental Activities Debt
As of December 31, 2015
Unaudited**

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Legal Debt Margin Information
Last Ten Fiscal Years
Unaudited**

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Demographic and Economic Statistics
Last Ten Fiscal Years
Unaudited**

MORRIS COUNTY

| <u>Year</u> | <u>Per Capita Personal Income</u> | <u>Unemployment Rate</u> |
|-------------|---|------------------------------|
| 2005 | \$ 63,634 | 5.5% |
| 2006 | 68,495 | 3.3% |
| 2007 | 72,211 | 3.0% |
| 2008 | 74,636 | 4.0% |
| 2009 | 70,516 | 7.0% |
| 2010 | 72,780 | 7.4% |
| 2011 | 76,194 | 7.1% |
| 2012 | 78,693 | 7.3% |
| 2013 | 79,094 | 6.3% |
| 2014 | 82,810 | 4.9% |
| 2015 | Not Available | 4.2% |

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Principal Employers
Current Year and Nine Years Ago
Unaudited**

NOT APPLICABLE

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Full-time Equivalent District Employees by Function/Program
Last Ten Fiscal Years
Unaudited

| <u>Function/Program</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Instruction | | | | | | | | | | |
| Regular | 4 | 4 | 4 | 4 | 4 | 0 | 0 | 0 | 0 | 0 |
| Special Education | 93 | 86 | 85 | 85 | 62 | 57 | 57 | 55 | 50 | 50 |
| Support Services: | | | | | | | | | | |
| Student and Instruction Related Services | 4 | 5 | 5 | 5 | 4 | 4 | 4 | 5 | 5 | 5 |
| School Administrative Services | 4 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| General and Business Administrative Services | 4 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Plant Operations and Maintenance | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Pupil Transportation | 8 | 12 | 11 | 11 | 11 | 10 | 13 | 14 | 14 | 15 |
| Total | <u>119</u> | <u>119</u> | <u>115</u> | <u>115</u> | <u>91</u> | <u>81</u> | <u>84</u> | <u>84</u> | <u>79</u> | <u>80</u> |

Source: District Personnel Records

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
Operating Statistics
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Enrollment | Operating Expenditures | Cost Per Pupil | Percentage Change | Teaching Staff | Pupil/Teacher Ratio | Average Daily Enrollment (ADE) | Average Daily Attendance (ADA) | % Change in Average Daily Enrollment | Student Attendance Percentage |
|-------------|------------|------------------------|----------------|-------------------|----------------|---------------------|--------------------------------|--------------------------------|--------------------------------------|-------------------------------|
| 2006 | 156.0 | 7,070,609.79 | 45,324.42 | 0.75% | 98 | 1.6 | 135.9 | 125.0 | -5.56% | 91.98% |
| 2007 | 144.0 | 7,688,784.11 | 53,394.33 | 17.80% | 99 | 1.5 | 139.5 | 127.6 | 2.65% | 91.47% |
| 2008 | 142.1 | 8,334,341.60 | 58,651.24 | 9.85% | 99 | 1.4 | 142.1 | 129.2 | 1.86% | 90.92% |
| 2009 | 135.7 | 8,758,006.40 | 64,539.47 | 10.04% | 99 | 1.4 | 135.7 | 123.4 | -4.50% | 90.94% |
| 2010 | 120.8 | 8,349,993.64 | 69,122.46 | 7.10% | 99 | 1.2 | 120.8 | 111.9 | -10.98% | 92.63% |
| 2011 | 112.0 | 7,123,760.30 | 63,605.00 | -7.98% | 67 | 1.7 | 112.0 | 102.9 | -7.28% | 91.88% |
| 2012 | 95.0 | 6,737,365.80 | 70,919.85 | 11.50% | 57 | 1.7 | 95.3 | 86.6 | -14.91% | 90.87% |
| 2013 | 83.1 | 6,204,864.91 | 74,667.45 | 5.28% | 57 | 1.5 | 83.1 | 74.4 | -12.80% | 89.53% |
| 2014 | 80.5 | 6,157,839.74 | 76,494.90 | 2.45% | 55 | 1.5 | 80.5 | 72.3 | -3.13% | 89.81% |
| 2015 | 78.5 | 5,915,560.36 | 75,357.46 | -1.49% | 55 | 1.4 | 78.5 | 73.0 | -2.48% | 92.99% |
| 2016 | 73.3 | 6,103,331.71 | 83,265.10 | 10.49% | 55 | 1.3 | 73.3 | 67.7 | -6.62% | 92.36% |

Source: District Records

BOARD OF EDUCATION
 THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 School Building Information
 Last Ten Fiscal Years
 Unaudited

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2015 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <u>Commission Buildings</u> | | | | | | | | | | |
| <u>Park Lake School</u> | | | | | | | | | | |
| Square Feet | 14,190 | 14,190 | 14,190 | 14,190 | 14,190 | 14,190 | 14,190 | 14,190 | 14,190 | 14,190 |
| Capacity (students) | 110 | 110 | 110 | 110 | 110 | 110 | 110 | 110 | 110 | 110 |
| Enrollment | 73 | 71 | 67 | 61 | 55 | 47 | 39 | 36.5 | 36.5 | 42.0 |
| <u>Regional Day School</u> | | | | | | | | | | |
| Square Feet | 21,590 | 21,590 | 21,590 | 21,590 | 21,590 | 21,590 | 21,590 | 21,590 | 21,590 | 21,590 |
| Capacity (students) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Enrollment | 71 | 71 | 69 | 60 | 56 | 49 | 44 | 44 | 44 | 31 |

Number of Schools at June 30, 2016
 Special Education School = 2

Source: District Facilities Office

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**General Fund
Schedule of Required Maintenance for School Facilities
Last Ten Fiscal Years
Unaudited**

NOT APPLICABLE

**BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY**

**Insurance Schedule
As of June 30, 2016
Unaudited**

A) Property Policy

| | |
|--------------|---------------------------------------|
| On File | - Blanket, Buildings, Contents |
| \$ 5,000,000 | - Business Interruption/Extra Expense |
| Sub-Limits: | |
| \$ 5,000,000 | - Earthquake (Annual Aggregate) |
| | - Flood Categories: |
| \$ 5,000,000 | Flood Zone A - \$500,000 Deductible |
| \$ 2,000,000 | Flood Zone B - \$100,000 Deductible |
| \$ 5,000,000 | Flood Zone C - \$50,000 Deductible |
| \$ 250,000 | - Debris Removal |
| \$ 25,000 | - Fire Department Service Charge |
| \$ 100,000 | - Pollutants Clean Up and Removal |

B) Boilers & Machinery Policy:

| | |
|---------------|---------|
| \$ 50,000,000 | Blanket |
|---------------|---------|

C) Inland Marine Floater

| | |
|--------------|--|
| \$ 5,000,000 | - Valuable Papers |
| \$ 2,500,000 | - Electronic Data Processing Equipment |
| \$ 250,000 | - Contractor's Equipment |
| \$ 100,000 | - School Property Coverage |
| \$ 250,000 | - Miscellaneous |

D) Liability

| | |
|---------------------------|--------------------|
| \$ 1,000,000 | - Automobile |
| \$ 1,000,000 /\$2,000,000 | - General |
| \$ 1,000,000 | - Employee Benefit |
| \$ 10,000,000 | - Umbrella |
| \$ 50,000,000 | - Excess |

E) Crime

| | |
|------------|-------------------------------|
| \$ 500,000 | - Blanket Employee Dishonesty |
|------------|-------------------------------|

F) School Board Legal Liability

| | |
|--------------|--|
| \$ 1,000,000 | |
|--------------|--|

Source: District records.

SINGLE AUDIT SECTION



VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

K-1
Sheet 1

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

The Honorable President
Members of the Board of Education
Educational Services Commission of Morris County
County of Morris, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and in compliance with audit requirements prescribed by the Office of School Finance, Department of Education, State of New Jersey, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Services Commission of Morris County 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 and have issued our report thereon dated December 9, 2016.

Internal Control Over Financial Reporting

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

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

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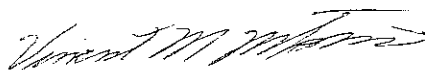
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during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

Compliance and Other Matters

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

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and the Division of Finance, Department of Education, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Vincent M. Montanino
Public School Accountant
License No. CS000495



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

December 9, 2016



VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

K-2
Sheet 1

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE REQUIRED BY NEW JERSEY OMB CIRCULAR LETTER 15-08

The Honorable President
Members of the Board of Education
Educational Services Commission of Morris County
County of Morris, New Jersey

Report on Compliance for Each Major State Program

We have audited the Educational Services Commission of Morris County's compliance with the types of compliance requirements described in the New Jersey State Aid/Grants Compliance Supplement that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016. The Educational Services Commission of Morris County's major state programs are identified in the Summary of Auditor's Results Section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Educational Services Commission of Morris County's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Governmental 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; Audits of States, Local Governments, and Non-Profit Organizations; and New Jersey Office of Management and Budget Circular Letter 15-08 Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards and New Jersey's OMB's Circular Letter 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 state program occurred. An audit includes examining, on a test basis, evidence about the Educational Services Commission of Morris County'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 state program. However, our audit does not provide a legal determination on the Educational Services Commission of Morris County's compliance.

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

Internal Control Over Compliance

The management of the Educational Services Commission of Morris County 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 Educational Services Commission of Morris County's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with NJOMB 15-08, but not for the purpose of expressing an opinion on the effectiveness of the Educational Services Commission of Morris County's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Educational Services Commission of Morris County'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 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 a material noncompliance with a type of compliance requirement of a 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 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 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

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 that the testing based on the requirements of NJOMB 15-08. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by New Jersey OMB Circular 15-08

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Educational Services Commission of Morris County, as of and for the fiscal year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Board of Education's basic financial statements. We issued our report thereon dated December 9, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 15-08 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures and schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.



Vincent M. Montanino
Public School Accountant
License No. CS000495



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

December 9, 2016

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Schedule of Expenditures of Federal Awards, Schedule A
 For the Fiscal Year Ended June 30, 2016

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA or Grant Number | Grant Period | Award Amount | Balance July 1, 2015 | Adjustments | Cash Received | BUDGETARY EXPENDITURES | | Total | Repayment of Prior Years' Balances | Accounts Receivable | Balance June 30, 2016 |
|---|------------------------------|----------------|---------------|----------------------|-------------|---------------|------------------------|------------------|---------------|------------------------------------|---------------------|-----------------------|
| | | | | | | | Disbursements | Accounts Payable | | | | |
| U.S. Department of Education Passed - Through State Department of Education: I.D.E.A. Part B, Basic | 84.027A | 7/1/15-6/30/16 | \$ 514,173.46 | \$ - | \$ - | \$ 514,173.46 | \$ - | \$ - | \$ 514,173.46 | \$ - | \$ - | \$ - |
| Total U.S. Department of Education | | | | | | 514,173.46 | | | 514,173.46 | | | |
| Total Federal Financial Assistance | | | \$ 514,173.46 | \$ - | \$ - | \$ 514,173.46 | \$ - | \$ - | \$ 514,173.46 | \$ - | \$ - | \$ - |

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

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY
 Schedule of Expenditures of State Financial Assistance, Schedule B
 For the Fiscal Year Ended June 30, 2016

| State Grantor/Program Title | Grant or State Project Number | Grant Period | Award Amount | Balance July 1, 2015 | Adjustments | Cash Received | Disbursements | BUDGETARY EXPENDITURES | | Repayment of Prior Years' Balances | Accounts Receivable | Balance June 30, 2016 |
|---|-------------------------------|----------------|--------------|----------------------|-------------|-----------------------|-----------------------|------------------------|--------------|------------------------------------|---------------------|-----------------------|
| | | | | | | | | Payable | Encumbrances | | | |
| State Department of Education: | | | | | | | | | | | | |
| General Funds: | | | | | | | | | | | | |
| Reimbursed TPAF Social Security Contribution | 16-495-034-5094-003 | 7/1/15-6/30/16 | \$219,934.19 | \$ - | \$ - | \$ 219,934.19 | \$ 219,934.19 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Reimbursed TPAF Social Security Contribution | 15-495-034-5094-003 | 7/1/14-6/30/15 | 239,571.27 | (11,079.84) | - | 11,079.84 | - | - | - | - | - | - |
| On-Behalf TPAF PRM Contributions | 16-100-034-5095-001 | 7/1/15-6/30/16 | 313,576.00 | - | - | 313,576.00 | 313,576.00 | - | - | - | - | - |
| On-Behalf TPAF Pension Contributions | 16-495-034-5094-006 | 7/1/15-6/30/16 | 263,350.00 | - | - | 263,350.00 | 263,350.00 | - | - | - | - | - |
| Total General Funds | | | | <u>(11,079.84)</u> | | <u>607,940.03</u> | <u>796,860.19</u> | | | | | |
| Special Revenue Funds: | | | | | | | | | | | | |
| New Jersey Nonpublic Aid: | | | | | | | | | | | | |
| Textbook Aid | 16-100-034-5120-064 | 7/1/15-6/30/16 | 215,972.59 | - | - | 215,972.59 | 215,972.59 | - | - | - | - | - |
| Auxiliary Services: | | | | | | | | | | | | |
| Compensatory Education | 16-100-034-5120-067 | 7/1/15-6/30/16 | 289,934.69 | - | - | 289,934.69 | 289,934.69 | - | - | - | - | - |
| English as a Second Language | 16-100-034-5120-067 | 7/1/15-6/30/16 | 1,984.35 | - | - | 1,984.35 | 1,984.35 | - | - | - | - | - |
| Home Instruction | 16-100-034-5120-067 | 7/1/15-6/30/16 | 1,324.22 | - | - | 1,324.22 | 1,324.22 | - | - | - | - | - |
| Handicapped Services: | | | | | | | | | | | | |
| Examination and Classification | 16-100-034-5120-066 | 7/1/15-6/30/16 | 403,635.94 | - | - | 403,635.94 | 403,635.94 | - | - | - | - | - |
| Corrective Speech | 16-100-034-5120-066 | 7/1/15-6/30/16 | 214,034.11 | - | - | 214,034.11 | 214,034.11 | - | - | - | - | - |
| Supplementary Instruction | 16-100-034-5120-066 | 7/1/15-6/30/16 | 250,320.47 | - | - | 250,320.47 | 250,320.47 | - | - | - | - | - |
| Technology Initiative | 16-100-034-5120-373 | 7/1/15-6/30/16 | 187,143.58 | - | - | 187,143.58 | 187,143.58 | - | - | - | - | - |
| Security Aid | 16-100-034-5120-509 | 7/1/15-6/30/16 | 136,504.50 | - | - | 136,504.50 | 136,504.50 | - | - | - | - | - |
| Nursing Services | 16-100-034-5120-070 | 7/1/15-6/30/16 | 626,798.74 | - | - | 626,798.74 | 626,798.74 | - | - | - | - | - |
| Total Special Revenue Funds | | | | | | <u>2,327,653.19</u> | <u>2,327,653.19</u> | | | | | |
| Total All Funds | | | | <u>\$(11,079.84)</u> | | <u>\$3,135,593.22</u> | <u>\$3,124,513.38</u> | | | | | |
| State Financial Assistance Not Subject To Major Program Determination: | | | | | | | | | | | | |
| General Funds: | | | | | | | | | | | | |
| On-Behalf TPAF PRM Contributions | 16-100-034-5095-001 | 7/1/15-6/30/16 | 313,576.00 | - | - | 313,576.00 | 313,576.00 | - | - | - | - | - |
| On-Behalf TPAF Pension Contributions | 16-495-034-5094-006 | 7/1/15-6/30/16 | 263,350.00 | - | - | 263,350.00 | 263,350.00 | - | - | - | - | - |
| Total State Financial Assistance Subject to Single Audit | | | | <u>\$(11,079.84)</u> | | <u>\$2,558,667.22</u> | <u>\$2,547,587.38</u> | | | | | |

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

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO SCHEDULES OF EXPENDITURES OF AWARDS AND FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2016

Note 1: General

The accompanying schedules of expenditures of awards and financial assistance present the activity of all federal and state programs of the Educational Services Commission of Morris County Board of Education. The Board of Education is defined in Note I:B. 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 is included on the schedule of expenditures of federal awards and state financial assistance.

Note 2: Basis of Accounting

The accompanying schedules of expenditures of awards and financial assistance are presented using the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Notes I:E and Note I:F. to the Board's basic financial statements. The information in the schedules is presented in accordance with the requirements of the Federal Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3: Relationship to Basic Financial Statements

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

The general fund is presented in the accompanying schedules on the modified accrual basis with the exception of the revenue recognition of the last state aid payment in the current budget year, which is mandated pursuant to N.J.S.A. 18A:22-44.2. For GAAP purposes, that payment is not recognized until the subsequent year due to the state deferral and recording of the last state aid payment 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.

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

NOTES TO SCHEDULES OF EXPENDITURES OF AWARDS AND FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2016
(CONCLUDED)

Note 3: Relationship to Basic Financial Statements (Continued)

The net adjustment to reconcile from the budgetary basis to the GAAP basis is \$-0- for the general revenue fund and \$-0- for the special revenue fund. See the Notes to Required Supplementary Information for a reconciliation of the budgetary basis to the GAAP basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the Board's basic financial statements on a GAAP basis as follows:

| | <u>Federal</u> | <u>State</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------|-----------------------|
| General Fund | \$ | \$ 796,860.19 | \$ 796,860.19 |
| Special Revenue Fund | <u>514,173.46</u> | <u>2,327,653.19</u> | <u>2,841,826.65</u> |
| Total Awards and Financial Assistance | <u>\$514,173.46</u> | <u>\$3,124,513.38</u> | <u>\$3,638,686.84</u> |

Note 4: Relationship to Federal and State Financial Reports

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

Note 5: Other

The amount reported as TPAF Pension Contributions represents the amount paid by the state on behalf of the district for the year ended June 30, 2016. TPAF Social Security Contributions represents the amount reimbursed by the state for the employer's share of social security contributions for TPAF members for the year ended June 30, 2016.

Note 6: On-Behalf Programs Not Subject to State Single Audit

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

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Part I – Summary of Auditor’s Results

Financial Statement Section

- A) Type of auditor’s report issued: Unmodified
- B) Internal Control over financial reporting:
- 1) Material weakness(es) identified? _____yes X no
- 2) Were significant deficiencies identified
 that were not considered to be material
 weaknesses? _____yes X no
- C) Noncompliance material to basic
 financial statements noted? _____yes X no

Federal Awards Section

Not Applicable

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Part I – Summary of Auditor’s Results (Continued)

State Financial Assistance Section

- D) Dollar threshold used to determine Type A Programs \$750,000.00 _____
- E) Auditee qualified as low-risk auditee? ____ yes no ____ n/a
- F) Type of auditor’s report on compliance for major programs: ____ Unmodified _____
- G) Internal Control over compliance:
- 1) Material weakness(es) identified? ____ yes ____ no
- 2) Were significant deficiencies identified that were not considered to be material weaknesses? ____ yes ____ no
- H) Any audit findings disclosed that are required To be reported in accordance with N.J. OMB Circular 15-08? ____ yes ____ no

I) Identification of major programs:

| <u>GMIS Number(s)</u> | <u>Name of State Program</u> |
|-----------------------|--|
| 16-100-034-5120-070 | N.J. Nonpublic Aid - Nursing Services |
| 16-100-034-5120-066 | N.J. Nonpublic Aid - Handicapped Services |
| | |
| | |
| | |

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

Part 2 – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 of Government Auditing Standards.

Not Applicable

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016
(CONTINUED)

Part 3 – Schedule of Federal Awards and State Financial Assistance 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 the Federal Uniform Guidance and New Jersey OMB's Circular 15-08.

Not Applicable

BOARD OF EDUCATION
THE EDUCATIONAL SERVICES COMMISSION OF MORRIS COUNTY

SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2016

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of Government Auditing Standards, Federal Uniform Guidance and New Jersey OMB's Circular 15-08.

Not Applicable