

**PASSAIC COUNTY EDUCATIONAL
SERVICES COMMISSION
COUNTY OF PASSAIC, NEW JERSEY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

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INTRODUCTORY SECTION



PASSAIC COUNTY
EDUCATIONAL SERVICES COMMISSION

45 Reinhardt Road
Wayne, New Jersey 07470
Phone (973) 614-8585 – Fax (973) 614-1334

Diana C. Lobosco
Superintendent of Schools

Richard Giglio
Business Administrator/Board Secretary

November 17, 2016

President and Members of the Board of Directors
Passaic County Educational Services Commission
Passaic County, New Jersey

Dear Board Members:

The comprehensive annual financial report of the Passaic County Educational Services Commission for the fiscal year ended June 30, 2016, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Board of Directors. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the basic financial statements and results of operations of the various funds and account groups of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial and statistical. The introductory section includes this transmittal letter, the Commission's organizational chart and a list of principal officials. The financial section includes the management discussion and analysis, 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State Treasury Circular Letter 15-08 OMB, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid". Information related to this single audit, including the 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: Passaic County Educational Services Commission is an independent reporting entity within the criteria adopted by the GASB as established by NCGA Statement No.3. All funds and account groups of the Commission are included in this report. The Passaic County Educational Services Commission Board of Directors and all its programs constitute the Commission's reporting entity.

In July 2016, the Commission received approval from the Department of Education to change its name to the Northern Region Educational Services Commission.

2) ECONOMIC CONDITION AND OUTLOOK:

The Passaic County Educational Services Commission had experienced a period of declining enrollments. However, the Commission has stabilized financially and has begun rebuilding programmatically.

3) MAJOR INITIATIVES:

The Passaic County Educational Services Commission continued to provide many different kinds of services for the school districts of Passaic County. A brief overview of certain selected services is outlined below:

TRANSPORTATION

The Passaic County Educational Services Commission transports many students in the county. This year we provided transportation for many regular and special education students from most of the districts in the county, and several out-of-county districts. We also provide non-public transportation, and transportation for our own education programs.

SKYLANDS SCHOOL FOR THE EXCEPTIONAL

The Commission operates a very effective program for multiply handicapped youngsters. This well received program, called " Skylands Schools for the Exceptional", relocated in September 2015 to Bloomingdale's Walter T. Bergen School and educates medically and physically severely challenged students. This program is extremely necessary in this county, since these children would be bused to classes an hour away from their homes.

HOPE ACADEMY

In October 2008, the Commission opened the Hope Academy in Passaic for approximately 70 over-aged middle school students previously enrolled in the Passaic School system. Hope Academy provides a program to ensure the at-risk students achieve a high school diploma.

POMPTON LAKES EARLY CHILDHOOD CENTER

The Passaic County Educational Services Commission assumed the operation of the Pompton Lakes Early Childhood Center in April of 2001. This center provides services to children during the day and also has a component for before and after-school care. It services approximately 165 students. The program currently rents a classroom in the Lakeside Middle School.

SUBSTITUTE TEACHERS REGISTRY

This year 8 school districts, as well as the Commission, participated in the substitute registry program. This function is aided with our Internet Site, Aesop, which allows substitutes, teachers and School Districts access 24/7 to enter and review absences. A Substitute Coordinator oversees this process and continuously updates the substitute list.

NON-PUBLIC NURSING

The Commission provides non-public nursing services to private schools in the county. The nurses serve a number of different functions in the private schools and make sure that basic requirements are covered.

The Commission also provides non-public nursing services to the Paterson Nonpublic schools. There were currently 13 schools being serviced at June 30, 2016.

We now have 10 non-public nurses working in various schools within the county, including Paterson

PERSONNEL

Numerous districts are now using the Commission for certain types of personnel. These include:

- Speech and Language Pathologists
- Physical Therapists
- Occupational Therapists
- COTAs (Certified Occupational Therapy Assistants)
- Classroom Aides
- Computer Technicians
- Financial Clerks
- Home Instruction

This sharing provides continuity, cost-savings, and the greater possibility of sharing some services in the future.

SUPPLEMENTAL EDUCATIONAL SERVICES (SES)

The Commission is an approved SES provider and therefore, can offer additional academic instruction in language arts literacy, mathematics and science to students who are eligible for these services. The program is run at various districts

MISCELLANEOUS SERVICES

The Commission places the yearly nutrition advertisement in the newspaper. By doing this together, we save each district the cost of having to run this large ad on their own.

SUMMER SCHOOLS

The Passaic County Educational Services Commission again operated summer schools in Clifton, Pompton Lakes, Wayne, North Arlington, Kearny and Lakeland Regional during the summer of 2016. These programs provide students the opportunity to receive credit for courses in which they may not have been successful during the school year. Many enrichment courses are also being offered.

AFTER-SCHOOL PROGRAM AT PCTI

The Passaic County Educational Services Commission operates an after-school program for high school students at Passaic County Technical Institute in the fall and spring semesters. This program provides students the opportunity to receive credit for courses in which they may not have been successful during the school year.

There are other programs that the Commission is also currently investigating. The Commission was established, and is able, to provide many different services for the districts in Passaic County. The possibilities are endless, and, with the positive cooperation characteristic of our county, many valuable and beneficial resources will be made available to our school districts

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

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

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 the board of directors of the Commission. Annual appropriated budgets are adopted for the general fund. The final budget amount as amended for the fiscal year is reflected in the financial section.

An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either canceled or are included as reappropriations of fund balance in the subsequent year.

6) ACCOUNTING SYSTEMS AND REPORT

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

7) 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. The Commission bank of record is Columbia Bank.

8) RISK MANAGEMENT: The Commission carries various forms of insurance, including but not limited to general liability, automobile liability and comprehensive/collision, hazard and theft insurance on property and contents, and fidelity bonds.

9) OTHER INFORMATION:

A) Independent Audit - State statutes require an annual audit by independent certified public accounts or registered municipal accountants. The Commission's Board of Directors selected the account firm of Ferraioli, Wielkocz, Cerullo & Cuva. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of Title 2 U.S. Code of Federal Requirements Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State Treasury Circular Letter 15-08 OMB. The auditor's reports related specifically to the single audit are included in the single audit section of this report.

10) ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Passaic County Educational Services Commission Board of Directors for their concern in providing fiscal accountability to the member boards of education 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.

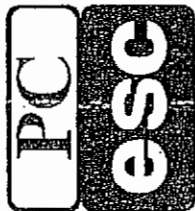
Respectfully submitted,

Diana C. Lobosco

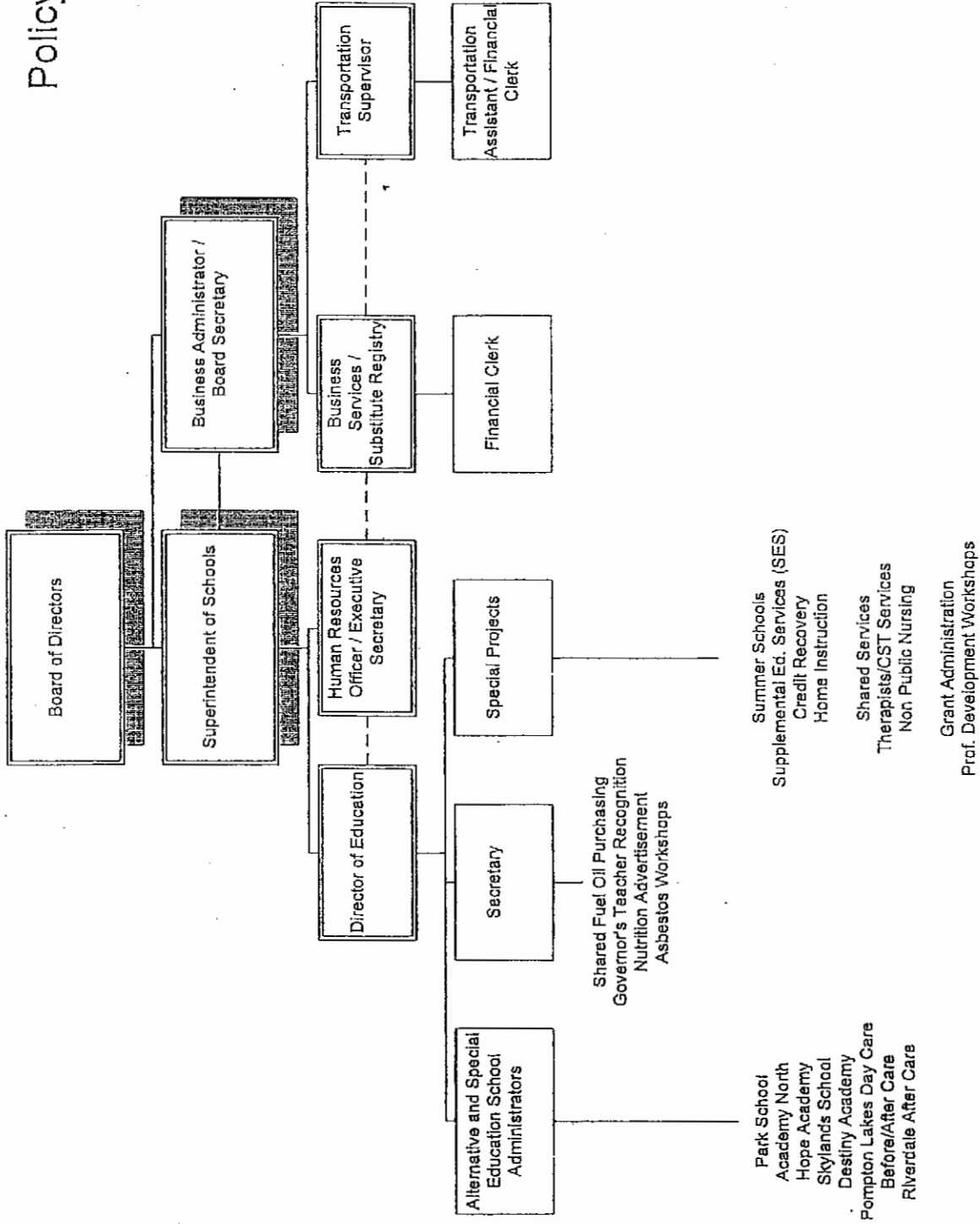
Diana C. Lobosco
Superintendent of Schools

Richard Giglio

Richard Giglio
School Business Administrator/Board Secretary



Policy 2121.1



**Passaic County
Educational Services Commission
Passaic County, New Jersey**

**Roster of Officials
June 30, 2016**

Members of the Board of Directors

District Represented

Miguel Hernandez
Paul Amoroso
Richard Spirito
Michele Pillari
Nicholas Caffaro
Pablo Munoz
Patricia Capitelli
Anthony Riscica
Richard Tardalo
Hugh Beattie
Tracey Marinelli
Donna Cardiello
Jeffrey Feifer
Mario Cardinale
Allison Angermeyer
Donnie Evans
Mark Toback
Joanne Cardillo

P.C. Manchester Regional, Haledon
Pompton Lakes
Hawthorne
Woodland Park
North Haledon
Passaic
Totowa
West Milford
Clifton
Lakeland Regional
Little Falls
Wanaque
Ringwood
Bloomingdale
Prospect Park
Paterson
Wayne
P.V. Regional H.S. District #1

Other Officials

Diana C. Lobosco
Richard J. Giglio
Rita Pascrell
Derlys Gutierrez

Superintendent
School Business Administrator/Board Secretary
Treasurer
Attorney

**Passaic County
Educational Services Commission**

Consultant and Advisors

Auditing Firm

**FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442**

Attorney

**Derlys Gutierrez
ADAMS, STERN, GUTIERREZ & LATTIBOUDERE, LLC
1037 Raymond Boulevard, Suite 710
Newark, New Jersey 07102**

Official Depository

**COLUMBIA BANK
19-01 Route 208
Fair Lawn, New Jersey 07410**

FINANCIAL SECTION

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
Newton, NJ 07860
973-579-3212
Fax 973-579-7128

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Directors
Passaic County Educational Services Commission
45 Reinhardt Road
Wayne, NJ 07470

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Passaic County Educational Services Commission, in the County of Passaic, State of New Jersey, 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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



Honorable President and Members
of the Board of Directors
Page 2.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Passaic County Educational Services Commission, in the County of Passaic, State of New Jersey, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Information and Schedules related to Accounting and Reporting for Pensions (GASB 68) identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Honorable President and Members
of the Board of Directors
Page 3.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Passaic County Educational Services Commission's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 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 nonmajor fund financial statements, and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical data section has not been subject 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*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016 on our consideration of the Passaic County Educational Services Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to

Honorable President and Members
of the Board of Directors
Page 4.

describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Passaic County Educational Services Commission's internal control over financial reporting and compliance.

James Cerullo

James Cerullo, C.P.A.
Licensed Public School Accountant
No. 881

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Pompton Lakes, New Jersey

November 17, 2016

**REQUIRED SUPPLEMENTARY
INFORMATION - PART I**

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
WAYNE, NJ**

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

The discussion and analysis of the Passaic County Educational Services Commission's financial performance provides an overall review of the Commission's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Commission's financial performance as a whole and should not be interpreted as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Commission's revenues and expenditures by program for the General Fund.

FINANCIAL HIGHLIGHTS

- In total, net position decreased \$452,590.14.
- General revenues accounted for \$6,988,657.87 revenue or 62.86 percent of all Commission revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$11,825,692.83 or 37.14 percent of total revenues of \$18,814,350.70.
- The Commission had \$19,266,940.84 in expenses related to governmental activities; only \$11,825,692.83 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$6,988,657.87 were insufficient to provide for these programs.
- As of the close of the Commission's current fiscal year, the governmental funds reported a combined increase of \$49,253.38, resulting in a fund balance of \$2,207,603.26.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Commission as a whole (district-wide statements), and then proceed to provide an increasingly detailed look at specified financial activities.

District-Wide Financial Statements

The *statement of net position and statement of activities* reports information about the Commission as a whole and about its activities in a manner that helps answer the question, "Is the Commission better or worse off as a result of the year's activities?" These statements include all assets and liabilities of the Commission using the accrual basis of accounting, similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

Both of the district-wide financial statements distinguish functions of the Passaic County Educational Services Commission that are principally supported by intergovernmental revenues (*governmental activities*). All of the Commission's programs and services are reported here.

The two statements report the Commission's net position and changes in them. The change in net position can be utilized by a reader to assist in determining whether the Commission's financial health is improving or deteriorating.

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
WAYNE, NJ**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED (CONTINUED)**

USING THIS ANNUAL REPORT, (continued)

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Passaic County Educational Services Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Commission's funds can be divided into two categories: Governmental Funds and Fiduciary Funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. 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.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities* (reported in the Statement of Net Position and the Statement of Activities).

The Passaic County Educational Services Commission governmental fund consists of the general fund. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balances for the general fund, which is considered to be a major fund.

The Passaic County Educational Services Commission adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with their budget.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Commission. These activities are excluded from the Commission's other financial statements because the assets cannot be utilized by the Commission to finance its operations.

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
WAYNE, NJ**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED (CONTINUED)**

USING THIS ANNUAL REPORT, (continued)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Commission's major funds.

Our auditor has provided assurance in his independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplemental Information and the Supplemental Information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts in the Financial Section.

DISTRICT-WIDE FINANCIAL ANALYSIS

The Statement of Net Position provides the perspective of the Commission as a whole. Net position may, over time, serve as a useful indicator of a government's financial position.

The Commission's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The Commission's net position was \$(2,983,403.98) at June 30, 2016 and \$(2,530,813.84) at June 30, 2015. Our analysis below focuses on the net position for 2016 compared to 2015 (Table 1) and change in net position (Table 2) of the Commission.

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
WAYNE, NJ**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED (CONTINUED)**

DISTRICT-WIDE FINANCIAL ANALYSIS, (continued)

Table 1

**Net Position
June 30,**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2016</u>	<u>2015</u>
Assets		
Current and Other Assets	2,554,328.95	3,549,994.64
Capital Assets	<u>254,464.76</u>	<u>265,794.28</u>
Total Assets	<u>2,808,793.71</u>	<u>3,815,788.92</u>
Deferred Outflows	<u>2,364,067.00</u>	<u>1,516,264.00</u>
Liabilities		
Current Liabilities	488,401.69	1,678,599.76
Noncurrent Liabilities	<u>7,547,398.00</u>	<u>5,838,856.00</u>
Total Liabilities	<u>8,035,799.69</u>	<u>7,517,455.76</u>
Deferred Inflows	<u>120,465.00</u>	<u>345,411.00</u>
Net Position		
Invested in Capital Assets-Net of Debt	254,464.76	265,794.28
Unrestricted	<u>(3,237,868.74)</u>	<u>(2,796,608.12)</u>
Total Net Position	<u>(2,983,403.98)</u>	<u>(2,530,813.84)</u>

Table 2 below shows the changes in net position for fiscal year 2016.

Table 2
Changes in Net Position
Year Ended June 30,

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues:		
Charges for Services and Sales	10,840,809.69	11,766,969.26
Operating Grants and Contributions	984,883.14	789,393.18
General Revenues:		
Tuition Received	4,239,052.00	4,341,538.85
Miscellaneous Income	<u>2,749,605.87</u>	<u>2,457,293.53</u>
Total Revenues and Transfers	<u>18,814,350.70</u>	<u>19,355,194.82</u>

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
WAYNE, NJ**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED (CONTINUED)**

DISTRICT-WIDE FINANCIAL ANALYSIS, (continued)

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2016</u>	<u>2015</u>
Functions/Program Expenses		
Instruction:		
Regular	1,255,490.91	998,065.75
Special	543,419.00	504,043.55
Other	1,114,456.72	1,248,655.80
Support Services:		
Student & Instruction		
Related Services	2,069,073.42	1,876,136.19
School Administrative Services	530,819.46	456,284.86
General Administrative Services	1,037,499.21	1,078,273.17
Central Services	744,109.01	611,685.98
Plant Operations and Maintenance	357,411.98	529,815.15
Pupil Transportation	10,603,906.99	11,467,213.49
Unallocated Benefits	996,916.14	806,662.18
Unallocated depreciation	<u>13,838.00</u>	<u>15,775.56</u>
Total Expenses and Transfers	<u>19,266,940.84</u>	<u>19,592,611.68</u>
Increase or (Decrease) in Net Position	<u>(452,590.14)</u>	<u>(237,416.86)</u>

Governmental and Business- Activities

As reported in the Statement of Activities the cost of all of our governmental activities this year was \$19,266,940.84. However, these costs were offset by some of the cost that was paid by those who benefitted from the programs \$10,840,809.69, by other governments and organizations who subsidized certain programs with grants and contributions \$984,883.14.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The Commission's budgets are prepared according to New Jersey law, and are based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted funds are the general fund and the special revenue fund.

During the fiscal year ended June 30, 2016, the Commission amended the budgets of these major governmental funds several times. Revisions in the budget were made to recognize revenues that were not anticipated and to prevent over-expenditures in specific line item accounts. Several of these revisions were for increases or decreases in the various programs of the Commission.

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
WAYNE, NJ**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED (CONTINUED)**

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS,
(continued)**

General Fund

The general fund actual revenue was \$18,261,723.70. That amount is \$13,984.30 below the final amended budget of \$18,275,708.00. The variance between the actual revenues and final budget was the result of non-budgeted on-behalf payments of \$432,256.14 for TPAF social security reimbursements and on-behalf pension payments and a \$446,240.44 deficit in miscellaneous anticipated revenues.

The following schedule presents a comparison of General Fund Revenues for the fiscal years ended June 30, 2016 and 2015:

	June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	<u>2016</u>	<u>2015</u>		
Local Sources				
Tuition Charges	4,239,052.00	4,341,538.85	(102,486.85)	(2.36)%
Transportation Fees	10,840,809.69	11,766,969.26	(926,159.57)	(7.87)%
Miscellaneous	2,749,605.87	2,457,293.53	292,312.34	11.90%
State Sources	<u>432,256.14</u>	<u>369,279.18</u>	<u>62,976.96</u>	17.05%
 Total General Fund Revenues	 <u>18,261,723.70</u>	 <u>18,935,080.82</u>	 <u>(673,357.12)</u>	 (3.56)%

Tuition revenue showed a decrease of \$102,486.85 or 2.36% under the previous year, predominantly due to a reduction in the Preakness program and the discontinuance of the Manchester Summer School Program. Transportation fees decreased \$926,159.57 or 7.87% under the previous year due to a decrease in bus routes for Paterson Board of Education. Miscellaneous revenue increased \$292,312.34 or 11.90% due to an increase in shared services for Technology and Financial Services, and state aid revenues increased \$62,976.96 or 17.05%, all attributable to on-behalf TPAF social security and pension contributions.

The actual expenditures of the general fund were \$18,212,470.32 including transfers which is \$321,764.68 below the final amended budget of \$18,534,235.00. The variance between the actual expenditures and final budget was due to non-budget on-behalf TPAF social security and pension payments of \$432,256.14 and \$754,020.82 of unexpended budgeted funds.

The following schedule presents a comparison of General Fund expenditures for the fiscal years ended June 30, 2016 and 2015:

	June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	<u>2016</u>	<u>2015</u>		
Instruction	2,290,512.38	2,251,068.42	39,443.96	1.75%
Support Services	15,919,449.46	16,653,259.70	(733,810.24)	(4.41)%
Capital outlay	<u>2,508.48</u>	<u>2,250.00</u>	<u>258.48</u>	100.00%
 Total Expenditures	 <u>18,212,470.32</u>	 <u>18,906,578.12</u>	 <u>(694,107.80)</u>	 (3.67)%

Total General Fund expenditures decreased \$694,107.80 or 3.67% from the previous year.

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
WAYNE, NJ**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED (CONTINUED)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016 the Commission had \$720,471.04 invested in sites, buildings and equipment. Of this amount, \$466,006.28 in depreciation has been taken over the years. We currently have a net book value of \$254,464.76. There were \$2,504.48 in additions and \$0.00 in deletions during the year. Table 3 shows fiscal year 2016 balances compared to 2015.

**Table 3
Capital Assets at June 30,
(Net of Depreciation)**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2016</u>	<u>2015</u>
Site Improvements	24,811.75	29,614.02
Buildings	217,862.67	224,398.55
Furniture and Equipment	<u>11,790.34</u>	<u>11,781.71</u>
	<u>254,464.76</u>	<u>265,794.28</u>

Debt Administration

At June 30, 2016, the Commission had \$7,547,398.00 of long-term debt. Of this amount, \$54,870.00 is for compensated absences and \$7,492,528 is for net pension liability.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

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

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
WAYNE, NJ**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED (CONTINUED)**

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Passaic County Educational Services Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Richard Giglio,
School Business Administrator
45 Reinhardt Road
Wayne, NJ 07470

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Statement of Net Position
June 30, 2016

	Governmental Activities	Total
ASSETS		
Cash and Cash Equivalents	582,792.56	582,792.56
Receivables, net	1,957,369.73	1,957,369.73
Prepaid Expenses	5,000.00	5,000.00
Security Deposits	9,166.66	9,166.66
Capital Assets, net :	254,464.76	254,464.76
Total Assets	2,808,793.71	2,808,793.71
DEFERRED OUTFLOWS		
Deferred Outflows of Resources Related to PERS - Pension	2,364,067.00	2,364,067.00
LIABILITIES		
Accounts Payable and Accrued Liabilities	265,623.13	265,623.13
Interfunds Payable	7,566.18	7,566.18
Advanced Revenue	210,953.11	210,953.11
Security Deposits	4,259.27	4,259.27
Noncurrent Liabilities:		
Due beyond one year	7,547,398.00	7,547,398.00
Total Liabilities	8,035,799.69	8,035,799.69
DEFERRED INFLOWS		
Deferred Inflows of Resources Related to PERS - Pension	120,465.00	120,465.00
NET POSITION		
Invested in Capital Assets, net of Related Debt	254,464.76	254,464.76
Unrestricted	(3,237,868.74)	(3,237,868.74)
Total Net Position	(2,983,403.98)	(2,983,403.98)

See Accompanying Notes to Financial Statements.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	989,873.99	265,616.92		-	(1,255,490.91)
Special Education	426,438.64	116,980.36			(543,419.00)
Other Instruction	874,199.75	240,256.97			(1,114,456.72)
Support services:					
Student & Instruction Related Services	1,670,088.59	398,984.82		-	(2,069,073.41)
School Administrative Services	417,176.67	113,642.79			(530,819.46)
General Administrative Services	974,962.98	62,536.23			(1,037,499.21)
Plant Operations and Maintenance	319,955.18	37,456.80			(357,411.98)
Pupil Transportation	10,600,924.92	2,982.06	10,840,809.69		236,902.71
Central Services & Admin. Info. Technology	587,591.76	156,517.25			(744,109.01)
Unallocated Benefits	996,916.14	-		984,883.14	(12,033.00)
Unallocated Depreciation	13,838.00	-			(13,838.00)
Total Governmental Activities	<u>17,871,966.62</u>	<u>1,394,974.22</u>	<u>10,840,809.69</u>	<u>984,883.14</u>	<u>(7,441,248.01)</u>
Total Primary Government	<u>17,871,966.62</u>		<u>10,840,809.69</u>	<u>984,883.14</u>	<u>(7,441,248.01)</u>
General Revenues:					
Tuition Received					4,239,052.00
Miscellaneous Income					2,749,605.87
Total General Revenues, Special Items, Extraordinary Items and Transfers					<u>6,988,657.87</u>
Change in Net Position					(452,590.14)
Net Position—Beginning					<u>(2,530,813.84)</u>
Net Position—Ending					<u>(2,983,403.98)</u>

See Accompanying Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Balance Sheet
Governmental Funds
June 30, 2016

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and Cash Equivalents	582,792.56	582,792.56
Receivables from Other Governments	1,957,369.73	1,957,369.73
Prepaid Expenses	5,000.00	5,000.00
Security Deposits	9,166.66	9,166.66
Total Assets	<u>2,554,328.95</u>	<u>2,554,328.95</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	48,987.69	48,987.69
Accrued Salaries & Benefits	74,959.44	74,959.44
Interfund Payables	7,566.18	7,566.18
Security Deposits	4,259.27	4,259.27
Advanced Revenue	210,953.11	210,953.11
Total Liabilities	<u>346,725.69</u>	<u>346,725.69</u>
Fund Balances:		
Assigned to:		
Other Purposes	278.42	278.42
Designated by the BOE for		
Subsequent Year's Expenditures	37,656.00	37,656.00
Unassigned:		
General Fund	2,169,668.84	2,169,668.84
Total Fund Balances	<u>2,207,603.26</u>	2,207,603.26
Total Liabilities and Fund Balances	<u>2,554,328.95</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 \$720,471.04 and the accumulated depreciation is \$466,06.28.	254,464.76
Accounts Payable for subsequent Pension payment is not a payable in the funds	(141,676.00)
Deferred Outflows and Inflows of resources are applicable to future periods and therefore are not reported in the funds.	
Deferred Outflows of Resources Related to PERS Pension Liability	2,364,067.00
Deferred Inflows of Resources Related to PERS Pension Liability	(120,465.00)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	<u>(7,547,398.00)</u>
Net position of governmental activities	<u>(2,983,403.98)</u>

See Accompanying Notes to Financial Statements.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES		
Local Sources:		
Tuition from Other LEA's within State	3,965,047.47	3,965,047.47
Tuition from Summer School	274,004.53	274,004.53
Transportation Fees	10,840,809.69	10,840,809.69
Rents & Royalties	52,266.90	52,266.90
Miscellaneous	2,697,338.97	2,697,338.97
Total - Local Sources	<u>17,829,467.56</u>	<u>17,829,467.56</u>
State Sources	432,256.14	432,256.14
Total Revenues	<u>18,261,723.70</u>	<u>18,261,723.70</u>
EXPENDITURES		
Current:		
Regular Instruction	989,873.99	989,873.99
Special Education Instruction	426,438.64	426,438.64
Other Instruction	874,199.75	874,199.75
Support Services and Undistributed Costs:		
Student & Instruction Related Services	1,637,850.04	1,637,850.04
School Administrative Services	417,176.67	417,176.67
General Administrative Services	974,962.98	974,962.98
Central Services & Admin. Info. Technology	587,591.76	587,591.76
Plant Operations and Maintenance	319,955.18	319,955.18
Pupil Transportation	10,533,943.63	10,533,943.63
Health Services Employee Benefits	32,238.55	32,238.55
Student Transportation Services Employee Benefits	66,981.29	66,981.29
Unallocated Benefits and On-Behalf Contributions	1,348,749.36	1,348,749.36
Capital Outlay	2,508.48	2,508.48
Total Expenditures	<u>18,212,470.32</u>	<u>18,212,470.32</u>
Excess (Deficiency) of Revenues		
Over Expenditures	<u>49,253.38</u>	<u>49,253.38</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	-	-
Total other financing sources and (uses)	<u>-</u>	<u>-</u>
Net Change in Fund Balances	49,253.38	49,253.38
Fund Balance—July 1	2,158,349.88	2,158,349.88
Fund Balance—June 30	<u>2,207,603.26</u>	<u>2,207,603.26</u>

See Accompanying Notes to Financial Statements.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
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) 49,253.38

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	(13,838.00)	
	Depreciable Capital Outlays	<u>2,508.48</u>	(11,329.52)

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

	Increase in Compensated Absences Payable	(12,033.00)
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District pension contributions are reported as expenditures in the governmental funds when made. However, per GASB No. 68 they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

	District Pension Contributions	286,955.00	
	Less: Pension Expense	<u>(765,436.00)</u>	(478,481.00)
	(Increase)/Decrease in Pension Expense		

Per GASB No. 68 Non-employer contributing entities are required to record an increases in revenue and expense for On-behalf TPAF pension payments paid by the State of New Jersey on the Statement of Activities that are in excess of those amounts reported in the fund financial statements

	Increase in On-behalf State Aid TPAF Pension	552,627.00	
	Increase in On-behalf TPAF Pension Expense		(552,627.00)

Change in net position of governmental activities (452,590.14)

See Accompanying Notes to Financial Statements.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Unemployment Compensation Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	38,570.56	8,401.37
Interfund Receivables	-	7,566.18
Total Assets	38,570.56	15,967.55
LIABILITIES		
Payroll Deductions and Withholdings		7,729.59
Due to PC Principal Association		2,488.72
Due to PC Partnership		5,077.46
Reserve for Employee's FSA		671.78
Total Liabilities	-	15,967.55
NET POSITION		
Held in Trust for Unemployment Claims and Other Purposes	38,570.56	

See Accompanying Notes to Financial Statements.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016

	<u>Unemployment Compensation Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	38.60
Net Investment Earnings	<u>38.60</u>
Total Additions	<u>38.60</u>
Change in Net Assets	38.60
Net Position—Beginning of the Year	<u>38,531.96</u>
Net Position—End of the Year	<u><u>38,570.56</u></u>

See Accompanying Notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY:

The Passaic County Educational Services Commission (the “Commission”) is an instrumentality of the State of New Jersey, established for the purpose of providing educational and administrative service as may be authorized by the State Board of Education. The Board of Directors (the “Board”) consists of appointed officials from the member school districts 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. Under existing statutes, the Board’s duties and powers include, but are not limited to, the development and adoption of a school program; the establishment, organization and operation of schools; and the acquisition, maintenance and disposition of school property.

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

The primary criterion for including activities within the Commission's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is whether:

- the organization is legally separate (can sue or be sued in their own name)
- the Commission holds the corporate powers of the organization
- the Commission appoints a voting majority of the organization’s board
- the Commission is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Commission
- there is a fiscal dependency by the organization on the Commission

Based on the aforementioned criteria, the Commission has no component units. Furthermore, the Commission is not includable in any other reporting entity on the basis of such criteria.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission’s accounting policies are described below.

A. Basis of Presentation:

The Commission’s basic financial statements consist of District-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. Basis of Presentation: (continued)

District-wide Financial Statements:

The statement of net position and the statement of activities display information about the Commission as a whole. These statements include the financial activities of the overall District, except for the fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the Commission at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the governmental activities of the Commission. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Commission, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Commission.

Fund Financial Statements:

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the Commission are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Commission's governmental funds:

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. Basis of Presentation: (continued)

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 Board includes budgeted Capital Outlay in this fund. Accounting principles generally accepted in the United States of America 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.

FIDUCIARY FUNDS

Fiduciary Fund - Fiduciary Fund reporting focuses on net position and changes in net position. The Fiduciary Funds are used to account for assets held by the Commission on behalf of individuals, private organizations, other governments and/or other funds. Fiduciary Funds include Unemployment Compensation Insurance, the Passaic County Educational Partnership and the Passaic County Principal Association Agency Fund, Employee's Flexible Spending Account Reserve, and Payroll Agency Fund.

B. Measurement Focus:

District-wide Financial Statements

The District-wide statements (i.e., the statement of net position and the statement of activities) are prepared using the economic resources measurements focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the Commission are included on the statement of net position, except for fiduciary funds.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. Measurement Focus: (continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the District-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

C. Basis of Accounting:

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The District-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the Commission receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Commission on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. Basis of Accounting: (continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: transportation fees, tuition, unrestricted grants and interest.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement of focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

D. Budgets/Budgetary Control:

Annual appropriated budgets are adopted in the spring of the preceding year for the general, and special revenue funds. The budgets are submitted to the county superintendents office for approval. Budgets are prepared using the modified accrual basis of accounting, except for the special revenue fund as described later. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6A:23-2(g)1. Transfers of appropriations may be made by School Board resolution at any time during the fiscal year. The Commission made \$2,255,320.00 in supplemental budgetary appropriations for the various programs and services during the year.

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

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

E. Encumbrances:

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

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

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

F. Cash, Cash Equivalents and Investments:

Cash and cash equivalents include 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. 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 districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts.

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

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

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

G. Prepaid Items:

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Short-Term Interfund Receivables/Payables:

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

I. Capital Assets:

General capital assets are those assets not specifically related to activities reported in the enterprise fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district -wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activity column of the District-wide statement of net position and in the fund.

All capital assets acquired or constructed during the year are recorded at actual cost. Donated fixed assets are valued at their estimated fair market value on the date received. The capital assets acquired or constructed prior to June 30, 1993 are valued at cost based on historical records or through estimation procedures performed by an independent appraisal company. Donated capital assets are valued at their estimated fair market value on the date received. The Commission maintains a capitalization threshold of \$2,000.00. The Commission does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activity Estimated Lives</u>
Sites and Improvements	20 years	N/A
Buildings and Improvements	7-50 years	N/A
Furniture, Equipment and Vehicles	5-20 years	5-20 years

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

J. 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.

For the District-wide Statements, the current portion is the amount estimated to be used in the following year. In accordance with GAAP, for the governmental funds, in the Fund Financial Statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and District-wide presentations.

K. Advanced Revenue:

Advanced revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Advanced revenue in the special revenue fund represents cash that has been received but not yet earned. See Note 2(E) regarding the special revenue fund.

L. Accrued Liabilities and Long-term Obligations:

All payables, accrued liabilities and long-term obligations are reported in the District-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds, long-term obligations, and capital leases that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

M. Accounting and Financial Reporting for Pensions:

In fiscal year 2015, the District implemented GASB 68. This Statement amends GASB Statement No. 27. It improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirement of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This statement is effective for periods beginning after June 15, 2014.

The District has also implemented GASB Statement 71, Pension Transition for Contributions made Subsequent to the Measurement Date-an amendment to GASB No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

M. Accounting and Financial Reporting for Pensions: (continued)

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District has only one item that qualifies for reporting in this category, deferred amounts related to pension.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies in this category, deferred amounts related to pension.

O. Fund Balances:

Fund balance is divided into five classifications based primarily on the extent to which the Board is bound to observe constraints imposed upon the resources in the governmental funds. The classifications are as follows:

- **Nonspendable** fund balance includes amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact (the principal of an endowment fund, for example).
- **Restricted** fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers (for example, grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

O. Fund Balances: (continued)

- **Committed** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Board's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- **Assigned** fund balance comprises amounts *intended* to be used by the Board for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

P. Net Position:

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Commission applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Q. Extraordinary and Special Items:

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Commission and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

R. Allocation of Indirect Expenses:

The Commission reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses are allocated to functions but are reported separately in the Statement of Activities. Employee benefits, including the employer's share of social security, workers compensation, and medical and dental benefits, were allocated based on salaries of that program. TPAF on-behalf contributions and changes in compensated absences have not been allocated and have been reported as unallocated benefits on the Statement of Activities. Depreciation expense, where practicable, is specifically identified by function and is included in the indirect expense column of the Statement of Activities. Depreciation expense that could not be attributed to a specific function is considered an indirect expense and is reported separately on the Statement of Activities as unallocated depreciation. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

S. Use of Estimates:

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

T. Recent Accounting Pronouncements:

The Governmental Accounting Standards Board (GASB) issued Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27". This statement, which is effective for fiscal periods beginning after June 15, 2014, was implemented by the District for the year ended June 30, 2015.

The Governmental Accounting Standards Board (GASB) issued Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date-an-amendment of GASB Statement No. 68". The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014 and was implemented by the District for the year ended June 30, 2015.

The Government Accounting Standards Board issued GASB Statement No. 72, Fair Value Measurement and Application. This Statement is effective for fiscal years beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also 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. The District is currently reviewing what effect, if any, this Statement might have on future financial statements.

Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

T. Recent Accounting Pronouncements:(continued)

The Government Accounting Standards Board issued GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement is effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016. The District is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement applies to OPEB plans and basically parallels GASB Statement 67 and replaces GASB Statement 43 and is effective for fiscal years beginning after June 15, 2016. The District is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for fiscal years beginning after June 15, 2017. The District is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The District is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 77, Tax Abatement Disclosures, which improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The District believes this Statement will have no impact on future financial statements.

Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

T. Recent Accounting Pronouncements:(continued)

The Government Accounting Standards Board issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition for pension liabilities, expense and expenditures; note disclosures of descriptive information about the plan, benefit terms, and contributions items; and required supplementary information presenting required contribution amounts for the past 10 fiscal years. The District is currently reviewing what effect this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participation*, which permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes. The District is currently reviewing what effect this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which provides clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The District does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The District does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement is effective for reporting periods beginning after June 15, 2016. 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.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS:

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Commission's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 18A:20-37 that are treated as cash equivalents. As of June 30, 2016, \$0- of the Commission's bank balance of \$2,778,745.58 was exposed to custodial credit risk.

Investments

Investment Rate Risk

The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 18A:20-37 limits the length of time for most investments to 397 days.

Credit Risk

New Jersey Statutes 18A:20-37 limits school district investments to those specified in the Statutes. The type of allowance investments are Bonds of the United States of America, bonds or other obligations of the school districts or bonds or other obligations of the local unit or units within which the school district is located: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk

The Commission places no limit on the amount the Commission may invest in any one issuer.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 4. RECEIVABLES:

Receivables at June 30, 2016, consisted of accounts and intergovernmental. All receivables are considered collectible in full. A summary of the principal items of receivables follows:

	Governmental Fund Financial <u>Statements</u>	District Wide Financial <u>Statements</u>
State Aid	\$6,093.68	\$6,093.68
Other Governments	1,951,276.05	1,951,276.05
Other Receivables		
Interfunds Receivable		
Gross Receivables	<u>1,957,369.73</u>	<u>1,957,369.73</u>
Less: Allowance for Uncollectibles	<u> </u>	<u> </u>
Total Receivables, Net	<u><u>\$1,957,369.73</u></u>	<u><u>\$1,957,369.73</u></u>

NOTE 5. INTERFUND BALANCES AND ACTIVITY:

Balance due to/from other funds at June 30, 2016, consist of the following:

<u>\$7,566.18</u>	Due to the Fiduciary Fund from the General Fund for Fiduciary Fund resources deposited into the General Fund.
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There were no interfund transfers for the year ended June 30, 2016.

It is anticipated that the interfunds will be liquidated within the year.

Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016

NOTE 6. CAPITAL ASSETS:

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

	<u>Balance</u> <u>6/30/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/16</u>
Governmental Activities				
Capital Assets Being Depreciated				
Site Improvements	\$96,045.48			\$96,045.48
Buildings	326,794.00			326,794.00
Furniture, Equipment and Vehicles	<u>295,123.08</u>	<u>\$2,508.48</u>		<u>297,631.56</u>
Total Capital Assets, Being Depreciated	<u>717,962.56</u>	<u>2,508.48</u>	<u>0.00</u>	<u>720,471.04</u>
Less Accumulated Depreciation:				
Site Improvements	(66,431.46)	(4,802.27)		(71,233.73)
Buildings	(102,395.45)	(6,535.88)		(108,931.33)
Furniture, Equipment and Vehicles	<u>(283,341.37)</u>	<u>(2,499.85)</u>		<u>(285,841.22)</u>
Total Accumulated Depreciation	<u>(452,168.28)</u>	<u>(13,838.00)</u>	<u>0.00</u>	<u>(466,006.28)</u>
Total Capital Assets, Being Depreciated, Net	<u>265,794.28</u>	<u>(11,329.52)</u>		<u>254,464.76</u>
Governmental Activities Capital Assets, Net	<u>\$265,794.28</u>	<u>(\$11,329.52)</u>	<u>\$</u>	<u>\$254,464.76</u>

Depreciation expense was charged to governmental functions as follows:

Unallocated Depreciation	<u>\$13,838.00</u>
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NOTE 7. LONG-TERM OBLIGATION ACTIVITY:

Changes in long-term obligations for the year ended June 30, 2016 were as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amounts</u> <u>Due Within</u> <u>One year</u>
Net Pension Liability	\$5,796,019.00	\$1,696,509.00	\$0.00	\$7,492,528.00	\$0.00
Compensated Absences Payable	<u>42,837.00</u>	<u>21,812.00</u>	<u>9,779.00</u>	<u>54,870.00</u>	<u>0.00</u>
Total Governmental Activities	<u>\$5,838,856.00</u>	<u>\$1,718,321.00</u>	<u>\$9,779.00</u>	<u>\$7,547,398.00</u>	<u>\$0.00</u>

Compensated absences have been liquidated in the general fund.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 8. DESCRIPTION OF FACILITY LEASING ARRANGEMENTS:

The Passaic County Educational Services Commission conducts part of its operations from various leased facilities.

Rental expense, under operating leases, was \$127,200.00 for the year ended June 30, 2016.

The following is a schedule, by year, of the total future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year at June 30, 2016:

<u>Year</u>	
2017	\$114,440.00
2018	116,733.00
2019	119,068.00

NOTE 9. OPERATING LEASES:

The District has commitments to lease copying equipment under operating leases which expire in June, 2018. Total operating lease payments made during the year ended June 30, 2016 were \$19,049.52. Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$18,844.89
2018	<u>5,531.12</u>
Total future minimum lease payments	<u>\$24,376.01</u>

NOTE 10. PENSION PLANS:

Description of Plans - All required employees of the District are covered by either the Public Employees' Retirement System or the Teachers' Pension and Annuity Fund which have been established by state statute and are administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and the Teachers' Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or reports can be accessed on the internet at: http://www.state.nj.us/treasury/pensions/annrpts_archive.htm.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS: (continued)

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 Teachers' Pension and Annuity Fund is considered a cost-sharing multiple-employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the District and the system's other related non-contributing employers. 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.

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 Public Employees' Retirement System 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.

Defined Contribution Retirement Program (DCRP) - The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2008 under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008 (NJSA 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 NJSA 43:15C-1 et seq.

Contribution Requirements Fund Based Statements - The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS and 5.5% for TPAF of the employee's annual compensation. Pursuant to the provisions of Chapter 78, P.L. 2011, this amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning in the first year. For fiscal year 2012, the member rate will increase in October 2011. The phase in will take place on July 1 of each subsequent fiscal year. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS and TPAF. In the PERS and TPAF, the employer contribution includes funding for post-retirement medical premiums.

During the year ended June 30, 2016 for TPAF, which is a cost sharing plan with special funding situations, annual pension cost equals annual required contribution. For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997. TPAF employer contributions are made annually by the State of New Jersey to the pension system on behalf of the Board. PERS employer contributions are made annually by the Board to the pension system in accordance with Chapter 114, P.L. 1997.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS: (continued)

The Board's contribution to PERS AND DCRP, equal to the required contributions for each year as reported in the fund based statements, were as follows:

Year	<u>PERS</u>	<u>DCRP</u>
<u>Ending</u> 6/30/16	\$286,955.00	\$32,272.95
6/30/15	255,206.00	18,607.00
6/30/14	184,388.00	9,532.70

The State of New Jersey contribution to TPAF (paid on-behalf of the District) for normal and post retirement benefits have been included in the fund-based statements as revenues and expenditures in accordance with GASB 24, paragraphs 7 through 13, as follows:

Year	Pension	Post-Retirement Medical	NCGI
<u>Ending</u> 6/30/16	<u>Contributions</u> \$136,508.00	<u>Contributions</u> \$170,640.00	<u>Premium</u> \$6,800.00
6/30/15	90,951.00	154,771.00	6,543.00
6/30/14	69,964.00	124,840.00	6,175.00

In addition, the post-retirement medical benefits are included in the district-wide financial statements.

Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the Board \$118,308.14 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 has been included in the fund-based statements as revenues and expenditures in accordance with GASB 24, paragraphs 7 through 13.

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE DISTRICT-WIDE STATEMENTS PER - GASB NO. 68

Public Employees Retirement System (PERS)

At June 30, 2016, the District reported a liability of \$7,492,528.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.0333772694 percent, which was an increase of 0.0024201533 percent from its proportion measured as of June 30, 2014.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS: (continued)

For the year ended June 30, 2016, the District recognized pension expense of \$765,436.00. 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>
Changes of assumptions	\$804,638.00	\$
Difference in actual and expected experience	178,745.00	
Net difference between projected and actual earnings on pension plan investments		120,465.00
Changes in proportion and differences between District contributions and proportionate share of contributions	1,239,008.00	
District contributions subsequent to the measurement date	<u>141,676.00</u>	<u> </u>
Total	<u>\$2,364,067.00</u>	<u>\$120,465.00</u>

The \$141,676.00 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date (i.e. for the school year ending June 30, 2016, the plan measurement date is June 30, 2015) will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$157,094.00
2018	157,094.00
2019	250,198.00
2020	141,436.00

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS, (continued)

Additional Information

Local Group Collective balances at June 30, 2015 and 2014 are as follows:

	<u>June 30, 2015</u>	<u>June 30, 2015</u>
Collective deferred outflows of resources	\$3,578,755,666	\$952,194,675
Collective deferred inflows of resources	993,410,455	1,479,224,662
Collective net pension liability	22,447,996,119	18,722,735,003
District's Proportion	0.0333772694%	0.0309571161%

Actuarial Assumptions

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

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

Mortality Rates

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

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS, (continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS'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 U.S. Equities	27.25%	8.52%
Developed Foreign Markets	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Returns	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%
Reit	4.25%	5.12%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS, (continued)

general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2016 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2015		
	1%	At Current	1%
	Decrease	Discount Rate	Increase
	<u>3.90%</u>	<u>4.90%</u>	<u>5.90%</u>
District's proportionate share of the pension liability	\$9,312,296	\$7,492,528	\$5,966,848

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS).

Teachers Pensions and Annuity Fund (TPAF)

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

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS, (continued)

The portion of the TPAF Net Pension Liability that was associated with the District recognized at June 30, 2016 was as follows:

Net Pension Liability:	
District's proportionate share	\$ -0-
State's proportionate share associated with the District	<u>11,397,743.00</u>
	<u>\$11,397,743.00</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The net pension liability associated with the District was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the proportion of the TPAF net pension liability associated with the District was 0.0180331853%.

For the year ended June 30, 2016, the District recognized on-behalf pension expense and revenue of \$695,935.00 for contributions provided by the State in the District-Wide Financial Statements.

Actuarial Assumptions

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

Inflation rate	2.50%
Salary Increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment Rate of Return	7.90%

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS, (continued)

Mortality Rates

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 of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement. The actuarial assumptions used in the July 1, 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 (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in TPAF'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>
US Cash	5.00%	0.53%
US Government Bonds	1.75%	1.39%
US Credit Bonds	13.50%	2.72%
US Mortgages	2.10%	2.54%
US Inflation-Indexed Bonds	1.50%	1.47%
US High Yield Bonds	2.00%	4.57%
US Equity Market	27.25%	5.63%
Foreign-Developed Equity	12.00%	6.22%
Emerging Markets Equity	6.40%	8.46%
Private Real Estate Property	4.25%	3.97%
Timber	1.00%	4.09%
Farmland	1.00%	4.61%
Private Equity	9.25%	9.15%
Commodities	1.00%	3.58%
Hedge Funds - MultiStrategy	4.00%	4.59%
Hedge Funds - Equity Hedge	4.00%	5.68%
Hedge Funds - Distressed	4.00%	4.30%
	<u>100.00%</u>	

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 10. PENSION PLANS, (continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.13% and 4.68% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Because the District's proportionate share of the net pension liability is zero, consideration of potential changes in the discount rate is not applicable to the District.

NOTE 11. POST-RETIREMENT BENEFITS:

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

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 11. POST-RETIREMENT BENEFITS: (continued)

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

NOTE 12. DEFERRED COMPENSATION:

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

Valic

AXA Equitable

NOTE 13. RISK MANAGEMENT:

The Commission is exposed to various risks of loss related to general liability, automobile coverage; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has obtained insurance coverage to guard against these events to minimize the exposure to the Commission should they occur.

Property and Liability Insurance - The Commission is currently a member of the School Alliance Insurance Fund (the "Fund"). The Fund provides it's members with General Liability, Auto Liability, Property, Employee Benefits Liability, Worker's Compensation and Employer Liability Insurance. The Fund is a risk-sharing public entity risk pool that is both an insured and self-administered group of School District's established for the purpose of providing low-cost insurance coverage for their respective members in order to keep insurance costs at a minimum. Each member appoints an official to represent their respective entity for the purpose of creating a governing body from which officers for the Funds are elected.

As a member of the Fund, the Commission could be subject to supplemental assessments in the event of deficiencies. If the assets of the Funds were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities. However, this Fund has fully reinsured the exposures above all limits subscribed to by its members. The Funds can declare and distribute dividends to members upon arrival of the State of New Jersey Department of Insurance. These distributions are divided among the members in the same ratio as their individual assessment related to the total assessment of the membership body.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 13. RISK MANAGEMENT: (continued)

Financial statements for the Funds are available at the office of the Fund’s administrator, 51 Everette Drive, Suite 105B, Lawrenceville, New Jersey 08646.

There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverages.

New Jersey Unemployment Compensation Insurance - Effective January 1, 2012, the Commission elected to change from the “Benefit Reimbursement Method” to the “Contributory Method” whereby they will make quarterly contributions based on a percentage of covered wages. The following is a summary of the Commission’s expendable trust fund for the current and previous two years:

<u>Fiscal Year</u>	<u>Interest Earnings/ Commission Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2014-2015	\$38.60	\$	\$	\$38,570.56
2013-2014	39.79		(5,629.66)	38,531.96
2012-2013	41.84		13,136.17	32,862.51

NOTE 14. REVOLVING LINE OF CREDIT:

The Commission entered into an agreement with Columbia Bank for a \$500,000.00 revolving line of credit. The line of credit is to be utilized for cash flow purposes. During the 2015-2016 school year, the Commission did not utilize this line of credit.

NOTE 15. FUND BALANCE APPROPRIATED:

General Fund [Exhibit B-1] - Of the \$2,207,603.26 general fund balance at June 30, 2016, \$278.42 is reserved for encumbrances; \$37,656.00 has been appropriated and included as anticipated revenue for the year ending June 30, 2017; and \$2,169,668.84 is unreserved and undesignated.

**Passaic County Educational Services Commission
Notes to the Basic Financial Statements
for the fiscal year ended June 30, 2016**

NOTE 16. CONTINGENT LIABILITIES:

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

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

NOTE 17. SUBSEQUENT EVENTS:

The Commission has evaluated subsequent events through November 17, 2016 the date which the financial statements were available to be issued and no other items were noted for disclosure.

**REQUIRED SUPPLEMENTARY
INFORMATION - PART II**

BUDGETARY COMPARISON SCHEDULES

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Budget Transfers/ Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
REVENUES:					
Local Sources:					
Tuition from Other LEA's within State	3,916,062.00	34,778.00	3,950,840.00	3,965,047.47	14,207.47
Tuition from Summer School	310,000.00	10,000.00	320,000.00	274,004.53	(45,995.47)
Transportation Fees	9,381,100.00	1,900,000.00	11,281,100.00	10,840,809.69	(440,290.31)
Rents & Royalties	53,000.00	-	53,000.00	52,266.90	(733.10)
Miscellaneous	2,360,226.00	310,542.00	2,670,768.00	2,697,338.97	26,570.97
Total - Local Sources	<u>16,020,388.00</u>	<u>2,255,320.00</u>	<u>18,275,708.00</u>	<u>17,829,467.56</u>	<u>(446,240.44)</u>
State Sources:					
TPAF Post Retirement Medical (On-Behalf - Non-Budgeted)			-	170,640.00	170,640.00
TPAF NCGI Premium (On-Behalf - Non-Budgeted)			-	6,800.00	6,800.00
TPAF Pension Contributions (On-Behalf - Non-Budgeted)			-	136,508.00	136,508.00
TPAF Social Security (Reimbursed - Non-Budgeted)			-	118,308.14	118,308.14
Total - State Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>432,256.14</u>	<u>432,256.14</u>
TOTAL REVENUES	<u>16,020,388.00</u>	<u>2,255,320.00</u>	<u>18,275,708.00</u>	<u>18,261,723.70</u>	<u>(13,984.30)</u>
EXPENDITURES:					
Current Expense:					
Regular Programs - Instruction					
Kindergarten - Salaries of Teachers	78,118.00	(183.00)	77,935.00	76,673.90	1,261.10
Grades 9-12 - Salaries of Teachers	513,737.00	123,305.00	637,042.00	635,474.10	1,567.90
Regular Programs - Undistributed Instruction					
Other Salaries for Instruction	290,507.00	(37,286.00)	253,221.00	250,038.09	3,182.91
Other Purchased Services (400-500 series)	1,200.00	100.00	1,300.00	288.31	1,011.69
General Supplies	29,000.00	5,049.00	34,049.00	27,079.59	6,969.41
Textbooks	1,500.00	(856.00)	644.00	320.00	324.00
TOTAL REGULAR PROGRAMS - INSTRUCTION	<u>914,062.00</u>	<u>90,129.00</u>	<u>1,004,191.00</u>	<u>989,873.99</u>	<u>14,317.01</u>
SPECIAL EDUCATION - INSTRUCTION					
Multiple Disabilities:					
Salaries of Teachers	173,545.00	(2,200.00)	171,345.00	168,000.84	3,344.16
Other Salaries for Instruction	272,403.00	21,845.00	294,248.00	255,755.58	38,492.42
General Supplies	10,000.00	(701.00)	9,299.00	2,682.22	6,616.78
Total Multiple Disabilities	<u>455,948.00</u>	<u>18,944.00</u>	<u>474,892.00</u>	<u>426,438.64</u>	<u>48,453.36</u>
TOTAL SPECIAL EDUCATION - INSTRUCTION	<u>455,948.00</u>	<u>18,944.00</u>	<u>474,892.00</u>	<u>426,438.64</u>	<u>48,453.36</u>
School-Sponsored Cocurricular Activities - Instruction					
Supplies and Materials	2,500.00	3,000.00	5,500.00	3,640.00	1,860.00
Total School-Sponsored Cocurricular Activities - Instruction	<u>2,500.00</u>	<u>3,000.00</u>	<u>5,500.00</u>	<u>3,640.00</u>	<u>1,860.00</u>
School-Sponsored Cocurricular Athletics - Instruction					
Supplies and Materials	15,000.00	(8,373.00)	6,627.00	239.00	6,388.00
Total School-Sponsored Cocurricular Athletics - Instruction	<u>15,000.00</u>	<u>(8,373.00)</u>	<u>6,627.00</u>	<u>239.00</u>	<u>6,388.00</u>
Before / After School Programs - Instruction:					
Salaries of Teachers	257,000.00	83,869.00	340,869.00	337,383.75	3,485.25
Other Salaries for Instruction	540,000.00	(6,305.00)	533,695.00	532,732.00	963.00
Total Before / After School Programs - Instruction	<u>797,000.00</u>	<u>77,564.00</u>	<u>874,564.00</u>	<u>870,115.75</u>	<u>4,448.25</u>
Before / After School Programs - Support Services:					
Salaries	6,000.00	(3,100.00)	2,900.00		2,900.00
Total Before / After School Programs - Support Services	<u>6,000.00</u>	<u>(3,100.00)</u>	<u>2,900.00</u>	<u>-</u>	<u>2,900.00</u>
Total Before / After School Programs	<u>803,000.00</u>	<u>74,464.00</u>	<u>877,464.00</u>	<u>870,115.75</u>	<u>7,348.25</u>
Instructional Alternative Education Program - Instruction					
Salaries of Teachers	214,230.00	(214,025.00)	205.00	205.00	-
General Supplies	15,000.00	(15,000.00)			-
Total Instructional Alternative Education Program - Instruction	<u>229,230.00</u>	<u>(229,025.00)</u>	<u>205.00</u>	<u>205.00</u>	<u>-</u>
Total Instructional Alternative Education Program	<u>229,230.00</u>	<u>(229,025.00)</u>	<u>205.00</u>	<u>205.00</u>	<u>-</u>
TOTAL INSTRUCTION	<u>2,419,740.00</u>	<u>(50,861.00)</u>	<u>2,368,879.00</u>	<u>2,290,512.38</u>	<u>78,366.62</u>
Undist. Expend. - Health Services					
Salaries	254,198.00	(27,618.93)	226,579.07	216,032.41	10,546.66
Purchased Professional and Technical Services	2,700.00	-	2,700.00	2,700.00	-
Supplies and Materials	5,094.00	476.21	5,570.21	1,507.15	4,063.06
Other Objects	200.00	-	200.00		200.00
Total Undistributed Expenditures - Health Services	<u>262,192.00</u>	<u>(27,142.72)</u>	<u>235,049.28</u>	<u>220,239.56</u>	<u>14,809.72</u>
Undist. Expend. - Speech, OT, PT & Related Serv.					
Salaries	136,693.00	36,404.00	173,097.00	165,352.98	7,744.02
Total Undist. Expend. - Speech, OT, PT & Related Serv.	<u>136,693.00</u>	<u>36,404.00</u>	<u>173,097.00</u>	<u>165,352.98</u>	<u>7,744.02</u>

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	Original Budget	Budget Transfers/ Adjustments	Final Budget	Actual	Variance Final to Actual
Undist. Expend. - Other Supp. Serv. Students-Extra Services					
Salaries	515,098.00	(102,370.00)	412,728.00	410,834.22	1,893.78
Purchased Professional - Educational Services		53,740.00	53,740.00	53,188.75	551.25
Total Undist. Expend. - Other Supp. Serv. Students-Extra Serv.	<u>515,098.00</u>	<u>(48,630.00)</u>	<u>466,468.00</u>	<u>464,022.97</u>	<u>2,445.03</u>
Undist. Expend. - Guidance					
Salaries of Other Professional Staff	64,500.00	(50,750.00)	13,750.00	5,000.00	8,750.00
Other Salaries	50,750.00	3,200.00	53,950.00	53,797.17	152.83
Purchased Professional - Educational Services	15,000.00	-	15,000.00		15,000.00
Other Purchased Prof. and Tech. Services	10,000.00	1,000.00	11,000.00	7,000.00	4,000.00
Other Purchased Services (400-500 series)	500.00	-	500.00		500.00
Total Undist. Expend. - Guidance	<u>140,750.00</u>	<u>(46,550.00)</u>	<u>94,200.00</u>	<u>65,797.17</u>	<u>28,402.83</u>
Undist. Expend. - Improvement of Instructional Services					
Salaries of Supervisor of Instruction	20,000.00	(2,500.00)	17,500.00	17,500.00	-
Total Undist. Expend. - Improvement of Inst. Services	<u>20,000.00</u>	<u>(2,500.00)</u>	<u>17,500.00</u>	<u>17,500.00</u>	<u>-</u>
Undist. Expend. - Educational Media Serv./Sch. Library					
Salaries	285,624.00	291,175.00	576,799.00	576,788.89	10.11
Purchased Professional and Technical Services	132,000.00	(13,928.00)	118,072.00	106,758.84	11,313.16
Supplies and Materials		20,028.00	20,028.00	19,622.40	405.60
Total Undist. Expend. - Educational Media Serv./Sch. Library	<u>417,624.00</u>	<u>297,275.00</u>	<u>714,899.00</u>	<u>703,170.13</u>	<u>11,728.87</u>
Undist. Expend. - Instructional Staff Training Serv.					
Other Purchased Services (400-500 series)	23,500.00	(7,597.00)	15,903.00	1,767.23	14,135.77
Total Undist. Expend. - Instructional Staff Training Serv.	<u>23,500.00</u>	<u>(7,597.00)</u>	<u>15,903.00</u>	<u>1,767.23</u>	<u>14,135.77</u>
Undist. Expend. - Supp. Serv. - General Administration					
Salaries	199,483.00	9,570.00	209,053.00	208,208.92	844.08
Legal Services	38,000.00	-	38,000.00	18,325.93	19,674.07
Audit Fees	12,572.00	503.00	13,075.00	13,075.00	-
Other Purchased Technical Services	604,860.00	(30,156.00)	574,704.00	560,674.16	14,029.84
Communications/Telephone	16,620.00	1,154.00	17,774.00	13,257.96	4,516.04
Miscellaneous Purchased Services (400-500 series)	37,048.00	36,450.00	73,498.00	71,764.17	1,733.83
General Supplies	5,000.00	(2,600.00)	2,400.00	2,214.24	185.76
Judgments Against the School District		10,000.00	10,000.00	10,000.00	-
Miscellaneous Expenditures	26,600.00	62,745.00	89,345.00	77,442.60	11,902.40
Total Undist. Expend. - Supp. Serv. - General Administration	<u>940,183.00</u>	<u>87,666.00</u>	<u>1,027,849.00</u>	<u>974,962.98</u>	<u>52,886.02</u>
Undist. Expend. - Support Serv. - School Administration					
Salaries of Principals/Assistant Principals	185,897.00	9,951.00	195,848.00	195,651.87	196.13
Salaries of Other Professional Staff	126,510.00	-	126,510.00	123,677.42	2,832.58
Salaries of Secretarial and Clerical Assistants	43,461.00	2,579.00	46,040.00	45,536.93	503.07
Purchased Professional and Technical Services		48,000.00	48,000.00	46,800.00	1,200.00
Other Purchased Services (400-500 series)	500.00	(163.00)	337.00		337.00
Supplies and Materials	23,900.00	(8,424.00)	15,476.00	4,440.45	11,035.55
Other Objects	1,400.00	-	1,400.00	1,070.00	330.00
Total Undist. Expend. - Support Serv. - School Administration	<u>381,668.00</u>	<u>51,943.00</u>	<u>433,611.00</u>	<u>417,176.67</u>	<u>16,434.33</u>
Undist. Expend. - Central Services					
Salaries	420,455.00	151,067.00	571,522.00	566,977.14	4,544.86
Purchased Professional Services		500.00	500.00		500.00
Purchased Technical Services		9,640.00	9,640.00	9,600.86	39.14
Misc. Purchased Services (400-500 series)	7,632.00	(2,618.00)	5,014.00	2,816.60	2,197.40
Supplies and Materials	10,500.00	(2,083.00)	8,417.00	8,197.16	219.84
Total Undist. Expend. - Central Services	<u>438,587.00</u>	<u>156,506.00</u>	<u>595,093.00</u>	<u>587,591.76</u>	<u>7,501.24</u>
Undist. Expend. - Required Maint. for School Facilities					
Salaries	20,000.00	-	20,000.00	19,412.53	587.47
Cleaning, Repair and Maintenance Services	27,100.00	(201.00)	26,899.00	22,332.47	4,566.53
General Supplies	3,000.00	-	3,000.00	2,043.50	956.50
Undist. Expend. - Required Maint. for School Facilities	<u>50,100.00</u>	<u>(201.00)</u>	<u>49,899.00</u>	<u>43,788.50</u>	<u>6,110.50</u>
Undist. Expend. - Custodial Services					
Cleaning, Repair and Maintenance Services	28,100.00	(20,847.00)	7,253.00	3,196.93	4,056.07
Rental of Land & Bldg. Other than Lease Purchase Agreement	260,300.00	(109,089.00)	151,211.00	148,290.08	2,920.92
Other Purchased Property Services	12,752.00	-	12,752.00	12,714.20	37.80
Insurance	24,705.00	3,073.00	27,778.00	26,596.50	1,181.50
General Supplies	2,000.00	(1,000.00)	1,000.00		1,000.00
Energy (Electricity)	29,500.00	-	29,500.00	26,454.29	3,045.71
Total Undist. Expend. - Custodial Services	<u>357,357.00</u>	<u>(127,863.00)</u>	<u>229,494.00</u>	<u>217,252.00</u>	<u>12,242.00</u>

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	Original Budget	Budget Transfers/ Adjustments	Final Budget	Actual	Variance Final to Actual
Undist. Expend. - Care & Upkeep of Grounds					
Cleaning, Repair and Maintenance Services	15,000.00	(11,547.00)	3,453.00		3,453.00
Total Undist. Expend. - Care & Upkeep of Grounds	<u>15,000.00</u>	<u>(11,547.00)</u>	<u>3,453.00</u>	-	<u>3,453.00</u>
Undist. Expend. - Security					
Salaries	56,000.00	3,665.00	59,665.00	58,136.58	1,528.42
Purchased Professional and Technical Services	1,040.00	-	1,040.00		1,040.00
General Supplies	3,000.00	-	3,000.00	778.10	2,221.90
Total Undist. Expend. - Security	<u>60,040.00</u>	<u>3,665.00</u>	<u>63,705.00</u>	<u>58,914.68</u>	<u>4,790.32</u>
Total Undist. Expend. - Operation and Maint. Of Plant Services	<u>482,497.00</u>	<u>(135,946.00)</u>	<u>346,551.00</u>	<u>319,955.18</u>	<u>26,595.82</u>
Undist. Expend. - Student Transportation Services					
Salaries of Non-Instructional Aides	10,000.00	810.00	10,810.00	10,802.40	7.60
Salaries for Pupil Trans (Between Home and School)-Special Ed.	156,239.00	12,173.01	168,412.01	168,244.69	167.32
Other Purchased Professional and Technical Services	3,800.00	300.00	4,100.00	4,100.00	-
Cleaning, Repair and Maintenance Services	6,408.00	-	6,408.00	5,601.96	806.04
Contracted Services (Between Home and School)-Vendors	1,500,000.00	(366,669.01)	1,133,330.99	721,951.78	411,379.21
Contracted Services (Other than Bet Home and School)-Vendors	1,200,000.00	1,040,000.00	2,240,000.00	2,236,491.27	3,508.73
Contracted Services (Special Ed. Students)-Vendors	6,334,376.00	1,060,000.00	7,394,376.00	7,371,393.82	22,982.18
Miscellaneous Purchased Services	7,300.00	-	7,300.00	6,514.27	785.73
General Supplies	5,000.00	2,645.00	7,645.00	6,660.60	984.40
Other Objects	700.00	2,474.00	3,174.00	2,182.84	991.16
Total Undist. Expend. - Student Transportation Services	<u>9,223,823.00</u>	<u>1,751,733.00</u>	<u>10,975,556.00</u>	<u>10,533,943.63</u>	<u>441,612.37</u>
Health Services - Employee Benefits					
Social Security Contributions	14,868.00	(2,009.28)	12,858.72	9,363.55	3,495.17
Other Retirement Contributions - PERS	24,294.00	(2,491.00)	21,803.00	21,803.00	-
Workmen's Compensation	816.00	256.00	1,072.00	1,072.00	-
Total Health Services - Employee Benefits	<u>39,978.00</u>	<u>(4,244.28)</u>	<u>35,733.72</u>	<u>32,238.55</u>	<u>3,495.17</u>
Student Transportation Services - Employee Benefits					
Social Security Contributions	11,953.00	1,691.00	13,644.00	13,282.33	361.67
Other Retirement Contributions - PERS	18,019.00	(923.00)	17,096.00	17,096.00	-
Workmen's Compensation	653.00	270.00	923.00	923.00	-
Health Benefits	38,953.00	(370.00)	38,583.00	35,679.96	2,903.04
Total Student Transportation Services - Employee Benefits	<u>69,578.00</u>	<u>668.00</u>	<u>70,246.00</u>	<u>66,981.29</u>	<u>3,264.71</u>
TOTAL ALLOCATED BENEFITS	<u>109,556.00</u>	<u>(3,576.28)</u>	<u>105,979.72</u>	<u>99,219.84</u>	<u>6,759.88</u>
UNALLOCATED BENEFITS					
Social Security Contributions	231,467.00	30,105.00	261,572.00	246,827.08	14,744.92
Other Retirement Contributions - PERS	125,420.00	122,636.00	248,056.00	248,056.00	-
Unemployment Compensation	26,165.00	5,489.00	31,654.00	28,947.93	2,706.07
Workmen's Compensation	21,258.00	2,570.00	23,828.00	23,512.00	316.00
Health Benefits	330,194.00	13,250.00	343,444.00	316,658.38	26,785.62
Tuition Reimbursement		866.00	866.00	865.65	0.35
Other Employee Benefits	32,500.00	19,171.00	51,671.00	51,626.18	44.82
TOTAL UNALLOCATED BENEFITS	<u>767,004.00</u>	<u>194,087.00</u>	<u>961,091.00</u>	<u>916,493.22</u>	<u>44,597.78</u>
On-behalf TPAF Post Retirement Medical (Non-Budgeted)				170,640.00	(170,640.00)
TPAF NCGI Premium (On-Behalf - Non-Budgeted)				6,800.00	(6,800.00)
TPAF Pension (On-Behalf - Non-Budgeted)				136,508.00	(136,508.00)
Reimbursed TPAF Social Security Contributions (Non-Budgeted)				118,308.14	(118,308.14)
TOTAL ON-BEHALF CONTRIBUTIONS	<u>-</u>	<u>-</u>	<u>-</u>	<u>432,256.14</u>	<u>(432,256.14)</u>
TOTAL PERSONAL SERVICES - EMPLOYEE BENEFITS	<u>876,560.00</u>	<u>190,510.72</u>	<u>1,067,070.72</u>	<u>1,447,969.20</u>	<u>(380,898.48)</u>
TOTAL UNDISTRIBUTED EXPENDITURES	<u>13,859,175.00</u>	<u>2,303,672.00</u>	<u>16,162,847.00</u>	<u>15,919,449.46</u>	<u>243,397.54</u>
TOTAL GENERAL CURRENT EXPENSE	<u>16,278,915.00</u>	<u>2,252,811.00</u>	<u>18,531,726.00</u>	<u>18,209,961.84</u>	<u>321,764.16</u>
CAPITAL OUTLAY					
Equipment					
Undistributed Expenditures:					
Undistributed Expenditures - Student Trans. - Non-instructional		2,509.00	2,509.00	2,508.48	0.52
Total Equipment	<u>-</u>	<u>2,509.00</u>	<u>2,509.00</u>	<u>2,508.48</u>	<u>0.52</u>
TOTAL CAPITAL OUTLAY	<u>-</u>	<u>2,509.00</u>	<u>2,509.00</u>	<u>2,508.48</u>	<u>0.52</u>
TOTAL EXPENDITURES	<u>16,278,915.00</u>	<u>2,255,320.00</u>	<u>18,534,235.00</u>	<u>18,212,470.32</u>	<u>321,764.68</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(258,527.00)</u>	<u>-</u>	<u>(258,527.00)</u>	<u>49,253.38</u>	<u>307,780.38</u>

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Budget Transfers/ Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
Fund Balance, July 1	2,158,349.88		2,158,349.88	2,158,349.88	-
Fund Balance, June 30	<u>1,899,822.88</u>	<u>-</u>	<u>1,899,822.88</u>	<u>2,207,603.26</u>	<u>307,780.38</u>
 Recapitulation of excess (deficiency) of revenues under expenditures					
Adjustment for Prior Year Encumbrances	(600.00)		(600.00)	(600.00)	-
Budgeted Fund Balance	<u>(257,927.00)</u>		<u>(257,927.00)</u>	49,853.38	307,780.38
	<u>(258,527.00)</u>	<u>-</u>	<u>(258,527.00)</u>	<u>49,253.38</u>	<u>307,780.38</u>
 Recapitulation:					
Assigned Fund Balance:					
Reserve for Encumbrances				278.42	
Designated for Subsequent Year's Expenditures				37,656.00	
Unassigned Fund Balance				<u>2,169,668.84</u>	
				<u>2,207,603.26</u>	

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Required Supplementary Information
Budgetary Comparison Schedule
Note to Required Supplementary Information - Part II
For the Year Ended June 30, 2016

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

		General Fund
Sources/inflows of resources		
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule	[C-1]&[C-2]	18,261,723.70
Difference - budget to GAAP:		NONE
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]	18,261,723.70
Uses/outflows of resources		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	[C-1]&[C-2]	18,212,470.32
Differences - budget to GAAP		NONE
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.		N/A
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	[B-2]	18,212,470.32

**REQUIRED SUPPLEMENTARY
INFORMATION - PART III**

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Schedules of Required Supplementary Information
Schedule of District's Proportionate Share of Net Pension Liability - PERS
*Last 10 Fiscal Years**

<u>Fiscal Year Ending June30,</u>	<u>District's Proportion Share of the Net Pension Liability (Asset)</u>	<u>District's Proportion Share of the Net Pension Liability (Asset)</u>	<u>District's Covered Payroll -PERS Employee's</u>	<u>District's Proportion Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a percentage of the total Pension Liability</u>
2015	0.1096570616%	\$ 5,796,019	\$ 985,059	588.39%	52.08%
2016	0.1063552605%	7,492,528	1,359,053	551.31%	47.93%

* GASB requires that ten years of information be presented. However, since fiscal year 2015 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Schedules of Required Supplementary Information
Schedule of District's Contributions - PERS
*Last 10 Fiscal Years**

<u>Fiscal Year Ending June30,</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's PERS Covered- Employee Payroll</u>	<u>Contributions as a Percentage of PERS Covered- Employee Payroll</u>
2015	\$ 255,206	\$ 255,206	\$ -	\$985,059	25.91%
2016	286,955	286,955	-	1,359,053	21.11%

* GASB requires that ten years of information be presented. However, since fiscal year 2015 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Schedules of Required Supplementary Information
Schedule of District's Proportionate Share of Net Pension Liability - TPAF
*Last 10 Fiscal Years**

<u>Fiscal Year Ending June30,</u>	<u>District's Proportion Share of the Net Pension Liability (Asset)</u>	<u>District's Proportion Share of the Net Pension Liability (Asset)</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (Asset)</u>	<u>District's Covered Payrol -TPAF Employee's</u>	<u>District's Proportion Share of the Net Pension Liability (Asset) as a perecntage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a percentage of the total Pension Liability</u>
2015	0.0179978910%	\$ -	\$ 9,619,287	\$ 1,664,871	0.00%	33.64%
2016	0.0180331853%	\$ -	11,397,743	1,623,055	0.00%	28.71%

* GASB requires that ten years of information be presented. However, since fiscal year 2015 was the first year of GASB 68 implementation ten years is not presented. Each year thereafter, an additional year will be included until ten years of data is presented.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Note to Required Schedules of Supplementary Information - Part III
For the Year Ended June 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (4.29%) to the current measurement date (3.80%), resulting in a change in the discount rate from 5.39% to 4.90%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

TEACHERS PENSION AND ANNUITY FUND (TPAF)

Change in benefit terms

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (4.29%) to the current measurement date (3.80%), resulting in a change in the discount rate from 4.68% to 4.13%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

Supplementary Schedules

FIDUCIARY FUND

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Combining Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	<u>Unemployment Compensation Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and Cash Equivalents	38,570.56	8,401.37
Interfund Receivable		7,566.18
Total Assets	<u>38,570.56</u>	<u>15,967.55</u>
LIABILITIES		
Payroll Deductions and Withholdings		7,729.59
Due to PC Principal Association		2,488.72
Due to PC Partnership		5,077.46
Reserve for Employee's FSA		671.78
Total Liabilities	<u>-</u>	<u>15,967.55</u>
NET POSITION		
Held in Trust for Unemployment Claims and Other Purposes	<u>38,570.56</u>	

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016

	<u>Unemployment Compensation Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	38.60
Net Investment Earnings	<u>38.60</u>
Total Additions	<u>38.60</u>
Change in Net Assets	38.60
Net Position—Beginning of the Year	<u>38,531.96</u>
Net Position—End of the Year	<u><u>38,570.56</u></u>

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Miscellaneous Agency Funds
Schedule of Receipts and Disbursements
For the Year Ended June 30, 2016

	<u>Balance</u> <u>July 1, 2015</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursed</u>	<u>Balance</u> <u>June 30, 2016</u>
Passaic County Educational Partnership	5,077.46			5,077.46
Passaic County Principal Association	2,488.72			2,488.72
Interfunds Payable - FSA	1,000.00		1,000.00	-
Employee's FSA	<u>1,504.74</u>	<u>2,550.00</u>	<u>3,382.96</u>	<u>671.78</u>
	<u>10,070.92</u>	<u>2,550.00</u>	<u>4,382.96</u>	<u>8,237.96</u>

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Payroll Agency Fund
Schedule of Receipts and Disbursements
For the Year Ended June 30, 2016**

	<u>Balance July 1, 2015</u>	<u>Cash Receipts</u>	<u>Cash Disbursed</u>	<u>Balance June 30, 2016</u>
Net Payroll		3,797,343.63	3,797,343.63	-
Payroll Deductions and Withholdings	13,655.98	2,102,185.26	2,108,111.65	7,729.59
	<u>13,655.98</u>	<u>5,899,528.89</u>	<u>5,905,455.28</u>	<u>7,729.59</u>

STATISTICAL SECTION

STATISTICAL SECTION (UNAUDITED)

Introduction to the Statistical Section

Financial Trends

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STATISTICAL SECTION (UNAUDITED) - INTRODUCTION

J SERIES

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Financial Trends These schedules contain trend information to help the reader understand how the district's financial performance and well-being have changes over time.	J-1 to J-5
Revenue Capacity These schedules contain information to help the reader assess the district's most significant local revenue sources, the property tax.	J-6 to J-9
Debt Capacity These schedules present information to help the reader assess the affordability of the district's current levels of outstanding debt and the district's ability to issue additional debt in the future.	J-10 to J-13
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the district's financial activities take place.	J-14 to J-15
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the district's financial report relates to the services the district provides and the activities it performs.	J-16 to J-20
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports (CAFR) for the relevant year. The district implemented GASB Statement 34 in the fiscal year ending June 30, 2004; schedules presenting district-wide information include information beginning in that year.	

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
 Net Assets/Position* by Component,
 Last Ten Fiscal Years
 (accrual basis of accounting)

	2006	2007	2008	2009	2010	2011	2012	2013	2015	2016
Governmental activities										
Invested in capital assets, net of related debt	428,759.00	401,746.17	377,919.81	369,446.14	344,331.72	330,499.04	311,737.42	296,472.42	265,794.28	254,464.76
Restricted				22,645.67						
Unrestricted	1,208,245.00	685,284.00	(13,549.40)	231,995.17	451,663.73	905,061.53	1,487,020.71	1,886,660.91	(2,796,608.12)	(3,237,868.74)
Total governmental activities net assets/position	1,637,004.00	1,087,030.17	364,370.41	624,086.98	795,995.45	1,235,560.57	1,798,758.13	2,183,133.33	(2,530,813.84)	(2,983,403.98)
District-wide										
Invested in capital assets, net of related debt	428,759.00	401,746.17	377,919.81	369,446.14	344,331.72	330,499.04	311,737.42	296,472.42	265,794.28	254,464.76
Unrestricted	1,208,245.00	685,284.00	(13,549.40)	231,995.17	451,663.73	905,061.53	1,487,020.71	1,886,660.91	(2,796,608.12)	(3,237,868.74)
Total district net assets/position	1,637,004.00	1,087,030.17	364,370.41	624,086.98	795,995.45	1,235,560.57	1,798,758.13	2,183,133.33	(2,530,813.84)	(2,983,403.98)

Source: CAFR Schedule A-1

* GASB Statement No. 63 became effective for the Fiscal Year Ended June 30, 2013 which changed Net Assets to Net Position.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities										
Instruction										
Regular	1,704,111.00	1,034,429.38	1,508,815.56	1,800,944.12	2,444,413.25	2,049,070.56	2,096,680.83	2,285,995.04	998,065.75	1,255,490.91
Special education	1,929,759.00	1,162,541.70	773,028.38	474,135.33	406,192.82	527,574.25	522,138.55	454,673.14	504,043.55	543,419.00
Other instruction			1,876.54	1,729.19	3,973.96	115,606.22	331,564.62	395,023.53	1,248,655.80	1,114,456.72
Support Services:										
Tuition		742.50								
Student & instruction related services	1,702,520.00	1,487,092.70	1,269,135.74	1,257,309.92	1,436,233.54	1,406,960.09	1,582,339.12	1,540,363.90	1,876,136.19	2,069,073.42
School administrative services	1,286,526.00	640,277.17	433,719.38	467,952.07	578,757.48	451,894.04	396,674.24	424,932.74	456,284.86	530,819.46
General administrative services	1,441,605.00	1,365,548.32	1,349,779.54	1,366,948.50	1,278,714.81	1,149,532.63	1,047,451.99	1,103,630.25	1,078,273.17	1,037,499.21
Central Services & Admin Info Technology	259,572.00	169,659.65	73,162.04	67,785.48	74,082.28	117,120.84	337,971.27	558,079.19	611,685.98	744,109.01
Plant operations and maintenance	732,358.00	595,372.03	597,812.91	768,825.28	777,295.86	419,586.44	547,165.31	510,469.30	529,815.15	357,411.98
Pupil transportation	8,716,817.00	8,796,595.29	9,250,428.47	8,665,822.59	8,891,327.70	9,633,655.82	9,204,453.47	9,440,281.61	11,467,213.49	10,603,906.99
Unallocated benefits		464,426.91	389,310.71	272,652.13	317,626.59	350,931.63	456,673.12	339,005.43	806,662.18	996,916.14
Unallocated depreciation		23,826.36	24,690.67	25,114.42	17,041.68	18,761.62	17,741.00	17,152.58	15,775.56	13,838.00
Total governmental activities expenses	17,773,268.00	15,740,512.01	15,671,759.94	15,169,219.03	16,225,659.97	16,240,694.14	16,540,853.52	17,069,606.71	19,592,611.68	19,266,940.84
Total district expenses	17,773,268.00	15,740,512.01	15,671,759.94	15,169,219.03	16,225,659.97	16,240,694.14	16,540,853.52	17,069,606.71	19,592,611.68	19,266,940.84
Program Revenues										
Governmental activities:										
Charges for services	8,792,953.00	8,984,023.07	9,394,596.10	8,794,769.45	8,868,177.68	10,046,585.05	9,512,119.64	9,693,386.95	11,766,969.26	10,840,809.69
Operating grants and contributions	580,472.00	557,125.91	642,476.88	308,061.96	316,676.59	350,531.63	456,523.12	324,037.43	789,393.18	984,883.14
Total governmental activities program revenues	9,373,425.00	9,541,148.98	10,037,072.98	9,102,831.41	9,184,854.27	10,397,116.68	9,968,642.76	10,017,424.38	12,556,362.44	11,825,692.83
Total district program revenues	9,373,425.00	9,541,148.98	10,037,072.98	9,102,831.41	9,184,854.27	10,397,116.68	9,968,642.76	10,017,424.38	12,556,362.44	11,825,692.83
Net (Expense)/Revenue										
Governmental activities	(8,399,843.00)	(6,199,363.03)	(5,634,686.96)	(6,066,387.62)	(7,040,805.70)	(5,843,577.46)	(6,572,210.76)	(7,052,182.33)	(7,036,249.24)	(7,441,248.01)
Total district-wide net expense	(8,399,843.00)	(6,199,363.03)	(5,634,686.96)	(6,066,387.62)	(7,040,805.70)	(5,843,577.46)	(6,572,210.76)	(7,052,182.33)	(7,036,249.24)	(7,441,248.01)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Unrestricted grants and contributions		682.00								
Tuition Received	5,828,738.00	3,182,048.05	3,821,701.46	4,266,916.71	5,015,288.84	2,999,452.48	3,294,213.99	3,158,570.47	4,341,538.85	4,239,052.00
Miscellaneous income	2,021,131.00	2,293,973.22	2,072,702.07	1,971,379.38	2,465,081.98	3,407,322.54	3,662,371.97	4,094,077.55	2,457,293.53	2,749,605.87
Total governmental activities	7,849,869.00	5,476,703.27	5,894,403.53	6,238,296.09	7,480,370.82	6,406,775.02	6,956,585.96	7,252,648.02	6,798,832.38	6,988,657.87
Total district-wide	7,849,869.00	5,476,703.27	5,894,403.53	6,238,296.09	7,480,370.82	6,406,775.02	6,956,585.96	7,252,648.02	6,798,832.38	6,988,657.87
Change in Net Assets										
Governmental activities	(549,974.00)	(722,659.76)	259,716.57	171,908.47	439,565.12	563,197.56	384,375.20	200,465.69	(237,416.86)	(452,590.14)
Total district	(549,974.00)	(722,659.76)	259,716.57	171,908.47	439,565.12	563,197.56	384,375.20	200,465.69	(237,416.86)	(452,590.14)

Source: CAFR Schedule A-2

* GASB Statement No. 63 became effective for the Fiscal Year Ended June 30, 2013 which changed Net Assets to Net Position.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
 Fund Balances, Governmental Funds,
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Reserved			22,645.67							
Unreserved	701,034.00	(4,623.40)	240,245.17	460,763.73	171,767.00	68,254.00	1,897,260.91	2,600.00	258,527.00	37,934.42
Assigned					743,344.53	1,429,216.71	1,897,260.91	2,127,247.18	1,899,822.88	2,169,668.84
Unassigned		(4,623.40)	262,890.84	460,763.73	915,111.53	1,497,470.71	1,897,260.91	2,129,847.18	2,158,349.88	2,207,603.26
Total general fund	701,034.00	(4,623.40)	262,890.84	460,763.73	915,111.53	1,497,470.71	1,897,260.91	2,129,847.18	2,158,349.88	2,207,603.26

Source: CAFR Schedule B-1

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
 Changes in Fund Balances, Governmental Funds,
 Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Tuition	5,828,738.00	3,182,048.05	3,821,701.46	4,266,916.71	5,015,288.84	2,999,452.48	3,294,213.99	3,158,570.47	4,341,538.85	4,239,052.00
Transportation fees	8,792,953.00	8,984,023.07	9,394,596.10	8,794,769.45	8,868,177.68	10,046,585.05	9,512,119.64	9,693,386.95	11,766,969.26	10,840,609.69
Miscellaneous	2,021,131.00	2,293,973.22	2,072,702.07	1,971,379.38	2,465,081.98	3,407,322.54	3,662,371.97	4,094,077.55	2,457,293.87	2,749,605.87
State sources	580,472.00	471,932.91	389,986.71	271,802.13	316,676.59	350,531.63	456,523.12	324,037.43	369,279.18	432,256.14
Federal sources		85,875.00	223,313.67	36,259.83						
Total revenue	17,223,294.00	15,017,852.25	15,902,300.01	15,341,127.50	16,665,225.09	16,803,891.70	16,925,228.72	17,270,072.40	18,935,080.82	18,261,723.70
Expenditures										
Instruction										
Regular Instruction	1,700,852.00	871,703.54	1,254,252.91	1,519,445.73	2,059,024.86	1,676,167.21	1,779,613.75	1,953,486.80	818,405.87	989,873.99
Special education	1,926,082.00	959,119.50	629,257.57	387,718.43	324,834.13	431,616.01	443,880.72	388,740.70	411,393.12	426,438.64
Other instruction			1,876.54	1,729.19	3,973.96	95,086.79	286,607.48	340,117.52	1,021,269.43	874,199.75
Support Services:										
Instruction - tuition		742.50								
Student & instruction related services	1,699,276.00	1,267,198.13	1,051,113.63	1,055,801.66	1,184,834.09	1,136,835.44	1,329,368.58	1,298,326.99	1,541,969.25	1,637,850.04
General administrative services	1,284,075.00	1,333,886.61	1,331,716.04	1,341,283.45	1,248,035.57	1,124,275.39	1,024,280.47	1,068,475.55	1,027,499.87	974,962.98
School administrative services	1,438,859.00	533,136.70	355,637.38	384,160.49	462,882.25	370,148.80	338,359.69	366,443.66	376,304.48	417,176.67
Central services & admin. info. technology	258,628.00	141,118.08	61,937.54	55,474.48	59,423.12	96,081.44	287,329.70	477,576.68	502,182.81	587,591.76
Plant operations and maintenance	730,962.00	579,931.24	581,539.42	758,878.07	733,358.70	408,446.73	529,252.76	498,064.15	506,652.88	319,955.18
Pupil transportation	8,700,211.00	8,768,970.51	9,227,434.79	8,629,110.59	8,843,316.76	9,585,722.01	9,148,838.42	9,388,083.00	11,403,014.85	10,533,943.63
Health services employee benefits		27,655.81	47,502.78	42,228.44	28,491.37	29,871.33	27,031.53	28,491.99	37,415.36	32,238.55
Pupil transportation employee benefits		27,624.78	22,993.68	36,712.00	48,010.95	47,933.81	55,615.05	52,198.61	62,332.68	66,981.29
Unallocated employee benefits		1,212,422.25	1,053,306.49	930,712.08	1,211,482.53	1,218,676.77	1,272,784.37	1,177,480.48	1,193,887.52	1,348,749.36
Capital outlay	6,860.00		16,217.00		3,209.00		2,476.00		2,250.00	2,508.48
Total expenditures	17,745,805.00	15,723,509.65	15,634,785.77	15,143,254.61	16,210,877.29	16,220,861.73	16,525,438.52	17,037,486.13	18,906,578.12	18,212,470.32
Excess (Deficiency) of revenues over (under) expenditures	(522,511.00)	(705,657.40)	267,514.24	197,872.89	454,347.80	583,029.97	399,790.20	232,586.27	28,502.70	49,253.38
Net change in fund balances	(522,511.00)	(705,657.40)	267,514.24	197,872.89	454,347.80	583,029.97	399,790.20	232,586.27	28,502.70	49,253.38

Source: CAFR, Schedule B-2

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION

General Fund Other Local Revenue by Source
Last Ten Fiscal Years

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tuition	5,828,738.00	3,182,048.05	3,821,701.46	4,266,916.71	5,015,288.84	2,999,452.48	3,294,213.99	3,158,570.47	4,000,175.23	3,985,047.47
Transportation	8,792,953.00	8,984,023.07	9,394,596.10	8,794,769.45	8,868,177.68	10,046,585.05	9,512,119.64	9,693,386.95	11,766,969.26	10,840,809.69
Non-public Nursing Services	268,192.00	252,775.72	267,921.00	242,794.00	178,815.00	164,845.00	154,235.00	167,909.00	200,704.00	174,420.00
Election Services	253,103.00	302,651.47	322,337.18	322,145.99	220,886.51	174,146.64	145,014.07	49,155.71	80,938.25	67,985.63
Substitute Teacher Registry	32,658.00	39,584.50	53,462.85	54,451.00	55,590.00	55,301.00	59,508.00	60,102.00	60,363.00	53,837.70
Workshops	10,190.00	10,040.00	8,740.00	6,630.00	6,880.00	4,240.00				
Home Instruction Services	14,062.00	498.75			850.00	587.50	19,127.50	75,648.50	79,546.25	38,227.50
Interest Income	48,834.00	21,751.31	12,449.25	7,911.93	6,069.73	3,759.78	3,853.60	1,530.61	2,027.82	2,174.19
Governors Teachers Recognition Program	15,766.00	5,928.00				590.78				
Cooperative Advertising	2,745.00	880.00	990.00	990.00	990.00	1,035.00	1,035.00	1,170.00	1,170.00	1,170.00
Other Miscellaneous	58,168.00	27,877.62	21,414.54	4,519.14	30,850.01	40,260.46	18,280.80	41,091.45		
Shared/Contracted Services	598,027.00	773,101.36	583,289.80	511,353.00	1,137,990.61	2,071,081.99	2,705,878.48	3,096,090.16	1,787,848.69	2,159,708.95
Summer School Programs	436,160.00	678,460.99	637,904.69	611,199.81	598,256.32	439,973.39	341,769.52	336,034.82	341,363.62	274,004.53
After School Program	89,343.00	121,129.66	88,678.84	85,575.51	89,059.80	66,886.00	47,270.00	27,210.01		
C.A.P. Program	109,235.00									
PCCC Day Care Tuition	29,390.00									
Pompton Lakes Day Care Tuition	54,258.00	59,293.84	75,513.92	114,809.00	117,844.00	366,615.00	148,400.00	208,320.40	193,200.00	199,815.00
SES Program				9,000.00	21,000.00	18,000.00	18,000.00	29,814.89	51,495.52	52,266.90
Rental Office Building										
	16,642,822.00	14,460,044.34	15,288,999.63	15,033,065.54	16,348,548.50	16,453,360.07	16,468,705.60	16,946,034.97	18,565,801.64	17,829,467.56

Source: District records.

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Full-time Equivalent District Employees by Function/Program,
Last Ten Fiscal Years**

<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										
Other special education										
Vocational										
Other instruction										
Support Services:										
Student & instruction related services										
General administrative services										
School administrative services										
Business administrative services										
Plant operations and maintenance										
Pupil transportation										
Total	-	-	-	-	-	-	-	-	-	-

INFORMATION NOT AVAILABLE

Source: District Personnel Records

Exhibit J-17

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
Operating Statistics
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Average Daily Enrollment (ADE) ^a</u>	<u>Average Daily Attendance (ADA) ^a</u>	<u>% Change in Average Daily Enrollment</u>	<u>Student Attendance Percentage</u>
2007	278.1	250.2	-16.11%	89.97%
2008	103.2	91.8	-62.89%	88.95%
2009	47.9	42.7	-53.59%	89.14%
2010	75.5	67.2	57.62%	89.01%
2011	149.9	114.2	98.54%	76.18%
2012	69.9	52.4	-53.37%	74.96%
2013	79.6	63.4	13.88%	79.65%
2014	70.5	65.7	-11.39%	93.12%
2015	69.4	61.6	-1.60%	88.76%
2016	61.3	54.8	-11.67%	89.40%

Sources: District records.

Note: Enrollment based on annual October district count.

(a) Average daily enrollment and average daily attendance are obtained from the School Register Summary (SRS).

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
INSURANCE SCHEDULE
JUNE 30, 2016

	<u>Coverage</u>	<u>Deductible</u>
School Package Policy - School Alliance Insurance Fund		
Property:		
Blanket Building and Contents	\$ 553,010	\$ 2,500
Boiler & Machinery	Included	\$ 1,000
General Liability:		
Each Occurance	5,000,000	
Aggregate	5,000,000	
Fire Damage	5,000,000	
Employee Benefits	1,000,000	
Crime:		
Employee Dishonesty	400,000	
Faithful Performance	400,000	
Depositor's Forgery	50,000	
Computer Fraud	50,000	
Automobile:		
Combined Single Limit	5,000,000	
Personal Injury Protection	Statutory	
Medical Payments	10,000	
Uninsured/Underinsured Motorists	1,000,000	
Comprehensive Deductible		500
Collision Deductible		500
Errors and Omissions - School Alliance Insurance Fund	5,000,000	
Public Official Bonds - Selective Insurance Co.		
<u>Name</u>	<u>Position</u>	
Richard Giglio	Business Administrator	205,000
Rita Pascrell	Treasurer of School Monies	205,000
Student Accident Insurance - Bollinger		
Maximum Benefit Blanket Athletic Coverage Excluding Football	5,000,000	
Workers Compensation - School Alliance Insurance Fund		
Section "A"	Statutory	
Section "B" Employers Liability	5,000,000/5,000,000/5,000,000	
Excess Umbrella Policy- School Alliance Insurance Fund		
Each Occurrence Limit	5,000,000	

SINGLE AUDIT SECTION

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
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INDEPENDENT AUDITOR'S 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

Honorable President and Members
of the Board of Directors
Passaic County Educational Services Commission
45 Reinhardt Road
Wayne, NJ 07470

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of the Passaic County Educational Services Commission, in the County of Passaic, New Jersey, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Passaic County Educational Services Commission'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 or the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey.

Purpose of this Report

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

James Cerullo

James Cerullo, C.P.A.
Licensed Public School Accountant
No. 881

Ferraioli, Wielkocz, Cerullo & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Pompton Lakes, New Jersey

November 17, 2016

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
 Schedule of Expenditures of Federal Awards
 for the Fiscal Year Ended June 30, 2016

Federal Grant/Pass-Through Grantor Program Title	Federal CFDA Number	Federal FAIN Number	Grant Period	Award Amount	Balance at June 30, 2015	Carryover/ Adjustments	Cash Received	Budgetary Expenditures	Repayment of Prior Year's Balance	Balance at June 30, 2016		
										Accounts Receivable	Deferred Revenue	Due To Grantor at
NOT APPLICABLE												
TOTAL FEDERAL FINANCIAL AWARDS										-	-	-
										-	-	-
										-	-	-

NOTE: THIS SCHEDULE WAS NOT SUBJECT TO AN AUDIT IN ACCORDANCE WITH FEDERAL OMB UNIFORM GUIDANCE.

See accompanying notes to schedules of expenditures of federal awards and state financial assistance.

PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
 Schedule of Expenditures of State Financial Assistance
 for the Fiscal Year Ended June 30, 2016

State Grantor/Program Title	Project Number	Grant or State	Grant Period	Award Amount	Balance at June 30, 2015		Curyover/ Walkover Amount	Cash Received	Budgetary Expenditures	Adjustment/ Repayment of Prior Year's Balance	Balance at June 30, 2016			MEMO	
					Deferred Revenue/ (Accts. Receivable)	Due To Grantor					Accounts Receivable	Deferred Revenue	Due To Grantor at		Budgetary Receivable
State Department of Education:															
General Fund:															
On-Behalf TPAF - Post Retirement Medical	16-495-034-5095-001		07/01/15-06/30/16	170,640.00			170,640.00	(170,640.00)						*	170,640.00
On-Behalf TPAF - Pension Contributions	16-495-034-5095-002		07/01/15-06/30/16	136,508.00			136,508.00	(136,508.00)						*	136,508.00
On-Behalf TPAF - NCGI Contributions	16-495-034-5095-004		07/01/15-06/30/16	6,800.00			6,800.00	(6,800.00)						*	6,800.00
Reimbursed TPAF - Social Security	16-495-034-5095-003		07/01/15-06/30/16	118,308.14			112,214.46	(118,308.14)						*	118,308.14
Reimbursed TPAF - Social Security	15-495-034-5095-003		07/01/14-06/30/15	117,014.18			6,530.93							*	-
Total General Fund					(6,530.93)	-	432,693.39	(432,256.14)				(6,093.68)	-	*	432,256.14
TOTAL STATE FINANCIAL ASSISTANCE					(6,530.93)	-	432,693.39	(432,256.14)				(6,093.68)	-	*	432,256.14
Less: On-Behalf TPAF Pension System Contributions								(313,948.00)							
Total for State Financial Assistance-Major Program Determination								<u>(118,308.14)</u>							

NOTE: THIS SCHEDULE WAS NOT SUBJECT TO AN AUDIT IN ACCORDANCE WITH NEW JERSEY OMB CIRCULAR 15-08.

See accompanying notes to schedules of expenditures of federal awards and state financial assistance.

NOTE 1. GENERAL

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance include the activity of all federal and state award programs of the Passaic County Educational Services Commission. The Commission is defined in Note 1 to the Commission's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state awards passed through other government agencies is included on the Schedules of Expenditures of Federal Awards and State Financial Assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Notes 2(C) and 2(D) to the Board's basic financial statements. The information in these schedules is presented in accordance with the requirements of *2 CFR 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ in 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 the special revenue fund on a GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or when expenditures have been made.

The general fund is presented in the accompanying schedules on the modified accrual basis with the exception of the revenue recognition of the last 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 budget 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.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS, (continued)

The net adjustment to reconcile from the budgetary basis to the GAAP basis is \$0.00 the general fund. See Notes to Required Supplemental Information for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the Board’s financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	<u>\$0.00</u>	<u>\$432,256.14</u>	<u>\$432,256.14</u>
Total Awards and Financial Assistance	<u>\$0.00</u>	<u>\$432,256.14</u>	<u>\$432,256.14</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

Revenues and expenditures reported under the Food Distribution Program represent current year value received and current year distributions, respectively. 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. The amount reported as 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 are not subject to a State single audit and, therefore, the amount of \$313,948.00 of on-behalf payments is excluded from major program determination.

NOTE 7. INDIRECT COST RATE

The Passaic County Educational Services Commission has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

1. Material weakness(es) identified? yes X no
2. Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to basic financial statements noted? yes X no

Federal Awards - Not Applicable

State Awards - Not Applicable

**PASSAIC COUNTY EDUCATIONAL SERVICES COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(continued)**

Section II - Financial Statement Findings

None

Section III - Federal Awards and State Financial Assistance Findings and Questioned Costs

Not Applicable.

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

Status of Prior Year Findings

There were no prior year audit findings related to Federal or State Awards.