

**WATCHUNG BOROUGH  
SCHOOL DISTRICT**

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

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

**Comprehensive Annual  
Financial Report**

**of the**

**WATCHUNG BOROUGH SCHOOL DISTRICT**

**Watchung, New Jersey**

**For the Fiscal Year Ended June 30, 2016**

**Watchung Borough School District**

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

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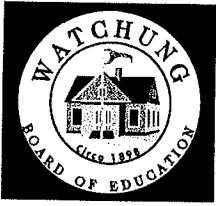
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INTRODUCTORY SECTION



# Watchung Borough Board of Education

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

Dr. Barbara A. Resko, Superintendent  
Irfan Evcil, Business Administrator/Board Secretary

September 21, 2016

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

Dear Board Members and Citizens:

The Comprehensive Annual Financial Report of the Watchung Borough School District for the fiscal year ended June 30, 2016, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Watchung Borough Board of Education (the District). To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the basic financial statement and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes this transmittal letter (designed to complement Management's discussion and analysis and should be read in conjunction with it), the District's organizational chart, and a list of principal officials. The financial section includes the basic financial statements and schedules, as well as the auditor's report thereon. The statistical section includes selected financial and demographic information generally presented on a multi-year basis. The District is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and New Jersey's OMB Circulars 04-04 and 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Information related to this single audit, including the auditors' report on internal control and compliance with applicable laws, regulations, contracts and grants along with findings and questioned costs, is included in the single audit section of this report.

**1. REPORTING ENTITY AND ITS SERVICES:** The Watchung Borough School District is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board (GASB) in codification section 2100. All funds of the District are included in this report. The Watchung Board of Education and all its schools constitute the District's reporting entity.

The District provides a full range of educational services appropriate to grade levels Pre-K through 8. These include regular, as well as special education for handicapped students. The District completed the 2015-2016 fiscal year with an enrollment of 706 students, which is 10 less students than the previous year's enrollment. The enrollment includes 34 preschool students.

Honorable President and  
 Members of the Board of Education  
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**2. ECONOMIC CONDITION AND OUTLOOK:** The Borough of Watchung was organized on April 20, 1926 and covers an area of approximately 6.2 square miles. Watchung was settled in the early eighteenth century and grew slowly until recent years. In 1960 the population was 3,312 and in 2010 it was 5,801. Watchung Borough is primarily a suburban residential community with 1,943 residential structures. The Borough also has a number of substantial commercial ratables principally located on State Highway 22 on the outskirts of the Borough.

The Watchung Square Mall, a 750,000 square foot shopping center was completed and is currently assessed for over \$128 million. Crystal Ridge, 280-unit apartment complex has also been completed adjacent to the shopping center. This portion of the project is assessed at over \$40 million. These units could potentially generate 100 students if fully occupied. Currently we have 85 students from Crystal Ridge in our Pre-K through 8 system.

The district's strong fund balance position and the ability to guarantee the adoption of prudent budgets, will enable the District to continue to provide its students with a high quality educational program while still remaining within the limits of a 2% tax levy cap that has been imposed by the State.

**3. MAJOR INITIATIVES:** The Watchung Borough Public Schools have continued to provide excellence in education for all students, Pre-K through eighth grade. This is the District's fifth year of tuition based, integrated Preschool Program for three and four year old children. A full-day academic kindergarten is offered to students who reach age five by October 1st. Spanish and French are offered to students in grades 6-8. Students in grades K-5 study Spanish. Mathematics includes accelerated geometry and algebra. Industrial Arts and Robotics are taught at the middle school level. Award winning vocal and instrumental music, art, and performing arts opportunities abound in our schools. SOAR is the District's program for gifted and talented students. Guidance counselors in both schools assist teachers and administrators with assessing and meeting the academic, social and emotional needs of our students. The Child Study Team has coordinated a multiple disabled special education program for students in Bayberry School and an intensive resource room class in Valley View as required by the New Jersey Department of Education.

Several successful initiatives were completed during the 2015-2016 school year. The following are some examples of program enhancements and District improvements:

Comprehensive curriculum work was completed during summer 2015. The following curriculum areas were aligned with the New Jersey Core Curriculum Content Standards and the Common Core State Standards: Innovative Designs in Education (IDE for Learner Active Technology Infused Classroom), Chromebooks/Google/Technology Leaders, the Next Generation Science Standards, STEM (K-8), Social Studies, Units of Study (Writing), Foundations (Reading), School Report Cards, and Code of Conduct. The 21<sup>st</sup> Century Skills curriculum was integrated across all relevant curriculum areas. A plan was developed for ongoing summer curriculum work to ensure compliance with QSAC indicators. A link to the public portal for parents to view the revised curriculum in Rubicon Atlas was added to the District's website. All curricula are reviewed and approved by the Board of Education.

K-5 academic teachers received professional development in Lucy Calkins' Units of Study to improve student writing skills. A comprehensive writing program was implemented during the 2015-2016 school year. A third cohort of K-8 teachers received "leader" training in Learner-Active, Technology-Infused Classroom (LATIC) by Innovative Designs for Education (IDE). The program focuses on problem-based learning. All K-8 teachers have access to the *IDEportal* as an instructional resource.

An updated Technology Plan was developed for the 2013-2016 school years. The District continued in a shared service agreement with EIRC to meet its technology requirements and staffing needs. In addition to the District's Chromebook initiative, eReaders, iPads, SmartBoards, and Distance Learning equipment are available to all students.



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Chromebooks were distributed to all middle school students in October 2014. Special attention was given to areas such as keyboarding skills, online assessments, and computer literacy skills to advance students' competencies for PARCC assessments. Phase II of the District's Chromebook initiative expanded to grades 2, 3 and 4 during the 2015-2016 school year. Students in grades K-3 had increased access to classroom sets of iPads.

Baseline data indicated the district had commendable standardized test scores on PARCC. School Performance Report Card targets were achieved in all areas. Students won first place in Future Cities, Battle of the Books (grades 4, 7, and 8), and the Boys' Track Team in Pingry's Big Blue Relay. The middle school play, *Seussical*, was a successful event. "Peace by Piece" was the theme for the 2016 Narratives of Courage at Valley View School. Junior Narratives' "Hometown Heroes" was held on June 8 at Bayberry School for students in grades 3 and 4. The QSAC revisit in October 2015 resulted in the district's highest score of 98.8% compliance. As a result, Watchung has been designated as a "high performing district."

A redesigned District website offers a crisp, user-friendly format including Quick Links. Apps for the website were developed and are available for iPhone and Android users. PowerSchool continues to be utilized as the District's web-based student information system (SIS) with robust tools for viewing, manipulating, storing, and retrieving data. A free PowerSchool for Parents app may be downloaded from the iTunes Store.

The District adopted and implemented the Danielson's Framework for Teaching model and the Teachscape platform in compliance with the State's new teacher evaluation requirements. The Multidimensional Principal Performance Rubric was adopted to assess administrators. Mandated training for staff was conducted through GCN's on-line professional development service.

The Somerset County Youth Service Commission again provided grants that sponsored spring and fall programs for Valley View Girls on Track. These self-esteem building after-school running programs are designed to help girls develop self-confidence, determination, and focus on goal setting and cooperation.

The Watchung Educational Foundation is an organization that was established to raise money for Bayberry and Valley View Schools to provide an ongoing centralized source of additional funds and resources to assist the Watchung Borough School District in maintaining and enhancing the quality of education in Watchung.

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

The District continued to contract with Source4Teachers to fill positions such as daily and long-term substitute teachers, and to monitor support staff absences. The District also contracted with MissionOne, Source4Teachers' sister company, to fill the special education paraprofessional positions. These services have benefited the District by reducing administrative work, providing financial savings related to insurance, and continuity of assistance to students.

Honorable President and  
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A Capital Asset Management software program from SchoolDude was utilized during the 2015-16 school year. The program manages facilities, maintenance and technology systems. All water systems for both school buildings were tested on March 24, 2016 and determined to be lead free as a result of the report dated April 8, 2016. A building capacity report based on District practices was completed in June 2016. Several safety and security upgrades were completed. The fitness course was installed, an air handling unit furnace and boiler controller for a burner were replaced at the elementary school. New ground sign for Board Office was installed at the middle school. Other completed projects at Valley View include sidewalk repairs, pipe repairs in boiler room, extending entry partition to ceiling and replacing APR duct smokes with surface units. The installation of security camera systems, burglar alarms, hand dryers in restroom, rebuilding catch basins and blacktop repairs have been completed for both schools. Summer projects will include additional parking spaces, upgrading informational technology infrastructure and STEAM room renovation.

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

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

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

**5. BUDGETARY CONTROLS:** In addition to internal accounting controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters. Annual appropriated budgets are adopted for the general fund, the special revenue fund, and the debt service fund. Project-length budgets are approved for the capital improvements accounted for in the capital projects fund. The final budget amount as amended for the fiscal year is reflected in the financial section and the analysis of the results thereon is reported in the Management's Discussion and Analysis (MD&A) section of this report.

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

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

Honorable President and  
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Watchung Borough School District  
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**7. CASH MANAGEMENT:** The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Basic Financial Statements", Note 3. The District has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit funds in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

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

**9. OTHER INFORMATION: Independent Audit** - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP was selected as the Board's Audit firm. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of Title 2 U.S. Code of Federal Regulations Parts 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards*; and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. The auditor's report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The auditors' reports related specifically to the single audit and *Government Auditing Standards* are included in the single audit section of this report.

**Awards** - The Association of School Business Officials International (ASBO) awarded a Certificate of Excellence in Financial Reporting to the District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This Certificate of Excellence is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

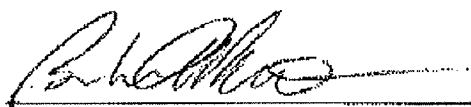
In order to be awarded a Certificate of Excellence, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certification of Excellence is valid for a period of one year only. We believe our current report continues to conform to the Certificates of Excellent program requirements, and we are submitting it to ASBO International to determine its eligibility for another certificate.

Honorable President and  
Members of the Board of Education  
Watchung Borough School District  
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**10. ACKNOWLEDGMENTS:** We would like to express our appreciation to the members of the Watchung Borough School Board for their concern in providing fiscal accountability to the citizens and taxpayers of the School District and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our Business Office staff.

Respectfully submitted by,

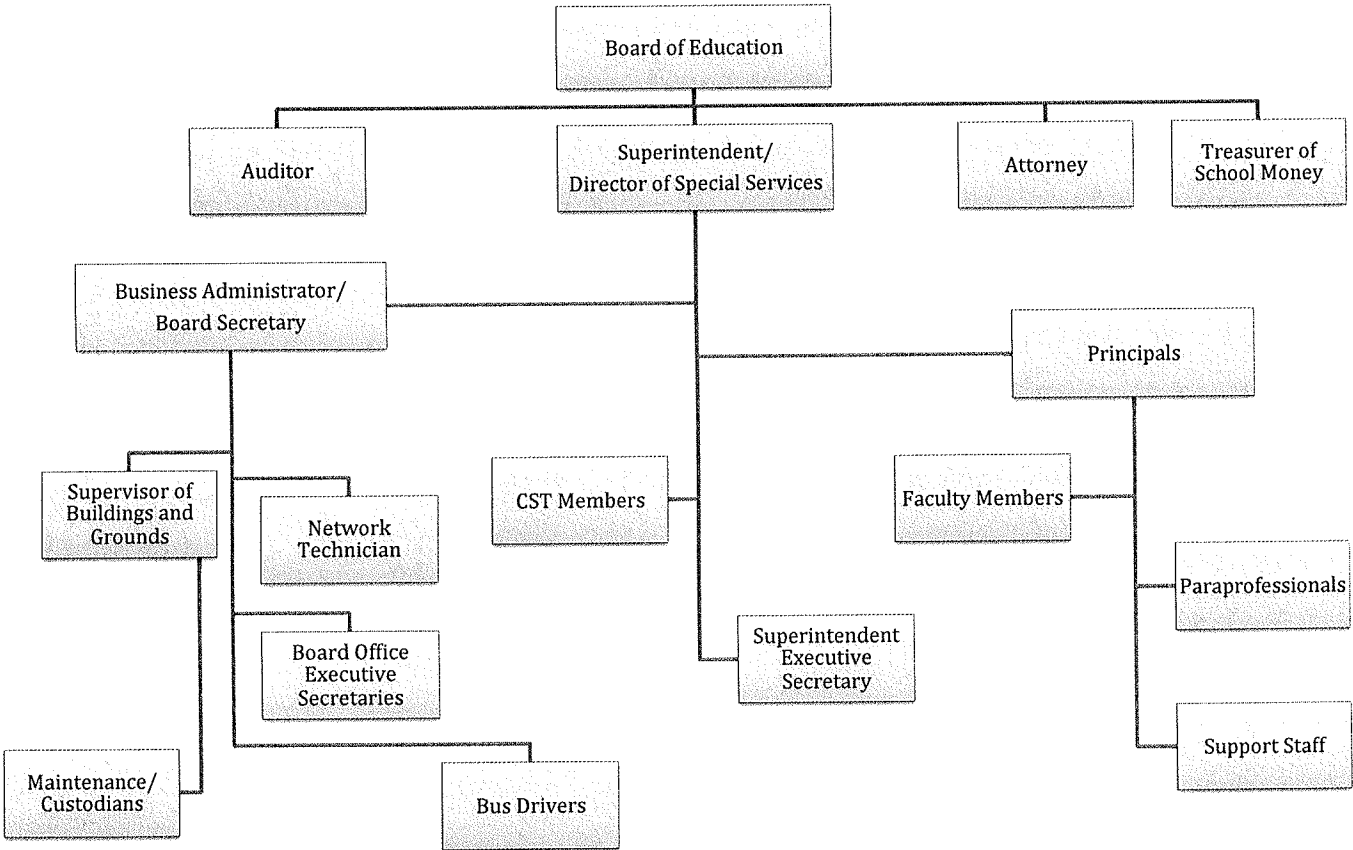


Barbara A. Resko, Ph.D.  
Superintendent



Irfan Evcil  
Business Administrator/Board Secretary

Watchung Borough Board of Education  
Organizational Chart  
Unit Control



WATCHUNG BOROUGH SCHOOL DISTRICT  
ROSTER OF OFFICIALS  
JUNE 30, 2016

**Members of the Board of Education**

**Term Expires**

Ellyn Margulies, President	2017
James Rhyner, Vice President	2018
Dennis Bakos	2016
George Colonias	2018
Georgia Glasser-Nehls	2016
Tina Kelly	2017
Margo Langer	2018
Joseph Mattiassi	2017
Thomas Sicola	2016

**Other Officials**

Barbara A. Resko, Ph. D., Superintendent of Schools  
 Irfan Evcil, Business Administrator/Board Secretary  
 Mary Nunn, District Principal  
 Michael Vignola, Vice Principal  
 William J. Hance, Treasurer  
 Sciarrillo, Cornell, Merlino, McKeever & Osborne, LLC. - Legal Counsel

**WATCHUNG BOROUGH SCHOOL DISTRICT  
Consultants and Advisors**

**Audit Firm**

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

**Attorney at Law**

Sciarrillo, Cornell, Merlino, McKeever & Osborne, LLC.  
238 St. Paul Street  
Westfield, NJ 070910

**Architect**

Parette Somjen Architects  
439 Route 46 East  
Rockaway, NJ 07866

**Benefit Advisor**

Brown & Brown Benefit Advisors  
24 Arnett Avenue Suite 200  
Lambertville, NJ 08530

**Property Insurance**

Willis  
350 Mt. Kemble Avenue  
P.O. Box 1959  
Morristown, NJ 07962

**Official Depository**

Investors Bank  
1153 Valley Road  
Stirling, NJ 07980



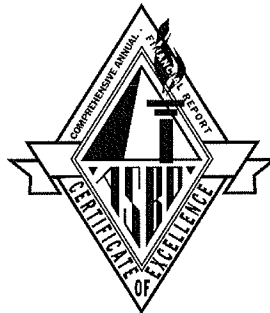
**ASSOCIATION OF  
SCHOOL BUSINESS OFFICIALS  
INTERNATIONAL**

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

**Borough of Watchung  
Public School District**

**For Its Comprehensive Annual Financial Report (CAFR)  
For the Fiscal Year Ended June 30, 2015**

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



*Brenda Burkett*

**Brenda R. Burkett, CPA, CSBA, SFO**  
President

*John D. Musso*

**John D. Musso, CAE, RSBA**  
Executive Director



FINANCIAL SECTION



Mount Arlington Corporate Center  
 200 Valley Road, Suite 300  
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 Newton, NJ 07860  
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## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of the Watchung Borough School District (the "District") in the County of Somerset, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

The Honorable President and Members  
of the Board of Education  
Watchung Borough School District  
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### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of the Watchung Borough School District, in the County of Somerset, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and the schedules of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and the other information, such as the introductory and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Honorable President and Members  
of the Board of Education  
Watchung Borough School District  
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The accompanying other information such as the introductory and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

September 21, 2016  
Mount Arlington, New Jersey

NISIVOCCIA LLP



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Valerie A. Dolan  
Licensed Public School Accountant #2526  
Certified Public Accountant

REQUIRED SUPPLEMENTARY INFORMATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

This section of Watchung Borough School District’s annual financial report presents its discussion and analysis of the District’s financial performance during the fiscal year ending June 30, 2016. Please read it in conjunction with the transmittal letter at the front of this report and the District’s financial statements, which immediately follow this section.

**Financial Highlights**

- The District’s financial status is strong, in spite of minimal increases in state aid for several years.
- Overall revenue was \$16.2 million.
- Overall expenses were \$14.4 million.
- Actual revenue was slightly more than expected, primarily in additional state aid from extraordinary aid and nonpublic transportation aid.
- Enrollment in the District has slightly decreased for the current year and cost per pupil has been increasing.

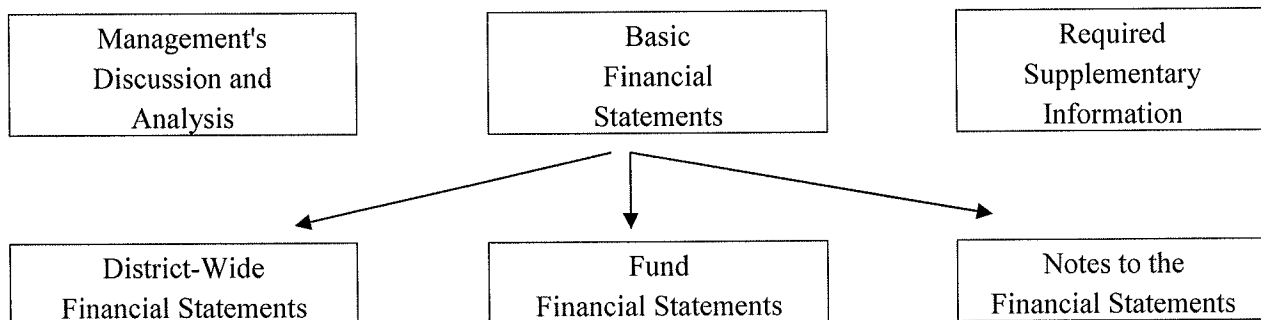
**Overview of the Financial Statements**

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations in *more* detail than the District-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- *Proprietary funds* statements offer *short- and long-term* financial information about the activities the District operates like a business, such as food services.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**



**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

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

**Figure A-2**

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

	District-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities
Required Financial Statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenue, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenue, expenses, and changes in net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenue and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

### **District-wide Statements**

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

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

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

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.
- *Business-type activities*: The District charges fees to help it cover the costs of certain services it provides. The District's food service is included here.

### **Fund Financial Statements**

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenue (such as federal grants).

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on {1} how cash and other financial assets that can readily be converted to cash flow in and out, and {2} the balances left at year-end are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or difference) between them.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District uses *internal service funds* (the other kind of proprietary fund) to report activities that provide supplies and services for its other programs and activities. The District currently does not maintain any internal service funds.



**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

- *Fiduciary funds:* The District is the trustee, or *fiduciary*, for assets that belong to others, such as scholarship funds and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

*Notes to the Basic 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. The notes to the basic financial statements can be found immediately following the fund financial statements.

**Financial Analysis of the District as a Whole**

*Net Position.* The District's combined net position increased \$1,856,839. Net position from governmental activities increased by \$1,863,628 and net position from business activities decreased by \$6,789. Net investment in capital assets increased by \$1,517,390, restricted net position decreased by \$130,798 and unrestricted net position increased by \$470,247.

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

	Government Activities		Business-Type Activities		Total School District		Total Percentage Change
	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	
Current and Other Assets	\$ 3,328,615	\$ 3,355,173	\$ 2,640	\$ 6,836	\$ 3,331,255	\$ 3,362,009	-0.91%
Capital Assets, Net	14,536,163	14,809,958	12,418	15,011	14,548,581	14,824,969	-1.86%
Total Assets	17,864,778	18,165,131	15,058	21,847	17,879,836	18,186,978	-1.69%
Deferred Outflows of Resources	711,954	253,999			711,954	253,999	180.30%
Other Liabilities	146,883	437,885			146,883	437,885	-66.46%
Long-Term Liabilities	5,699,466	7,252,361			5,699,466	7,252,361	-21.41%
Total Liabilities	5,846,349	7,690,246			5,846,349	7,690,246	-23.98%
Deferred Inflows of Resources	198,864	248,961			198,864	248,961	-20.12%
Net Position:							
Net Investment in Capital							
Assets	12,602,386	11,082,403	12,418	15,011	12,614,804	11,097,414	13.67%
Restricted	2,614,922	2,745,720			2,614,922	2,745,720	-4.76%
Unrestricted/(Deficit)	(2,873,757)	(3,348,200)	2,640	6,836	(2,871,117)	(3,341,364)	14.07%
Total Net Position	\$ 12,343,551	\$ 10,479,923	\$ 15,058	\$ 21,847	\$ 12,358,609	\$ 10,501,770	17.68%

*Changes in Net Position.* The District's combined net position was \$12,358,609 on June 30, 2016, or \$1,856,839 more than it was the year before. (See Figure A-3). Net investment in capital assets increased by \$1,517,390 due to additions to capital assets of \$137,100, the retirement of bond principal of \$1,875,000 offset by depreciation expense of \$413,488. Restricted net position decreased by \$130,798 due to decreases in capital reserve of \$9,482, in maintenance reserve of \$61,135, and \$60,181 in excess surplus. Unrestricted net position increased by \$470,247 due primarily to the net of the increase in the net pension liability, the net of the deferred inflows and outflows relating to pension liability, decrease in compensated absences and decrease in accrued interest payable.

**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

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

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	
Revenue:							
Program Revenue:							
Tuition	\$ 149,674	\$ 141,637			\$ 149,674	\$ 141,637	5.67%
Charges for Services			\$ 5,640	\$ 6,450	5,640	6,450	-12.56%
Operating Grants & Contributions	3,177,650	2,763,449	4,900	6,461	3,182,550	2,769,910	14.90%
General Revenue:							
Property Taxes	12,473,670	12,254,461			12,473,670	12,254,461	1.79%
Unrestricted Federal & State Aid	374,220	179,847			374,220	179,847	108.08%
Other	21,539	67,147			21,539	67,147	-67.92%
Total Revenue	<u>16,196,753</u>	<u>15,406,541</u>	<u>10,540</u>	<u>12,911</u>	<u>16,207,293</u>	<u>15,419,452</u>	5.11%
Expenses:							
Instruction	8,720,627	8,454,925			8,720,627	8,454,925	3.14%
Pupil and Instruction Services	2,142,040	1,784,730			2,142,040	1,784,730	20.02%
Administrative and Business	1,527,594	1,394,828			1,527,594	1,394,828	9.52%
Maintenance and Operations	1,326,845	1,267,013			1,326,845	1,267,013	4.72%
Transportation	558,121	514,800			558,121	514,800	8.42%
Other	57,897	134,384	17,329	12,621	75,226	147,005	-48.83%
Total Expenses	<u>14,333,124</u>	<u>13,550,680</u>	<u>17,329</u>	<u>12,621</u>	<u>14,350,453</u>	<u>13,563,301</u>	5.80%
Increase/(Decrease) in Net Position	<u>\$ 1,863,629</u>	<u>\$ 1,539,860</u>	<u>\$ (6,789)</u>	<u>\$ 290</u>	<u>\$ 1,856,840</u>	<u>\$ 1,856,151</u>	0.04%

*Revenue Sources.* The District's total revenue for the 2015/2016 school year was \$16,207,293 (See Figure A-4). Property taxes and state formula aid accounted for most of the District's revenue, with local taxes accounting for \$12,473,670 of the total, or 76.96 percent. (See Figure A-5). 21.95 percent came from state and federal aid and the remainder from miscellaneous sources.

**Figure A-5**  
**Sources of School District Revenue - Fiscal Year 2016**

	Amount	Percentage
Sources of Income:		
State Formula Aid	\$ 3,182,550	19.64%
Property Taxes	12,473,670	76.96%
Federal and State Categorical Grants	374,220	2.31%
Charges for Services	5,640	0.04%
Other	171,213	1.05%
	<u>\$ 16,207,293</u>	<u>100.00%</u>

**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

The total cost of all programs and services was \$14,350,453. The District’s expenses are predominantly related to instructing, caring for (pupil services) and transporting students (79.59 percent). (See Figure A-6). Other significant cost areas include Administrative and Business activities (10.64 percent) and Maintenance and Operations activities (9.25 percent). The most significant contributors to the costs of Maintenance and Operations were salaries, fuel and other costs. It is important to remember that \$413,488 in depreciation is included in expenses for the year.

**Figure A-6**  
**Sources of School District Expenses - Fiscal Year 2016**

Expense Category:	<u>Amount</u>	<u>Percentage</u>
Instruction	\$ 8,720,627	60.77%
Pupil and Instruction Services	2,142,040	14.93%
Administrative and Business	1,527,594	10.64%
Maintenance and Operations	1,326,845	9.25%
Transportation	558,121	3.89%
Other	75,226	0.52%
	<u><u>\$ 14,350,453</u></u>	<u><u>100.00%</u></u>

**Governmental Activities**

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

Careful management of expenses remains essential for the District to sustain its financial health. Among the many significant cost savings actions continued during the year were:

- Participation in a joint insurance fund operated by Diploma Joint Insurance Fund resulting in low cost property, liability and workers compensation insurance.
- Participation in Joint Transportation Agreements.
- Participation in Joint Purchasing Agreements.
- Participation in shared services for on-site IT technicians and network administration
- Participation in e-Rate Programs.

The District will continue to examine its expenses carefully to sustain its financial health while satisfying increasing new educational programs and activities.

**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

Figure A-7 presents the cost of six major District activities: instruction, pupil and instructional services, administration and business, maintenance and operations, transportation, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial obligation placed on the District's taxpayers by each of these functions:

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

	Total Costs of Services		Net Cost of Services	
	2015/2016	2014/2015	2015/2016	2014/2015
Instruction	\$ 8,720,627	\$ 8,454,925	\$ 6,184,893	\$ 6,197,996
Pupil and Instruction Services	2,142,040	1,784,730	1,734,715	1,439,025
Administrative and Business	1,527,594	1,394,828	1,266,383	1,189,715
Maintenance and Operations	1,326,845	1,267,013	1,221,576	1,181,951
Transportation	558,121	514,800	540,336	502,523
Other	57,897	134,384	57,897	134,384
	<u>\$ 14,333,124</u>	<u>\$ 13,550,680</u>	<u>\$ 11,005,800</u>	<u>\$ 10,645,594</u>

- The cost of all governmental activities this year was approximately \$14.33 million.
- The federal and state governments subsidized certain programs with grants and contributions of \$3.55 million.
- Approximately \$12.47 million of the District's costs were financed by District taxpayers.
- The remainder of the funding came from tuition charges, miscellaneous revenue and investment earnings.

### Business-Type Activities

Net position from the District's business-type activity decreased by \$6,789 (Refer to Figure A-4). Factors contributing to these results included:

- Food service operating revenues decreased by \$810 from the prior year and the non-operating revenue also decreased by \$1,561 from the prior year combined with increases in the operating expenses of \$4,418. Increase in operating expenses are due to improving food quality and equipment per Corrective Action Plan submitted to Department of Agriculture State of New Jersey to reduce the cash excess in the prior year in the food service fund.

### Financial Analysis of the District's Funds

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

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

These factors are likely to continue for the next several years. To maintain a stable financial position, the District must continue to practice sound fiscal management.

**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

**General Fund Budgetary Highlights**

Over the course of the fiscal year, the District revised the annual operating budget between budgetary line items for changes in school-based needs. Special education instruction and extraordinary services for special education increased \$201,491 and \$42,627, respectively above budgeted amounts due to the needs of incoming students. Student support services also increased \$54,307 over budgeted amounts. The District transferred \$61,135 from the Maintenance Reserve for costs associated with parking lot and sidewalk repairs. The District also transferred \$128,031 from the Capital Reserve for installation of surveillance security camera systems and project fit equipment.

**Capital Asset and Debt Administration**

Current year capital additions were \$137,100 and annual depreciation was \$413,488 (\$410,895 from governmental activities and \$2,593 from business-type activities). (More information on the District's capital assets is presented in Note 6 to the financial statements.)

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

	Government Activities		Business-Type Activities		Total School District		Total Percentage Change
	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	
Land	\$ 411,364	\$ 411,364			\$ 411,364	\$ 411,364	0.00%
Building and Building Improvements	12,580,997	12,906,637			12,580,997	12,906,637	-2.52%
Machinery and Equipment	484,728	432,883	\$ 12,418	\$ 15,011	497,146	447,894	11.00%
Construction in Progress	1,059,074	1,059,074			1,059,074	1,059,074	0.00%
Total Capital Assets (Net of Depreciation)	<u>\$ 14,536,163</u>	<u>\$ 14,569,657</u>	<u>\$ 12,418</u>	<u>\$ 17,604</u>	<u>\$ 14,548,581</u>	<u>\$ 14,824,969</u>	<u>-1.86%</u>

**Long-Term Liabilities**

At year-end, the District had \$2,015,000 in general obligation bonds outstanding as shown in Figure A-9. (More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.)

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

	Total School District		Percentage Change
	2015/2016	2014/2015	
General Obligation Bonds	\$ 2,015,000	\$ 3,890,000	-48.20%
Unamortized Bond Premiums	118,076	236,152	-50.00%
Compensated Absences	192,918	214,686	-10.14%
Net Pension Liability	3,373,472	2,911,523	15.87%
	<u>\$ 5,699,466</u>	<u>\$ 7,252,361</u>	<u>-21.41%</u>

- The District continued to pay down its debt, retiring \$1,875,000 of outstanding bonds.
- Compensated absences payable decreased by a net amount of \$21,768.
- The net pension liability increased by \$461,949 from the prior year.
- Unamortized Bond Premiums decreased by \$118,076

**WATCHUNG BOROUGH SCHOOL DISTRICT**  
**Management Discussion and Analysis**  
(Unaudited)

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

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

- Tax Levy - The Board opted to prepare its 2016-2017 budget with a 1.9% tax increase. The unrestricted fund balance is limited to 2% of our expenditures as per the New Jersey Department of Education regulations. Thus, looking ahead to the development of the 2017-2018 budget, it will be important to prepare a budget that will closely reflect actual expenditures since the unrestricted fund will not permit much flexibility.
- Personnel – Our last contract settlement in 2013 placed a 2% increase each year on total compensation costs for our collective bargaining unit through June 30, 2016. Settlement rates reached in State of New Jersey for K-8 districts with enrollment 401-750 since April 1, 2015 average as follows: 2.58% in 2016-2017 and 2.77% in 2017-2018. (Source: NJSBA, Quick Stat Report, May 2016). Board reached a Memorandum of Agreement with the Association on July 11, 2016 which agrees salary increases of 2.5% inclusive of the cost of increment each year until June 30, 2019 to the Teachers Salary Guide.

The Watchung Borough School District is in good financial condition presently. The District is proud of its community support of public schools. A major concern is its increasing reliance on property taxes.

In conclusion, Watchung Borough School District has committed itself to continue its system of financial planning, budgeting and internal controls to meet the challenges of the future.

**Request for Information**

This financial report is designed to provide a general overview of the Watchung Borough School District'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 financial information should be addressed to Irfan Evcil, School Business Administrator/Board Secretary, at the Board of Education Office at One Dr. Parenty Way, Watchung, NJ 07069.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS



WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,014,479	\$ 7,735	\$ 1,022,214
Interfund Receivable	4,679		4,679
Internal Balances	5,935	(5,935)	
Receivable from State Government	133,186		133,186
Receivable from Federal Government		840	840
Other Accounts Receivable	14,435		14,435
Restricted Assets:			
Capital Reserve Account - Cash and Cash Equivalents	1,775,536		1,775,536
Maintenance Reserve Account - Cash and Cash Equivalents	380,365		380,365
Capital Assets:			
Sites (Land) and Construction in Progress	1,470,438		1,470,438
Depreciable Buildings and Building Improvements and Machinery and Equipment	13,065,725	12,418	13,078,143
Total Assets	<u>17,864,778</u>	<u>15,058</u>	<u>17,879,836</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Amount on Bond Refunding	81,223		81,223
Changes in Assumptions - Pensions	362,284		362,284
District Contribution Subsequent to Measurement Date Difference Between Expected and Actual Experience - Pensions	187,968		187,968
	80,479		80,479
Total Deferred Outflows of Resources	<u>711,954</u>		<u>711,954</u>
<b>LIABILITIES</b>			
Accrued Interest Payable	38,613		38,613
Accounts Payable	252,835		252,835
Unearned Revenue	43,403		43,403
Noncurrent Liabilities:			
Due Within One Year	2,133,076		2,133,076
Due Beyond One Year	3,566,390		3,566,390
Total Liabilities	<u>6,034,317</u>		<u>6,034,317</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Investment Gains - Pensions	54,239		54,239
Changes in Proportions - Pensions	144,625		144,625
Total Deferred Inflows of Resources	<u>198,864</u>		<u>198,864</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
NET POSITION			
Net Investment in Capital Assets	\$ 12,602,386	\$ 12,418	\$ 12,614,804
Restricted for:			
Capital Projects	1,920,761		1,920,761
Maintenance Reserve	380,365		380,365
Excess Surplus	313,796		313,796
Unrestricted/(Deficit)	<u>(2,873,757)</u>	<u>2,640</u>	<u>(2,871,117)</u>
Total Net Position	<u>\$ 12,343,551</u>	<u>\$ 15,058</u>	<u>\$ 12,358,609</u>

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:						
Instruction:						
Regular	\$ 7,007,650		\$ 1,744,977		\$ (5,262,673)	\$ (5,262,673)
Special Education	1,502,409		732,244		(770,165)	(770,165)
Other Special Instruction	141,104		27,266		(113,838)	(113,838)
School-Sponsored Other Instruction	69,464		31,247		(38,217)	(38,217)
Support Services:						
Tuition	17,995	\$ 149,674			131,679	131,679
Student & Instruction Related Services	2,124,045		257,651		(1,866,394)	(1,866,394)
General Administrative Services	512,228		138,054		(374,174)	(374,174)
School Administrative Services	663,060		82,189		(580,871)	(580,871)
Central Services	300,236		39,531		(260,705)	(260,705)
Administrative Information Technology	52,070		1,437		(50,633)	(50,633)
Plant Operations and Maintenance	1,326,845		105,269		(1,221,576)	(1,221,576)
Pupil Transportation	558,121		17,785		(540,336)	(540,336)
Interest on Long Term Debt	1,759				(1,759)	(1,759)
Capital Outlay	56,138				(56,138)	(56,138)
<b>Total Governmental Activities</b>	<b>14,333,124</b>	<b>149,674</b>	<b>3,177,650</b>		<b>(11,005,800)</b>	<b>(11,005,800)</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Business-Type Activities:							
Food Service	\$ 17,329	\$ 5,640	\$ 4,900			\$ (6,789)	\$ (6,789)
Total Business-Type Activities	17,329	5,640	4,900			(6,789)	(6,789)
Total Primary Government	\$ 14,350,453	\$ 155,314	\$ 3,182,550	\$ -0-	\$ (11,005,800)	(6,789)	(11,012,589)
General Revenue:							
Taxes:							
Property Taxes, Levied for General Purposes, Net					10,474,570		10,474,570
Taxes Levied for Debt Service					1,999,100		1,999,100
Federal and State Aid not Restricted					374,220		374,220
Miscellaneous Income					21,539		21,539
Total General Revenue					12,869,429		12,869,429
Change in Net Position					1,863,629	(6,789)	1,856,840
Net Position - Beginning					10,479,922	21,847	10,501,769
Net Position - Ending					\$ 12,343,551	\$ 15,058	\$ 12,358,609

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

FUND FINANCIAL STATEMENTS

WATCHUNG BOROUGH SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 735,168		\$ 279,311		\$ 1,014,479
Receivables From State Government	133,186				133,186
Other Receivables	3,847	\$ 10,588			14,435
Interfund Receivables	18,914				18,914
Restricted Cash and Cash Equivalents	2,155,901				2,155,901
<b>Total Assets</b>	<b>\$ 3,047,016</b>	<b>\$ 10,588</b>	<b>\$ 279,311</b>	<b>\$ -0-</b>	<b>\$ 3,336,915</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 64,579	\$ 288			\$ 64,867
Interfund Payable		8,300			8,300
Unearned Revenue	12,245	2,000	\$ 29,158		43,403
<b>Total Liabilities</b>	<b>76,824</b>	<b>10,588</b>	<b>29,158</b>		<b>116,570</b>
<b>Fund Balances:</b>					
<b>Restricted:</b>					
Capital Reserve Account	1,775,536				1,775,536
Maintenance Reserve Account	380,365				380,365
Excess Surplus Designated for Subsequent Year's Expenditures	188,351				188,351
Excess Surplus	125,445				125,445
Capital Projects Fund			145,225		145,225
<b>Committed:</b>					
Capital Projects Fund			104,928		104,928
<b>Assigned:</b>					
Encumbrances	152				152
Designated for Subsequent Year's Expenditures	154,890				154,890

WATCHUNG BOROUGH SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Fund Balances:					
Unassigned:					
General Fund	\$ 345,453				\$ 345,453
Total Fund Balances	<u>2,970,192</u>		<u>\$ 250,153</u>		<u>3,220,345</u>
Total Liabilities and Fund Balances	<u>\$ 3,047,016</u>	<u>\$ 10,588</u>	<u>\$ 279,311</u>	<u>\$ -0-</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 \$20,791,795 and the accumulated depreciation is \$6,255,632.	\$ 14,536,163
Interest on long-term debt is not accrued in Governmental Funds, but rather is recognized as an expenditure when due.	(38,613)
The Deferred Amount on the Refunding is not reported as expenditures in the Governmental Funds in the year of the expenditure.	81,223
Bond Premiums are Reported as revenue in the Governmental Funds. The Premiums are \$944,608 and the amortization is \$826,532.	(118,076)
The Net Pension Liability for PERS is not Due and Payable in the Current Period and is not Reported in the Governmental Funds.	(3,373,472)
Other Long-Term Liabilities are not due and payable in the current period and therefore are not reported as liabilities in the Funds.	(2,207,918)
Certain Amounts Related to the Net Pension Liability are Deferred and Amortized in the Statement of Activities and are not Reported in the Governmental Funds.	
Changes in Assumptions - Pensions	362,284
Difference Between Estimated and Actual Experience - Pensions	80,479
Investments in Gains - Pensions	(54,239)
Changes in Proportions - Pensions	<u>(144,625)</u>
Net Position of Governmental Activities	<u>\$ 12,343,551</u>

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUE:</b>					
<b>Local Sources:</b>					
Local Tax Levy	\$ 10,474,570			\$ 1,999,100	\$ 12,473,670
Tuition from Individuals	135,408				135,408
Tuition from Other LEA's within the State	14,266				14,266
Interest Earned on Capital Reserve Funds	5,328				5,328
Miscellaneous	16,211	\$ 30,853			47,064
<b>Total - Local Sources</b>	<b>10,645,783</b>	<b>30,853</b>		<b>1,999,100</b>	<b>12,675,736</b>
State Sources	1,719,943		\$ 229,897		1,949,840
Federal Sources		191,499			191,499
<b>Total Revenue</b>	<b>12,365,726</b>	<b>222,352</b>	<b>229,897</b>	<b>1,999,100</b>	<b>14,817,075</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Regular Instruction	3,783,659	83,993			3,867,652
Special Education Instruction	912,097	138,359			1,050,456
Other Special Instruction	93,469				93,469
School Sponsored/Other Instruction	39,548				39,548
<b>Support Services and Undistributed Costs:</b>					
Tuition	17,995				17,995
Student & Instruction Related Services	1,518,646				1,518,646
General Administrative Services	363,595				363,595
School Administrative Services	384,089				384,089
Central Services	197,510				197,510
Administrative Information Technology	48,336				48,336
Plant Operations and Maintenance	1,042,561				1,042,561



WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
EXPENDITURES					
Pupil Transportation	\$ 514,096				\$ 514,096
Allocated and Unallocated Benefits	3,307,827				3,307,827
Capital Outlay	193,238				193,238
Debt Service:					
Principal				\$ 1,875,000	1,875,000
Interest and Other Charges				124,100	124,100
Total Expenditures	<u>12,416,666</u>	<u>\$ 222,352</u>		<u>1,999,100</u>	<u>14,638,118</u>
Excess/(Deficit) of Revenue over/(under) Expenditures	(50,940)		\$ 229,897		178,957
Fund Balance—July 1	<u>3,021,132</u>		<u>20,256</u>		<u>3,041,388</u>
Fund Balance—June 30	<u>\$ 2,970,192</u>	<u>\$ - 0 -</u>	<u>\$ 250,153</u>	<u>\$ - 0 -</u>	<u>\$ 3,220,345</u>

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Total Net Change in Fund Balances - Governmental Funds (from Exhibit B-2)		\$ 178,957
Amounts Reported for Governmental Activities in the Statement of Activities (Exhibit A-2) are Different Because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation differs from capital outlays in the period.		
	Depreciation Expense	\$ (410,895)
	Capital outlays	<u>137,100</u>
		(273,795)
Repayment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities. (+)		1,875,000
Also, the governmental funds report the effect of the deferred amount on a bond refunding relative to an advance refunding when debt is first issued whereas these amounts are deferred and amortized in the statement of activities. (-)		(81,223)
Finally, the governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. (+)		118,076
In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when accrued, regardless of when due. In the governmental funds, interest is reported when due. When the accrued interest exceeds the interest paid, the difference is a reduction in the reconciliation (-); when the interest paid exceeds the accrued interest, the difference is an addition to the reconciliation (+).		85,488
The net pension liability reported in the statement of activities does not require the use of current financial resources and is not reported as an expenditure in the Governmental Funds:		
Changes in Net Pension Liability		(461,949)
Deferred Outflows:		
Changes in Assumptions		270,730
Difference Between Expected and Actual Experience		80,479
Deferred Inflows:		
Net Difference between projected and actual investment earnings on Pension Plan Investments		119,272
Changes in Proportions		<u>(69,174)</u>
		(60,642)
In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+).		<u>21,768</u>
Change in Net Position of Governmental Activities (Exhibit A-2)		<u>\$ 1,863,629</u>

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

Exhibit B-4

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016

	Business-type Activities - Enterprise Funds
	Food Service
	Non-Major Fund
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 7,735
Intergovernmental Accounts Receivable:	
Federal	840
Total Current Assets	8,575
Non-Current Assets:	
Capital Assets	35,360
Less: Accumulated Depreciation	(22,942)
Total Non-Current Assets	12,418
Total Assets	20,993
 <b>LIABILITIES:</b>	
Current Liabilities:	
Interfund Payable	5,935
Total Current Liabilities	5,935
 <b>NET POSITION:</b>	
Net Investment in Capital Assets	12,418
Unrestricted	2,640
Total Net Position	\$ 15,058

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

Exhibit B-5

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds
	Food Service
	Non-Major Fund
Operating Revenue:	
Local Sources:	
Daily Sales - Reimbursable Programs	\$ 5,640
Total Operating Revenue	5,640
Operating Expenses:	
Cost of Sales- Reimbursable Programs	8,801
Miscellaneous Expenditures	5,935
Depreciation Expense	2,593
Total Operating Expenses	17,329
Operating Loss	(11,689)
Non-Operating Revenue:	
Federal Sources:	
Special Milk Program	4,900
Total Non-Operating Revenue	4,900
Change in Net Position	(6,789)
Net Position - Beginning of Year	21,847
Net Position - End of Year	\$ 15,058

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

Exhibit B-6

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds
	Food Service
	Non-Major Fund
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 5,640
Payments to Food Service Vendor	(8,801)
Net Cash Used for Operating Activities	(3,161)
Cash Flows from Noncapital Financing Activities:	
Federal Sources:	
Special Milk Program	5,904
Net Cash Provided by Noncapital Financing Activities	5,904
Net Increase in Cash and Cash Equivalents	2,743
Cash and Cash Equivalents, July 1	4,992
Cash and Cash Equivalents, June 30	\$ 7,735
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (11,689)
Adjustment to Reconcile Operating Loss to Cash Used for Operating Activities:	
Depreciation	2,593
Changes in Assets and Liabilities:	
Increase in Interfund Payable	5,935
Net Cash Used for Operating Activities	\$ (3,161)

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

Exhibit B-7

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

	<u>Agency</u>	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 226,948	\$ 11,334	\$ 64,452
Interfund Receivable:			
Payroll Agency Fund		4,130	
	<u>226,948</u>	<u>15,464</u>	<u>64,452</u>
<b>Total Assets</b>			
<b>LIABILITIES:</b>			
Accrued Salaries and Wages Payable	175,439		
Due to Student Groups	42,302		
Payroll Deductions and Withholdings	1,268		
Interfund Payable:			
General Fund	3,809	870	
Flexible Spending Trust	4,130		
	<u>226,948</u>	<u>870</u>	
<b>Total Liabilities</b>			
<b>NET POSITION:</b>			
Held in Trust for Flexible Spending Claims		14,594	
Held in Trust for Unemployment Claims			64,452
	<u>\$ -0-</u>	<u>\$ 14,594</u>	<u>\$ 64,452</u>
<b>Total Net Position</b>			

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

Exhibit B-8

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
Additions:		
Contributions:		
Employee Contributions	\$ 47,160	\$ 9,920
Total Contributions	<u>47,160</u>	<u>9,920</u>
Investment Earnings:		
Interest		<u>258</u>
Net Investment Earnings		<u>258</u>
Total Additions	<u>47,160</u>	<u>10,178</u>
Deductions		
Unemployment Compensation Claims		34,394
Flexible Spending Claims	<u>47,160</u>	
Total Deductions	<u>47,160</u>	<u>34,394</u>
Change in Net Position		(24,216)
Net Position - Beginning of the Year	<u>14,594</u>	<u>88,668</u>
Net Position - End of the Year	<u>\$ 14,594</u>	<u>\$ 64,452</u>

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board of Education (the "Board") of Watchung Borough School District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

A. Reporting Entity:

The Board is an instrumentality of the State of New Jersey, established to function as an educational institution. The Board consists of elected officials and is responsible for the fiscal control of the District. A superintendent is appointed by the Board and is responsible for the administrative control of the District.

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

B. Basis of Presentation:

District-Wide Financial Statements:

The statement of net position and the statement of activities present financial information about the District's governmental and business type activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. These statements distinguish between the governmental and business type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenue and other nonexchange transactions. Business type activities are financed in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenue for business-type activities and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses are allocated to the functions using an appropriate allocation method or association with the specific function. Indirect expenses include health benefits, employer's share of payroll taxes, compensated absences and tuition reimbursements. Program revenue includes (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue. The comparison of direct expenses with program revenues identifies the extent to which each government function or business segment is self-financing or draws from the general revenues of the District.



WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

B. Basis of Presentation: (Cont'd)

Fund Financial Statements:

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

The District reports the following governmental funds:

General Fund: The General Fund is the general operating fund of the District and is used to account for and report all expendable financial resources not accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or noninstructional equipment which are classified in the capital outlay subfund.

As required by NJDOE, the District includes budgeted capital outlay in this fund. GAAP, as it pertains to governmental entities, states that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenue. Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid, district taxes and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to current expenses by board resolution.

Special Revenue Fund: The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than capital projects or debt service. Thus, the Special Revenue Fund is used to account for the proceeds of specific revenue from State and Federal Governments (other than major capital projects, debt service or the enterprise funds) and local appropriations that are legally restricted or committed to expenditures for specified purposes.

Capital Projects Fund: The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election, funds appropriated from the General Fund, and from aid provided by the state to offset the cost of approved capital projects.

Debt Service Fund: The Debt Service Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

B. Basis of Presentation: (Cont'd)

The District reports the following proprietary fund:

Enterprise (Milk Service) Fund: The Enterprise Fund accounts for all revenue and expenses pertaining to the Board's cafeteria operations. The milk service fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e., expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges.

Additionally, the District reports the following fund type:

Fiduciary Funds: The Fiduciary Funds are used to account for assets held by the District on behalf of others and includes the Student Activities Fund, Payroll Agency Fund, Flexible Spending Trust and Unemployment Compensation Insurance Trust Fund.

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Therefore, when program expenses are incurred, both restricted and unrestricted net position may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenue.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

D. Budgets/Budgetary Control:

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue and debt service funds. The budget for the fiscal year ended June 30, 2016 was submitted to the County office and was approved by a vote of the Board of Education. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. All budget amendments/transfers must be made by School Board resolution. All budgeting amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budget during the year).

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

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

The General Fund budgetary revenue differs from GAAP revenue due to a difference in recognition of the last two state aid payments for the current year. Since the State is recording the last two state aid payments in the subsequent fiscal year, the District cannot recognize these payments on the GAAP financial statements.

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenue and Expenditures:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Sources/Inflows of Resources:		
Actual Amounts (Budgetary Basis) "Revenue" from the Budgetary Comparison Schedule	\$ 12,366,350	\$ 222,352
Differences - Budget to GAAP:		
Prior Year State Aid Payments Recognized for GAAP Statements	37,109	
Current Year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	<u>(37,733)</u>	
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.	<u>\$ 12,365,726</u>	<u>\$ 222,352</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	<u>\$ 12,416,666</u>	<u>\$ 222,352</u>
Total Expenditures as Reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	<u><u>\$ 12,416,666</u></u>	<u><u>\$ 222,352</u></u>

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

	<u>Capital Projects Fund</u>	
	<u>Revenue</u>	<u>Fund Balance</u>
Summary of Schedule of Revenue, Expenditures and Changes in Fund Balance (Budgetary Basis) (per F-1)	\$ (70,632)	\$ 251,083
Reconciliation to Government Funds Statements (GAAP):		
SDA Grants are Recongnized as Revenue on the Budgetary Basis when awarded but are not Recognized on the GAAP Basis until Expended	<u>300,529</u>	<u>(930)</u>
Statement of Schedule of Revenue, Expenditures and Changes in Fund Balance (GAAP Basis) (per B-2)	<u><u>\$ 229,897</u></u>	<u><u>\$ 250,153</u></u>

E. Cash and Cash Equivalents:

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

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

E. Cash and Cash Equivalents: (Cont'd)

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

F. Interfund Transactions:

Transfers between governmental and business-type activities on the District-wide statements are reported in the same manner as general revenues. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the enterprise fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

G. Allowance for Uncollectible Accounts:

No allowance for uncollectible accounts has been recorded as all amounts are considered collectible.

H. Encumbrances:

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

Open encumbrances in the special revenue fund for which the District has received advances are reflected in the balance sheet as unearned revenue at fiscal year end.

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

I. Short-term Interfund Receivables/Payables:

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

J. Inventories and Prepaid Expenses:

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

Enterprise fund inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. Prepaid expenses in the enterprise fund represent payments made to vendors for services that will benefit periods beyond June 30, 2016.

K. Capital Assets:

During the year ended June 30, 1994, the District established a formal system of accounting for its capital assets. Capital assets acquired or constructed subsequent to June 30, 1994, are recorded at historical cost including ancillary charges necessary to place the asset into service. Capital assets acquired or constructed prior to the establishment of the formal system are valued at cost based on historical records or through estimation procedures performed by an independent appraisal company. Land has been recorded at estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs is not capitalized. The District does not possess any infrastructure. Capital assets have been reviewed for impairment.

The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is \$2,000. The depreciation method is straight-line. The estimated useful lives of capital assets reported in the District-wide statements and proprietary funds are as follows:

	<u>Estimated Useful Life</u>
Buildings	50 years
Building Improvements	20 years
Machinery and Equipment	10 to 15 years
Computers and Related Technology	5 years
Vehicles	8 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures in the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

L. Long Term Liabilities:

In the government-wide and enterprise fund statements of net position, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or enterprise funds. Bond premiums and discounts, are reported as deferred charges and amortized over the term of the related debt using the straight-line method of amortization. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

M. Accrued Salaries and Wages:

Certain District employees, who provide services to the District over the ten-month academic year, have the option to have their salaries evenly disbursed during the entire twelve month year. New Jersey statutes require that these earned but undisbursed amounts be retained in a separate bank account. As of June 30, 2016, the amount earned by these employees but not yet disbursed was \$175,439.

N. Compensated Absences:

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

District employees are granted varying amounts of vacation and sick leave in accordance with the District's personnel policy. Upon termination, employees are paid for accrued vacation. The District permits certain employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement, employees shall be paid by the District for the unused sick leave in accordance with the District's agreements with the various employee unions.

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

O. Unearned Revenue:

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

P. Fund Balance Appropriated:

General Fund: Of the \$2,970,192 General Fund fund balance at June 30, 2016, \$152 is assigned for encumbrances; \$380,365 is restricted in the maintenance reserve account; \$1,775,536 is restricted in the capital reserve account; \$188,351 is restricted as prior year excess surplus and has been appropriated and included as anticipated revenue for the fiscal year ended June 30, 2017; \$125,445 is restricted for current year excess surplus in accordance with N.J.S.A.18A:7F-7 (S1701) and will be appropriated and included as anticipated revenue for the fiscal year ended June 30, 2018; \$154,890 is assigned and has been appropriated and included as anticipated revenue for the fiscal year ended June 30, 2017; and there is \$345,453 in unassigned fund balance, which is \$37,733 less than the calculated maximum unassigned fund balance, on a GAAP basis, due to the final two state aid payments, which are not recognized until the fiscal year ended June 30, 2017.

Capital Projects Fund: Of the \$250,153 fund balance in the Capital Projects Fund at June 30, 2016, \$145,225 is restricted and \$104,928 is Committed, which excludes \$930 of SDA grants receivable not recognized on a GAAP Basis.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

P. Fund Balance Appropriated: (Cont'd)

Calculation of Excess Surplus: In accordance with N.J.S.A. 18A:7F-7, as amended by P.L. 2004, C.73 (S1701) the designation for Restricted Fund Balance-Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to restrict General Fund fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent year's budget. The District has excess surplus as noted above.

Unassigned fund balance in the General Fund is less on a GAAP basis than budgetary basis in the amount of \$37,733 as of June 30, 2016 as reported in the fund statements (modified accrual basis). P.L. 2003, C.97 provides that in the event a state school aid payment is not made until the following school budget year, districts must record the last state aid payment as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the last state aid payments in the subsequent fiscal year, the school district cannot recognize these last two state aid payments on the GAAP financial statements until the year the State records the payable. The excess surplus calculation is calculated using the fund balance reported on the Budgetary Comparison Schedule, including the final state aid payments and not the fund balance reported on the fund statement which excludes the last two state aid payments.

Q. Fund Balance Restrictions, Commitments and Assignments:

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

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

The District Board of Education has the responsibility to formally commit resources for specific purposes through a motion or a resolution passed by a majority of the Members of the Board of Education at a public meeting of that governing body. The Board of Education must also utilize a formal motion or a resolution passed by a majority of the Members of the Board of Education at a public meeting of that governing body in order to remove or change the commitment of resources. The District has \$104,928 of committed resources at June 30, 2016 in Capital Projects Fund on a GAAP Basis.

The assignment of resources is generally made by the District Board of Education through a motion or a resolution passed by a majority of the Members of the Board of Education. These resources are intended to be used for a specific purpose. The process is not as restrictive as the commitment of resources and the Board of Education may allow an official of the District to assign resources through policies adopted by the Board of Education. The District has assigned resources for year-end encumbrances and amount designated for subsequent year's expenditures at June 30, 2016 in the General Fund.



WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

R. Net Position:

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. The District had deferred outflows of resources at June 30, 2016 for the deferred amount on the bond refunding, changes in assumptions for pensions, District contribution subsequent to the measurement date and the difference between expected and actual experience in pensions.

The District had deferred inflows of resources at June 30, 2016 for the net difference between projected and actual investment earnings on pension plan investments and changes in proportion in pensions

Net position is displayed in three components - net investment in capital assets; restricted and unrestricted.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

S. Deficit Net Position:

The District has a deficit in unrestricted net position of \$2,873,757 in its governmental activities, which is due to unassigned General Fund balance of \$345,453, \$152 of General Fund fund balance assigned for encumbrances, a \$104,928 committed fund balance of Capital Projects Fund, \$154,890 assigned fund balance, \$362,284 of changes in pension assumptions, difference between expected and actual experience in pensions of \$80,479; offset by unamortized bond premium of \$118,076, investment gains in pension plan of \$54,239, changes in proportion in pensions of \$144,625, net pension liability of \$3,373,472, \$192,918 of compensated absences payable, and accrued interest payable of \$38,613. This deficit does not indicate the District is in financial difficulties and is a permitted practice under generally accepted accounting principles.

T. Revenue - Exchange and Nonexchange Transactions:

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

T. Revenue - Exchange and Nonexchange Transactions: (Cont'd)

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes, interest and tuition.

U. Operating Revenue and Expenses:

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

V. Management Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

W. Pensions

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

NOTE 2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

NOTE 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Investments are stated at cost, which approximates market. The Board classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

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

GASB Statement No. 40, *Governmental Accounting Standards Board Deposit and Investment Risk Disclosures*, requires disclosure of the level of custodial credit risk assumed by the District in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned.

Interest Rate Risk - In accordance with its cash management plan, the District ensures that any deposit or investment matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk - The District limits its investments to those authorized in its cash management plan which are those permitted under state statute as detailed below and on the following page.

Custodial Credit Risk – The District's policy with respect to custodial credit risk requires that the District ensures that District funds are only deposited in financial institutions in which NJ school districts are permitted to invest their funds.

Deposits:

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

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

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

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

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

Investments:

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

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

Investments: (Cont'd)

- (4) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (5) Local government investment pools;
- (6) Deposits with the State of New Jersey Cash Management Fund; or
- (7) Agreements for the repurchase of fully collateralized securities if:
  - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;
  - (b) the custody of collateral is transferred to a third party;
  - (c) the maturity of the agreement is not more than 30 days;
  - (d) the underlying securities are purchased through a public depository as defined in statute; and
  - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of June 30, 2016, cash and cash equivalents of the District consisted of the following:

	Cash and Cash Equivalents	<u>Restricted Cash and Cash Equivalents</u>		Total
		Capital Reserve Account	Maintenance Reserve Account	
Checking Accounts	\$ 1,324,949	\$ 1,775,536	\$ 380,365	\$ 3,480,850
	<u>\$ 1,324,949</u>	<u>\$ 1,775,536</u>	<u>\$ 380,365</u>	<u>\$ 3,480,850</u>

During the period ended June 30, 2016, the District did not hold any investments. The carrying amount of the Board's cash and cash equivalents at June 30, 2016, was \$3,480,850 and the bank balance was \$4,091,031.

NOTE 4. CAPITAL RESERVE ACCOUNT

A capital reserve account in the amount of \$15,000 was established by Board resolution on October 15, 2000 for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the District's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the department, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfer by Board resolution at year end (June 1 to June 30) of any unanticipated revenue or unexpended line item appropriations or both. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6:23A-14.1(g), the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

NOTE 4. CAPITAL RESERVE ACCOUNT (Cont'd)

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

Beginning Balance, July 1, 2015		\$ 1,785,018	
Deposit by Board Resolution June 25, 2016	\$ 113,221		
Interest Earnings	<u>5,328</u>		
			118,549
Less: Withdrawal by Board Resolution July 22, 2015	(14,810)		
Withdrawal by Board Resolution March 23, 2016	<u>(113,221)</u>		
			<u>(128,031)</u>
Ending Balance, June 30, 2016			<u>\$ 1,775,536</u>

The balance in the capital reserve account at June 30, 2016 did not exceed the balance of local support costs of uncompleted capital projects in the District's approved Long Range Facilities Plan. The withdrawals from the capital reserve were for use in DOE approved facilities projects, consistent with the District's LRFP.

NOTE 5. MAINTENANCE RESERVE ACCOUNT

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

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

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

Balance July 1, 2015		\$ 441,500	
Less: Withdrawal by Board Resolution July 22, 2015		<u>(61,135)</u>	
Balance July 1, 2016		<u>\$ 380,365</u>	

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 6. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2016 were as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
Governmental Activities:				
Capital Assets not Being Depreciated:				
Sites (Land)	\$ 411,364			\$ 411,364
Construction in Progress	1,059,074			1,059,074
Total Capital Assets Not Being Depreciated	<u>1,470,438</u>			<u>1,470,438</u>
Capital Assets Being Depreciated:				
Buildings and Building Improvements	18,070,311			18,070,311
Machinery and Equipment	1,113,946	\$ 137,100		1,251,046
Total Capital Assets Being Depreciated	<u>19,184,257</u>	<u>137,100</u>		<u>19,321,357</u>
Governmental Activities Capital Assets	<u>20,654,695</u>	<u>137,100</u>		<u>20,791,795</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	(5,163,674)	(325,640)		(5,489,314)
Machinery and Equipment	(681,063)	(85,255)		(766,318)
	<u>(5,844,737)</u>	<u>(410,895)</u>		<u>(6,255,632)</u>
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 14,809,958</u>	<u>\$ (273,795)</u>	<u>\$ - 0 -</u>	<u>\$ 14,536,163</u>
Business Type Activities:				
Capital Assets Being Depreciated:				
Machinery and Equipment	\$ 35,360			\$ 35,360
Less Accumulated Depreciation	(20,349)	\$ (2,593)		(22,942)
Business Type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 15,011</u>	<u>\$ (2,593)</u>	<u>\$ - 0 -</u>	<u>\$ 12,418</u>

Depreciation expense was charged to governmental functions as follows:

General Administration	\$ 22,202
Maintenance / Operations	17,455
Student & Instruction Related Services	5,517
Regular Instruction	349,391
Special Education Instruction	16,330
	<u>\$ 410,895</u>

NOTE 7: TRANSFERS TO CAPITAL OUTLAY

During the year ended June 30, 2016, the District transferred funds to the capital outlay accounts, of which \$52,087 was for equipment which did not require approval from the County Superintendent. The transfer of \$75,945 for construction services was approved by the County Superintendent.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 8. LONG-TERM LIABILITIES

During the fiscal year ended June 30, 2016, the following changes occurred in liabilities reported in the District-wide financial statements:

	<u>Beginning Balance</u>	<u>Accrued</u>	<u>Retired</u>	<u>Ending Balance</u>
Serial Bonds Payable	\$ 3,890,000		\$ 1,875,000	\$ 2,015,000
Unamortized Bond Premiums	236,152		118,076	118,076
Compensated Absences Payable	214,686	\$ 7,566	29,334	192,918
Net Pension Liability	2,911,523	461,949		3,373,472
	<u>\$ 7,252,361</u>	<u>\$ 469,515</u>	<u>\$ 2,022,410</u>	<u>\$ 5,699,466</u>

A. Bonds Payable:

Bonds are authorized in accordance with State law by the voters of the municipality through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Board will be liquidated through the Debt Service Fund. Bonds payable at June 30, 2016 is as follows:

<u>Purpose</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Final Date of Maturity</u>	<u>Balance 6/30/2016</u>
School Refunding Bonds	8/13/2009	3.25%-4.00%	12/15/2016	<u>\$ 2,015,000</u>

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

<u>Fiscal Year Ended</u>	<u>Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	<u>\$ 2,015,000</u>	<u>\$ 38,613</u>	<u>\$ 2,053,613</u>

On August 13, 2009, the Watchung Borough School District issued \$8,770,000 refunding bonds with interest rates ranging from 2.00% to 4.50% to advance refund \$8,938,000 school bonds with interest rates of 3.875% to 4.375%. The refunding bonds mature on December 15, 2009 through 2016. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school bonds are called on December 15, 2012 through 2016. The advance refunding met the requirements of an in-substance debt defeasance and the school bonds were removed from the District's financial statements.

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

B. Bonds Authorized But Not Issued:

As of June 30, 2016, the Board had bonds authorized but not issued in the amount of \$355.

C. Capital Leases Payable:

As of June 30, 2016, the District had no capital leases payable.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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

D. Unamortized Bond Premium:

The unamortized bond premiums of the governmental fund types is recorded in the non-current liabilities. The current portion of the unamortized bond issues premium balance in the governmental funds is \$118,076.

E. Compensated Absences

The liability for compensated absences of the governmental fund types is recorded in the current and long-term liabilities. The long-term liability balance for compensated absences is \$192,918. There is no current portion of compensated absences payable. This compensated absences payable will be liquidated through the General Fund.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 2016, no liability existed for compensated absences in the Food Service Fund.

F. Net Pension Liability:

The Public Employees' Retirement System's (PERS) net pension liability of the governmental fund types is recorded in the current and long-term liabilities and will be liquidated by the General Fund. The current portion of the net pension liability at June 30, 2016 is \$0- and the long-term portion is \$3,373,472 See Note 9 for further information on the PERS.

NOTE 9. PENSION PLANS

Substantially all of the Board's employees participate in one of the two contributory, defined benefit public employee retirement systems: the Teachers' Pension and Annuity Fund (TPAF) or the Public Employee's Retirement System (PERS) of New Jersey; or the Defined Contribution Retirement Program (DCRP).

A. Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:



WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Benefits Provided (Cont'd)

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55<sup>th</sup> of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60<sup>th</sup> of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a members retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 50 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing members. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. District contributions to PERS amounted to \$129,200 for fiscal year 2016.

The employee contribution rate was 7.06% effective July 1, 2015. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1<sup>st</sup> to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

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

At June 30, 2016, the District reported a liability of \$3,373,472 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 July 1, 2014 which was rolled forward to June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2015, the District's proportion was 0.015%, which was a decrease of 0.00052% from its proportion measured as of June 30, 2014.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

## NOTE 9. PENSION PLANS (Cont'd)

## A. Public Employees' Retirement System (PERS) (Cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$189,835. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	2014	6.44	\$ 72,212	
	2015	5.72	290,072	
Changes in Proportion	2014	6.44		\$ 61,581
	2015	5.72		83,044
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5		125,758
	2015	5		(71,519)
Difference Between Expected and Actual Experience	2015	5.72	80,479	
District Contribution Subsequent to the Measurement Date	2015	1	187,968	
			<u>\$ 630,731</u>	<u>\$ 198,864</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts including changes in proportion) related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Total
2016	(70,731)
2017	(70,731)
2018	(70,731)
2019	(112,650)
2020	(63,681)
	<u>\$ (388,524)</u>

Actuarial Assumptions

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

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Actuarial Assumptions (Cont'd)

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

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

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension 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 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' 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 Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex. U.S.	3.50%	-0.40%
REIT	4.25%	5.12%

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
 (Continued)

NOTE 9. PENSION PLANS (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9% and a municipal bond rate of 3.80% as of June 30, 2015 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based upon the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the collective net pension liability as of June 30, 2015 calculated using the discount rate as disclosed below, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Fiscal Year Ended June 30, 2015		
	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
District's proportionate share of the Net Pension Liability	\$ 4,192,813	\$ 3,373,472	\$ 2,686,542

Pension plan Fiduciary Net Position

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

B. Teachers' Pension and Annuity Fund (TPAF)

Plan Description

The State of New Jersey, Teachers' Pension and Annuity Fund (TPAF), is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation, by which the State of New Jersey (the State) is responsible to fund 100% of the employer contributions, excluding any local employer early retirement incentive (ERI) contributions. The TPAF is administered by the State of New Jersey Division of Pensions and Benefits (the Division). For additional information about the TPAF, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

NOTE 9. PENSION PLANS (Cont'd)

B. Teachers' Pension and Annuity Fund (TPAF) (Cont'd)

Benefits Provided

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

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55<sup>th</sup> of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60<sup>th</sup> of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a members retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions

The contribution policy for TPAF is set by N.J.S.A. 18A:66 and requires contributions by active members and contributing members. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which included the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2015, the State's pension contribution was less than the actuarially determined amount.

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, such as the District. This note discloses the portion of the District's total proportionate share of the net pension liability that is associated with the District. During the fiscal year ended 2016, the State of New Jersey contributed \$368,130 to the TPAF for normal pension benefits on behalf of the District, which is less than the contractually required contribution of \$1,747,808.

The employee contribution rate was 7.06% effective July 1, 2015. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1<sup>st</sup> to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

NOTE 9. PENSION PLANS (Cont'd)

B. Teachers' Pension and Annuity Fund (TPAF) (Cont'd)

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

At June 30, 2016, the State's proportionate share of the net pension liability associated with the District was \$28,624,943. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014 which was rolled forward to June 30, 2015. The 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 members, actuarially determined. At June 30, 2015, the District's proportion was 0.045%, which was a decrease of 0.001% from its proportion measured as of June 30, 2014.

District's Proportionate Share of the Net Pension Liability	\$	-0-
State's Proportionate Share of the Net Pension Liability Associated with the District		28,624,943
Total	\$	28,624,943

For the fiscal year ended June 30, 2016, the State recognized pension expense on behalf of the District in the amount of \$1,747,808 and the District recognized pension expense and revenue for that same amount in the fiscal year ended June 30, 2016 financial statements.

The State reported collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions from the following sources:

	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions - 2014	8.5	\$ 1,999,074,013	
Changes in Assumptions - 2015	8.3	5,201,079,373	
Difference Between Expected and Actual Experience - 2014	8.5		\$ 19,039,817
Difference Between Expected and Actual Experience - 2015	8.3	321,224,871	
Net Difference Between Projected and Actual			
Investment Earnings on Pension Plan Investments - 2014	5		1,305,927,430
Net Difference Between Projected and Actual			
Investment Earnings on Pension Plan Investments - 2015	5		(770,568,242)
		\$ 7,521,378,257	\$ 554,399,005

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

B. Teachers' Pension and Annuity Fund (TPAF) (Cont'd)

Amounts reported by the State as collective deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense excluding that attributable to employer-paid members contributions as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Total</u>
2016	\$ 818,433,596
2017	818,433,596
2018	818,433,598
2019	1,253,742,742
2020	1,061,100,680
Thereafter	<u>2,196,835,040</u>
	<u>\$ 6,966,979,252</u>

Actuarial Assumptions

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

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

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

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

NOTE 9. PENSION PLANS (Cont'd)

B. Teachers' Pension and Annuity Fund (TPAF) (Cont'd)

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension 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 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' 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>
U.S. Cash	5.00%	0.53%
U.S. Government Bonds	1.75%	1.39%
U.S. Credit Bonds	13.50%	2.72%
U.S. Mortgages	2.10%	2.54%
U.S. Inflation-Indexed Bonds	1.50%	1.47%
U.S. High Yield Bonds	2.00%	4.57%
U.S. Equity Market	27.25%	5.63%
Foreign-Developed Equity	12.00%	6.22%
Emerging Market Equities	6.40%	8.46%
Private Real Estate Property	4.25%	3.97%
Timber	1.00%	4.09%
Farmland	1.00%	4.61%
Private Equity	9.25%	9.15%
Commodities	1.00%	3.58%
Hedge Funds - MultiStrategy	4.00%	4.59%
Hedge Funds - Equity Hedge	4.00%	5.68%
Hedge Funds - Distressed	4.00%	4.30%



WATCHUNG BOROUGH SCHOOL DISTRICT  
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(Continued)

NOTE 9. PENSION PLANS (Cont'd)

Discount Rate – TPAF

The discount rate used to measure the total pension liability was 4.13% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90% and a municipal bond rate of 3.80% as of June 30, 2015 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based upon the average of the last five years. Based on those assumptions, the pension 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 pension 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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the State's proportionate share of the net pension liability associated with the District as of June 30, 2015 calculated using the discount rate as disclosed above, as well as what the State's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Fiscal Year Ended June 30, 2015		
	At 1% Decrease (3.13%)	At Current Discount Rate (4.13%)	At 1% Increase (5.13%)
State's Proportionate Share of the Net Pension Liability Associated with the District	\$ 34,019,668	\$ 28,624,943	\$ 23,977,065

Pension Plan Fiduciary Net Position - TPAF

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

C. Defined Contribution Retirement Program (DCRP)

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS or TPAF, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

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

Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

For DCRP, the District recognized pension expense of \$3,698 for the fiscal year ended June 30, 2016. Employee contributions to DCRP amounted to \$4,857 for the year ended June 30, 2016.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

(Continued)

NOTE 10. POST-RETIREMENT BENEFITS

P.L. 1987, c.384 and P.L. 1990, c.6 of Public Laws 1990 required the TPAF and PERS, respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2015, there were 107,314 retirees 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, c.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 c. 126, which provides employer paid benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$214.1 million toward Chapter 126 benefits for 19,056 eligible retired members in Fiscal Year 2015.

The School Employees Health Benefits Program (SEHBP) Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et.seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pension and Benefits issues a publically 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/financial2015combined.pdf>.

The State's on behalf Post Retirement Medical Contributions to TPAF for the District amounted to \$438,340, \$388,701 and \$323,438 for 2016, 2015 and 2014, respectively.

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Health benefits are provided through Horizon Blue Cross/Blue Shield.

Property and Liability Insurance

The Borough of Watchung School District is a member of the Diploma Joint Insurance Fund (the "Fund"). This public entity risk management pool provides general liability, property and automobile coverage and workers' compensation for its members. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report. The Fund is a risk-sharing public entity risk pool that is an insured and self-administered group of school boards established for the purpose of providing low-cost insurance for its respective members in order to keep local property taxes to a minimum. Each member appoints an official to represent their respective entity for the purpose of creating a governing body from which officers for the Fund are elected.

As a member of this Fund, the District could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities. The Fund can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided among the members in the same ratio as their individual assessment related to the total assessment of the membership body.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 11. RISK MANAGEMENT (Cont'd)

The financial information for Fund year ended June 30, 2016 is not available. Selected, summarized financial information for the Fund as of June 30, 2015 is as follows:

	<u>Diploma Joint Insurance Fund</u>
Total Assets	\$ 12,614,746
Net Position	\$ 5,372,053
Total Revenue	\$ 7,115,651
Total Expenses	\$ 6,539,527
Change in Net Position	\$ 576,124
Members Dividends	\$ -0-

Financial statements for the Fund are available at the Fund's Executive Director's Office:  
Public Entity Group Administrative Services  
51 Everett Drive  
Suite B-40  
West Windsor, NJ 08550

New Jersey Unemployment Compensation Insurance

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

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

<u>Fiscal Year</u>	<u>District Contributions</u>	<u>Employee Contributions and Interest</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2016	\$ -0-	\$ 10,178	\$ 34,394	\$ 64,452
2015	-0-	10,892	35,844	88,668
2014	-0-	12,634	31,298	113,620

NOTE 12. ECONOMIC DEPENDENCY

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 13. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The following interfund balances existed as of June 30, 2016:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 18,914	
Special Revenue Fund		\$ 8,300
Food Service Fund		5,935
Fiduciary Accounts		4,679
	<u>\$ 18,914</u>	<u>\$ 18,914</u>

The interfund between the General Fund and the Fiduciary Fund represents payroll agency and flexible spending balances that are due to the General Fund but not turned over as of June 30, 2016. The interfund between General Fund and Special Revenue represents expenses that were paid by the General Fund on behalf of the Special Revenue Fund for local grants. The interfund payable from the Food Service Fund to the General Fund represents expenses paid on behalf that were not turned over at year end.

The District also approved \$128,031 transfers from the Capital Reserve and \$61,135 from the Maintenance Reserve during the year into the General Fund budget. Additionally on June 25, 2016 the District approved a transfer of \$113,221 into the Capital Reserve.

NOTE 14. DEFERRED COMPENSATION

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

The plan administrators are as follows:

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

NOTE 15. CONTINGENT LIABILITIES

Grant Programs

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

Litigation

The District estimates that the potential claims against it resulting from litigation not covered by insurance would not materially affect the financial position of the District.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 15. CONTINGENT LIABILITIES (Cont'd)

Encumbrances

At June 30, 2016, there were encumbrances as detailed below in the governmental funds. All of the governmental funds are considered to be major funds.

General Fund	Total Governmental Funds
\$ 152	\$ 152

NOTE 16. ACCOUNTS PAYABLE

At June 30, 2016, there were accounts payable as detailed below in the governmental funds. All of the governmental funds are considered to be major funds.

	Governmental Funds		District Contribution Subsequent to Measurement Date	Total Governmental Activities
	General Fund	Special Revenue Fund		
Vendors	\$ 64,579	\$ 288		\$ 64,867
State of New Jersey			\$ 187,968	187,968
	\$ 64,579	\$ 288	\$ 187,968	\$ 252,835

NOTE 17. TAX CALENDAR

Property taxes are levied as of January 1 on property values assessed as of the previous calendar year. The tax levy is divided into two billings. The first billing is an estimate of the current year's levy based on the prior year's taxes. The second billing reflects adjustments to the current year's actual levy. The final tax bill is usually mailed on or before June 14th, along with the first half estimated tax bills for the subsequent year. The first half estimated taxes are divided into two due dates, February 1 and May 1. The final tax bills are also divided into two due dates, August 1 and November 1. A ten-day grace period is usually granted before the taxes are considered delinquent and there is an imposition of interest charges. A penalty may be assessed for any unpaid taxes in excess of \$10,000 at December 31 of the current year. Unpaid taxes of the current and prior year may be placed in lien at a tax sale held after December 10.

Taxes are collected by the constituent municipality and are remitted to the local school District on a predetermined mutually agreed-upon schedule.

SCHEDULES OF REQUIRED  
SUPPLEMENTARY INFORMATION

L-1

WATCHUNG BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
PUBLIC EMPLOYEES RETIREMENT SYSTEM  
LAST TWO FISCAL YEARS  
UNAUDITED

	Fiscal Year Ending June 30,	
	2015	2016
District's proportion of the net pension liability	0.015550733000%	0.015027942400%
District's proportionate share of the net pension liability	\$ 2,911,523	\$ 3,373,472
District's covered employee payroll	\$ 1,006,888	\$ 955,122
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	289.16%	353.20%
Plan fiduciary net position as a percentage of the total pension liability	52.08%	47.93%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

WATCHUNG BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
PUBLIC EMPLOYEES RETIREMENT SYSTEM  
LAST TWO FISCAL YEARS  
UNAUDITED

	Fiscal Year Ending June 30,	
	2015	2016
Contractually required contribution	\$ 128,198	\$ 129,200
Contributions in relation to the contractually required contribution	(128,198)	(129,200)
Contribution deficiency/(excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
District's covered employee payroll	\$ 952,957	\$ 955,122
Contributions as a percentage of covered employee payroll	13.45%	13.53%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.



WATCHUNG BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES  
SCHEDULE OF STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
ASSOCIATED WITH THE DISTRICT  
TEACHERS' PENSION AND ANNUITY FUND  
LAST TWO FISCAL YEARS  
UNAUDITED

	<u>Fiscal Year Ending June 30,</u>	
	<u>2015</u>	<u>2016</u>
State's proportion of the net pension liability attributable to the District	0.0459199119%	0.0452895715%
State's proportionate share of the net pension liability attributable to the District	\$ 24,922,223	\$ 28,624,943
District's covered employee payroll	\$ 4,674,455	\$ 4,807,187
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	533.16%	595.46%
Plan fiduciary net position as a percentage of the total pension liability	33.64%	28.71%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

WATCHUNG BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES  
SCHEDULE OF STATE CONTRIBUTIONS  
TEACHERS' PENSION AND ANNUITY FUND  
LAST TWO FISCAL YEARS  
UNAUDITED

	<u>Fiscal Year Ending June 30,</u>	
	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 1,341,050	\$ 1,747,808
Contributions in relation to the contractually required contribution	<u>(244,852)</u>	<u>(368,130)</u>
Contribution deficiency/(excess)	<u>\$ 1,096,198</u>	<u>\$ 1,379,678</u>
District's covered employee payroll	\$ 4,807,187	\$ 4,951,413
Contributions as a percentage of covered employee payroll	27.90%	35.30%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 5.39% as of June 30, 2014 to 4.90% as of June 30, 2015. The inflation rate changed from 3.01% as of June 30, 2014 to 3.04% as of June 30, 2015.

B. TEACHERS PENSION AND ANNUITY FUND

Benefit Changes

There were none.

Changes of Assumptions

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

BUDGETARY COMPARISON SCHEDULES

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
REVENUES:					
Local Sources:					
Local Tax Levy	\$ 10,474,570		\$ 10,474,570	\$ 10,474,570	
Tuition from Individuals	120,000		120,000	135,408	\$ 15,408
Tuition from LEAs Within State				14,266	14,266
Interest Earned on Capital Reserve Funds	1,500		1,500	5,328	3,828
Miscellaneous	10,000		10,000	16,211	6,211
Total - Local Sources	<u>10,606,070</u>		<u>10,606,070</u>	<u>10,645,783</u>	<u>39,713</u>
State Sources:					
Transportation Aid	52,008		52,008	52,008	
Special Education Aid	347,512		347,512	347,512	
Security Aid	11,137		11,137	11,137	
Other State Aids	13,820		13,820	13,820	
Extraordinary Aid				125,530	125,530
Nonpublic Transportation Aid				7,656	7,656
TPAF Pension Contributions (On-Behalf - Non-Budgeted)				368,130	368,130
TPAF Post Retirement Contributions (On-Behalf - Non-Budgeted)				438,340	438,340
TPAF Social Security (Reimbursed - Non-Budgeted)				356,434	356,434
Total State Sources	<u>424,477</u>		<u>424,477</u>	<u>1,720,567</u>	<u>1,296,090</u>
TOTAL REVENUES	<u>11,030,547</u>		<u>11,030,547</u>	<u>12,366,350</u>	<u>1,335,803</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
Regular Programs - Instruction:					
Preschool - Salaries of Teachers	\$ 81,353	\$ 26,395	\$ 107,748	\$ 106,678	\$ 1,070
Kindergarten - Salaries of Teachers	190,815		190,815	190,815	
Grades 1-5 - Salaries of Teachers	1,840,315	(89,776)	1,750,539	1,744,006	6,533
Grades 6-8 - Salaries of Teachers	1,308,214	12,874	1,321,088	1,320,205	883
Regular Programs - Home Instruction:					
Salaries of Teachers	3,000		3,000	1,391	1,609
Regular Programs - Undistributed Instruction:					
Other Salaries of Instruction	44,095	(34,719)	9,376	9,376	
Purchased Professional - Educational Services	114,000	6,293	120,293	120,293	
Other Purchased Services (400-500 series)	146,062	(13,798)	132,264	95,350	36,914
General Supplies	124,571	46,964	171,535	165,654	5,881
Textbooks	64,378	(32,895)	31,483	24,621	6,862
Other Objects	5,270		5,270	5,270	
Total Regular Programs - Instruction	<u>3,922,073</u>	<u>(78,662)</u>	<u>3,843,411</u>	<u>3,783,659</u>	<u>59,752</u>
Special Education:					
Multiple Disabilities:					
Salaries of Teachers	57,645		57,645	57,645	
Purchased Professional - Educational Services	14,388	82,786	97,174	97,174	
General Supplies	2,000		2,000	1,887	113
Total Multiple Disabilities	<u>74,033</u>	<u>82,786</u>	<u>156,819</u>	<u>156,706</u>	<u>113</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
Resource Room/Resource Center:					
Salaries of Teachers	\$ 411,162	\$ 28,707	\$ 439,869	\$ 439,869	
Other Salaries for Instruction	63,918	(39,233)	24,685	24,685	
Purchased Professional - Educational Services	158,646	127,231	285,877	285,782	\$ 95
General Supplies	4,000	2,000	6,000	5,055	945
Total Resource Room/Resource Center	<u>637,726</u>	<u>118,705</u>	<u>756,431</u>	<u>755,391</u>	<u>1,040</u>
Total Special Education Instruction	<u>711,759</u>	<u>201,491</u>	<u>913,250</u>	<u>912,097</u>	<u>1,153</u>
Basic Skills/Remedial - Instruction:					
Salaries of Teachers	<u>118,490</u>	<u>(60,845)</u>	<u>57,645</u>	<u>57,645</u>	
Total Basic Skills/Remedial - Instruction	<u>118,490</u>	<u>(60,845)</u>	<u>57,645</u>	<u>57,645</u>	
School-Sponsored Cocurricular Activities - Instruction:					
Salaries	38,000	1,500	39,500	35,824	3,676
Supplies and Materials	<u>700</u>		<u>700</u>		<u>700</u>
Total School-Sponsored Cocurricular Activities - Instruction	<u>38,700</u>	<u>1,500</u>	<u>40,200</u>	<u>35,824</u>	<u>4,376</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
School-Sponsored Cocurricular Athletics - Instruction:					
Salaries	\$ 27,300	\$ 2,936	\$ 30,236	\$ 30,236	
Purchased Services (300-500 series)	5,000		5,000	5,000	
Supplies and Materials	4,600	(2,936)	1,664	312	\$ 1,352
Total School-Sponsored Cocurricular Athletics - Instruction	<u>36,900</u>		<u>36,900</u>	<u>35,548</u>	<u>1,352</u>
Community Services Programs/Operations:					
Other Objects	4,000		4,000	4,000	
Total Community Services Programs/Operations	<u>4,000</u>		<u>4,000</u>	<u>4,000</u>	
Total Instruction	<u>4,831,922</u>	<u>63,484</u>	<u>4,895,406</u>	<u>4,828,773</u>	<u>66,633</u>
Undistributed Expenditures:					
Instruction:					
Tuition to Other LEAs Within the State - Special	106,000	(85,144)	20,856	13,995	6,861
Tuition to Private Schools for the Handicapped - Within State	29,000	(25,000)	4,000	4,000	
Total Undistributed Expenditures - Instruction	<u>135,000</u>	<u>(110,144)</u>	<u>24,856</u>	<u>17,995</u>	<u>6,861</u>



WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
Health Services:					
Salaries	\$ 133,890	\$ 2,643	\$ 136,533	\$ 136,533	
Purchased Professional and Technical Services	3,000	(97)	2,903	2,500	\$ 403
Other Purchased Services (400-500 series)	500		500		500
Supplies and Materials	9,280	(1,746)	7,534	7,327	207
Other Objects	500		500		500
Total Health Services	<u>147,170</u>	<u>800</u>	<u>147,970</u>	<u>146,360</u>	<u>1,610</u>
Other Support Services - Speech, OT, PT and Related Services:					
Salaries	73,245	28,557	101,802	100,976	826
Purchased Professional - Educational Services	98,200	25,750	123,950	121,676	2,274
Supplies and Materials	1,000		1,000	175	825
Total Other Support Services - Speech, OT, PT and Related Services	<u>172,445</u>	<u>54,307</u>	<u>226,752</u>	<u>222,827</u>	<u>3,925</u>
Other Support Services - Students - Extra Services:					
Salaries	97,082	3,432	100,514	99,700	814
Purchased Professional - Educational Services	201,600	39,195	240,795	240,795	
Total Other Support Services - Students - Extra Services	<u>298,682</u>	<u>42,627</u>	<u>341,309</u>	<u>340,495</u>	<u>814</u>
Other Support Services - Students - Guidance:					
Salaries of Other Professional Staff	162,300	(18,339)	143,961	143,961	
Other Purchased Services (400-500)	500		500	403	97
Supplies and Materials	3,500		3,500	3,478	22
Total Other Support Services - Students - Guidance	<u>166,300</u>	<u>(18,339)</u>	<u>147,961</u>	<u>147,842</u>	<u>119</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Other Support Services - Students - Child Study Teams:					
Salaries of Other Professional Staff	\$ 215,070	\$ 2,351	\$ 217,421	\$ 217,421	
Salaries of Secretarial and Clerical Assistants	31,866	4,074	35,940	35,940	
Other Objects	7,150		7,150	6,860	\$ 290
Other Purchased Professional - Technical Services	8,750	1,500	10,250	8,155	2,095
Misc. Pur. Serv. (400-500 series) Other Than Residential Costs	5,500	(2,700)	2,800	541	2,259
Supplies and Materials	30,058	(6,091)	23,967	21,472	2,495
<b>Total Other Support Services - Students - Child Study Teams</b>	<u>298,394</u>	<u>(866)</u>	<u>297,528</u>	<u>290,389</u>	<u>7,139</u>
Improvement of Instructional Services:					
Salaries of Other Professional Staff	13,500	(13,500)			
Other Salaries	2,000	11,500	13,500	13,065	435
Purchased Professional - Educational Services	93,588	(81,703)	11,885	4,188	7,697
Other Purchased Services (400-500)	20,850		20,850	18,897	1,953
Supplies and Materials		2,000	2,000	981	1,019
<b>Total Improvement of Instructional Services</b>	<u>129,938</u>	<u>(81,703)</u>	<u>48,235</u>	<u>37,131</u>	<u>11,104</u>
Educational Media Services/School Library:					
Salaries	90,825	62,845	153,670	153,670	
Purchased Professional and Technical Services	94,138		94,138	88,188	5,950
Other Purchased Services (400-500)	15,583		15,583	6,284	9,299
Supplies and Materials	20,143	(1,848)	18,295	14,792	3,503
Other Objects	230		230		230
<b>Total Educational Media Services/School Library</b>	<u>220,919</u>	<u>60,997</u>	<u>281,916</u>	<u>262,934</u>	<u>18,982</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Instructional Staff Training Services:					
Salaries of Other Professional Staff	\$ 2,500		\$ 2,500	\$ 750	\$ 1,750
Other Salaries	1,000	\$ 850	1,850	1,850	
Purchased Professional - Educational Services	35,000	34,301	69,301	65,015	4,286
Other Purchased Services (400-500 series)	4,500		4,500	3,053	1,447
Other Objects	1,050		1,050		1,050
<b>Total Instructional Staff Training Services</b>	<b>44,050</b>	<b>35,151</b>	<b>79,201</b>	<b>70,668</b>	<b>8,533</b>
Support Services - General Administration:					
Salaries	220,428	228	220,656	220,656	
Legal Services	30,000	5,000	35,000	33,975	1,025
Audit Fees	15,270	1,500	16,770	16,770	
Architectural/Engineering Services	7,500	4,500	12,000	12,000	
Other Purchased Professional Services	2,200	(1,851)	349		349
Purchased Technical Services	5,700	(1,696)	4,004	3,679	325
Communications/Telephone	61,500	6,231	67,731	45,457	22,274
Miscellaneous Purchased Services (400-500 series)	13,826	5,427	19,253	18,145	1,108
General Supplies	3,200		3,200	2,801	399
BOE In-House Training/Meeting Supplies	1,575		1,575	1,573	2
Miscellaneous Expenditures	2,588	275	2,863	2,742	121
BOE Membership Dues and Fees	5,797		5,797	5,797	
<b>Total Support Services - General Administration</b>	<b>369,584</b>	<b>19,614</b>	<b>389,198</b>	<b>363,595</b>	<b>25,603</b>
Support Services - School Administration:					
Salaries of Principals/Assistant Principals	242,741	2	242,743	242,743	
Salaries of Secretarial and Clerical Assistants	163,570	(33,065)	130,505	129,092	1,413
Purchased Professional and Technical Services	9,500	(9,500)			

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
Support Services - School Administration (Cont'd):					
Other Purchased Services (400-500 series)	\$ 3,725		\$ 3,725	\$ 3,207	\$ 518
Supplies and Materials	10,030		10,030	7,327	2,703
Other Objects	2,800		2,800	1,720	1,080
<b>Total Support Services - School Administration</b>	<b>432,366</b>	<b>\$ (42,563)</b>	<b>389,803</b>	<b>384,089</b>	<b>5,714</b>
Support Services - Central Services:					
Salaries	197,945	(14,000)	183,945	178,843	5,102
Purchased Professional Services		14,000	14,000	11,763	2,237
Miscellaneous Purchased Services (400-500 series)	3,910	(44)	3,866	2,949	917
Supplies and Materials	5,000		5,000	2,830	2,170
Miscellaneous Expenditures	1,400	(275)	1,125	1,125	
<b>Total Support Services - Central Services</b>	<b>208,255</b>	<b>(319)</b>	<b>207,936</b>	<b>197,510</b>	<b>10,426</b>
Support Services - Administrative Information Technology:					
Salaries		6,500	6,500	6,500	
Purchased Professional Services	41,986	(562)	41,424	39,479	1,945
Supplies and Materials	3,400		3,400	2,357	1,043
<b>Total Support Services - Administrative Information Technology</b>	<b>45,386</b>	<b>5,938</b>	<b>51,324</b>	<b>48,336</b>	<b>2,988</b>
Required Maintenance of School Facilities:					
Cleaning, Repair and Maintenance Services	60,005	57,832	117,837	117,832	5
General Supplies	15,580	11,842	27,422	26,220	1,202
<b>Total Required Maintenance of School Facilities</b>	<b>75,585</b>	<b>69,674</b>	<b>145,259</b>	<b>144,052</b>	<b>1,207</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
Custodial Services:					
Salaries	\$ 485,109	\$ (15,677)	\$ 469,432	\$ 467,622	\$ 1,810
Purchased Professional and Technical Services	1,575	1,380	2,955	2,950	5
Cleaning, Repair and Maintenance Services	13,150	36,097	49,247	48,434	813
Other Purchased Property Services	12,000		12,000	11,230	770
Insurance	98,800	(884)	97,916	97,916	
General Supplies	37,050	12,883	49,933	49,830	103
Energy (Electricity)	165,750	(3,637)	162,113	162,113	
Other Objects	3,825		3,825	3,158	667
Energy (Natural Gas)	68,695	(30,743)	37,952	37,952	
Total Custodial Services	<u>885,954</u>	<u>(581)</u>	<u>885,373</u>	<u>881,205</u>	<u>4,168</u>
Care and Upkeep of Grounds:					
Salaries	8,629		8,629	8,629	
Cleaning, Repair, & Maintenance Serv		1,600	1,600	1,600	
General Supplies	11,250	(2,946)	8,304	7,075	1,229
Total Care and Upkeep of Grounds	<u>19,879</u>	<u>(1,346)</u>	<u>18,533</u>	<u>17,304</u>	<u>1,229</u>
Student Transportation Services:					
Salaries of Non-Instructional Aides	4,788	(4,788)			
Salaries for Transportation - Between Home & School - Regular	71,056	(71,056)			
Salaries for Pupil Trans. (Between Home & School) - Special Education		80,461	80,461	80,461	
Management Fee - ESCs & CTSA's Transportation Program	3,000	(531)	2,469	1,627	842
Other Purchased Professional and Technical Services	1,675	(65)	1,610	1,610	
Cleaning, Repair and Maintenance Services	7,500	4,723	12,223	12,223	

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
Student Transportation Services (Cont'd):					
Contracted Services:					
Between Home and School - Vendors	\$ 199,632	\$ (11,951)	\$ 187,681	\$ 186,856	\$ 825
Other Than Between Home and School - Vendors	18,000	1,708	19,708	19,520	188
Between Home and School - Joint Agreements	172,440	(41,097)	131,343	129,962	1,381
Special Education Students - ESCs & CTSA's	25,780	15,312	41,092	40,882	210
Aid in Lieu of Payments - NonPublic	30,000	5,500	35,500	34,476	1,024
Miscellaneous Purchased Services - Transportation	2,000		2,000	99	1,901
Supplies and Materials	12,500	(4,902)	7,598	5,582	2,016
Other Objects	2,000	75	2,075	798	1,277
Total Student Transportation Services	<u>550,371</u>	<u>(26,611)</u>	<u>523,760</u>	<u>514,096</u>	<u>9,664</u>
Unallocated Benefits:					
Social Security Contributions	115,000	147	115,147	115,147	
Other Retirement Contributions- PERS	133,319	(1,417)	131,902	129,200	2,702
Other Retirement Contributions- Regular		5,900	5,900	3,698	2,202
Other Retirement Contributions- ERIP	5,900	(5,900)			
Unemployment Compensation	20,000	(20,000)			
Workmen's Compensation	56,500		56,500	56,163	337
Health Benefits	1,798,204	(12,646)	1,785,558	1,785,364	194
Tuition Reimbursement	20,000	(4,429)	15,571	4,500	11,071
Other Employee Benefits	21,000	30,859	51,859	50,851	1,008
Total Unallocated Benefits	<u>2,169,923</u>	<u>(7,486)</u>	<u>2,162,437</u>	<u>2,144,923</u>	<u>17,514</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
EXPENDITURES:					
CURRENT EXPENSE					
On-Behalf Contributions:					
TPAF Pension Contributions (On-Behalf - Non-Budgeted)				\$ 368,130	\$ (368,130)
TPAF Post Retirement Contributions (On-Behalf - Non-Budgeted)				438,340	(438,340)
TPAF Social Security (Reimbursed - Non-Budgeted)				356,434	(356,434)
Total On-Behalf Contributions				<u>1,162,904</u>	<u>(1,162,904)</u>
Total Personal Services - Employee Benefits	\$ 2,169,923	\$ (7,486)	\$ 2,162,437	3,307,827	(1,145,390)
Total Undistributed Expenses	<u>6,370,201</u>	<u>(850)</u>	<u>6,369,351</u>	<u>7,394,655</u>	<u>(1,025,304)</u>
TOTAL CURRENT EXPENSE	<u>11,202,123</u>	<u>62,634</u>	<u>11,264,757</u>	<u>12,223,428</u>	<u>(958,671)</u>
CAPITAL OUTLAY					
Equipment:					
Care and Upkeep of Grounds	9,268		9,268	9,068	200
Security		52,087	52,087	52,087	
Total Equipment	<u>9,268</u>	<u>52,087</u>	<u>61,355</u>	<u>61,155</u>	<u>200</u>
Facilities Acquisition and Construction Services:					
Engineering Services	9,000		9,000	9,000	
Construction Services		75,945	75,945	75,945	
Assessment for Debt Service on SDA Funding	47,138		47,138	47,138	
Total Facilities Acquisition and Construction Services	<u>56,138</u>	<u>75,945</u>	<u>132,083</u>	<u>132,083</u>	
TOTAL CAPITAL OUTLAY	<u>65,406</u>	<u>128,032</u>	<u>193,438</u>	<u>193,238</u>	<u>200</u>
TOTAL EXPENDITURES	<u>11,267,529</u>	<u>190,666</u>	<u>11,458,195</u>	<u>12,416,666</u>	<u>(958,471)</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Excess (Deficiency) of Revenues Over/(Under) Expenditures	\$ (236,982)	\$ (190,666)	\$ (427,648)	\$ (50,316)	\$ 377,332
Fund Balance, July 1	3,058,241		3,058,241	3,058,241	
Fund Balance, June 30	\$ 2,821,259	\$ (190,666)	\$ 2,630,593	\$ 3,007,925	\$ 377,332
<u>Recapitulation:</u>					
Restricted:					
Excess Surplus				\$ 125,445	
Excess Surplus - For Subsequent Year's Expenditures				188,351	
Capital Reserve				1,775,536	
Maintenance Reserve				380,365	
Assigned:					
Year End Encumbrances				152	
Assigned- For Subsequent Year's Expenditures				154,890	
Unassigned					
				383,186	
				3,007,925	
Reconciliation to Governmental Funds Statements (GAAP):					
Last Two State Aid Payments not Recognized on GAAP Basis				(37,733)	
Fund Balance per Governmental Funds (GAAP)				\$ 2,970,192	



WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUES:</b>					
Local Sources	76,517	\$ (18,028)	\$ 58,489	\$ 30,853	\$ (27,636)
Federal Sources	\$ 146,742	44,757	191,499	191,499	
Total Revenues	<u>223,259</u>	<u>26,729</u>	<u>249,988</u>	<u>222,352</u>	<u>(27,636)</u>
<b>EXPENDITURES:</b>					
Instruction:					
Salaries of Teachers	29,013	(8,123)	20,890	18,254	2,636
Purchased Professional/Technical Services	54,947	9,712	64,659	64,659	
Tuition	115,473	(11,523)	103,950	103,950	
General Supplies	2,000	29,476	31,476	6,476	25,000
Total Instruction	<u>201,433</u>	<u>19,542</u>	<u>220,975</u>	<u>193,339</u>	<u>27,636</u>
Support Services:					
Personal Services - Employee Benefits	7,544	(2,797)	4,747	4,747	
Purchased Professional and Educational Services	14,282	2,300	16,582	16,582	
Supplies and Materials		7,684	7,684	7,684	
Total Support Services	<u>21,826</u>	<u>7,187</u>	<u>29,013</u>	<u>29,013</u>	
Total Expenditures	<u>\$ 223,259</u>	<u>\$ 26,729</u>	<u>\$ 249,988</u>	<u>\$ 222,352</u>	<u>\$ 27,636</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
NOTE TO RSI  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(UNAUDITED)

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

	General Fund	Special Revenue Fund
Sources/Inflows of Resources:		
Actual Amounts (Budgetary Basis) "Revenue" from the Budgetary Comparison Schedule	\$ 12,366,350	\$ 222,352
Differences - Budget to GAAP:		
Budgetary Basis Recognizes Encumbrances as Expenditures and Revenue, whereas the GAAP Basis does not.		
Prior Year State Aid Payments Recognized for GAAP Statements	37,109	
Current year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	(37,733)	
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.	\$ 12,365,726	\$ 222,352
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	\$ 12,416,666	\$ 222,352
Total Expenditures as Reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 12,416,666	\$ 222,352

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue, and debt service funds. The budget for the fiscal year ended June 30, 2016 was submitted to the County office and was approved by a vote of the Board of Education. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)l. All budget amendments/transfers must be made by School Board resolution. All budgetary amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

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

The general fund budgetary revenue differs from GAAP revenue due to a difference in recognition of the last two state aid payments for the current year. Since the State is recording the last two state aid payments in the subsequent fiscal year, the District cannot recognize these payments on the GAAP financial statements.

SCHOOL LEVEL SCHEDULES  
(NOT APPLICABLE)

SPECIAL REVENUE FUND

WATCHUNG BOROUGH SCHOOL DISTRICT  
SPECIAL REVENUE FUND  
COMBINING SCHEDULE OF REVENUE AND EXPENDITURES - BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	No Child Left Behind		IDEA Part B		Local	Totals
	Title II Part A	Title I Part A	Basic	Preschool		
REVENUE:						
Local Sources					\$ 30,853	\$ 30,853
Federal Sources	\$ 16,582	\$ 36,558	\$ 131,779	\$ 6,580		191,499
Total Revenue	<u>16,582</u>	<u>36,558</u>	<u>131,779</u>	<u>6,580</u>	<u>30,853</u>	<u>222,352</u>
EXPENDITURES:						
Instruction:						
Salaries of Teachers		18,254				18,254
Purchased Professional/Technical Services		13,557	20,145	6,580	24,377	64,659
Tuition			103,950			103,950
General Supplies					6,476	6,476
Total Instruction		<u>31,811</u>	<u>124,095</u>	<u>6,580</u>	<u>30,853</u>	<u>193,339</u>
Support Services:						
Personal Services - Employee Benefits		4,747				4,747
Purchased Professional and Educational Services	16,582					16,582
Supplies and Materials			7,684			7,684
Total Support Services	<u>16,582</u>	<u>4,747</u>	<u>7,684</u>			<u>29,013</u>
Total Expenditures	<u>\$ 16,582</u>	<u>\$ 36,558</u>	<u>\$ 131,779</u>	<u>\$ 6,580</u>	<u>\$ 30,853</u>	<u>\$ 222,352</u>

Exhibit E-2

WATCHUNG BOROUGH SCHOOL DISTRICT  
SPECIAL REVENUE FUND  
PRESCHOOL EDUCATION AID SCHEDULE OF EXPENDITURES  
BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOT APPLICABLE

CAPITAL PROJECTS FUND

Exhibit F-1

WATCHUNG BOROUGH SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SUMMARY SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Revenue and Other Financing Sources:	
Bond Proceeds	
State Sources - SDA Grant	\$ (70,632)
	<u>(70,632)</u>
Total Revenue and Other Financing Sources	<u>(70,632)</u>
Deficit of Revenue and Other Financing Sources	(70,632)
Fund Balance - Beginning of Year	<u>321,715</u>
Fund Balance - End of Year	<u><u>\$ 251,083</u></u>
<u>Recapitulation:</u>	
Restricted Fund Balance	\$ 145,225
Committed Fund Balance	<u>105,858</u>
	251,083
Reconciliation to Governmental Funds Statement (GAAP):	
SDA Grant Receivable not Recognized on GAAP Basis	<u>(930)</u>
Fund Balance per Governmental Funds (GAAP)	<u><u>\$ 250,153</u></u>
Reconciliation of Revenue from Budgetary Basis to GAAP Basis:	
SDA Grant Revenue (Budgetary Basis)	\$ (70,632)
SDA Grants are recognized as revenue on the Budgetary Basis when awarded but are not recognized on the GAAP Basis until expended and submitted for reimbursement.	<u>300,529</u>
SDA Grant Revenue (GAAP Basis)	<u><u>\$ 229,897</u></u>



Exhibit F-1A

WATCHUNG BOROUGH SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS -  
BUDGETARY BASIS  
RENOVATE, CONSTRUCT, FURNISH AND EQUIP ADDITIONS TO THE BAYBERRY AND VALLEY VIEW SCHOOLS  
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Prior Periods	Current Year	Totals	Revised Authorized Costs
Revenue and Other Financing Sources:				
State Sources - SDA Grant	\$ 5,096,645		\$ 5,096,645	\$ 5,096,645
Bond Proceeds	18,903,000		18,903,000	18,903,355
Total Revenue and Other Financing Sources	23,999,645		23,999,645	24,000,000
Expenditures:				
Equipment	91,433		91,433	237,013
Legal Services	106,061		106,061	106,061
Other Purchased Professional and Technical Services	2,386,462		2,386,462	2,386,462
Construction Services	21,270,464		21,270,464	21,270,464
Total Expenditures	23,854,420		23,854,420	24,000,000
Excess of Revenue and Other Financing Sources over Expenditures	<u>\$ 145,225</u>	<u>\$ - 0 -</u>	<u>\$ 145,225</u>	<u>\$ - 0 -</u>
Additional Project Information:				
Project Number	SP201964/201965			
Grant Date	2/14/2003			
Bond Authorization Date	8/19/2009			
Bonds Authorized	\$ 18,903,355			
Bonds Issued	\$ 18,903,000			
Original Authorized Cost	\$ 24,000,000			
Change Orders	- 0 -			
Revised Authorized Costs	<u>\$ 24,000,000</u>			
Percentage Increase over Original Authorized Cost	0.00%			
Percentage Completion	99.39%			
Original Target Completion Date	9/1/2004			
Revised Target Completion Date	9/1/2016			

WATCHUNG BOROUGH SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS -  
BUDGETARY BASIS  
VALLEY VIEW MIDDLE SCHOOL - RENOVATIONS TO BATHROOMS  
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Prior</u> <u>Periods</u>	<u>Current</u> <u>Year</u>	<u>Totals</u>	<u>Revised</u> <u>Authorized</u> <u>Costs</u>
Revenue and Other Financing Sources:				
State Sources - SDA Grant	\$ 64,646	\$ (7,206)	\$ 57,440	\$ 57,440
Transfer from Capital Reserve	<u>130,334</u>		<u>130,334</u>	<u>130,334</u>
Total Revenue and Other Financing Sources	<u>194,980</u>	<u>(7,206)</u>	<u>187,774</u>	<u>187,774</u>
Expenditures:				
Legal Services	1,342		1,342	1,342
Other Purchased Professional and Technical Services	49,645		49,645	49,645
Construction Services	<u>115,125</u>		<u>115,125</u>	<u>136,787</u>
Total Expenditures	<u>166,112</u>		<u>166,112</u>	<u>187,774</u>
Excess of Revenue and Other Financing Sources over Expenditures	<u>\$ 28,868</u>	<u>\$ (7,206)</u>	<u>\$ 21,662</u>	<u>\$ -0-</u>
Additional Project Information:				
SDA Project Number	5540-050-09-0ZXX			
Grant Date	6/3/2010			
Original Authorized Cost	\$ 194,980			
Cancellation of SDA Grant	<u>(7,206)</u>			
Revised Authorized Costs	<u>\$ 187,774</u>			
Percentage Completion	88.46%			
Original Target Completion Date	9/1/2010			
Revised Target Completion Date	9/1/2016			

WATCHUNG BOROUGH SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS -  
BUDGETARY BASIS  
BAYBERRY SCHOOL - RENOVATIONS TO BATHROOMS  
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Prior</u> <u>Periods</u>	<u>Current</u> <u>Year</u>	<u>Totals</u>	<u>Revised</u> <u>Authorized</u> <u>Costs</u>
Revenue and Other Financing Sources:				
State Sources - SDA Grant	\$ 74,458	\$ (17,125)	\$ 57,333	\$ 57,333
Transfer from Capital Reserve	116,917		116,917	116,917
Total Revenue and Other Financing Sources	<u>191,375</u>	<u>(17,125)</u>	<u>174,250</u>	<u>174,250</u>
Expenditures:				
Legal Services	1,342		1,342	1,342
Other Purchased Professional and Technical Services	33,678		33,678	33,678
Construction Services	124,486		124,486	139,230
Total Expenditures	<u>159,506</u>		<u>159,506</u>	<u>174,250</u>
Excess of Revenue and Other Financing Sources over Expenditures	<u>\$ 31,869</u>	<u>\$ (17,125)</u>	<u>\$ 14,744</u>	<u>\$ -0-</u>
Additional Project Information:				
SDA Project Number	5540-050-09-0ZYJ			
Grant Date	6/3/2010			
Original Authorized Cost	\$ 191,375			
Cancellation of SDA Grant	<u>(17,125)</u>			
Revised Authorized Costs	<u>\$ 174,250</u>			
Percentage Completion	91.54%			
Original Target Completion Date	9/1/2010			
Revised Target Completion Date	9/1/2016			

Exhibit F-1D

WATCHUNG BOROUGH SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, PROJECT BALANCE AND PROJECT STATUS -  
BUDGETARY BASIS  
BAYBERRY SCHOOL - PARTIAL ROOF REPLACEMENT  
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Prior</u> <u>Periods</u>	<u>Current</u> <u>Year</u>	<u>Totals</u>	<u>Revised</u> <u>Authorized</u> <u>Costs</u>
Revenue and Other Financing Sources:				
State Sources - SDA Grant	\$ 272,658	\$ (46,301)	\$ 226,357	\$ 226,357
Transfer from Capital Reserve	<u>408,988</u>		<u>408,988</u>	<u>408,988</u>
Total Revenue and Other Financing Sources	<u>681,646</u>	<u>(46,301)</u>	<u>635,345</u>	<u>635,345</u>
Expenditures:				
Legal Services	543		543	3,500
Other Purchased Professional and Technical Services	48,000		48,000	48,000
Construction Services	<u>517,350</u>		<u>517,350</u>	<u>583,845</u>
Total Expenditures	<u>565,893</u>		<u>565,893</u>	<u>635,345</u>
Excess of Revenue and Other Financing Sources over Expenditures	<u>\$ 115,753</u>	<u>\$ (46,301)</u>	<u>\$ 69,452</u>	<u>\$ -0-</u>
Additional Project Information:				
SDA Project Number	5540-040-13-1001			
Grant Date	01/06/14			
Original Authorized Cost	\$ 681,646			
Cancellation of SDA Grant	<u>(46,301)</u>			
Revised Authorized Costs	<u>\$ 635,345</u>			
Percentage Completion	89.07%			
Original Target Completion Date	07/30/15			
Revised Target Completion Date	07/30/16			

PROPRIETARY FUNDS

Exhibit G-1

WATCHUNG BOROUGH SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2016

## ASSETS:

Current Assets:	
Cash and Cash Equivalents	\$ 7,735
Intergovernmental Accounts Receivable:	
Federal	840
	<hr/>
Total Current Assets	8,575
	<hr/>
Non-Current Assets:	
Capital Assets	35,360
Less: Accumulated Depreciation	(22,942)
	<hr/>
Total Non-Current Assets	12,418
	<hr/>
Total Assets	20,993
	<hr/>
LIABILITIES:	
Current Liabilities:	
Interfund Payable	5,935
	<hr/>
Total Current Liabilities	5,935
	<hr/>
NET POSITION:	
Net Investment in Capital Assets	12,418
Unrestricted	2,640
	<hr/>
Total Net Position	\$ 15,058
	<hr/> <hr/>

Exhibit G-2

WATCHUNG BOROUGH SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating Revenue:	
Local Sources:	
Daily Sales - Reimbursable Programs	\$ 5,640
Total Operating Revenue	<u>5,640</u>
Operating Expenses:	
Cost of Sales - Reimbursable Programs	8,801
Miscellaneous Expenditures	5,935
Depreciation Expense	<u>2,593</u>
Total Operating Expenses	<u>17,329</u>
Operating (Loss)	(11,689)
Non-Operating Revenue:	
Federal Sources:	
Special Milk Program	<u>4,900</u>
Total Non-Operating Revenue	<u>4,900</u>
Change in Net Position	(6,789)
Net Position - Beginning of Year	<u>21,847</u>
Net Position - End of Year	<u><u>\$ 15,058</u></u>

Exhibit G-3

WATCHUNG BOROUGH SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 5,640
Payments to Food Service Vendor	(8,801)
	<hr/>
Net Cash Used for Operating Activities	(3,161)
	<hr/>
Cash Flows from Noncapital Financing Activities:	
Federal Sources:	
Special Milk Program	5,904
	<hr/>
Net Cash Provided by Noncapital Financing Activities	5,904
	<hr/>
Net Increase in Cash and Cash Equivalents	2,743
Cash and Cash Equivalents, July 1	4,992
	<hr/>
Cash and Cash Equivalents, June 30	\$ 7,735
	<hr/> <hr/>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (11,689)
Adjustment to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	2,593
Changes in Assets and Liabilities:	
Increase in Interfund Payable	5,935
	<hr/>
Net Cash Used for Operating Activities	\$ (3,161)
	<hr/> <hr/>



FIDUCIARY FUNDS

WATCHUNG BOROUGH SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2016

	<u>Student Activities</u>	<u>Payroll Agency</u>	<u>Total Agency</u>	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 44,035	\$ 182,913	\$ 226,948	\$ 11,334	\$ 64,452
Interfund Receivable:					
Payroll Agency Fund				4,130	
<b>Total Assets</b>	<u>44,035</u>	<u>182,913</u>	<u>226,948</u>	<u>15,464</u>	<u>64,452</u>
<b>LIABILITIES:</b>					
Accrued Salaries and Wages Payable		175,439	175,439		
Due to Student Groups	42,302		42,302		
Payroll Deductions and Withholdings		1,268	1,268		
Interfund Payable:					
General Fund	1,733	2,076	3,809	870	
Flexible Spending Trust		4,130	4,130		
<b>Total Liabilities</b>	<u>44,035</u>	<u>182,913</u>	<u>226,948</u>	<u>870</u>	
<b>NET POSITION:</b>					
Held in Trust for Flexible Spending Claims				14,594	
Held in Trust for Unemployment Claims					64,452
<b>Total Net Position</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 14,594</u>	<u>\$ 64,452</u>

Exhibit H-2

WATCHUNG BOROUGH SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
Additions:		
Contributions:		
Employee Contributions	\$ 47,160	\$ 9,920
Total Contributions	<u>47,160</u>	<u>9,920</u>
Investment Earnings:		
Interest		<u>258</u>
Net Investment Earnings		<u>258</u>
Total Additions	<u>47,160</u>	<u>10,178</u>
Deductions		
Unemployment Compensation Claims		34,394
Flexible Spending Claims	<u>47,160</u>	
Total Deductions	<u>47,160</u>	<u>34,394</u>
Change in Net Position		(24,216)
Net Position - Beginning of the Year	<u>14,594</u>	<u>88,668</u>
Net Position - End of the Year	<u>\$ 14,594</u>	<u>\$ 64,452</u>



Exhibit H-4

WATCHUNG BOROUGH SCHOOL DISTRICT  
STUDENT ACTIVITY AGENCY FUND  
STATEMENT OF ACTIVITY

	<u>Balance</u> <u>July 1, 2015</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2016</u>
Elementary School:				
Valley View School	\$ 14,304	\$ 59,814	\$ 54,451	\$ 19,667
Bayberry School	7,758	21,623	12,196	17,185
Sporting Officials	4,948	5,079	4,577	5,450
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total All Schools	<u>\$ 27,010</u>	<u>\$ 86,516</u>	<u>\$ 71,224</u>	<u>\$ 42,302</u>

Exhibit H-5

WATCHUNG BOROUGH SCHOOL DISTRICT  
PAYROLL AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 165,959	\$ 7,398,989	\$ 7,382,035	\$ 182,913
Total Assets	<u>\$ 165,959</u>	<u>\$ 7,398,989</u>	<u>\$ 7,382,035</u>	<u>\$ 182,913</u>
 <u>LIABILITIES:</u>				
Net Payroll		\$ 3,794,090	\$ 3,794,090	
Accrued Salaries and Wages Payable	\$ 158,586	175,778	158,925	\$ 175,439
Payroll Deduction and Withholdings	5,297	3,424,991	3,429,020	1,268
Interfund Payable:				
General Fund	2,076			2,076
Flexible Spending Trust		4,130		4,130
Total Liabilities	<u>\$ 165,959</u>	<u>\$ 7,398,989</u>	<u>\$ 7,382,035</u>	<u>\$ 182,913</u>

LONG-TERM DEBT

WATCHUNG BOROUGH SCHOOL DISTRICT  
GENERAL LONG-TERM DEBT ACCOUNT GROUP  
SCHEDULE OF SERIAL BONDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Purpose	Date of Issue	Original Issue	Maturities of Bonds Outstanding June 30, 2016		Interest Rate	Balance July 1, 2015	Retired or Matured	Balance June 30, 2016
			Date	Amount				
School Refunding Bonds	08/13/09	\$ 8,770,000	12/15/16	\$ 450,000	3.25%			
			12/15/16	1,565,000	4.00%	\$ 3,890,000	\$ 1,875,000	\$ 2,015,000
						<u>\$ 3,890,000</u>	<u>\$ 1,875,000</u>	<u>\$ 2,015,000</u>



Exhibit I-2

WATCHUNG BOROUGH SCHOOL DISTRICT  
LONG-TERM DEBT  
SCHEDULE OF OBLIGATIONS UNDER CAPITAL LEASES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOT APPLICABLE

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
REVENUE:					
Local Sources:					
Local Tax Levy	\$ 1,999,100		\$ 1,999,100	\$ 1,999,100	
Total Revenue	<u>1,999,100</u>		<u>1,999,100</u>	<u>1,999,100</u>	
EXPENDITURES:					
Regular Debt Service:					
Interest	124,100		124,100	124,100	
Redemption of Principal	1,875,000		1,875,000	1,875,000	
Total Expenditures	<u>1,999,100</u>		<u>1,999,100</u>	<u>1,999,100</u>	
Excess/(Deficiency) of Revenue Over/(Under) Expenditures	-0-		-0-	-0-	
Fund Balance, July 1	<u>-0-</u>		<u>-0-</u>	<u>-0-</u>	
Fund Balance, June 30	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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

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

**Contents**

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

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NET POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Governmental Activities</b>										
Net Investment in Capital Assets	\$ 9,377,723	\$ 10,188,050	\$ 10,823,137	\$ 12,440,718	\$ 13,419,096	\$ 5,444,985	\$ 7,580,737	\$ 8,949,657	\$ 10,919,958	\$ 12,521,163
Restricted	2,296,193	2,314,767	2,337,978	2,486,694	2,586,913	2,627,560	2,982,530	2,812,843	2,746,220	2,614,922
Unrestricted/(Deficit)	176,429	(254,479)	119,772	(914,897)	(797,669)	(341,668)	(417,691)	(3,138,438)	(3,186,255)	(2,792,534)
<b>Total Governmental Activities Net Position</b>	<b>\$ 11,850,346</b>	<b>\$ 12,248,338</b>	<b>\$ 13,280,887</b>	<b>\$ 14,012,515</b>	<b>\$ 15,208,340</b>	<b>\$ 7,730,877</b>	<b>\$ 10,145,576</b>	<b>\$ 8,624,062</b>	<b>\$ 10,479,923</b>	<b>\$ 12,343,551</b>
<b>Business-type Activities</b>										
Net Investment in Capital Assets							\$ 20,197	\$ 17,604	\$ 15,011	\$ 12,418
Unrestricted	\$ 4,558	\$ 865	\$ 2,519	\$ 1,721	\$ 3,977	\$ 5,726	9,416	3,953	6,836	2,640
<b>Total Business-type Activities Net Position</b>	<b>\$ 4,558</b>	<b>\$ 865</b>	<b>\$ 2,519</b>	<b>\$ 1,721</b>	<b>\$ 3,977</b>	<b>\$ 5,726</b>	<b>\$ 29,613</b>	<b>\$ 21,557</b>	<b>\$ 21,847</b>	<b>\$ 15,058</b>
<b>District-wide</b>										
Net Investment in Capital Assets	\$ 9,377,723	\$ 10,188,050	\$ 10,823,137	\$ 12,440,718	\$ 13,419,096	\$ 5,444,985	\$ 7,600,934	\$ 8,967,261	\$ 10,934,969	\$ 12,533,581
Restricted	2,296,193	2,314,767	2,337,978	2,486,694	2,586,913	2,627,560	2,982,530	2,812,843	2,746,220	2,614,922
Unrestricted/(Deficit)	180,987	(253,614)	122,291	(913,176)	(793,692)	(335,942)	(408,275)	(3,134,485)	(3,179,419)	(2,789,894)
<b>Total District Net Position</b>	<b>\$ 11,854,904</b>	<b>\$ 12,249,203</b>	<b>\$ 13,283,406</b>	<b>\$ 14,014,236</b>	<b>\$ 15,212,317</b>	<b>\$ 7,736,603</b>	<b>\$ 10,175,189</b>	<b>\$ 8,645,619</b>	<b>\$ 10,501,770</b>	<b>\$ 12,358,609</b>

Source: School District Financial Reports

WATCHUNG BOROUGH SCHOOL DISTRICT  
CHANGES IN NET POSITION  
LAST TEN FISCAL YEARS  
ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	Fiscal Year Ending June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental Activities										
Instruction:										
Regular	\$ 4,593,823	\$ 4,990,389	\$ 4,854,747	\$ 5,094,073	\$ 4,949,781	\$ 5,279,666	\$ 5,680,582	\$ 6,085,168	\$ 6,972,932	\$ 7,007,650
Special Education	768,066	642,267	833,309	882,425	873,731	891,087	918,890	1,012,370	1,206,798	1,502,409
Other Special Instruction	315,211	285,167	199,771	286,326	311,516	307,659	274,789	235,535	214,587	141,104
School-Sponsored/ Other Instruction		125,336	177,429	91,631	84,127	89,208	130,134	134,127	60,608	69,464
Support Services:										
Tuition	332,413	352,947	386,597	378,793	414,674	359,309	381,886	209,674	22,822	17,995
Student & Instruction Related Services	1,730,710	1,860,049	1,631,991	1,732,724	1,476,248	1,514,397	1,532,896	1,515,248	1,761,908	2,124,045
General Administrative Services	641,823	468,050	354,789	571,162	453,102	480,517	432,302	426,100	470,641	512,228
School Administrative Services	480,330	510,535	437,933	515,665	528,936	466,518	480,194	467,853	597,384	663,060
Plant Operations and Maintenance	1,142,929	1,359,366	1,151,374	1,129,582	1,206,358	1,224,782	1,188,082	1,106,697	1,267,013	1,326,845
Pupil Transportation	587,400	583,269	526,882	597,244	565,314	540,830	563,612	492,628	514,800	558,121
Central Services and Administrative Information Technology		282,086	353,600	207,193	210,672	308,359	271,782	273,991	326,803	352,306
Capital Outlay					57,866	37,147	119,998	129,852	47,138	56,138
Interest on Long-term Debt	616,582	581,841	543,333	560,823	566,240	287,699	254,398	157,031	87,246	1,759
<b>Total Governmental Activities Expenses</b>	<b>11,209,288</b>	<b>12,041,303</b>	<b>11,451,755</b>	<b>12,047,642</b>	<b>11,698,565</b>	<b>11,787,178</b>	<b>12,229,545</b>	<b>12,246,274</b>	<b>13,550,680</b>	<b>14,333,124</b>
Business-type Activities:										
Food Service	10,219	22,797	20,414	19,187	16,080	14,348	11,712	21,698	12,621	17,329
<b>Total Business-type Activities Expense</b>	<b>10,219</b>	<b>22,797</b>	<b>20,414</b>	<b>19,187</b>	<b>16,080</b>	<b>14,348</b>	<b>11,712</b>	<b>21,698</b>	<b>12,621</b>	<b>17,329</b>
<b>Total District Expenses</b>	<b>\$ 11,219,507</b>	<b>\$ 12,064,100</b>	<b>\$ 11,472,169</b>	<b>\$ 12,066,829</b>	<b>\$ 11,714,645</b>	<b>\$ 11,801,526</b>	<b>\$ 12,241,257</b>	<b>\$ 12,267,972</b>	<b>\$ 13,563,301</b>	<b>\$ 14,350,453</b>
Program Revenues										
Governmental Activities:										
Charges for Services										
Instruction (Tuition)		\$ 3,935								
Operating Grants and Contributions	\$ 2,376,308	1,478,947	\$ 588,273	\$ 901,996	\$ 928,058	\$ 1,320,584	\$ 1,568,461	\$ 1,550,169	\$ 2,763,449	\$ 3,177,650
<b>Total Governmental Activities Program Revenues</b>	<b>2,376,308</b>	<b>1,482,882</b>	<b>588,273</b>	<b>901,996</b>	<b>928,058</b>	<b>1,320,584</b>	<b>1,568,461</b>	<b>1,550,169</b>	<b>2,763,449</b>	<b>3,177,650</b>
Business-type Activities:										
Charges for Services										
Food Service	8,997	11,086	11,189	10,731	10,237	8,326	8,353	7,235	6,450	5,640
Operating Grants and Contributions		8,018	9,644	7,658	8,099	7,771	7,049	6,407	6,461	4,900
<b>Total Business-type Activities Program Revenues</b>	<b>8,997</b>	<b>19,104</b>	<b>20,833</b>	<b>18,389</b>	<b>18,336</b>	<b>16,097</b>	<b>15,402</b>	<b>13,642</b>	<b>12,911</b>	<b>10,540</b>
<b>Total District Program Revenues</b>	<b>\$ 2,385,305</b>	<b>\$ 1,501,986</b>	<b>\$ 609,106</b>	<b>\$ 920,385</b>	<b>\$ 946,394</b>	<b>\$ 1,336,681</b>	<b>\$ 1,583,863</b>	<b>\$ 1,563,811</b>	<b>\$ 2,776,360</b>	<b>\$ 3,188,190</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
CHANGES IN NET POSITION  
LAST TEN FISCAL YEARS  
ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

	Fiscal Year Ending June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net (Expense)/Revenue										
Governmental Activities	\$ (8,832,980)	\$ (10,558,421)	\$ (10,863,482)	\$ (11,145,645)	\$ (10,770,507)	\$ (10,466,594)	\$ (10,661,084)	\$ (10,696,105)	\$ (10,787,231)	\$ (11,155,474)
Business-type Activities	(1,222)	(3,693)	419	(798)	2,256	1,749	3,690	(8,056)	290	(6,789)
Total District-wide Net Expense	<u>\$ (8,834,202)</u>	<u>\$ (10,562,114)</u>	<u>\$ (10,863,063)</u>	<u>\$ (11,146,443)</u>	<u>\$ (10,768,251)</u>	<u>\$ (10,464,845)</u>	<u>\$ (10,657,394)</u>	<u>\$ (10,704,161)</u>	<u>\$ (10,786,941)</u>	<u>\$ (11,162,263)</u>
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Property Taxes Levied for General Purposes, Net	\$ 8,548,938	\$ 8,907,646	\$ 9,263,952	\$ 9,606,630	\$ 9,791,813	\$ 9,791,813	\$ 9,938,532	\$ 10,137,302	\$ 10,319,773	\$ 10,474,570
Taxes Levied for Debt Service	876,367	1,553,357	1,620,012	1,652,575	1,653,751	1,770,400	1,817,200	1,865,300	1,934,688	1,999,100
Federal and State aid not restricted	121,924	324,924	887,882	490,662	386,722	82,040	58,675	38,852	166,027	374,220
Tuition	6,450		10,090	32,684	65,598	175,689	189,005	26,102	155,457	149,674
Investment Earnings	159,618	109,325	6,961	2,006	354	7,931	250	250		
Miscellaneous Income	62,004	61,171	107,124	92,717	68,093	45,403	25,475	168,159	67,147	21,539
Transfers	(1,222)									
Total Governmental Activities	<u>9,774,079</u>	<u>10,956,423</u>	<u>11,896,021</u>	<u>11,877,274</u>	<u>11,966,331</u>	<u>11,873,276</u>	<u>12,029,137</u>	<u>12,235,965</u>	<u>12,643,092</u>	<u>13,019,103</u>
Business-type Activities:										
Investment Earnings	\$ 1,222		\$ 1,235							
Total Business-type Activities	<u>1,222</u>	<u></u>	<u>1,235</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>-</u>
Total District-wide	<u>\$ 9,775,301</u>	<u>\$ 10,956,423</u>	<u>\$ 11,897,256</u>	<u>\$ 11,877,274</u>	<u>\$ 11,966,331</u>	<u>\$ 11,873,276</u>	<u>\$ 12,029,137</u>	<u>\$ 12,235,965</u>	<u>\$ 12,643,092</u>	<u>\$ 13,019,103</u>
Change in Net Position										
Governmental Activities	\$ 941,099	\$ 398,002	\$ 1,032,539	\$ 731,628	\$ 1,195,824	\$ 1,406,682	\$ 1,368,053	\$ 1,539,860	\$ 1,855,861	\$ 1,863,629
Business-type Activities		(3,693)	1,654	(798)	2,256	1,749	3,690	(8,056)	290	(6,789)
Total District	<u>\$ 941,099</u>	<u>\$ 394,309</u>	<u>\$ 1,034,193</u>	<u>\$ 730,830</u>	<u>\$ 1,198,080</u>	<u>\$ 1,408,431</u>	<u>\$ 1,371,743</u>	<u>\$ 1,531,804</u>	<u>\$ 1,856,151</u>	<u>\$ 1,856,840</u>

Source: School District Financial Reports

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

	June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Assigned					\$ 332,548	\$ 366,311	\$ 208,124	\$ 145,240	\$ 52,856	\$ 155,042
Restricted/Reserved					2,062,231	2,448,979	2,837,306	2,667,619	2,600,495	2,469,697
Unassigned					355,400	279,627	275,317	241,364	367,781	345,453
Reserved	\$ 2,138,094	\$ 2,150,442	\$ 2,214,622	\$ 2,122,729						
Unreserved	278,668	321,615	308,188	265,759						
<b>Total General Fund</b>	<b>\$ 2,416,763</b>	<b>\$ 2,472,058</b>	<b>\$ 2,522,810</b>	<b>\$ 2,388,488</b>	<b>\$ 2,750,179</b>	<b>\$ 3,094,917</b>	<b>\$ 3,320,747</b>	<b>\$ 3,054,223</b>	<b>\$ 3,021,132</b>	<b>\$ 2,970,192</b>
All Other Governmental Funds										
Restricted/Reserved					\$ 192,134	\$ 178,581	\$ 145,224	\$ 145,224	\$ 145,225	\$ 145,225
Committed							31,937	31,937		104,928
Reserved	\$ 62,629	\$ 41,474	\$ 2,374	\$ 313,316						
Unreserved, Reported in:										
Capital Projects Fund	120,535	122,851	142,851							
Debt Service Fund		1		50,649						
Unassigned / (Deficit)									(124,969)	
<b>Total All Other Governmental Funds</b>	<b>\$ 183,163</b>	<b>\$ 164,325</b>	<b>\$ 145,225</b>	<b>\$ 363,965</b>	<b>\$ 192,134</b>	<b>\$ 178,581</b>	<b>\$ 177,161</b>	<b>\$ 177,161</b>	<b>\$ 20,256</b>	<b>\$ 250,153</b>
<b>Total Governmental Funds</b>	<b>\$ 2,599,926</b>	<b>\$ 2,636,383</b>	<b>\$ 2,668,035</b>	<b>\$ 2,752,453</b>	<b>\$ 2,942,313</b>	<b>\$ 3,273,498</b>	<b>\$ 3,497,908</b>	<b>\$ 3,231,384</b>	<b>\$ 3,041,388</b>	<b>\$ 3,220,345</b>

Source: School District Financial Reports

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

	Fiscal Year Ending June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Revenues</b>										
Tax Levy	\$ 10,041,887	\$ 10,461,003	\$ 10,883,964	\$ 11,259,205	\$ 11,445,564	\$ 11,562,213	\$ 11,755,732	\$ 12,002,602	\$ 12,254,461	\$ 12,473,670
Tuition Charges	6,450	3,935	10,090	11,481	25,503	131,577	144,670	7,909	141,637	149,674
Other Local		34,296		21,203	40,095	44,112	44,335	18,193		
Interest Earnings	159,618	109,325	6,961	2,006	354		250	250	2,690	5,328
Miscellaneous	99,016	26,875	107,124	134,934	111,676	147,430	64,896	250,274	155,107	47,064
State Sources	1,664,380	1,657,468	1,329,712	1,144,841	1,033,583	1,133,001	1,439,380	1,360,164	1,603,795	1,949,840
Federal Sources	180,257	146,402	146,443	205,600	237,614	175,527	148,335	146,742	152,653	191,499
<b>Total Revenue</b>	<b>12,151,608</b>	<b>12,439,304</b>	<b>12,484,294</b>	<b>12,779,270</b>	<b>12,894,389</b>	<b>13,193,860</b>	<b>13,597,598</b>	<b>13,786,134</b>	<b>14,310,343</b>	<b>14,817,075</b>
<b>Expenditures</b>										
<b>Instruction</b>										
Regular Instruction	3,059,095	3,322,626	3,503,570	3,424,209	3,322,441	3,350,559	3,544,806	3,967,409	4,124,329	3,867,652
Special Education Instruction	482,852	398,905	543,558	608,707	602,522	595,448	611,277	705,291	832,760	1,050,456
Other Special Instruction	223,934	178,395	199,771	178,589	185,403	201,941	178,354	156,157	140,597	93,469
School-Sponsored/Other Instruction		90,097	92,768	91,631	84,127	65,521	78,414	81,780	38,760	39,548
<b>Support Services:</b>										
Tuition	332,413	352,947	386,597	378,793	414,674	359,309	381,886	209,674	22,822	17,995
Student & Other Instruction Related Services	1,266,605	1,334,904	1,304,311	1,277,381	1,002,444	1,088,293	1,107,301	1,120,431	1,265,711	1,518,646
General Administrative Services	485,790	341,956	364,363	350,675	315,145	400,830	360,425	354,460	318,630	363,595
School Administrative Services	316,673	339,692	336,655	347,734	316,589	321,663	322,439	333,337	371,366	384,089
Central Services and Administrative										
Information Technology		194,138	201,209	207,193	210,672	235,189	210,782	215,309	227,030	245,846
Plant Operations and Maintenance	972,269	972,885	1,049,221	943,934	996,071	1,052,290	1,024,532	942,759	1,000,008	1,042,561
Pupil Transportation	569,345	556,975	508,771	571,497	530,465	511,509	537,064	468,272	477,048	514,096
Unallocated Benefits	2,410,859	2,675,329	2,303,026	2,569,026	2,730,224	2,829,434	3,009,911	2,992,923	3,048,256	3,307,827
Capital Outlay	851,451	545,640	38,810	138,557	289,352	80,289	188,797	639,556	698,334	193,238
<b>Debt Service:</b>										
Principal	875,000	970,000	1,075,000	1,205,000	1,290,000	1,410,000	1,500,000	1,595,000	1,730,000	1,875,000
Interest and Other Charges	617,949	583,356	545,013	401,926	414,400	360,400	317,200	270,300	204,688	124,100
<b>Total Expenditures</b>	<b>12,464,235</b>	<b>12,857,846</b>	<b>12,452,643</b>	<b>12,694,852</b>	<b>12,704,529</b>	<b>12,862,675</b>	<b>13,373,188</b>	<b>14,052,658</b>	<b>14,500,339</b>	<b>14,638,118</b>



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

	Fiscal Year Ending June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Excess/(Deficit) of Revenues										
Over/(Under) Expenditures	\$ (312,627)	\$ (418,543)	\$ 31,651	\$ 84,418	\$ 189,860	\$ 331,185	\$ 224,410	\$ (266,524)	\$ (189,996)	\$ 178,957
Other Financing Sources/(Uses)										
Serial Bonds Issued				8,770,000						
Serial Bonds Defeased				(8,938,000)						
Bond Issuance Costs				(126,832)						
Bond Premium				944,609						
Deferred Interest				(649,777)						
Capital Leases (Non-budgeted)		455,000								
Transfers in	17,790								408,988	
Transfers out	(19,012)								(408,988)	
Total Other Financing Sources/(Uses)	(1,222)	455,000								
Net Change in Fund Balances	\$ (313,849)	\$ 36,457	\$ 31,651	\$ 84,418	\$ 189,860	\$ 331,185	\$ 224,410	\$ (266,524)	\$ (189,996)	\$ 178,957
Debt Service as a Percentage of Noncapital Expenditures	12.86%	12.62%	13.05%	12.80%	13.73%	13.85%	13.78%	13.91%	14.02%	13.84%

Source: School District Financial Reports

10,119,835	10,758,850	10,793,820	10,949,369	10,710,777	11,011,986	11,367,191	11,547,802	11,867,317	12,445,780
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Exhibit J-5

WATCHUNG BOROUGH SCHOOL DISTRICT  
GENERAL FUND - OTHER LOCAL REVENUE BY SOURCE  
LAST TEN FISCAL YEARS  
MODIFIED ACCRUAL BASIS OF ACCOUNTING  
UNAUDITED

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Interest on</u> <u>Investments</u>	<u>Tuition</u>	<u>Miscellaneous</u>	<u>Total</u>
2007	\$ 159,618	\$ 6,450	\$ 99,016	\$ 265,084
2008	109,325	3,935	26,875	140,135
2009	6,961	10,090	63,131	80,182
2010	2,006	11,481	90,086	103,573
2011	354	25,503	108,188	134,045
2012	7,931	131,577	45,403	184,911
2013	250	144,670	109,231	254,151
2014	250	146,749	47,512	194,511
2015	11,694	141,637	55,453	208,784
2016	19,135	149,674	2,404	171,213

Source: School District of the Borough of Watchung records

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

Year Ended December 31,	Vacant Land	Residential	Farm Regular	Farm Qualified	Commercial	Industrial	Apartment	Total Assessed Value	Public Utilities <sup>a</sup>	Net Valuation Taxable	Total Direct School Tax Rate <sup>b</sup>	Estimated Actual (County Equalized Value)
2006	\$ 50,009,200	\$ 1,359,902,300	\$ 895,100	N/A	\$ 311,874,300	\$ 6,705,800	\$ 40,000,000	\$ 1,769,386,700	\$ 1,398,633	\$ 1,770,785,333	\$ 0.567	\$ 1,857,818,879
2007	43,352,700	1,415,883,400	N/A	N/A	323,091,400	7,348,400	55,160,000	1,844,835,900	1,489,275	1,846,325,175	0.541	2,047,141,917
2008	41,366,100	1,373,917,500	N/A	N/A	333,359,400	7,295,500	60,600,000	1,816,538,500	1,562,784	1,818,101,284	0.590	1,964,456,771
2009	41,251,800	1,277,353,900	N/A	N/A	329,769,100	7,174,900	60,600,000	1,716,149,700	1,562,784	1,717,712,484	0.647	1,912,929,426
2010 *	35,609,900	1,184,481,400	N/A	N/A	295,509,400	6,367,200	56,964,000	1,578,931,900	1,762,687	1,580,694,587	0.724	1,824,791,793
2011	35,484,200	1,204,394,400	N/A	N/A	290,376,800	6,367,300	49,255,800	1,585,878,500	1,360,900	1,587,239,400	0.728	1,684,856,609
2012	35,511,800	1,221,449,700	N/A	N/A	282,766,200	6,273,400	49,255,800	1,595,256,900	1,577,286	1,596,834,186	0.732	1,674,592,266
2013	31,860,700	1,214,066,800	377,200	5,280	294,459,700	6,237,300	47,400,000	1,594,406,980	1,484,459	1,595,891,439	0.732	1,641,460,927
2014	31,400,800	1,246,894,300	355,000	5,280	296,015,200	6,237,500	47,400,000	1,628,308,080	1,151,575	1,629,459,655	0.737	1,684,505,323
2015	32,019,400	1,280,593,700	334,100	5,280	297,786,500	6,359,500	47,850,000	1,664,948,480	1,138,954	1,666,087,434	0.766	1,687,333,485

\* - Reassessment of taxes was effective

N/A - Not Applicable

Note: Real property is required to be assessed at some percentage of true value (fair or market value) established by each county board of taxation. Reassessment occurs when ordered by the County Board of Taxation

a Taxable Value of Machinery, Implements and Equipment of Telephone, Telegraph and Messenger System Companies

b Tax rates are per \$100 of assessed value.

Source: Municipal Tax Assessor

Exhibit J-7

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

Year Ended December 31,	School District of the Borough of Watchung Direct Rate			Overlapping Rates			Total Direct and Overlapping Tax Rate
	Basic Rate <sup>a</sup>	Debt Service <sup>b</sup>	Total Direct	Municipality	Regional High School District	County	
2006	\$ 0.483	\$ 0.084	\$ 0.567	\$ 0.377	\$ 0.302	\$ 0.378	\$ 1.624
2007	0.461	0.080	0.541	0.387	0.304	0.375	1.607
2008	0.502	0.088	0.590	0.422	0.303	0.364	1.679
2009	0.552	0.095	0.647	0.427	0.318	0.369	1.761
2010 *	0.619	0.105	0.724	0.463	0.351	0.383	1.921
2011	0.617	0.111	0.728	0.492	0.363	0.303	1.886
2012	0.619	0.113	0.732	0.519	0.377	0.309	1.937
2013	0.618	0.114	0.732	0.546	0.400	0.390	2.068
2014	0.621	0.116	0.737	0.573	0.388	0.396	2.094
2015	0.643	0.123	0.766	0.589	0.362	0.400	2.117

\* - Reassessment of taxes was effective

Note:

NJSA 18A:7F-5d limits the amount that the district can submit for a general fund tax levy . The levy when added to other components of the district's net budget may not exceed the prebudget year net budget by more than the spending growth limitation.

a The district's basic tax rate is calculated from the A4F form which is submitted with the budget and the Net Valuation Taxable.

b Rates for debt service are based on each year's requirements.

Source: Municipal Tax Collector and School Business Administrator

Exhibit J-8

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

Taxpayer	2016		
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value
Watchung Square Associates	\$ 66,799,000	1	3.96%
Levin Properties LP	56,561,000	2	3.35%
Avalon II New Jersey Value II, LP	47,850,000	3	2.84%
Watchung UE LLC	23,456,300	4	1.39%
Sears Roebuck & Company	17,390,000	5	1.03%
Walmart	16,145,000	6	0.96%
Target Corp.	15,280,000	7	0.91%
HD Development of Maryland, Inc	13,633,000	8	0.81%
680 Mountain Boulevard, LLC	12,737,200	9	0.75%
Weldon Materials Inc.	9,983,700	10	0.59%

Taxpayer	2007		
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value
INFORMATION NOT AVAILABLE			

Exhibit J-9

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

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Taxes Levied</u> <u>for the</u> <u>Fiscal Year</u>	<u>Collected within the</u> <u>Fiscal Year of the Levy<sup>a</sup></u>		<u>Collections in</u> <u>Subsequent</u> <u>Years</u>
		<u>Amount</u>	<u>Percentage</u> <u>of Levy</u>	
2007	\$ 10,041,887	\$ 10,041,887	100.00%	-0-
2008	10,461,002	10,461,002	100.00%	-0-
2009	10,883,964	10,883,964	100.00%	-0-
2010	11,259,205	11,259,205	100.00%	-0-
2011	11,445,564	11,445,564	100.00%	-0-
2012	11,562,213	11,562,213	100.00%	-0-
2013	11,755,732	11,755,732	100.00%	-0-
2014	12,002,602	12,002,602	100.00%	-0-
2015	12,254,461	12,254,461	100.00%	-0-
2016	12,473,670	12,473,670	100.00%	-0-

Source: School District of the Watchung Borough records including the Certificate and Report of School Taxes (A4F form)

- a. School taxes are collected by the Municipal Tax Collector. Under New Jersey State Statute, a municipality is required to remit to the school district the entire property tax balance, in the amount voted upon or certified prior to the end of the school year.

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

Fiscal Year Ended June 30,	Governmental Activities				Business-Type Activities Capital Leases	Total District	Percentage of Personal Income <sup>a</sup>	Per Capita <sup>a</sup>
	General Obligation Bonds	Certificates of Participation	Obligations Under Lease-Purchase Agreement	Bond Anticipation Notes (BANs)				
2007	\$ 14,833,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 14,833,000	3.07%	2,212
2008	13,863,000	-0-	-0-	-0-	355,000	14,218,000	2.82%	2,113
2009	12,788,000	-0-	-0-	-0-	-0-	12,788,000	2.69%	1,888
2010	11,415,000	-0-	-0-	-0-	-0-	11,415,000	2.75%	1,963
2011	10,125,000	-0-	-0-	-0-	-0-	10,125,000	2.33%	1,730
2012	8,715,000	-0-	-0-	-0-	-0-	8,715,000	1.89%	1,479
2013	7,215,000	-0-	-0-	-0-	-0-	7,215,000	1.73%	1,388
2014	5,620,000	-0-	-0-	-0-	-0-	5,620,000	1.13%	948
2015	3,890,000	-0-	-0-	-0-	-0-	3,890,000	0.79%	658
2016	2,015,000	-0-	-0-	-0-	-0-	2,015,000	0.41%	341

Source: School District Financial Reports

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

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

Exhibit J-11

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

Fiscal Year Ended June 30,	General Bonded Debt Outstanding			Percentage of Net Valuation <sup>a</sup> Taxable	Per Capita <sup>b</sup>
	General Obligation Bonds	Deductions	Net General Bonded Debt Outstanding		
2007	\$ 14,833,000	-0-	\$ 14,833,000	0.84%	\$ 2,211.90
2008	13,863,000	-0-	13,863,000	0.75%	2,059.88
2009	12,788,000	-0-	12,788,000	0.70%	1,888.09
2010	11,415,000	-0-	11,415,000	0.66%	1,963.36
2011	10,125,000	-0-	10,125,000	0.64%	1,494.91
2012	8,715,000	-0-	8,715,000	0.55%	1,488.73
2013	7,215,000	-0-	7,215,000	0.45%	1,224.33
2014	5,620,000	-0-	5,620,000	0.35%	1,081.19
2015	3,890,000	-0-	3,890,000	0.24%	656.32
2016	2,015,000	-0-	2,015,000	0.12%	340.60

Source: School District Financial Reports

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

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

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



Exhibit J-12

WATCHUNG BOROUGH SCHOOL DISTRICT  
RATIOS OF OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
AS OF DECEMBER 31, 2015  
UNAUDITED

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable <sup>a</sup></u>	<u>Estimated Share of Overlapping Debt</u>
Debt Repaid With Property Taxes			
Watchung Hills Regional High School	\$ 38,033,000	21.34%	\$ 8,117,784
Borough of Watchung	21,841,758	100.00%	21,841,758
County of Somerset - Borough's Share	167,277,357	2.93%	<u>4,894,518</u>
Subtotal, Overlapping Debt			34,854,060
Watchung Borough School District Direct Debt			<u>2,015,000</u>
Total Direct and Overlapping Debt			<u><u>\$ 36,869,060</u></u>

**a** - For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable equalized property values. Applicable percentages were estimated by determining the portion of another governmental unit's equalized property value that is within the district's boundaries and dividing it by each unit's total equalized property value.

**Note:** Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by residents and businesses of Watchung. This process recognizes that, when considering the District's ability to issue and repay long-term, the entire debt burden borne by the residents and businesses should be taken into account. However this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping unit.

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

Exhibit J-13

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

Legal Debt Margin Calculation for Fiscal Year 2016

	Equalized valuation basis	
2014	1,630,272,986	
2015	1,683,353,748	
2016	1,686,194,531	
	\$ 4,999,821,265	
Average Equalized Valuation of Taxable Property		\$ 1,666,607,088
Debt Limit (3% of average equalization value)		\$ 49,998,213 <sup>a</sup>
Net Bonded School Debt		2,015,000
Legal Debt Margin		\$ 47,983,213

	Fiscal Year				
	2012	2013	2014	2015	2016
Debt Limit	\$ 52,707,158	\$ 51,057,251	\$ 49,853,252	\$ 49,422,708	\$ 49,998,213
Total Net Debt Applicable to Limit	8,715,000	7,215,000	3,890,000	3,890,000	2,015,000
Legal Debt Margin	\$ 43,992,158	\$ 43,842,251	\$ 45,963,252	\$ 45,532,708	\$ 47,983,213
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	16.53%	14.13%	7.80%	7.87%	4.03%

	Fiscal Year				
	2007	2008	2009	2010	2011
Debt Limit	\$ 55,373,713	\$ 58,062,085	\$ 58,878,984	\$ 58,119,876	\$ 54,306,404
Total Net Debt Applicable to Limit	14,833,000	13,863,000	12,788,000	11,415,000	10,215,000
Legal Debt Margin	\$ 40,540,713	\$ 44,199,085	\$ 46,090,984	\$ 46,704,876	\$ 44,091,404
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	26.79%	23.88%	21.72%	19.64%	18.81%

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

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

Exhibit J-14

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

Year	Population <sup>a</sup>	Borough of Watchung Personal Income <sup>b</sup>	Somerset County Per Capita Personal Income <sup>c</sup>	Unemployment Rate <sup>d</sup>
2007	6,706	\$ 483,589,778	\$ 72,113	4.10%
2008	6,730	503,807,800	74,860	6.40%
2009	6,773	476,216,403	70,311	6.40%
2010	5,814	415,544,022	71,473	6.30%
2011	5,854	434,589,252	74,238	N/A
2012	5,893	460,614,559	78,163	6.60%
2013	5,198	416,708,066	80,167	4.20%
2014	5,927	496,273,637	83,731	4.80%
2015	5,916	495,352,596 ***	83,731 *	4.20%
2016	5,916 **	495,352,596 ***	83,731 *	N/A

\* - Latest Somerset County per capita personal income available (2014) was used for calculation purposes.

\*\* - Latest population data available (2015) was used for calculation purposes.

\*\*\*- Latest Borough personal income available (2014) was used for calculation purposes.

N/A - Information not available

Source:

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

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

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

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
PRINCIPAL EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO  
UNAUDITED

2015		
Employer	Employees	Percentage of Total Employment

INFORMATION NOT AVAILABLE

2006		
Employer	Employees	Percentage of Total Employment

INFORMATION NOT AVAILABLE

Source: Somerset County Chamber of Commerce.

WATCHUNG BOROUGH SCHOOL DISTRICT  
FULL-TIME EQUIVALENT DISTRICT EMPLOYEES BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS  
UNAUDITED

<u>Function/Program</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Instruction										
Regular	49	50	49	49	47	50	50	51	50	50
Special education	11	10	9	9	8	9	9	28	14	15
Other instruction	2	3	4	3	3	3	3	0	0	0
Support Services:										
Student & instruction related services	24	29	27	28	25	21	21	9	9	9
School administrative services	6	5	6	6	6	6	6	6	6	6
General and business administrative services	5	5	5	5	5	5	5	3	5	5
Plant operations and maintenance	11	9	9	9	9	9	8	11	10	10
Pupil transportation	1	2	2	2	2	2	2	3	1	1
Total	<u>109</u>	<u>113</u>	<u>111</u>	<u>111</u>	<u>105</u>	<u>105</u>	<u>104</u>	<u>111</u>	<u>95</u>	<u>96</u>

Source: School District of the Borough of Watchung Personnel Records

WATCHUNG BOROUGH SCHOOL DISTRICT  
OPERATING STATISTICS  
LAST TEN FISCAL YEARS  
UNAUDITED

Fiscal Year	Enrollment	Operating Expenditures <sup>a</sup>	Cost Per Pupil <sup>d</sup>	Percentage Change	Teaching Staff <sup>b</sup>	Pupil/Teacher Ratio		Average Daily Enrollment (ADE) <sup>c</sup>	Average Daily Attendance (ADA) <sup>c</sup>	% Change in Average Daily Enrollment	Student Attendance Percentage
						Elementary	Middle				
2007	671	\$ 10,119,835	\$ 15,082	7.70%	86	N/A	N/A	673.5	644.8	2.14%	95.74%
2008	688	10,758,850	15,638	3.69%	92	N/A	N/A	687.2	658.2	2.03%	95.78%
2009	698	10,793,820	15,464	-1.11%	89	N/A	N/A	698.8	671.2	1.69%	96.05%
2010	718	10,949,369	15,250	-1.38%	75	N/A	N/A	716.7	687.1	2.56%	95.87%
2011	714	10,710,777	15,001	-1.63%	67	N/A	N/A	710.0	679.6	-0.93%	95.72%
2012	710	11,011,986	15,510	3.39%	67	N/A	N/A	681.3	654.7	-4.04%	96.10%
2013	717	11,367,191	15,854	2.22%	67	N/A	N/A	720.8	693.0	5.80%	96.14%
2014	716	11,547,802	16,128	1.73%	67	N/A	N/A	688.5	663.0	-4.48%	96.30%
2015	691	11,867,317	17,174	6.48%	61	N/A	N/A	670.4	645.6	-2.63%	96.30%
2016	681	12,445,780	18,276	6.41%	60	N/A	N/A	683.7	655.2	1.98%	95.83%

Note: Enrollment based on annual October district count.

- a Operating expenditures equal total expenditures less debt service and capital outlay.
- b Teaching staff includes only full-time equivalents of certificated staff.
- c Average daily enrollment and average daily attendance are obtained from the School Register Summary (SRS).
- d The Cost Per Pupil calculated above is the sum of the operating expenditures divided by enrollment.  
 This Cost Per Pupil may be different from other Cost Per Pupil calculations.

N/A: Information not available

Source: Borough of Watchung District Records

WATCHUNG BOROUGH SCHOOL DISTRICT  
SCHOOL BUILDING INFORMATION  
LAST TEN FISCAL YEARS  
UNAUDITED

	<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>
<u>District Building</u>										
Valley View										
Square Feet	83,960	83,960	83,960	83,960	83,960	83,960	83,960	83,960	83,960	83,960
Capacity (students)	470	470	470	470	470	470	470	470	470	470
Enrollment	284	309	319	342	351	349	334	303	327	331
Bayberry										
Square Feet	88,629	88,629	88,629	88,629	88,629	88,629	88,629	88,629	88,629	88,629
Capacity (students)	638	638	638	638	638	638	638	638	638	638
Enrollment	388	379	379	376	363	361	383	413	364	350

Number of Schools at June 30, 2016

    Elementary = 2

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

Source: District Facilities Office

Exhibit J-19

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

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

<u>*School Facility</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Bayberry Elementary	\$ 67,286	\$ 50,885	\$ 42,778	\$ 84,421	\$ 80,000
Valley View	76,766	54,888	50,641	41,413	112,785
District Total	<u>\$ 144,052</u>	<u>\$ 105,773</u>	<u>\$ 93,419</u>	<u>\$ 125,834</u>	<u>\$ 192,785</u>

<u>*School Facility</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Bayberry Elementary	\$ 77,428	\$ 35,391	\$ 38,619	\$ 35,611	\$ 31,848
Valley View	86,713	33,374	24,557	29,294	31,141
District Total	<u>\$ 164,141</u>	<u>\$ 68,765</u>	<u>\$ 63,176</u>	<u>\$ 64,905</u>	<u>\$ 62,989</u>

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

Source: District records



Exhibit J-20

WATCHUNG BOROUGH SCHOOL DISTRICT  
INSURANCE SCHEDULE  
JUNE 30, 2016  
UNAUDITED

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

Source: District records

SINGLE AUDIT SECTION



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Report on Internal Control Over Financial Reporting and  
 on Compliance and Other Matters Based on an Audit of Financial Statements  
 Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Office of School Finance, Department of Education, State of New Jersey (the "Department"), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of the Watchung Borough, in the County of Somerset (the "District") as of and for the fiscal 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 September 21, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of the 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.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

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

September 21, 2016  
Mount Arlington, New Jersey

NISIVOCCIA LLP



Valerie A. Dolan  
Licensed Public School Accountant # 2526  
Certified Public Accountant



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Report on Compliance For Each Major State Program:  
 Report on Internal Control Over Compliance

Independent Auditors' Report

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

**Report on Compliance for Each Major State Program**

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

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements 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 New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Those standards, the Uniform Guidance and New Jersey's OMB Circular 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the District's compliance.

**Opinion on Each Major State Program**

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

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

### Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and NJOMB 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

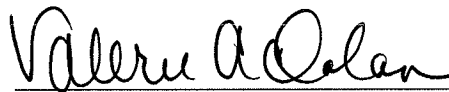
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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

September 21, 2016  
Mount Arlington, New Jersey

NISIVOCCIA LLP



Valerie A. Dolan

Licensed Public School Accountant # 2526  
Certified Public Accountant

WATCHUNG BOROUGH SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass Through Grantor/ Program Title/ Cluster Title	Federal CFDA Number	Grant or State Project Number	Grant Period	Award Amount	Balance at June 30, 2015			Cash Received	Budgetary Expenditures	Amounts Provided to Subrecipients	Balance at June 30, 2016		
					Budgetary Accounts Receivable	Budgetary Unearned Revenue	Due to Grantor				Budgetary Accounts Receivable	Budgetary Unearned Revenue	Due to Grantor
U.S. Department of Education Passed-through State Department of Education:													
No Child Left Behind Consolidated Grant:													
Title I, Part A	84.010A	NCLB 554016	7/1/15-6/30/16	\$ 36,558				\$ 36,558	\$ (36,558)				
Title II, Part A	84.286A	NCLB 554016	7/1/15-6/30/16	16,582				16,582	(16,582)				
								53,140	(53,140)				
Special Education Cluster:													
IDEA Combined Grant:													
I.D.E.A. Part B, Basic	84.027	IDEA 554016	7/1/15-6/30/16	131,779				131,779	(131,779)				
I.D.E.A. Part B, Preschool	84.173	IDEA 554016	7/1/15-6/30/16	6,580				6,580	(6,580)				
Total Special Education Cluster								138,359	(138,359)				
Total U.S. Department of Education								191,499	(191,499)				
U.S. Department of Agriculture:													
Passed-through State Department of Agriculture:													
Child Nutrition Cluster:													
Special Milk Program	10.556	N/A	7/1/15-6/30/16	4,900				4,060	(4,900)		\$ (840)		
Special Milk Program	10.556	N/A	7/1/14-6/30/15	6,461	\$ (1,844)			1,844					
Total U.S. Department of Agriculture/Child Nutrition Cluster					(1,844)			5,904	(4,900)		(840)		
Total Federal Awards					\$ (1,844)	\$ -0-	\$ -0-	\$ 197,403	\$ (196,399)	\$ -0-	\$ (840)	\$ -0-	

N/A - Not Applicable

SEE ACCOMPANYING NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

WATCHUNG BOROUGH SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

State Grantor/Program Title	Grant or State Project Number	Grant Period	Award Amount	Balance at June 30, 2015			Budgetary Expenditures	Repayment of Prior Years' Balances	Cancellation of Grant Balances	Balance at June 30, 2016		MEMO	
				Budgetary Accounts Receivable	Due to Grantor	Cash Received				GAAP Accounts Receivable	Due to Grantor	Budgetary Accounts Receivable	Cumulative Total Expenditures
New Jersey Department of Education													
General Fund:													
Categorical Transportation Aid	16-495-034-5120-014	7/1/15-6/30/16	\$ 52,008			\$ 47,385	\$ (52,008)					\$ (4,623)	\$ 52,008
Categorical Special Education Aid	16-495-034-5120-089	7/1/15-6/30/16	347,512			316,620	(347,512)					(30,892)	347,512
Categorical Security Aid	16-495-034-5120-078	7/1/15-6/30/16	11,137			10,147	(11,137)					(990)	11,137
PARCC Readiness Aid	16-495-034-5120-098	7/1/15-6/30/16	6,910			6,296	(6,910)					(614)	6,910
Per Pupil Growth Aid	16-495-034-5120-097	7/1/15-6/30/16	6,910			6,296	(6,910)					(614)	6,910
Extraordinary Aid	16-495-034-5120-044	7/1/15-6/30/16	125,530				(125,530)			\$ 125,530		(125,530)	125,530
Nonpublic Transportation	16-495-035-5120-014	7/1/15-6/30/16	7,656				(7,656)			7,656		(7,656)	7,656
Reimbursed TPAF Social Security Contributions	16-495-034-5094-003	7/1/15-6/30/16	356,434			356,434	(356,434)						356,434
Categorical Transportation Aid	15-495-034-5120-014	7/1/14-6/30/15	52,008	\$ (4,547)		4,547							52,008
Categorical Special Education Aid	15-495-034-5120-089	7/1/14-6/30/15	347,512	(30,380)		30,380							347,512
Categorical Security Aid	15-495-034-5120-078	7/1/14-6/30/15	11,137	(974)		974							11,137
PARCC Readiness Aid	15-495-034-5120-098	7/1/14-6/30/15	6,910	(604)		604							6,910
Per Pupil Growth Aid	15-495-034-5120-097	7/1/14-6/30/15	6,910	(604)		604							6,910
Extraordinary Aid	15-100-034-5120-473	7/1/14-6/30/15	146,190	(146,190)		146,190							146,190
Nonpublic Transportation	15-495-035-5120-014	7/1/14-6/30/15	8,700	(8,700)		8,700							8,700
Reimbursed TPAF Social Security Contributions	15-495-034-5095-002	7/1/14-6/30/15	391,633	(34,663)		34,663							391,633
<b>Total General Fund State Aid</b>				<b>(226,662)</b>		<b>969,840</b>	<b>(914,097)</b>			<b>133,186</b>		<b>(170,919)</b>	<b>1,885,097</b>
Capital Projects Fund:													
N.J. Economic Development Authority Grant	SP210964/201965	N/A	5,096,645	(1)		1	(1) *						5,096,645
N.J. Schools Development Authority Grant	5540-050-09-0ZXX	N/A	64,646	(8,137)				\$ 7,207				(930)	56,509
N.J. Schools Development Authority Grant	5540-050-09-0ZYJ	N/A	74,458	(20,663)		3,539	(3,539) *	17,124					57,334
N.J. Schools Development Authority Grant	5540-040-13-1001	N/A	272,658	(272,658)		226,357	(226,357) *	46,301					226,357
<b>Total Capital Projects Fund</b>				<b>(301,459)</b>		<b>229,897</b>	<b>(229,897)</b>	<b>70,632</b>				<b>(930)</b>	<b>5,436,845</b>
<b>Total State Awards</b>				<b>\$ (528,121)</b>	<b>\$ -0-</b>	<b>\$ 1,199,737</b>	<b>\$ (1,143,994)</b>	<b>\$ -0-</b>	<b>\$ 70,632</b>	<b>\$ 133,186</b>	<b>\$ -0-</b>	<b>\$ (171,849)</b>	<b>\$ 7,321,942</b>

N/A - Not Available

\* Prior Year Expenditures



WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards includes the federal and state grant activity of the Board of Education, Borough of Watchung School District under programs of the federal and state governments for the fiscal year ended June 30, 2016. The information in these schedules are presented in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because the schedules present only a selected portion of the operations of the District, they are not intended to and do not present the financial position, changes in net position or cash flows of the District.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying schedules of expenditures of federal and state awards are reported on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented on the accrual basis of accounting. These bases of accounting are described in Note 1 to the District's basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3. INDIRECT COST RATE

The District has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for the general 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 two state aid payments in the current budget year, which is mandated pursuant to N.J.S.A. 18A:22-44.2. For GAAP purposes these payments are not recognized until the subsequent budget year due to the state deferral and recording of the last two state aid payments in the subsequent year. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis which recognizes encumbrances as expenditures and also recognizes the related revenue, whereas the GAAP basis does not.

The net adjustment to reconcile from the budgetary basis to the GAAP basis is (\$624) for the general fund. See Note 1D for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general, special revenue and capital projects funds. Additionally, the schedule of expenditures of state awards does not include the on-behalf TPAF Pension and Post Retirement Contributions revenue of \$368,130 and \$438,340, respectively.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 4. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS (Cont'd)

Revenue from federal and state awards are reported in the Board's basic financial statements on a GAAP basis as presented below:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund		\$ 1,719,943	\$ 1,719,943
Special Revenue Fund	\$ 191,499		191,499
Capital Projects Fund		229,897	229,897
Food Service Fund	4,900		4,900
Total Awards	<u>\$ 196,399</u>	<u>\$ 1,949,840</u>	<u>\$ 2,146,239</u>

NOTE 5. 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 6. OTHER

TPAF Social Security contributions represent the amount reimbursed by the State for the employers' share of social security contributions for TPAF members for the fiscal year ended June 30, 2016.

NOTE 7. NJ SCHOOLS DEVELOPMENT AUTHORITY (NJSDA GRANTS)

The District has been awarded grants totaling \$5,508,408 from the New Jersey Schools Development Authority (NJSDA) under the Educational Facilities Construction and Financing Act. In the Capital Projects Fund, the District realized the full amount of the grant funds as a revenue on a budgetary basis in the year awarded and is realizing the grant funds as revenue on a GAAP basis when grant funds are expended and submitted for reimbursement.

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WATCHUNG BOROUGH SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the District.
- There were no material weaknesses or significant deficiencies disclosed during the audit of the financial statements as reported in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
- No instances of noncompliance material to the financial statements of the District which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- There were no material weaknesses or significant deficiencies in internal control over major state programs disclosed during the audit as reported in the *Independent Auditors' Report on Compliance For Each Major State Program; Report on Internal Control Over Compliance*.
- The auditor's report on compliance for the major state programs for the District expresses an unmodified opinion on all major state programs.
- The District was not subject to the single audit provisions of the Uniform Guidance for the fiscal year ended June 30, 2016 as federal grant expenditures were less than the single audit threshold of \$750,000 identified in the Uniform Guidance.
- The audit did not disclose any audit findings which are required to be reported in accordance with New Jersey's OMB Circular 15-08 or 2 CFR 200.516(a) of the Uniform Guidance.
- The District's programs tested as major state programs for the current fiscal year consisted of the following:

	<u>Grant Number</u>	<u>Grant Period</u>	<u>Award Amount</u>	<u>Budgetary Expenditures</u>
<u>State:</u>				
Categorical Special Education Aid	16-495-034-5120-089	7/1/15-6/30/16	\$ 347,512	\$ 347,512
Categorical Security Aid	16-495-034-5120-078	7/1/15-6/30/16	11,137	11,137
Per Pupil Growth Aid	16-495-034-5120-097	7/1/15-6/30/16	6,910	6,910
PARCC Readiness Aid	16-495-034-5120-098	7/1/15-6/30/16	6,910	6,910

- The threshold used for distinguishing between Type A and Type B state programs was \$750,000.
- The District was determined to be a "low-risk" auditee for state programs.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Questioned Costs for Federal Awards:

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

Findings and Questioned Costs for State Awards:

- The audit did not disclose any finding or questioned costs for state awards as defined in 2 CFR 200.516(a) of the Uniform Guidance or NJOMB 15-08.

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WATCHUNG BOROUGH SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016

Status of Prior Year Findings:

The District had no prior year audit findings.