

**WATCHUNG BOROUGH
SCHOOL DISTRICT**

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

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017**

**Comprehensive Annual
Financial Report**

of the

WATCHUNG BOROUGH SCHOOL DISTRICT

Watchung, New Jersey

For the Fiscal Year Ended June 30, 2017

Watchung Borough School District

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

WATCHUNG BOROUGH SCHOOL DISTRICT
TABLE OF CONTENTS
FISCAL YEAR ENDED JUNE 30, 2017

INTRODUCTORY SECTION (UNAUDITED)

Letter of Transmittal.....1
Organizational Chart6
Roster of Officials7
Consultants and Advisors8
ASBO International Certificate of Excellence9

FINANCIAL SECTION.....10

Independent Auditors’ Report11

Required Supplementary Information14
Management’s Discussion and Analysis (Unaudited)15

Basic Financial Statements (Sections A. and B.)24

A. District-Wide Financial Statements25
A-1 Statement of Net Position.....26
A-2 Statement of Activities.....28

B. Fund Financial Statements.....30
B-1 Balance Sheet – Governmental Funds31
B-2 Statement of Revenue, Expenditures and Changes in Fund Balance –
Governmental Funds.....33
B-3 Reconciliation of the Statement of Revenue, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities35
B-4 Statement of Net Position – Proprietary Funds36
B-5 Statement of Revenue, Expenses and Changes in Fund Net Position – Proprietary Funds37
B-6 Statement of Cash Flows – Proprietary Funds38
B-7 Statement of Fiduciary Net Position – Fiduciary Funds39
B-8 Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....40

Notes to the Basic Financial Statements41

Required Supplementary Information (Unaudited)72

L. Schedules Related to Accounting and Reporting for Pensions (GASB 68) (Unaudited).....73
L-1 Schedule of District’s Proportionate Share of the Net Pension Liability –
Public Employees Retirement System73
L-2 Schedule of District Contributions – Public Employees Retirement System.....74
L-3 Schedule of State’s Proportionate Share of the Net Pension Liability Attributable to the
District - Teachers’ Pension and Annuity Fund.....75
L-4 Schedule of State Contributions – Teachers’ Pension and Annuity Fund.....76
Notes to Required Supplementary Information77

WATCHUNG BOROUGH SCHOOL DISTRICT
TABLE OF CONTENTS
FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

FINANCIAL SECTION (Cont'd)

C. Budgetary Comparison Schedules (Unaudited).....	79
C-1 Budgetary Comparison Schedule – General Fund	80
C-2 Budgetary Comparison Schedule - Special Revenue Fund.....	92
C-3 Budgetary Comparison Schedule – Note to RSI.....	93

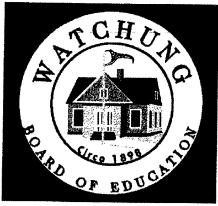
Other Supplementary Schedules (Sections D. to I.)

D. School Level Schedules (Not Applicable).....	94
E. Special Revenue Fund.....	95
E-1 Combining Schedule of Program Revenue and Expenditures - Special Revenue Fund – Budgetary Basis	96
E-2 Preschool Education Aid Schedule of Expenditures – Budgetary Basis (Not Applicable)	97
F. Capital Projects Fund.....	98
F-1 Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis	99
F-1A Schedule of Project Revenue, Expenditures, Project Balance and Project Status - Budgetary Basis –Renovate, Construct, Furnish and Equip Additions to the Bayberry and Valley View Schools	100
F-1B Schedule of Project Revenue, Expenditures, Project Balance and Project Status - Budgetary Basis –Valley View Middle School – Renovations to the Bathrooms	101
F-1C Schedule of Project Revenue, Expenditures, Project Balance and Project Status - Budgetary Basis – Bayberry School – Renovations to the Bathrooms	102
F-1D Schedule of Project Revenue, Expenditures, Project Balance and Project Status - Budgetary Basis – Bayberry School – Partial Roof Replacement	103
G. Proprietary Funds.....	104
G-1 Statement of Net Position - Food Service Enterprise Fund.....	105
G-2 Statement of Revenue, Expenses and Changes in Fund Net Position - Food Service Enterprise Fund.....	106
G-3 Statement of Cash Flows - Food Service Enterprise Fund.....	107
H. Fiduciary Funds	108
H-1 Combining Statement of Net Position.....	109
H-2 Combining Statement of Changes in Net Position.....	110
H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements.....	111
H-4 Student Activity Agency Fund Statement of Activity.....	112
H-5 Payroll Agency Fund Schedule of Receipts and Disbursements.....	113
I. Long-Term Debt	114
I-1 Schedule of Serial Bonds	115
I-2 Schedule of Obligations Under Capital Leases (Not Applicable)	116
I-3 Debt Service Fund Budgetary Comparison Schedule	117

WATCHUNG BOROUGH SCHOOL DISTRICT
TABLE OF CONTENTS
FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

J. Statistical Section (Unaudited)	118
J-1 Net Position by Component	119
J-2 Changes in Net Position	120
J-3 Fund Balances - Governmental Funds	122
J-4 Changes in Fund Balances - Governmental Funds	123
J-5 General Fund Other Local Revenue by Source	125
J-6 Assessed Value and Actual Value of Taxable Property	126
J-7 Direct and Overlapping Property Tax Rates	127
J-8 Principal Property Taxpayers, Current and Nine Years Ago	128
J-9 Property Tax Levies and Collections	129
J-10 Ratios of Net Outstanding Debt by Type	130
J-11 Ratios of Net General Bonded Debt Outstanding	131
J-12 Ratios of Overlapping Governmental Activities Debt	132
J-13 Legal Debt Margin Information	133
J-14 Demographic and Economic Statistics	134
J-15 Principal Employers, Current and Nine Years Ago	135
J-16 Full-time Equivalent District Employees by Function/Program	136
J-17 Operating Statistics	137
J-18 School Building Information	138
J-19 Schedule of Required Maintenance	139
J-20 Insurance Schedule	140
 K. Single Audit Section	 141
K-1 Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	 142
K-2 Independent Auditor's Report on Compliance For Each Major State Program; Report on Internal Control over Compliance	 144
K-3 Schedule of Expenditures of Federal Awards	146
K-4 Schedule of Expenditures of State Awards	147
K-5 Notes to the Schedules of Expenditures of Federal and State Awards	148
K-6 Schedule of Findings and Questioned Costs	150
K-7 Summary Schedule of Prior Audit Findings	151

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
Bert Arifaj, Business Administrator/Board Secretary

November 1, 2017

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, 2017, 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 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*. 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 2016-2017 fiscal year with an enrollment of 704 students, which is 25 more students than the previous year's enrollment. The enrollment includes 36 preschool students.

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.

Honorable President and
Members of the Board of Education
Watchung Borough School District
Page 2
November 1, 2017

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 90 students from Avalon 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.

In December 2016, the District made the final serial installment payment on their 2009 school refunding bonds. As of June 30, 2017, the District's bonds payable were paid in full.

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 sixth 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 K-8. 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 Middle School as required by the New Jersey Department of Education.

Several successful initiatives were completed during 2016-2017 school year. The following are some examples of program enhancements and District improvements:

Comprehensive curriculum work was completed during summer 2016. The following curriculum areas have been aligned with the New Jersey State Learning Standards and the Common Core State Standards: Science Grades 6-8, STEM Grades K-8, Units of Study (Reading), and Financial Literacy. Advanced training and implementation occurred in the Learner Active Technology Infused Classroom and Calkins' Units of Study in Writing and Reading. Programs for Junior Achievement and NJ Sustainable Schools were piloted at the middle school. A link to the public portal for parents to view the revised curriculum in Rubicon Atlas is accessible through the District's website. All curricula are reviewed and approved by the Board of Education.

The QSAC revisit last year resulted in the District's score of 98.8% compliance. Watchung has been designated by the State Department of Education as a "high performance district." In early Winter 2016, the District was notified that there would be a three year "bye" until the next monitoring cycle. The administration recently applied to participate in a QSAC focus group to determine redesigned indicators.

Baseline data indicates the District had commendable standardized test scores on PARCC. School Performance Report Card targets were achieved in all areas. Report cards are now distributed on a trimester basis at Bayberry School. The District's Calendar/Handbook was online for the 2016-2017 school year. Middle school students acquired PowerSchool access to self-monitor academic progress.

Fourth grade students won first place in Battle of the Books. The Middle School band and chorus earned gold for their performances in the adjudication competition. The annual middle school play, *The Little Mermaid*, was a successful event. Students also participated in a wide range of educational opportunities that included, but were not limited to,

class trips, assemblies, fundraisers, concerts, art shows, science fairs, spelling bees, book authors, and grade level plays/skits. Camp Mason was a new class trip for seventh graders.

Winning seasons were posted in Girls' Basketball, Boys' Basketball, and Softball. Track and Field contestants earned 50 medals in the sending district meet and 26 medals in the Rotary meet. A record (5'10") was set in the boys' High Jump.

Media coverage continued to highlight school activities and student achievement. Approximately 50 articles were published in various newspapers and posted on the school website.

Best Time provided emergency supervision for students participating in extra-curricular activities whose parents/guardians were unable to pick them up on time after the end of the activity. Less than 3 such "emergencies" occurred all year!

The District entered into a shared services agreement with Northern Regional Educational Services Commission (NRESC) to meet its technology requirements and staffing needs. In addition to the District's Chromebook initiative, eReaders, iPads, Smart Boards, and Distance Learning equipment are available to all students. Chromebooks were distributed to all middle school students to use at school and at home. 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. Students in grades K-3 had increased access to classroom sets of iPads.

A 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 OnCourse platform in compliance with the State's teacher education requirements. The Marshall's Rubric was adopted to assess administrators. Mandated training for staff was conducted through SafeSchool'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.

SchoolDude is the Capital Asset Management software program utilized by the District. The program manages facilities, maintenance and technology systems. Several safety and security upgrades were completed. Other projects included additional parking spaces, upgrading informational technology infrastructure, transitioning the middle school computer room into a STEAM Lab, and creating a secure vestibule at the elementary school.

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 Board. 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, 2017.

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

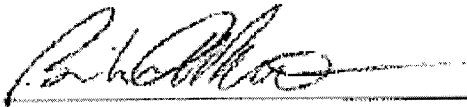
7. CASH MANAGEMENT: The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Basic Financial Statements", Note 3. The District has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under 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 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*. 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.

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,

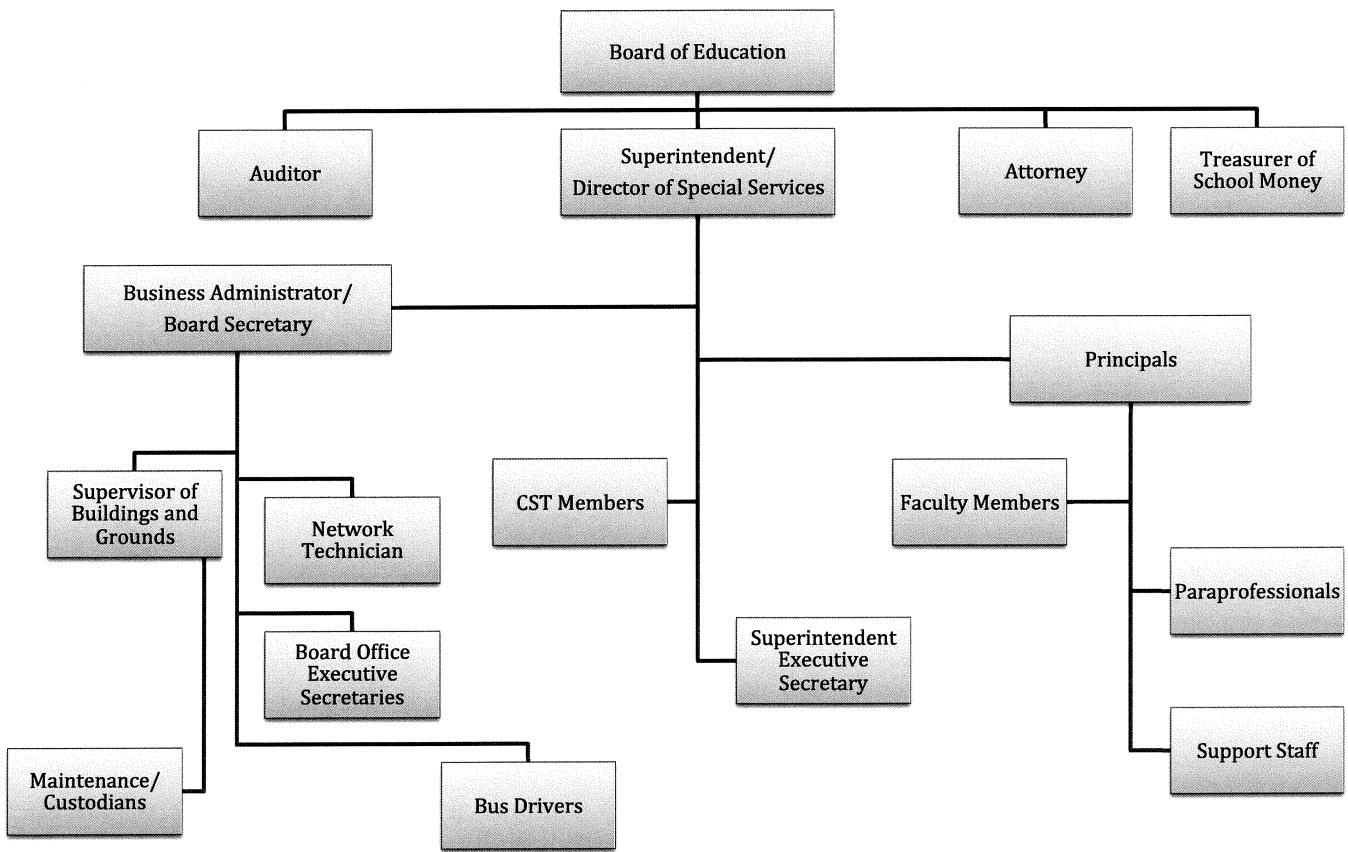


Barbara A. Resko, Ph.D.
Superintendent



Bert Arifaj
Business Administrator/Board Secretary

**Watchung Borough Board of Education
Organizational Chart
Unit Control**



WATCHUNG BOROUGH SCHOOL DISTRICT
ROSTER OF OFFICIALS
JUNE 30, 2017

Members of the Board of Education

Term Expires

Ellyn Margulies, President	2017
Margo Langer, Vice President	2018
James Rhyner	2018
Dennis Bakos	2019
George Colonias	2018
Georgia Glasser-Nehls	2019
Tina Kelly	2017
Joseph Mattiassi	2017
Thomas Sicola	2019

Other Officials

Barbara A. Resko, Ph. D., Superintendent of Schools
Irfan Evcil, Business Administrator/Board Secretary (to June 30, 2017)
Mary Nunn, Valley View School Principal
Michael Vignola, Bayberry School 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

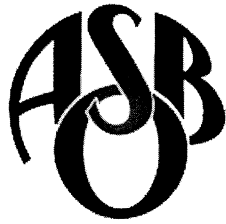
Brown & Brown Benefit Advisors
24 Arnett Avenue Suite 200
Lambertville, NJ 08530

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
is presented to**

Watchung Borough School District

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2016.**

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



A handwritten signature in black ink, appearing to read 'Anthony N. Dragona', written over a horizontal line.

Anthony N. Dragona, Ed.D., RSBA
President

A handwritten signature in black ink, appearing to read 'John D. Musso', written over a horizontal line.

John D. Musso, CAE, RSBA
Executive Director

FINANCIAL SECTION

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, 2017, 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.

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, 2017, 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-4 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
Page 3

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 November 1, 2017 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.

November 1, 2017
Mount Arlington, New Jersey

NISIVOCCIA LLP



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, 2017. 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 \$17.37 million.
- Overall expenses were \$15.82 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 increased for the current year and cost per pupil has been increasing.

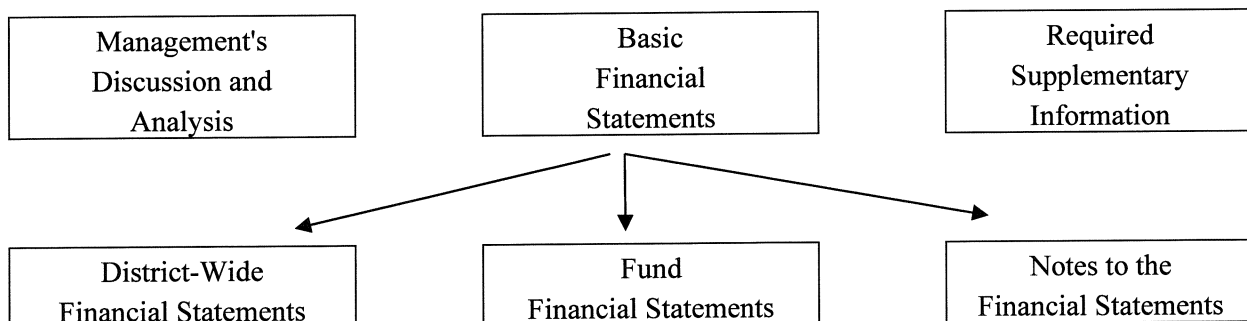
Overview of the Financial Statements

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"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenue, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenue, expenses, and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets 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 \$1,551,932. Net position from governmental activities increased by \$1,552,119 and net position from business activities decreased by \$187. Net investment in capital assets increased by \$1,696,232, restricted net position decreased by \$20,704 and unrestricted net position decreased by \$165,004.

Figure A-3
Condensed Statement of Net Position

	Government Activities		Business-Type Activities		Total School District		Total Percentage Change
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016	
Current and Other Assets	\$ 3,171,976	\$ 3,328,615	\$ 5,046	\$ 2,640	\$ 3,177,022	\$ 3,331,255	-4.63%
Capital Assets, Net	14,301,211	14,536,163	9,825	12,418	14,311,036	14,548,581	-1.63%
Total Assets	17,473,187	17,864,778	14,871	15,058	17,488,058	17,879,836	-2.19%
Deferred Outflows of Resources	1,221,628	711,954			1,221,628	711,954	71.59%
Other Liabilities	171,689	146,883			171,689	146,883	16.89%
Long-Term Liabilities	4,351,699	5,699,466			4,351,699	5,699,466	-23.65%
Total Liabilities	4,523,388	5,846,349			4,523,388	5,846,349	-22.63%
Deferred Inflows of Resources	275,757	198,864			275,757	198,864	38.67%
Net Position:							
Investment in Capital Assets							
Assets	14,301,211	12,602,386	9,825	12,418	14,311,036	12,614,804	13.45%
Restricted	2,635,626	2,614,922			2,635,626	2,614,922	0.79%
Unrestricted/(Deficit)	(3,041,167)	(2,873,757)	5,046	2,640	(3,036,121)	(2,871,117)	-5.75%
Total Net Position	\$ 13,895,670	\$ 12,343,551	\$ 14,871	\$ 15,058	\$ 13,910,541	\$ 12,358,609	12.56%

Changes in Net Position. The District’s *combined* net position was \$13,910,541 on June 30, 2017, or \$1,551,932 more than it was the year before. (See Figure A-3). Investment in capital assets increased by \$1,696,232 primarily due to additions to capital assets of \$175,943, the retirement of the final bond principal of \$2,015,000 offset by depreciation expense of \$413,488. Restricted net position increased by \$20,704 due to an increase in capital reserve of \$80,466, offset by a decrease in maintenance reserve of \$15,175, and a \$44,587 decrease in excess surplus. Unrestricted net position decreased by \$165,004 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, increase 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
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016	
Revenue:							
Program Revenue:							
Tuition	\$ 163,725	\$ 149,674			\$ 163,725	\$ 149,674	9.39%
Charges for Services			\$ 7,335	\$ 5,640	7,335	5,640	30.05%
Operating Grants & Contributions	4,216,211	3,177,650	5,477	4,900	4,221,688	3,182,550	32.65%
Capital Grants & Contributions	930				930	-0-	100.00%
General Revenue:							
Property Taxes	12,727,200	12,473,670			12,727,200	12,473,670	2.03%
Unrestricted Federal & State Aid	174,936	374,220			174,936	374,220	-53.25%
Other	73,217	21,539	38		73,255	21,539	240.10%
Total Revenue	17,356,219	16,196,753	12,850	10,540	17,369,069	16,207,293	7.17%
Expenses:							
Instruction	9,863,220	8,720,627			9,863,220	8,720,627	13.10%
Pupil and Instruction Services	2,347,304	2,142,040			2,347,304	2,142,040	9.58%
Administrative and Business	1,636,133	1,527,594			1,636,133	1,527,594	7.11%
Maintenance and Operations	1,367,852	1,326,845			1,367,852	1,326,845	3.09%
Transportation	566,912	558,121			566,912	558,121	1.58%
Other	22,679	57,897	13,037	17,329	35,716	75,226	-52.52%
Total Expenses	15,804,100	14,333,124	13,037	17,329	15,817,137	14,350,453	10.22%
Increase/(Decrease) in Net Position	\$ 1,552,119	\$ 1,863,629	\$ (187)	\$ (6,789)	\$ 1,551,932	\$ 1,856,840	-16.42%

Revenue Sources. The District's total revenue for the 2016/2017 school year was \$17,369,069 (See Figure A-4). Property taxes and state formula aid accounted for most of the District's revenue, with local taxes accounting for \$12,727,200 of the total, or 73.28 percent. (See Figure A-5). 25.32 percent came from state and federal aid and the remainder from miscellaneous sources.

Figure A-5
Sources of School District Revenue - Fiscal Year 2017

	Amount	Percentage
Sources of Income:		
State Formula Aid	\$ 4,221,688	24.31%
Property Taxes	12,728,130	73.28%
Federal and State Categorical Grants	174,936	1.01%
Charges for Services	7,335	0.04%
Other	236,980	1.36%
	\$ 17,369,069	100.00%

WATCHUNG BOROUGH SCHOOL DISTRICT
Management Discussion and Analysis
(Unaudited)

The total cost of all programs and services was \$15,817,137. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (80.78 percent). (See Figure A-6). Other significant cost areas include Administrative and Business activities (10.34 percent) and Maintenance and Operations activities (8.65 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 2017

Expense Category:	Amount	Percentage
Instruction	\$ 9,863,220	62.36%
Pupil and Instruction Services	2,347,304	14.84%
Administrative and Business	1,636,133	10.34%
Maintenance and Operations	1,367,852	8.65%
Transportation	566,912	3.58%
Other	35,716	0.23%
	<u>\$ 15,817,137</u>	<u>100.00%</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

	<u>Total Costs of Services</u>		<u>Net Cost of Services</u>	
	<u>2016/2017</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2015/2016</u>
Instruction	\$ 9,863,220	\$ 8,720,627	\$ 6,567,268	\$ 6,184,893
Pupil and Instruction Services	2,347,304	2,142,040	1,830,310	1,734,715
Administrative and Business	1,636,133	1,527,594	1,264,496	1,266,383
Maintenance and Operations	1,367,852	1,326,845	1,200,042	1,221,576
Transportation	566,912	558,121	538,439	540,336
Other	22,679	57,897	22,679	57,897
	<u>\$ 15,804,100</u>	<u>\$ 14,333,124</u>	<u>\$ 11,423,234</u>	<u>\$ 11,005,800</u>

- The cost of all governmental activities this year was approximately \$15.8 million.
- The federal and state governments subsidized certain programs with grants and contributions of \$4.39 million.
- Approximately \$12.73 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 \$187 (Refer to Figure A-4). Factors contributing to these results included:

- Food service operating revenues increased by \$1,695 from the prior year and the non-operating revenue also increased by \$615 from the prior year combined with decreases in the operating expenses of \$4,292. The decrease in operating expenses is due to a decrease in miscellaneous expenses paid by the General Fund on behalf of the Food Service Fund. Although both operating and non-operating revenue increased, the increase in revenue was lower than the decrease in operating expenses.

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 \$121,789 and \$204,989, respectively above budgeted amounts due to the needs of incoming students. Student support services also increased \$5,523 over budgeted amounts. The District transferred \$15,175 from the Maintenance Reserve for costs associated with boiler repairs. The District also transferred \$33,860 from the Capital Reserve for a vestibule project.

Capital Asset and Long-Term Liabilities

Current year capital additions were \$175,943 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
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016	
Land	\$ 411,364	\$ 411,364			\$ 411,364	\$ 411,364	0.00%
Building and Building Improvements	13,344,303	12,580,997			13,344,303	12,580,997	6.07%
Machinery and Equipment	545,544	484,728	\$ 9,825	\$ 12,418	555,369	497,146	11.71%
Construction in Progress		1,059,074				1,059,074	-100.00%
Total Capital Assets (Net of Depreciation)	<u>\$ 14,301,211</u>	<u>\$ 14,536,163</u>	<u>\$ 9,825</u>	<u>\$ 12,418</u>	<u>\$ 14,311,036</u>	<u>\$ 14,548,581</u>	<u>-1.63%</u>

Long-Term Liabilities

At year-end, the District no longer has 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 Liabilities

	Total School District		Percentage Change
	2016/2017	2015/2016	
General Obligation Bonds		\$ 2,015,000	-100.00%
Unamortized Bond Premiums		118,076	-100.00%
Compensated Absences	\$ 194,666	192,918	0.91%
Net Pension Liability	4,157,033	3,373,472	23.23%
	<u>\$ 4,351,699</u>	<u>\$ 5,699,466</u>	<u>-23.65%</u>

- The District completed paying down its debt, retiring the final \$2,015,000 of outstanding bonds.
- Compensated absences payable increased by a net amount of \$1,748.
- The net pension liability increased by \$783,561 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 2017-2018 budget with a 2% 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 2018-2019 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 2016 placed a 2.5% increase each year on total compensation costs for our collective bargaining unit through June 30, 2019. 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).

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 Bert Arifaj, 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, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 761,200	\$ 5,885	\$ 767,085
Interfund Receivable	3,555		3,555
Internal Balances	1,220	(1,220)	
Receivable from State Government	180,329		180,329
Receivable from Federal Government		381	381
Other Accounts Receivable	4,480		4,480
Restricted Assets:			
Capital Reserve Account - Cash and Cash Equivalents	1,856,002		1,856,002
Maintenance Reserve Account - Cash and Cash Equivalents	365,190		365,190
Capital Assets:			
Sites (Land)	411,364		411,364
Depreciable Buildings and Building Improvements and Machinery and Equipment	13,889,847	9,825	13,899,672
Total Assets	<u>17,473,187</u>	<u>14,871</u>	<u>17,488,058</u>
DEFERRED OUTFLOWS OF RESOURCES			
Changes in Assumptions - Pensions	861,115		861,115
District Contribution Subsequent to Measurement Date - Pensions	124,693		124,693
Difference Between Expected and Actual Experience - Pensions	77,308		77,308
Net Difference Between Projected and Actual Investment Earnings - Pensions	158,512		158,512
Total Deferred Outflows of Resources	<u>1,221,628</u>		<u>1,221,628</u>
LIABILITIES			
Accounts Payable	165,857		165,857
Unearned Revenue	5,832		5,832
Noncurrent Liabilities:			
Due Beyond One Year	4,351,699		4,351,699
Total Liabilities	<u>4,523,388</u>		<u>4,523,388</u>
DEFERRED INFLOWS OF RESOURCES			
Changes in Proportions - Pensions	275,757		275,757
Total Deferred Inflows of Resources	<u>275,757</u>		<u>275,757</u>

WATCHUNG BOROUGH SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
NET POSITION			
Investment in Capital Assets	\$ 14,301,211	\$ 9,825	\$ 14,311,036
Restricted for:			
Capital Projects	2,001,227		2,001,227
Maintenance Reserve	365,190		365,190
Excess Surplus	269,209		269,209
Unrestricted/(Deficit)	<u>(3,041,167)</u>	<u>5,046</u>	<u>(3,036,121)</u>
Total Net Position	<u>\$ 13,895,670</u>	<u>\$ 14,871</u>	<u>\$ 13,910,541</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, 2017

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
Governmental Activities:							
Instruction:							
Regular	\$ 8,035,539	\$ 2,453,742			\$ (5,581,797)	\$	\$ (5,581,797)
Special Education	1,612,823	788,243			(824,580)		(824,580)
Other Special Instruction	158,855	37,368			(121,487)		(121,487)
School-Sponsored Other Instruction	56,003	16,599			(39,404)		(39,404)
Support Services:							
Tuition	19,325	\$ 163,725			144,400		144,400
Student & Instruction Related Services	2,327,979				(1,974,710)		(1,974,710)
General Administrative Services	505,382	353,269			(340,105)		(340,105)
School Administrative Services	765,508	165,277			(625,271)		(625,271)
Central Services	333,494	140,237			(267,371)		(267,371)
Administrative Information Technology	31,749	66,123			(31,749)		(31,749)
Plant Operations and Maintenance	1,367,852	166,880	\$ 930		(1,200,042)		(1,200,042)
Pupil Transportation	566,912	28,473			(538,439)		(538,439)
Interest on Long Term Debt	(36,853)				36,853		36,853
Capital Outlay	59,532				(59,532)		(59,532)
Total Governmental Activities	15,804,100	163,725	4,216,211	930	(11,423,234)		(11,423,234)

WATCHUNG BOROUGH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Business-Type Activities: Food Service	\$ 13,037	\$ 7,335	\$ 5,477		\$ (225)	\$ (225)	(225)
Total Business-Type Activities	13,037	7,335	5,477		(225)	(225)	(225)
Total Primary Government	\$ 15,817,137	\$ 171,060	\$ 4,221,688	\$ 930	\$ (11,423,234)	(225)	(11,423,459)

General Revenue:

Taxes:

Property Taxes, Levied for General Purposes, Net
Taxes Levied for Debt Service
Federal and State Aid not Restricted
Miscellaneous Income

Total General Revenue	\$ 10,673,587.00	\$ 10,673,587.00					\$ 10,673,587.00
Change in Net Position	1,552,119	1,552,119				(187)	1,551,932
Net Position - Beginning	12,343,551	12,343,551			15,058		12,358,609
Net Position - Ending	\$ 13,895,670	\$ 13,895,670			\$ 14,871		\$ 13,910,541

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, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	\$ 473,600	\$ 7,359	\$ 280,241		\$ 761,200
Receivables From State Government	180,329				180,329
Other Receivables	4,480				4,480
Interfund Receivables	139,791				139,791
Restricted Cash and Cash Equivalents	2,221,192				2,221,192
Total Assets	\$ 3,019,392	\$ 7,359	\$ 280,241	\$ -0-	\$ 3,306,992
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 33,837	\$ 7,327			\$ 41,164
Interfund Payable			135,016		135,016
Unearned Revenue	5,800	32			5,832
Total Liabilities	39,637	7,359	135,016		182,012
Fund Balances:					
Restricted:					
Capital Reserve Account	1,856,002				1,856,002
Maintenance Reserve Account	365,190				365,190
Excess Surplus Designated for Subsequent Year's Expenditures	125,445				125,445
Excess Surplus	143,764				143,764
Capital Projects Fund			145,225		145,225
Assigned:					
Encumbrances	28,709				28,709
Designated for Subsequent Year's Expenditures	84,698				84,698

WATCHUNG BOROUGH SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<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	\$ 375,947				\$ 375,947
Total Fund Balances	<u>2,979,755</u>		\$ 145,225		<u>3,124,980</u>
Total Liabilities and Fund Balances	<u>\$ 3,019,392</u>	<u>\$ 7,359</u>	<u>\$ 280,241</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 \$20,962,873 and the accumulated depreciation is \$6,661,662.

The Net Pension Liability for PERS is not Due and Payable in the Current Period and is not Reported in the Governmental Funds.

\$ 14,301,211

(4,157,033)

(194,666)

Other Long-Term Liabilities are not due and payable in the current period and therefore are not reported as liabilities in the Funds.

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.

Deferred Outflows:

 Changes in Assumptions - Pensions

861,115

 Difference Between Estimated and Actual Experience - Pensions

77,308

 Net Difference Between Projected and Actual Investment Earnings - Pensions

158,512

Deferred Inflows:

 Changes in Proportions - Pensions

(275,757)

Net Position of Governmental Activities

\$ 13,895,670

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, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUE:					
Local Sources:					
Local Tax Levy	\$ 10,673,587			\$ 2,053,613	\$ 12,727,200
Tuition from Individuals	147,425				147,425
Tuition from Other LEA's within the State	16,300				16,300
Interest Earned on Capital Reserve Funds	8,467				8,467
Miscellaneous	64,750	\$ 67,227			131,977
Total - Local Sources	10,910,529	67,227		2,053,613	13,031,369
State Sources	1,942,016		\$ 930		1,942,946
Federal Sources		183,456			183,456
Total Revenue	12,852,545	250,683	930	2,053,613	15,157,771
EXPENDITURES					
Current:					
Regular Instruction	3,978,226	118,514			4,096,740
Special Education Instruction	982,173	132,169			1,114,342
Other Special Instruction	99,721				99,721
School Sponsored/Other Instruction	37,201				37,201
Support Services and Undistributed Costs:					
Tuition	19,325				19,325
Student & Instruction Related Services	1,656,886				1,656,886
General Administrative Services	325,429				325,429
School Administrative Services	407,581				407,581
Central Services	197,577				197,577
Administrative Information Technology	31,749				31,749
Plant Operations and Maintenance	1,007,285				1,007,285

WATCHUNG BOROUGH SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
EXPENDITURES					
Pupil Transportation	\$ 510,818				\$ 510,818
Allocated and Unallocated Benefits	3,459,394				3,459,394
Capital Outlay	235,475				235,475
Debt Service:					
Principal				\$ 2,015,000	2,015,000
Interest and Other Charges				38,613	38,613
Total Expenditures	<u>12,948,840</u>	<u>\$ 250,683</u>		<u>2,053,613</u>	<u>15,253,136</u>
Excess/(Deficit) of Revenue over/(under) Expenditures	(96,295)		\$ 930		(95,365)
OTHER FINANCING SOURCES/(USES)					
Transfers In	105,858				105,858
Transfers Out			(105,858)		(105,858)
Total Other Financing Sources/(Uses)	<u>105,858</u>		<u>(105,858)</u>		
Net Change in Fund Balances	9,563		(104,928)		(95,365)
Fund Balance—July 1	<u>2,970,192</u>		<u>250,153</u>		<u>3,220,345</u>
Fund Balance—June 30	<u>\$ 2,979,755</u>	<u>\$ - 0 -</u>	<u>\$ 145,225</u>	<u>\$ - 0 -</u>	<u>\$ 3,124,980</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, 2017

Total Net Change in Fund Balances - Governmental Funds (from Exhibit B-2) \$ (95,365)

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		175,943
		(234,952)

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. (+)

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. (-)

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. (+)

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 (+).

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		(783,561)
Deferred Outflows:		
Changes in Assumptions		498,831
Difference Between Expected and Actual Experience		(3,171)
Net Difference between projected and actual investment earnings on Pension Plan Investments		212,751
Deferred Inflows:		
Changes in Proportions		(131,132)
		(206,282)

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 (+).

Change in Net Position of Governmental Activities (Exhibit A-2)

		(1,748)
		\$ 1,552,119

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

WATCHUNG BOROUGH SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Business-type Activities - Enterprise Funds
	Food Service
	Non-Major Fund
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 5,885
Intergovernmental Accounts Receivable:	
Federal	381
Total Current Assets	6,266
Non-Current Assets:	
Capital Assets	35,360
Less: Accumulated Depreciation	(25,535)
Total Non-Current Assets	9,825
Total Assets	16,091
LIABILITIES:	
Current Liabilities:	
Interfund Payable	1,220
Total Current Liabilities	1,220
NET POSITION:	
Investment in Capital Assets	9,825
Unrestricted	5,046
Total Net Position	\$ 14,871

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

WATCHUNG BOROUGH SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds
	Food Service
	Non-Major Fund
Operating Revenue:	
Local Sources:	
Daily Sales - Reimbursable Programs	\$ 7,335
Total Operating Revenue	7,335
Operating Expenses:	
Cost of Sales- Reimbursable Programs	9,224
Miscellaneous Expenditures	1,220
Depreciation Expense	2,593
Total Operating Expenses	13,037
Operating Loss	(5,702)
Non-Operating Revenue:	
Local Sources:	
Interest Income	38
Federal Sources:	
Special Milk Program	5,477
Total Non-Operating Revenue	5,515
Change in Net Position	(187)
Net Position - Beginning of Year	15,058
Net Position - End of Year	\$ 14,871

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

WATCHUNG BOROUGH SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds <u>Food Service</u> <u>Non-Major Fund</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 7,335
Payments to Milk Vendor	(10,444)
Other Costs	<u>(4,715)</u>
Net Cash Used for Operating Activities	<u>(7,824)</u>
Cash Flows from Investing Activities:	
Local Sources:	
Interest Income	<u>38</u>
Net Cash Provided by Investing Activities	<u>38</u>
Cash Flows from Noncapital Financing Activities:	
Federal Sources:	
Special Milk Program	<u>5,936</u>
Net Cash Provided by Noncapital Financing Activities	<u>5,936</u>
Net Decrease in Cash and Cash Equivalents	(1,850)
Cash and Cash Equivalents, July 1	<u>7,735</u>
Cash and Cash Equivalents, June 30	<u><u>\$ 5,885</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (5,702)
Adjustment to Reconcile Operating Loss to Cash Used for Operating Activities:	
Depreciation	2,593
Changes in Assets and Liabilities:	
(Decrease) in Interfund Payable	<u>(4,715)</u>
Net Cash Used for Operating Activities	<u><u>\$ (7,824)</u></u>

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

WATCHUNG BOROUGH SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>Agency</u>	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
ASSETS:			
Cash and Cash Equivalents	\$ 235,651	\$ 16,131	\$ 43,390
Interfund Receivable:			
Payroll Agency Fund		4,130	
	<u>235,651</u>	<u>20,261</u>	<u>43,390</u>
Total Assets			
LIABILITIES:			
Accrued Salaries and Wages Payable	180,322		
Due to Student Groups	50,615		
Payroll Deductions and Withholdings	584		
Interfund Payable:			
General Fund		3,555	
Flexible Spending Trust	4,130		
	<u>235,651</u>	<u>3,555</u>	
Total Liabilities			
NET POSITION:			
Held in Trust for Flexible Spending Claims		16,706	
Held in Trust for Unemployment Claims			43,390
	<u>\$ -0-</u>	<u>\$ 16,706</u>	<u>\$ 43,390</u>
Total Net Position			

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

WATCHUNG BOROUGH SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
Additions:		
Contributions:		
Employee Contributions	\$ 48,308	\$ 10,047
Total Contributions	<u>48,308</u>	<u>10,047</u>
Investment Earnings:		
Interest	<u>76</u>	<u>244</u>
Net Investment Earnings	<u>76</u>	<u>244</u>
Total Additions	<u>48,384</u>	<u>10,291</u>
Deductions		
Unemployment Compensation Claims		31,353
Flexible Spending Claims	<u>43,012</u>	
Total Deductions	<u>43,012</u>	<u>31,353</u>
Change in Net Position	5,372	(21,062)
Net Position - Beginning of the Year	<u>11,334</u>	<u>64,452</u>
Net Position - End of the Year	<u>\$ 16,706</u>	<u>\$ 43,390</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, 2017

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 ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. 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

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(Continued)

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

B. Basis of Presentation: (Cont'd)

District-Wide Financial Statements (Cont'd):

extent to which each government function or business segment is self-financing or draws from the general revenues of the District.

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, 2017
(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, 2017
(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, 2017 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:

	General Fund	Special Revenue Fund
Sources/Inflows of Resources:		
Actual Amounts (Budgetary Basis) "Revenue" from the Budgetary Comparison Schedule	\$ 12,851,170	\$ 250,683
Differences - Budget to GAAP:		
Prior Year State Aid Payments Recognized for GAAP Statements	37,733	
Current Year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	(36,358)	
	\$ 12,852,545	\$ 250,683
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.	\$ 12,852,545	\$ 250,683

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(Continued)

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

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

	General Fund	Special Revenue Fund
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	\$ 12,948,840	\$ 250,683
Total Expenditures as Reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 12,948,840	\$ 250,683

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.

	Capital Projects Fund	
	Revenue	Fund Balance
Summary of Schedule of Revenue, Expenditures and Changes in Fund Balance (Budgetary Basis) (per F-1)	\$ -0-	\$ 145,225
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	930	
Statement of Schedule of Revenue, Expenditures and Changes in Fund Balance (GAAP Basis) (per B-2)	\$ 930	\$ 145,225

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.

The District generally records investments at fair value and records the unrealized gains and losses as part of investment income. Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

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

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

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.

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.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(Continued)

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

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.

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, 2017.

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

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, 2017
(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, 2017, the amount earned by these employees but not yet disbursed was \$180,322.

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 \$2,979,755 General Fund fund balance at June 30, 2017, \$28,709 is assigned for encumbrances; \$365,190 is restricted in the maintenance reserve account; \$1,856,002 is restricted in the capital reserve account; \$125,445 is restricted as prior year excess surplus and has been appropriated and included as anticipated revenue for the fiscal year ended June 30, 2018; \$143,764 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, 2019; \$84,698 is assigned and has been appropriated and included as anticipated revenue for the fiscal year ended June 30, 2018; and there is \$375,947 in unassigned fund balance, which is \$36,358 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, 2018.

Capital Projects Fund: The \$145,225 fund balance in the Capital Projects Fund at June 30, 2017 is restricted.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(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 \$36,358 as of June 30, 2017 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 \$0 of committed resources at June 30, 2017.

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, 2017 in the General Fund.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(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, 2017 for changes in assumptions in pensions, the District contribution subsequent to the measurement date, the difference between expected and actual experience in pensions, and the net difference between projected and actual investment earnings in pensions.

The District had deferred inflows of resources at June 30, 2017 for the 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 \$3,041,167 in its governmental activities, which is due to unassigned General Fund balance of \$375,947, \$28,709 of General Fund fund balance assigned for encumbrances, \$84,698 assigned fund balance; offset by net pension liability of \$3,335,855 and compensated absences payable of \$194,666. 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, 2017
(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.

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, 2017

(Continued)

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

GASB 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, 2017
(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 Local Government Services in the Department of Community Affairs for investment by local units;
- (5) Local government investment pools;
- (6) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or
- (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 section 1 of P.L. 1970, c.236 (C.17:9-41) statute; and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of June 30, 2017, cash and cash equivalents of the District consisted of the following:

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents		Total
		Capital Reserve Account	Maintenance Reserve Account	
Checking Accounts	\$ 1,062,257	\$ 1,856,002	\$ 365,190	\$ 3,283,449
	<u>\$ 1,062,257</u>	<u>\$ 1,856,002</u>	<u>\$ 365,190</u>	<u>\$ 3,283,449</u>

During the period ended June 30, 2017, the District did not hold any investments. The carrying amount of the Board's cash and cash equivalents at June 30, 2017, was \$3,283,449 and the bank balance was \$3,613,562.

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, 2017
(Continued)

NOTE 4. CAPITAL RESERVE ACCOUNT (Cont'd)

The activity of the capital reserve for the July 1, 2016 to June 30, 2017 fiscal year is as follows:

Beginning Balance, July 1, 2016		\$ 1,775,536
Unexpended Funds Returned to Capital Reserve	\$ 105,858	
Interest Earnings	8,468	
		114,326
Less: Withdrawal by Board Resolution January 25, 2017	(23,500)	
Withdrawal by Board Resolution January 25, 2017	(10,360)	
		(33,860)
Ending Balance, June 30, 2017		\$ 1,856,002

The balance in the capital reserve account at June 30, 2017 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 LRFPP.

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, 2016 to June 30, 2017 fiscal year is as follows:

Balance July 1, 2016		\$ 380,365
Less: Withdrawal by Board Resolution March 8, 2017		(15,175)
Balance July 1, 2017		\$ 365,190

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 6. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017 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)	-0-
Total Capital Assets Not Being Depreciated	<u>1,470,438</u>		<u>(1,059,074)</u>	<u>411,364</u>
Capital Assets Being Depreciated:				
Buildings and Building Improvements	18,070,311	\$ 29,872	1,059,074	19,159,257
Machinery and Equipment	1,251,046	146,071	(4,865)	1,392,252
Total Capital Assets Being Depreciated	<u>19,321,357</u>	<u>175,943</u>	<u>1,054,209</u>	<u>20,551,509</u>
Governmental Activities Capital Assets	<u>20,791,795</u>	<u>175,943</u>	<u>(4,865)</u>	<u>20,962,873</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements	(5,489,314)	(325,640)		(5,814,954)
Machinery and Equipment	(766,318)	(85,255)	4,865	(846,708)
	<u>(6,255,632)</u>	<u>(410,895)</u>	<u>4,865</u>	<u>(6,661,662)</u>
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 14,536,163</u>	<u>\$ (234,952)</u>	<u>\$ - 0 -</u>	<u>\$ 14,301,211</u>
Business Type Activities:				
Capital Assets Being Depreciated:				
Machinery and Equipment	\$ 35,360			\$ 35,360
Less Accumulated Depreciation	(22,942)	\$ (2,593)		(25,535)
Business Type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 12,418</u>	<u>\$ (2,593)</u>	<u>\$ - 0 -</u>	<u>\$ 9,825</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, 2017, the District transferred funds to the capital outlay accounts, of which \$5,332 was for equipment which did not require approval from the County Superintendent. The transfer of \$30,027 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, 2017
(Continued)

NOTE 8. LONG-TERM LIABILITIES

During the fiscal year ended June 30, 2017, 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	\$ 2,015,000		\$ 2,015,000	
Unamortized Bond Premiums	118,076		118,076	
Compensated Absences Payable	192,918	\$ 34,133	32,385	\$ 194,666
Net Pension Liability	3,373,472	783,561		4,157,033
	<u>\$ 5,699,466</u>	<u>\$ 817,694</u>	<u>\$ 2,165,461</u>	<u>\$ 4,351,699</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 were liquidated through the Debt Service Fund. Bonds payable were paid in full as of June 30, 2017.

B. Bonds Authorized But Not Issued:

As of June 30, 2017, the Board had bonds authorized but not issued in the amount of \$355.

C. Capital Leases Payable:

As of June 30, 2017, the District had no capital leases payable.

D. Unamortized Bond Premium:

The District amortized the final amount of the bond premium as of June 30, 2017.

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 \$194,666. 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, 2017, 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, 2017 is \$-0- and the long-term portion is \$4,157,033. See Note 9 for further information on the PERS.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

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/annrprts.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:

Tier	Definition
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 1/55th 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 1/60th 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 with 25 or more years of service credit before age 62 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.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A 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 \$124,827 for fiscal year 2017.

The employee contribution rate was 7.20% effective July 1, 2016. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

Pension Liabilities and Pension Expense

At June 30, 2017, the District reported a liability of \$4,157,033 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. 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, 2016, the District's proportion was 0.014%, which was a decrease of 0.00099% from its proportion measured as of June 30, 2015.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Pension Liabilities and Pension Expense (Cont'd)

For the fiscal year ended June 30, 2016, the District recognized pension expense of \$330,041. At June 30, 2017, 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	\$ 52,255	
	2015	5.72	213,524	
	2016	5.57	595,336	
			<u>861,115</u>	
Changes in Proportion	2014	6.44		\$ 47,711
	2015	5.72		65,450
	2016	5.57		162,596
				<u>275,757</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5	(78,304)	
	2015	5	50,099	
	2016	5	186,717	
			<u>158,512</u>	
Difference Between Expected and Actual Experience	2015	5.72	59,241	
	2016	5.57	18,067	
			<u>77,308</u>	
District Contribution Subsequent to the Measurement Date	2016	1	124,693	
			<u>\$ 1,221,628</u>	<u>\$ 275,757</u>

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

Fiscal Year Ending June 30,	Total
2017	246,965
2018	246,965
2019	286,117
2020	240,380
2021	76,508
	<u>\$ 1,096,935</u>

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions:

Inflation Rate	3.08%
Salary Increases:	
Through 2026	1.65 – 4.15% based on age
Thereafter	2.65 – 5.15% based on age
Investment Rate of Return	7.65%

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. 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 (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2016 are summarized in the following table:

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Long Term Expected Rate of Return (Cont'd)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex. U.S.	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016 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 contribution rate in the most recent fiscal year. The local employers contributed 100% of their 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 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, 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, 2016 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:

	June 30, 2016		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
District's proportionate share of the Net Pension Liability	\$ 5,093,959	\$ 4,157,033	\$ 3,383,520

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

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/annrprts.shtml.

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:

Tier	Definition
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 1/55th 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 1/60th 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.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

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 2016, 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 2017, the State of New Jersey contributed \$519,258 to the TPAF for normal pension benefits on behalf of the District, which is less than the contractually required contribution of \$2,717,705.

The employee contribution rate was 7.20% effective July 1, 2016. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st 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, 2017, the State's proportionate share of the net pension liability associated with the District was \$36,170,443. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. 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, 2016, the District's proportion was 0.046%, which was an increase of 0.001% from its proportion measured as of June 30, 2015.

District's Proportionate Share of the Net Pension Liability	\$	-0-
State's Proportionate Share of the Net Pension Liability Associated with the District		36,170,443
Total	\$	36,170,443

For the fiscal year ended June 30, 2016, the State recognized pension expense on behalf of the District in the amount of \$2,717,705 and the District recognized pension expense and revenue for that same amount in the fiscal year ended June 30, 2016 financial statements.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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 (Cont'd)

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

	Year of Deferral	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	2014	8.5	\$ 1,691,524,165	
	2015	8.3	4,488,602,746	
	2016	8.3	9,522,623,964	
			<u>15,702,750,875</u>	
Difference Between Expected and Actual Experience	2014	8.5		\$ 16,110,615
	2015	8.3	277,221,464	
	2016	8.3		118,421,979
			<u>277,221,464</u>	<u>134,532,594</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5	(870,618,286)	
	2015	5	577,926,182	
	2016	5	1,727,420,767	
			<u>1,434,728,663</u>	
			<u>\$ 17,414,701,002</u>	<u>\$ 134,532,594</u>

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:

Fiscal Year Ending June 30,	Total
2017	\$ 2,538,535,636
2018	2,538,535,636
2019	2,973,844,781
2020	2,781,202,718
2021	2,349,347,527
Thereafter	<u>4,098,702,110</u>
	<u>\$ 17,280,168,408</u>

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. 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	7.65%

Pre-retirement, post-retirement and disabled mortality rates were based on the experience of TPAF members reflecting mortality improvement on a generational basis based on a 60 years average of Social Security data from 1953 to 2013.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected_returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2016 are summarized in the following table:

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Long Term Expected Rate of Return (Cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Cash	5.00%	0.39%
U.S. Government Bonds	1.50%	1.28%
U.S. Credit Bonds	13.00%	2.76%
U.S. Mortgages	2.00%	2.38%
U.S. Inflation-Indexed Bonds	1.50%	1.41%
U.S. High Yield Bonds	2.00%	4.70%
U.S. Equity Market	26.00%	5.14%
Foreign-Developed Equity	13.25%	5.91%
Emerging Market Equities	6.50%	8.16%
Private Real Estate Property	5.25%	3.64%
Timber	1.00%	3.86%
Farmland	1.00%	4.39%
Private Equity	9.00%	8.97%
Commodities	0.50%	2.87%
Hedge Funds - MultiStrategy	5.00%	3.70%
Hedge Funds - Equity Hedge	3.75%	4.72%
Hedge Funds - Distressed	3.75%	3.49%

Discount Rate – TPAF

The discount rate used to measure the total pension liability was 3.22% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016 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 contribution rate in the most recent fiscal year. The State contributed 30% of the actuarially determined contributions. 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 2029. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2029, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

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

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

	June 30, 2016		
	At 1% Decrease (2.22%)	At Current Discount Rate (3.22%)	At 1% Increase (4.22%)
State's Proportionate Share of the Net Pension Liability Associated with the District	\$ 43,195,584	\$ 36,170,443	\$ 30,433,508

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 \$2,438 for the fiscal year ended June 30, 2017. Employee contributions to DCRP amounted to \$3,311 for the year ended June 30, 2017.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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, 2016, there were 110,512 retirees receiving post-retirement medical benefits, and the State contributed \$1.37 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 \$231.2 million toward Chapter 126 benefits for 20,045 eligible retired members in Fiscal Year 2016.

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 publicly available financial report that includes financial statements and required supplementary information for SEHBP. That report may be obtained from the Treasury website at:
<http://www.nj.gov/treasury/pensions/pdf/financial2015combined.pdf>.

The State's on behalf Post Retirement Medical Contributions to TPAF for the District amounted to \$448,337, \$438,340 and \$388,701 for 2017, 2016 and 2015, 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, 2017
(Continued)

NOTE 11. RISK MANAGEMENT (Cont'd)

The financial information for Fund year ended June 30, 2017 is not available. Selected, summarized financial information for the Fund as of June 30, 2016 is as follows:

	<u>Diploma Joint Insurance Fund</u>
Total Assets	\$ 13,469,440
Net Position	\$ 6,476,079
Total Revenue	\$ 6,870,536
Total Expenses	\$ 5,999,793
Change in Net Position	\$ 870,743
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>
2017	\$ -0-	\$ 10,291	\$ 31,353	\$ 43,390
2016	-0-	10,178	34,394	64,452
2015	-0-	10,892	35,844	88,668

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, 2017
(Continued)

NOTE 13. INTERFUND RECEIVABLES AND PAYABLES

The following interfund balances existed as of June 30, 2017:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 139,791	
Capital Projects Fund		\$ 135,016
Food Service Fund		1,220
Fiduciary Accounts		3,555
	\$ 139,791	\$ 139,791

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, 2017. The interfund between General Fund and Food Service Fund represents expenses that were paid by the General Fund on behalf of the Food Service Fund. The interfund payable from the Capital Projects Fund to the General Fund represents balances cancelled on completed capital projects due back to the Capital Reserve account that were not turned over at year end.

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 below, 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, 2017
(Continued)

NOTE 15. CONTINGENT LIABILITIES (Cont'd)

Encumbrances

At June 30, 2017, there were encumbrances as detailed below in the governmental funds.

General Fund	Total Governmental Funds
\$ 28,709	\$ 28,709

NOTE 16. ACCOUNTS PAYABLE

At June 30, 2017, 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	\$ 33,837	\$ 7,327		\$ 41,164
State of New Jersey			\$ 124,693	124,693
	\$ 33,837	\$ 7,327	\$ 124,693	\$ 165,857

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

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

	Fiscal Year Ending June 30,		
	2015	2016	2017
District's proportion of the net pension liability	0.015550733000%	0.015027942400%	0.014035907800%
District's proportionate share of the net pension liability	\$ 2,911,523	\$ 3,373,472	\$ 4,157,033
District's covered employee payroll	\$ 1,006,888	\$ 952,957	\$ 955,122
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	289.16%	354.00%	435.24%
Plan fiduciary net position as a percentage of the total pension liability	52.08%	47.93%	40.14%

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 THREE FISCAL YEARS
UNAUDITED

	Fiscal Year Ending June 30,		
	2015	2016	2017
Contractually required contribution	\$ 128,198	\$ 129,200	\$ 124,693
Contributions in relation to the contractually required contribution	(128,198)	(129,200)	(124,693)
Contribution deficiency/(excess)	\$ -0-	\$ -0-	\$ -0-
District's covered employee payroll	\$ 986,750	\$ 1,006,888	\$ 952,957
Contributions as a percentage of covered employee payroll	12.99%	12.83%	13.08%

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
ATTRIBUTABLE TO THE DISTRICT
TEACHERS' PENSION AND ANNUITY FUND
LAST THREE FISCAL YEARS
UNAUDITED

	Fiscal Year Ending June 30,		
	2015	2016	2017
State's proportion of the net pension liability attributable to the District	0.0459199119%	0.0452895715%	0.0459795512%
State's proportionate share of the net pension liability attributable to the District	\$ 24,922,223	\$ 28,624,943	\$ 36,170,443
District's covered employee payroll	\$ 4,674,455	\$ 4,807,187	\$ 4,951,413
State's proportionate share of the net pension liability attributable to the District as a percentage of its covered employee payroll	533.16%	595.46%	730.51%
Plan fiduciary net position as a percentage of the total pension liability	33.64%	28.71%	22.33%

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 THREE FISCAL YEARS
UNAUDITED

	Fiscal Year Ending June 30,		
	2015	2016	2017
Contractually required contribution	\$ 1,341,050	\$ 1,747,808	\$ 2,717,705
Contributions in relation to the contractually required contribution	<u>(244,852)</u>	<u>(368,130)</u>	<u>(519,258)</u>
Contribution deficiency/(excess)	<u>\$ 1,096,198</u>	<u>\$ 1,379,678</u>	<u>\$ 2,198,447</u>
District's covered employee payroll	\$ 4,674,455	\$ 4,674,455	\$ 4,807,187
Contributions as a percentage of covered employee payroll	28.69%	37.39%	56.53%

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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 4.90% as of June 30, 2015 to 3.98% as of June 30, 2016. The municipal bond rate changed from 3.80% to 2.85%. The long-term expected rate of return on pension plan investments changed from 7.90% to 7.65%.

The inflation rate changed from 3.04% as of June 30, 2015 to 3.08% as of June 30, 2016. The salary increases changed from 2.15% - 4.40% for 2012 – 2021 to 1.65%-4.15% through 2026 and from 3.15%-5.40% thereafter to 2.65%-5.15% thereafter.

The mortality rates in the July 1, 2014 actuarial valuation were based on the following:

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 mortality rates in the July 1, 2015 actuarial valuation were based on the following:

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

B. TEACHERS PENSION AND ANNUITY FUND

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 4.13% as of June 30, 2015 to 3.22% as of June 30, 2016. The municipal bond rate changed from 3.80% to 2.85%. The long-term expected rate of return on pension plan investments changed from 7.90% to 7.65%.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)

B. TEACHERS PENSION AND ANNUITY FUND (Cont'd)

Changes of Assumptions (Cont'd)

The mortality rates in the July 1, 2014 actuarial valuation were based on the following:

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 mortality rates in the July 1, 2015 actuarial valuation were based on the following:

Pre-retirement, post-retirement and disabled mortality rates were based on the experience of TPAF members reflecting mortality improvement on a generational basis based on a 60 years average of Social Security data from 1953 to 2013.

BUDGETARY COMPARISON SCHEDULES

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
REVENUES:					
Local Sources:					
Local Tax Levy	\$ 10,673,587		\$ 10,673,587	\$ 10,673,587	\$ 27,425
Tuition from Individuals	120,000		120,000	147,425	16,300
Tuition from LEAs Within State	1,500		1,500	8,467	6,967
Interest Earned on Capital Reserve Funds	10,000		10,000	64,750	54,750
Miscellaneous					
Total - Local Sources	10,805,087		10,805,087	10,910,529	105,442
State Sources:					
Transportation Aid	60,681		60,681	60,681	
Special Education Aid	339,314		339,314	339,314	
Security Aid	12,631		12,631	12,631	
PARCC Readiness Aid	6,910		6,910	6,910	
Per Pupil Growth Aid	6,910		6,910	6,910	
Professional Learning Community Aid	6,740		6,740	6,740	
Extraordinary Aid				155,345	155,345
Nonpublic Transportation Aid				6,960	6,960
On-Behalf TPAF Pension Contribution (Non-Budgeted)				519,258	519,258
On-Behalf TPAF Non-Contributory Insurance (Non-Budgeted)				18,814	18,814
On-Behalf TPAF Post Retirement Medical Benefits (Non-Budgeted)				448,337	448,337
On-Behalf TPAF Long-Term Disability Insurance (Non-Budgeted)				1,042	1,042
TPAF Social Security (Reimbursed - Non-Budgeted)				357,699	357,699
Total State Sources	433,186		433,186	1,940,641	1,507,455
TOTAL REVENUES	11,238,273		11,238,273	12,851,170	1,612,897

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
Regular Programs - Instruction:					
Preschool - Salaries of Teachers	\$ 95,252	\$ 1,734	\$ 96,986	\$ 96,741	\$ 245
Kindergarten - Salaries of Teachers	198,085	39,744	237,829	237,829	
Grades 1-5 - Salaries of Teachers	1,687,630	109,328	1,796,958	1,796,381	577
Grades 6-8 - Salaries of Teachers	1,432,717	(31,842)	1,400,875	1,399,986	889
Regular Programs - Home Instruction:					
Salaries of Teachers	3,076	2,561	5,637	5,637	
Regular Programs - Undistributed Instruction:					
Other Salaries of Instruction	119,750	4,000	4,000	1,395	2,605
Purchased Professional - Educational Services	63,655	(12,407)	51,248	47,350	3,898
Other Purchased Services (400-500 series)	132,861	(3,010)	129,851	128,255	1,596
General Supplies	114,000	(34,130)	79,870	79,810	60
Textbooks	5,270		5,270	5,270	
Other Objects					
Total Regular Programs - Instruction	3,852,296	135,800	3,988,096	3,978,226	9,870
Special Education:					
Multiple Disabilities:					
Salaries of Teachers	59,086	4,310	63,396	63,396	
Purchased Professional - Educational Services	64,000	23,517	87,517	87,517	
General Supplies	2,000	(577)	1,423	435	988
Total Multiple Disabilities	125,086	27,250	152,336	151,348	988

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
Resource Room/Resource Center:					
Salaries of Teachers	\$ 519,010	\$ (108,959)	\$ 410,051	\$ 410,051	
Other Salaries for Instruction	21,597		21,597	21,597	
Purchased Professional - Educational Services	195,000	203,498	398,498	398,498	
General Supplies	4,000		4,000	679	\$ 3,321
Total Resource Room/Resource Center	739,607	94,539	834,146	830,825	3,321
Total Special Education Instruction	864,693	121,789	986,482	982,173	4,309
Basic Skills/Remedial - Instruction:					
Salaries of Teachers	69,578	(10,923)	58,655	58,655	
Total Basic Skills/Remedial - Instruction	69,578	(10,923)	58,655	58,655	
Bilingual Education - Instruction:					
Salaries of Teachers	9,252	(9,252)			
Total Bilingual Education - Instruction	9,252	(9,252)			
School-Sponsored Cocurricular Activities - Instruction:					
Salaries	38,950	3,169	42,119	41,066	1,053
Supplies and Materials	700	(700)			
Total School-Sponsored Cocurricular Activities - Instruction	39,650	2,469	42,119	41,066	1,053

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
School-Sponsored Cocurricular Athletics - Instruction:					
Salaries	\$ 27,983	\$ (1,929)	\$ 26,054	\$ 26,054	
Purchased Services (300-500 series)	5,000		5,000	5,000	
Supplies and Materials	4,600	(540)	4,060	2,147	1,913
Total School-Sponsored Cocurricular Athletics - Instruction	37,583	(2,469)	35,114	33,201	1,913
Community Services Programs/Operations:					
Other Objects	4,000		4,000	4,000	
Total Community Services Programs/Operations	4,000		4,000	4,000	
Total Instruction	4,877,052	237,414	5,114,466	5,097,321	17,145
Undistributed Expenditures:					
Instruction:					
Tuition to Other LEAs Within the State - Special	60,000	(49,380)	10,620	10,620	
Tuition to Private Schools for the Handicapped - Within State	25,000	(16,295)	8,705	8,705	
Total Undistributed Expenditures - Instruction	85,000	(65,675)	19,325	19,325	
Health Services:					
Salaries	138,263	2,505	140,768	140,768	
Purchased Professional and Technical Services	3,000	1,364	4,364	4,364	
Other Purchased Services (400-500 series)	500	(51)	449	68	381
Supplies and Materials	5,000	951	5,951	5,608	343
Other Objects	500		500	282	218
Total Health Services	147,263	4,769	152,032	151,090	942

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
Other Support Services - Speech, OT, PT and Related Services:					
Salaries	\$ 104,147	\$ (2,897)	\$ 101,250	\$ 101,250	
Purchased Professional - Educational Services	113,950	8,420	122,370	116,327	\$ 6,043
Supplies and Materials	1,000		1,000	970	30
Total Other Support Services - Speech, OT, PT and Related Services	219,097	5,523	224,620	218,547	6,073
Other Support Services - Students - Extra Services:					
Salaries	71,050	1,060	72,110	72,110	
Purchased Professional - Educational Services	201,600	203,929	405,529	405,529	
Total Other Support Services - Students - Extra Services	272,650	204,989	477,639	477,639	
Other Support Services - Students - Guidance:					
Salaries of Other Professional Staff	168,896	(68,250)	100,646	100,646	
Other Purchased Services (400-500)	500		500	295	205
Supplies and Materials	3,500	(2,317)	1,183	308	875
Total Other Support Services - Students - Guidance	172,896	(70,567)	102,329	101,249	1,080
Other Support Services - Students - Child Study Teams:					
Salaries of Other Professional Staff	190,128	(36,807)	153,321	153,321	
Salaries of Secretarial and Clerical Assistants	35,912		35,912	35,912	
Purchased Professional - Educational Services	28,196	7,600	35,796	35,733	63
Other Objects	7,150	(7,083)	67	67	
Other Purchased Professional - Technical Services	9,250	6,752	16,002	14,340	1,662
Misc. Pur. Serv. (400-500 series) Other Than Residential Costs	4,800	(875)	3,925	274	3,651
Supplies and Materials	23,201	(8,900)	14,301	13,918	383
Total Other Support Services - Students - Child Study Teams	298,637	(39,313)	259,324	253,498	5,826

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
Improvement of Instructional Services:					
Salaries of Other Professional Staff	\$ 24,775	\$ 6,097	\$ 30,872	\$ 30,872	
Purchased Professional - Educational Services	60,000	(4,417)	55,583	55,583	
Other Purchased Services (400-500)	20,850	(3,700)	17,150	17,050	\$ 100
Supplies and Materials	2,000	(1,520)	480	338	142
Total Improvement of Instructional Services	107,625	(3,540)	104,085	103,843	242
Educational Media Services/School Library:					
Salaries	157,512	(1,457)	156,055	156,055	
Purchased Professional and Technical Services	90,000		90,000	90,000	
Other Purchased Services (400-500)	15,380	(2,512)	12,868	12,868	
Supplies and Materials	18,243		18,243	16,579	1,664
Total Educational Media Services/School Library	281,135	(3,969)	277,166	275,502	1,664
Instructional Staff Training Services:					
Salaries of Other Professional Staff	2,563	(605)	1,958		1,958
Other Salaries	1,025	605	1,630	1,630	
Purchased Professional - Educational Services	75,000	(6,268)	68,732	68,732	
Other Purchased Services (400-500 series)	4,500		4,500	4,466	34
Other Objects	1,050		1,050	690	360
Total Instructional Staff Training Services	84,138	(6,268)	77,870	75,518	2,352

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
Support Services - General Administration:					
Salaries	\$ 222,508	\$ 300	\$ 222,808	\$ 202,572	\$ 20,236
Legal Services	30,000		30,000	24,721	5,279
Audit Fees	16,770	(300)	16,470	15,728	742
Architectural/Engineering Services	7,500		7,500		7,500
Other Purchased Professional Services	2,200	4,789	6,989	6,989	
Communications/Telephone	73,510	(26,942)	46,568	42,805	3,763
BOE Other Purchased Services	7,700	(2,765)	4,935	2,957	1,978
Miscellaneous Purchased Services (400-500 series)	4,500	12,874	17,374	16,328	1,046
General Supplies	3,200	400	3,600	3,549	51
BOE In-House Training/Meeting Supplies	1,575	(297)	1,278	1,274	4
Miscellaneous Expenditures	2,750		2,750	2,709	41
BOE Membership Dues and Fees	5,500	297	5,797	5,797	
Total Support Services - General Administration	377,713	(11,644)	366,069	325,429	40,640
Support Services - School Administration:					
Salaries of Principals/Assistant Principals	263,497		263,497	263,461	36
Salaries of Secretarial and Clerical Assistants	135,256	236	135,492	135,477	15
Other Purchased Services (400-500 series)	3,725	(236)	3,489	700	2,789
Supplies and Materials	10,030		10,030	6,214	3,816
Other Objects	2,800		2,800	1,729	1,071
Total Support Services - School Administration	415,308		415,308	407,581	7,727

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
Support Services - Central Services:					
Salaries	\$ 192,890		\$ 192,890	\$ 188,101	\$ 4,789
Purchased Professional Services		\$ 3,700	3,700	3,700	
Miscellaneous Purchased Services (400-500 series)	3,100	(910)	2,190	1,513	677
Supplies and Materials	5,000	(400)	4,600	3,073	1,527
Miscellaneous Expenditures	1,400	15	1,415	1,190	225
Total Support Services - Central Services	202,390	2,405	204,795	197,577	7,218
Support Services - Administrative Information Technology:					
Purchased Professional Services	45,000	(16,229)	28,771	26,744	2,027
Supplies and Materials	3,400	1,605	5,005	5,005	
Total Support Services - Administrative Information Technology	48,400	(14,624)	33,776	31,749	2,027
Required Maintenance of School Facilities:					
Cleaning, Repair and Maintenance Services	60,000	20,238	80,238	80,238	
General Supplies	20,000	11,729	31,729	31,729	
Total Required Maintenance of School Facilities	80,000	31,967	111,967	111,967	
Custodial Services:					
Salaries	475,060	(9,296)	465,764	465,753	11
Purchased Professional and Technical Services	1,575	(44)	1,531	1,527	4
Cleaning, Repair and Maintenance Services	12,800	7,000	19,800	19,700	100
Other Purchased Property Services	12,000	44	12,044	12,044	
Insurance	105,200	(1,947)	103,253	103,253	

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
Custodial Services (Cont'd):					
Travel					
General Supplies	\$ 49,000	4,000	\$ 4,000	4,000	
Energy (Electricity)	159,750	(2,772)	46,228	46,228	
Other Objects	3,825	9,862	169,612	169,612	
Energy (Natural Gas)	50,000	266	4,091	4,035	\$ 56
		3,434	53,434	53,096	338
Total Custodial Services	869,210	10,547	879,757	879,248	509
Care and Upkeep of Grounds:					
Salaries	8,845	130	8,975	8,975	
Cleaning, Repair, & Maintenance Services	1,600	(26)	1,574	1,532	42
General Supplies	9,650	(4,087)	5,563	5,563	
Total Care and Upkeep of Grounds	20,095	(3,983)	16,112	16,070	42
Student Transportation Services:					
Salaries for Transportation - Between Home & School - Regular	73,333	7,665	80,998	80,998	
Management Fee - ESCs & CTSA's Transportation Program	2,500	(334)	2,166	1,461	705
Other Purchased Professional and Technical Services	1,610	4,000	5,610	5,610	
Cleaning, Repair and Maintenance Services	7,500	520	8,020	8,017	3
Contracted Services:					
Between Home and School - Vendors	188,691	(2,000)	186,691	186,643	48
Other Than Between Home and School - Vendors	22,000		22,000	21,320	680
Between Home and School - Joint Agreements	131,781	(5,250)	126,531	124,819	1,712
Special Education Students - ESCs & CTSA's	35,511	12,331	47,842	44,017	3,825
Aid in Lieu of Payments - NonPublic	30,000		30,000	29,172	828

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
EXPENDITURES:					
CURRENT EXPENSE					
Student Transportation Services (Cont'd):					
Miscellaneous Purchased Services - Transportation	\$ 2,000	\$ (2,000)	\$ 9,480	\$ 7,793	\$ 1,687
Supplies and Materials	10,000	(520)	968	968	
Other Objects	1,500	(532)			
Total Student Transportation Services	506,426	13,880	520,306	510,818	9,488
Unallocated Benefits:					
Social Security Contributions	115,000		115,000	108,774	6,226
Other Retirement Contributions- PERS	136,182	(10,736)	125,446	124,827	619
Other Retirement Contributions- Regular	5,900		5,900	2,438	3,462
Unemployment Compensation	20,000		20,000		20,000
Workmen's Compensation	59,325	289	59,614	59,614	
Health Benefits	1,939,657	(131,737)	1,807,920	1,788,879	19,041
Tuition Reimbursement	20,000	(7,554)	12,446	5,440	7,006
Other Employee Benefits	18,539	6,192	24,731	24,272	459
Total Unallocated Benefits	2,314,603	(143,546)	2,171,057	2,114,244	56,813
On-Behalf Contributions:					
On-Behalf TPAF Pension Contribution (Non-Budgeted)				519,258	(519,258)
On-Behalf TPAF Non-Contributory Insurance (Non-Budgeted)				18,814	(18,814)
On-Behalf TPAF Post Retirement Medical Benefits (Non-Budgeted)				448,337	(448,337)
On-Behalf TPAF Long-Term Disability Insurance (Non-Budgeted)				1,042	(1,042)
TPAF Social Security (Reimbursed - Non-Budgeted)				357,699	(357,699)
Total On-Behalf Contributions				1,345,150	(1,345,150)
Total Personal Services - Employee Benefits	2,314,603	(143,546)	2,171,057	3,459,394	(1,288,337)
Total Undistributed Expenses	6,502,586	(89,049)	6,413,537	7,616,044	(1,202,507)
TOTAL CURRENT EXPENSE	11,379,638	148,365	11,528,003	12,713,365	(1,185,362)

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
CAPITAL OUTLAY					
Equipment:					
Instruction - Grades 6-8	\$ 118,390	\$ 5,950	\$ 5,950	\$ 5,950	
Undistributed Expenditures:					
Admin Info Technology	(28,284)		90,106	89,694	\$ 412
Care and Upkeep of Grounds	7,732		7,732	7,732	
Custodial Equipment	6,159		6,159	6,159	
Special Education Equipment	2,040		2,040	2,040	
Noninstructional Equipment:					
Operation and Maintenance of Plant Services	11,735		11,735	11,735	
Total Equipment	118,390	5,332	123,722	123,310	412
Facilities Acquisition and Construction Services:					
Construction Services	35,000	30,027	65,027	65,027	
Assessment for Debt Service on SDA Funding	47,138		47,138	47,138	
Total Facilities Acquisition and Construction Services	82,138	30,027	112,165	112,165	
TOTAL CAPITAL OUTLAY	200,528	35,359	235,887	235,475	412
TOTAL EXPENDITURES	11,580,166	183,724	11,763,890	12,948,840	(1,184,950)

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
Excess (Deficiency) of Revenues Over/(Under) Expenditures	\$ (341,893)	\$ (183,724)	\$ (525,617)	\$ (97,670)	\$ 427,947
Other Financing Sources:					
Transfer from Capital Projects Fund - Capital Reserve				105,858	105,858
Total Other Financing Sources				105,858	105,858
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Sources	(341,893)	(183,724)	(525,617)	8,188	533,805
Fund Balance, July 1	3,007,925		3,007,925	3,007,925	
Fund Balance, June 30	<u>\$ 2,666,032</u>	<u>\$ (183,724)</u>	<u>\$ 2,482,308</u>	<u>\$ 3,016,113</u>	<u>\$ 533,805</u>
<u>Recapitulation:</u>					
Restricted:					
Excess Surplus				\$ 143,764	
Excess Surplus - For Subsequent Year's Expenditures				125,445	
Capital Reserve				1,856,002	
Maintenance Reserve				365,190	
Assigned:					
Year End Encumbrances				28,709	
Assigned- For Subsequent Year's Expenditures				84,698	
Unassigned				412,305	
				<u>3,016,113</u>	
Reconciliation to Governmental Funds Statements (GAAP):					
Last Two State Aid Payments not Recognized on GAAP Basis				<u>(36,358)</u>	
Fund Balance per Governmental Funds (GAAP)				<u>\$ 2,979,755</u>	

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
REVENUES:					
Local Sources		\$ 67,259	\$ 67,259	\$ 67,227	\$ (32)
Federal Sources	\$ 191,498	(8,042)	183,456	183,456	
Total Revenues	191,498	59,217	250,715	250,683	(32)
EXPENDITURES:					
Instruction:					
Salaries of Teachers	36,557	(8,377)	28,180	28,180	
Purchased Professional/Technical Services	6,580	51	6,631	6,631	
Other Purchased Services	20,145	(7,440)	12,705	12,705	
Tuition	103,950	4,200	108,150	108,150	
General Supplies		63,539	63,539	63,507	32
Total Instruction	167,232	51,973	219,205	219,173	32
Support Services:					
Personal Services - Employee Benefits		7,327	7,327	7,327	
Purchased Professional and Educational Services	16,582	(802)	15,780	15,780	
Supplies and Materials	7,684	719	8,403	8,403	
Total Support Services	24,266	7,244	31,510	31,510	
Total Expenditures	\$ 191,498	\$ 59,217	\$ 250,715	\$ 250,683	\$ 32

WATCHUNG BOROUGH SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues 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	\$ 12,851,170	\$ 250,683
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	37,733	
Current year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	<u>(36,358)</u>	
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.	<u>\$ 12,852,545</u>	<u>\$ 250,683</u>
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	<u>\$ 12,948,840</u>	<u>\$ 250,683</u>
Total Expenditures as Reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 12,948,840</u>	<u>\$ 250,683</u>

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, 2017 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). 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, 2017

	No Child Left Behind		IDEA Part B			Totals
	Title II Part A	Title I Part A	Basic	Preschool	Local	
REVENUE:						
Local Sources					\$ 67,227	\$ 67,227
Federal Sources	\$ 15,780	\$ 35,507	\$ 125,538	\$ 6,631		\$ 183,456
Total Revenue	<u>15,780</u>	<u>35,507</u>	<u>125,538</u>	<u>6,631</u>	<u>67,227</u>	<u>250,683</u>
EXPENDITURES:						
Instruction:						
Salaries of Teachers		28,180				28,180
Purchased Professional/Technical Services				6,631		6,631
Other Purchased Services			9,544			9,544
Tuition			108,150		3,161	108,150
General Supplies					63,507	63,507
Total Instruction		<u>28,180</u>	<u>117,694</u>	<u>6,631</u>	<u>66,668</u>	<u>219,173</u>
Support Services:						
Personal Services - Employee Benefits		7,327				7,327
Purchased Professional and Educational Services	15,780					15,780
Supplies and Materials			7,844		559	8,403
Total Support Services	<u>15,780</u>	<u>7,327</u>	<u>7,844</u>		<u>559</u>	<u>31,510</u>
Total Expenditures	<u>\$ 15,780</u>	<u>\$ 35,507</u>	<u>\$ 125,538</u>	<u>\$ 6,631</u>	<u>\$ 67,227</u>	<u>\$ 250,683</u>

WATCHUNG BOROUGH SCHOOL DISTRICT
SPECIAL REVENUE FUND
PRESCHOOL EDUCATION AID SCHEDULE OF EXPENDITURES
BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOT APPLICABLE

CAPITAL PROJECTS FUND

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, 2017

Revenue and Other Financing Sources:	
Transfer to Capital Reserve	\$ (105,858)
Deficit of Revenue and Other Financing Sources	(105,858)
Fund Balance - Beginning of Year	251,083
Fund Balance - End of Year	\$ 145,225
<u>Recapitulation:</u>	
Restricted Fund Balance	\$ 145,225

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, 2017

	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	\$ 145,225	\$ - 0 -	\$ 145,225	\$ - 0 -
Additional Project Information:				
Project Number	SP201964/201965			
Grant Date	2/14/2003			
Bond Authorization Date	8/19/2009			
Bonds Authorized	\$ 18,903,000			
Bonds Issued	\$ 18,903,000			
Original Authorized Cost	\$ 24,000,000			
Change Orders	- 0 -			
Revised Authorized Costs	\$ 24,000,000			
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, 2017

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Costs</u>
Revenue and Other Financing Sources:				
State Sources - SDA Grant	\$ 57,440		\$ 57,440	\$ 57,440
Transfer from Capital Reserve	<u>130,334</u>	<u>\$ (21,662)</u>	<u>108,672</u>	<u>108,672</u>
Total Revenue and Other Financing Sources	<u>187,774</u>	<u>(21,662)</u>	<u>166,112</u>	<u>166,112</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>115,125</u>
Total Expenditures	<u>166,112</u>		<u>166,112</u>	<u>166,112</u>
Excess of Revenue and Other Financing Sources over Expenditures	<u>\$ 21,662</u>	<u>\$ (21,662)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Additional Project Information:				
SDA Project Number	5540-050-09-0ZXK			
Grant Date	6/3/2010			
Original Authorized Cost	\$ 194,980			
Cancellation of SDA Grant	(7,206)			
Cancellation of Capital Reserve	<u>(21,662)</u>			
Revised Authorized Costs	<u>\$ 166,112</u>			
Percentage Completion	100.00%			
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, 2017

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Costs</u>
Revenue and Other Financing Sources:				
State Sources - SDA Grant	\$ 57,333		\$ 57,333	\$ 57,333
Transfer from Capital Reserve	116,917	\$ (14,744)	102,173	102,173
	<u>174,250</u>	<u>(14,744)</u>	<u>159,506</u>	<u>159,506</u>
Total Revenue and Other Financing Sources				
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	124,486
	<u>159,506</u>		<u>159,506</u>	<u>159,506</u>
Total Expenditures				
Excess of Revenue and Other Financing Sources over Expenditures				
	<u>\$ 14,744</u>	<u>\$ (14,744)</u>	<u>\$ -0-</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	(17,125)			
Cancellation of Capital Reserve	(14,744)			
Revised Authorized Costs	<u>\$ 159,506</u>			
Percentage Completion	100.00%			
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 - PARTIAL ROOF REPLACEMENT
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Costs</u>
Revenue and Other Financing Sources:				
State Sources - SDA Grant	\$ 226,357		\$ 226,357	\$ 226,357
Transfer from Capital Reserve	408,988	\$ (69,452)	339,536	339,536
	<u>635,345</u>	<u>(69,452)</u>	<u>565,893</u>	<u>565,893</u>
Total Revenue and Other Financing Sources				
Expenditures:				
Legal Services	543		543	543
Other Purchased Professional and Technical Services	48,000		48,000	48,000
Construction Services	517,350		517,350	517,350
	<u>565,893</u>		<u>565,893</u>	<u>565,893</u>
Total Expenditures				
Excess of Revenue and Other Financing Sources over Expenditures	<u>\$ 69,452</u>	<u>\$ (69,452)</u>	<u>\$ -0-</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	(46,301)			
Cancellation Of Capital Reserve	(69,452)			
Revised Authorized Costs	<u>\$ 565,893</u>			
Percentage Completion	100.00%			
Original Target Completion Date	07/30/15			
Revised Target Completion Date	07/30/16			

PROPRIETARY FUNDS

WATCHUNG BOROUGH SCHOOL DISTRICT
FOOD SERVICE ENTERPRISE FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS:

Current Assets:	
Cash and Cash Equivalents	\$ 5,885
Intergovernmental Accounts Receivable:	
Federal	381
	<hr/>
Total Current Assets	6,266
	<hr/>
Non-Current Assets:	
Capital Assets	35,360
Less: Accumulated Depreciation	(25,535)
	<hr/>
Total Non-Current Assets	9,825
	<hr/>
Total Assets	16,091
	<hr/>
LIABILITIES:	
Current Liabilities:	
Interfund Payable	1,220
	<hr/>
Total Current Liabilities	1,220
	<hr/>
NET POSITION:	
Investment in Capital Assets	9,825
Unrestricted	5,046
	<hr/>
Total Net Position	\$ 14,871
	<hr/> <hr/>

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, 2017

Operating Revenue:	
Local Sources:	
Daily Sales - Reimbursable Programs	\$ 7,335
Total Operating Revenue	<u>7,335</u>
Operating Expenses:	
Cost of Sales - Reimbursable Programs	9,224
Miscellaneous Expenditures	1,220
Depreciation Expense	2,593
Total Operating Expenses	<u>13,037</u>
Operating (Loss)	(5,702)
Non-Operating Revenue:	
Local Sources:	
Interest Income	38
Federal Sources:	
Special Milk Program	5,477
Total Non-Operating Revenue	<u>5,515</u>
Change in Net Position	(187)
Net Position - Beginning of Year	<u>15,058</u>
Net Position - End of Year	<u>\$ 14,871</u>

WATCHUNG BOROUGH SCHOOL DISTRICT
FOOD SERVICE ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 7,335
Payments to Milk Vendor	(10,444)
Other Costs	(4,715)
	<hr/>
Net Cash Used for Operating Activities	(7,824)
	<hr/>
Cash Flows provided for Investing Activities:	
Local Sources:	
Interest Income	38
	<hr/>
Net Cash Provided by Investing Activities	38
	<hr/>
Cash Flows from Noncapital Financing Activities:	
Federal Sources:	
Special Milk Program	5,936
	<hr/>
Net Cash Provided by Noncapital Financing Activities	5,936
	<hr/>
Net Decrease in Cash and Cash Equivalents	(1,850)
	<hr/>
Cash and Cash Equivalents, July 1	7,735
	<hr/>
Cash and Cash Equivalents, June 30	\$ 5,885
	<hr/> <hr/>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (5,702)
Adjustment to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	2,593
Changes in Assets and Liabilities:	
Increase/(Decrease) in Interfund Receivable	(4,715)
	<hr/>
Net Cash Used for Operating Activities	\$ (7,824)
	<hr/> <hr/>

FIDUCIARY FUNDS

WATCHUNG BOROUGH SCHOOL DISTRICT
FIDUCIARY FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2017

	Student Activities	Payroll Agency	Total Agency	Flexible Spending Trust	Unemployment Compensation Trust
ASSETS:					
Cash and Cash Equivalents	\$ 50,615	\$ 185,036	\$ 235,651	\$ 16,131	\$ 43,390
Interfund Receivable:					
Payroll Agency Fund				4,130	
Total Assets	50,615	185,036	235,651	20,261	43,390
LIABILITIES:					
Accrued Salaries and Wages Payable		180,322	180,322		
Due to Student Groups	50,615		50,615		
Payroll Deductions and Withholdings		584	584		
Interfund Payable:					
General Fund				3,555	
Flexible Spending Trust		4,130	4,130		
Total Liabilities	50,615	185,036	235,651	3,555	
NET POSITION:					
Held in Trust for Flexible Spending Claims				16,706	43,390
Held in Trust for Unemployment Claims					
Total Net Position	\$ -0-	\$ -0-	\$ -0-	\$ 16,706	\$ 43,390

WATCHUNG BOROUGH SCHOOL DISTRICT
FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
Additions:		
Contributions:		
Employee Contributions	\$ 48,308	\$ 10,047
Total Contributions	<u>48,308</u>	<u>10,047</u>
Investment Earnings:		
Interest	76	244
Net Investment Earnings	<u>76</u>	<u>244</u>
Total Additions	<u>48,384</u>	<u>10,291</u>
Deductions		
Unemployment Compensation Claims		31,353
Flexible Spending Claims	<u>43,012</u>	
Total Deductions	<u>43,012</u>	<u>31,353</u>
Change in Net Position	5,372	(21,062)
Net Position - Beginning of the Year	<u>11,334</u>	<u>64,452</u>
Net Position - End of the Year	<u>\$ 16,706</u>	<u>\$ 43,390</u>

WATCHUNG BOROUGH SCHOOL DISTRICT
STUDENT ACTIVITY AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 44,035	\$ 94,176	\$ 87,596	\$ 50,615
Total Assets	<u>\$ 44,035</u>	<u>\$ 94,176</u>	<u>\$ 87,596</u>	<u>\$ 50,615</u>
<u>LIABILITIES:</u>				
Liabilities:				
Due to Student Groups	\$ 42,302	\$ 94,176	\$ 85,863	\$ 50,615
Interfund Payable to General Fund	1,733		1,733	
Total Liabilities	<u>\$ 44,035</u>	<u>\$ 94,176</u>	<u>\$ 87,596</u>	<u>\$ 50,615</u>

WATCHUNG BOROUGH SCHOOL DISTRICT
STUDENT ACTIVITY AGENCY FUND
STATEMENT OF ACTIVITY

	<u>Balance</u> <u>July 1, 2016</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2017</u>
Elementary School:				
Valley View School	\$ 19,667	\$ 69,474	\$ 66,708	\$ 22,433
Bayberry School	17,185	19,674	13,803	23,056
Sporting Officials	5,450	5,028	5,352	5,126
	<u>5,450</u>	<u>5,028</u>	<u>5,352</u>	<u>5,126</u>
Total All Schools	<u>\$ 42,302</u>	<u>\$ 94,176</u>	<u>\$ 85,863</u>	<u>\$ 50,615</u>

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

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 182,913	\$ 7,545,229	\$ 7,543,106	\$ 185,036
Total Assets	<u>\$ 182,913</u>	<u>\$ 7,545,229</u>	<u>\$ 7,543,106</u>	<u>\$ 185,036</u>
 <u>LIABILITIES:</u>				
Net Payroll		\$ 3,885,150	\$ 3,885,150	
Accrued Salaries and Wages Payable	\$ 175,439	180,322	175,439	\$ 180,322
Payroll Deduction and Withholdings	1,268	3,479,757	3,480,441	584
Interfund Payable:				
General Fund	2,076		2,076	
Flexible Spending Trust	4,130			4,130
Total Liabilities	<u>\$ 182,913</u>	<u>\$ 7,545,229</u>	<u>\$ 7,543,106</u>	<u>\$ 185,036</u>

LONG-TERM DEBT

WATCHUNG BOROUGH SCHOOL DISTRICT
GENERAL LONG-TERM DEBT ACCOUNT GROUP
SCHEDULE OF SERIAL BONDS

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Balance July 1, 2016</u>	<u>Retired or Matured</u>	<u>Balance June 30, 2017</u>
School Refunding Bonds	08/13/09	\$ 8,770,000	<u>\$ 2,015,000</u>	<u>\$ 2,015,000</u>	<u>\$ -0-</u>

WATCHUNG BOROUGH SCHOOL DISTRICT
LONG-TERM DEBT
SCHEDULE OF OBLIGATIONS UNDER CAPITAL LEASES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOT APPLICABLE

WATCHUNG BOROUGH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
REVENUE:					
Local Sources:					
Local Tax Levy	\$ 2,053,613		\$ 2,053,613	\$ 2,053,613	
Total Revenue	2,053,613		2,053,613	2,053,613	
EXPENDITURES:					
Regular Debt Service:					
Interest	38,613		38,613	38,613	
Redemption of Principal	2,015,000		2,015,000	2,015,000	
Total Expenditures	2,053,613		2,053,613	2,053,613	
Excess/(Deficiency) of Revenue Over/(Under) Expenditures	-0-		-0-	-0-	
Fund Balance, July 1	-0-		-0-	-0-	
Fund Balance, June 30	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

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

	<u>Exhibit</u>
Financial Trends These schedules contain trend information to help the reader understand how the School's financial performance and well-being have changed over time.	J-1 thru J-5
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the School's ability to generate its property taxes.	J-6 thru J-9
Debt Capacity 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.	J-10 thru J-13
Demographic and Economic Information 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.	J-14 thru J-15
Operating Information 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.	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
ACCURAL BASIS OF ACCOUNTING
UNAUDITED

	June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities										
Net Investment in Capital Assets	\$ 10,188,050	\$ 10,823,137	\$ 12,440,718	\$ 13,419,096	\$ 5,444,985	\$ 7,580,737	\$ 8,949,657	\$ 10,919,958	\$ 12,602,386	\$ 14,301,211
Restricted	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	2,635,626
Unrestricted/(Deficit)	(254,479)	119,772	(914,897)	(797,669)	(341,668)	(417,691)	(3,138,438)	(3,186,255)	(2,873,757)	(3,041,167)
Total Governmental Activities Net Position	\$ 12,248,338	\$ 13,280,887	\$ 14,012,515	\$ 15,208,340	\$ 7,730,877	\$ 10,145,576	\$ 8,624,062	\$ 10,479,923	\$ 12,343,551	\$ 13,895,670
Business-type Activities										
Net Investment in Capital Assets	\$ 865	\$ 2,519	\$ 1,721	\$ 3,977	\$ 5,726	\$ 20,197	\$ 17,604	\$ 15,011	\$ 12,418	\$ 9,825
Unrestricted						9,416	3,953	6,836	2,640	5,046
Total Business-type Activities Net Position	\$ 865	\$ 2,519	\$ 1,721	\$ 3,977	\$ 5,726	\$ 29,613	\$ 21,557	\$ 21,847	\$ 15,058	\$ 14,871
District-wide										
Net Investment in Capital Assets	\$ 10,188,050	\$ 10,823,137	\$ 12,440,718	\$ 13,419,096	\$ 5,444,985	\$ 7,600,934	\$ 8,967,261	\$ 10,934,969	\$ 12,614,804	\$ 14,311,036
Restricted	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	2,635,626
Unrestricted/(Deficit)	(253,614)	122,291	(913,176)	(793,692)	(335,942)	(408,275)	(3,134,485)	(3,179,419)	(2,871,117)	(3,036,121)
Total District Net Position	\$ 12,249,203	\$ 13,283,406	\$ 14,014,236	\$ 15,212,317	\$ 7,736,603	\$ 10,175,189	\$ 8,645,619	\$ 10,501,770	\$ 12,358,609	\$ 13,910,541

Source: School District Financial Reports

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

	Fiscal Year Ending June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental Activities										
Instruction:										
Regular	\$ 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	\$ 8,035,539
Special Education	642,267	833,309	882,425	873,731	891,087	918,890	1,012,370	1,206,798	1,502,409	1,612,823
Other Special Instruction	285,167	199,771	286,326	311,516	307,659	274,789	235,535	214,587	141,104	158,855
School-Sponsored/ Other Instruction	125,336	177,429	91,631	84,127	89,208	130,134	134,127	60,608	69,464	56,003
Support Services:										
Tuition	352,947	386,597	378,793	414,674	359,309	381,886	209,674	22,822	17,995	19,325
Student & Instruction Related Services	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	2,327,979
General Administrative Services	468,050	354,789	571,162	453,102	480,517	432,302	426,100	470,641	512,228	505,382
School Administrative Services	510,535	437,933	515,665	528,936	466,518	480,194	467,853	597,384	663,060	765,508
Plant Operations and Maintenance	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	333,494
Pupil Transportation	583,269	526,882	597,244	565,314	540,830	563,612	492,628	514,800	558,121	31,749
Central Services and Administrative										
Information Technology	282,086	353,600	207,193	210,672	308,359	271,782	273,991	326,803	352,306	1,367,852
Capital Outlay	581,841	543,333	560,823	566,240	287,699	254,398	157,031	47,138	56,138	59,532
Interest on Long-term Debt								87,246	1,759	(36,853)
Total Governmental Activities Expenses	12,041,303	11,451,755	12,047,642	11,698,565	11,787,178	12,229,545	12,246,274	13,550,680	14,333,124	15,804,100
Business-type Activities:										
Food Service	22,797	20,414	19,187	16,080	14,348	11,712	21,698	12,621	17,329	13,037
Total Business-type Activities Expense	22,797	20,414	19,187	16,080	14,348	11,712	21,698	12,621	17,329	13,037
Total District Expenses	\$ 12,064,100	\$ 11,472,169	\$ 12,066,829	\$ 11,714,645	\$ 11,801,526	\$ 12,241,257	\$ 12,267,972	\$ 13,563,301	\$ 14,350,453	\$ 15,817,137
Program Revenues										
Governmental Activities:										
Charges for Services	\$ 3,935	\$ 10,090	\$ 32,684	\$ 65,598	\$ 175,689	\$ 189,005	\$ 26,102	\$ 155,457	\$ 149,674	\$ 163,725
Instruction (Tuition)	1,478,947	588,273	901,996	928,058	1,320,584	1,568,461	1,550,169	2,763,449	3,177,650	4,216,211
Operating Grants and Contributions									229,897	930
Capital Grants and Contributions										
Total Governmental Activities Program Revenues	1,482,882	598,363	934,680	993,656	1,496,273	1,757,466	1,576,271	2,918,906	3,557,221	4,380,866
Business-type Activities:										
Charges for Services	11,086	11,189	10,731	10,237	8,326	8,353	7,235	6,450	5,640	7,335
Food Service	8,018	9,644	7,658	8,099	7,771	7,049	6,407	6,461	4,900	5,477
Operating Grants and Contributions										
Total Business-type Activities Program Revenues	19,104	20,833	18,389	18,336	16,097	15,402	13,642	12,911	10,540	12,812
Total District Program Revenues	\$ 1,501,986	\$ 619,196	\$ 953,069	\$ 1,011,992	\$ 1,512,370	\$ 1,772,868	\$ 1,589,913	\$ 2,931,817	\$ 3,567,761	\$ 4,393,678

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

	Fiscal Year Ending June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net (Expense)/Revenue										
Governmental Activities	\$ (10,558,421)	\$ (10,853,392)	\$ (11,112,961)	\$ (10,704,909)	\$ (10,290,905)	\$ (10,472,079)	\$ (10,670,003)	\$ (10,631,774)	\$ (10,775,903)	\$ (11,423,234)
Business-type Activities	(3,693)	419	(798)	2,256	1,749	3,690	(8,056)	290	(6,789)	(225)
Total District-wide Net Expense	<u>\$ (10,562,114)</u>	<u>\$ (10,852,973)</u>	<u>\$ (11,113,759)</u>	<u>\$ (10,702,653)</u>	<u>\$ (10,289,156)</u>	<u>\$ (10,468,389)</u>	<u>\$ (10,678,059)</u>	<u>\$ (10,631,484)</u>	<u>\$ (10,782,692)</u>	<u>\$ (11,423,459)</u>
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Property Taxes Levied for General Purposes, Net	\$ 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	\$ 10,673,587
Taxes Levied for Debt Service	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	2,053,613
Federal and State aid not restricted	324,924	887,882	490,662	386,722	82,040	58,675	38,852	166,027	144,323	174,936
Investment Earnings	109,325	6,961	2,006	354	7,931	250	250			
Miscellaneous Income	61,171	107,124	92,717	68,093	45,403	25,475	168,159	67,147	21,539	73,217
Total Governmental Activities	<u>10,956,423</u>	<u>11,885,931</u>	<u>11,844,590</u>	<u>11,900,733</u>	<u>11,697,587</u>	<u>11,840,132</u>	<u>12,209,863</u>	<u>12,487,635</u>	<u>12,639,532</u>	<u>12,975,353</u>
Business-type Activities:										
Investment Earnings	\$ 1,235									\$ 38
Total Business-type Activities	<u>\$ 1,235</u>	<u>\$ 1,235</u>	<u>\$ 1,235</u>	<u>\$ 1,235</u>	<u>\$ 1,235</u>	<u>\$ 1,235</u>	<u>\$ 1,235</u>	<u>\$ 1,235</u>	<u>\$ 1,235</u>	<u>\$ 38</u>
Total District-wide	<u>\$ 10,956,423</u>	<u>\$ 11,887,166</u>	<u>\$ 11,844,590</u>	<u>\$ 11,900,733</u>	<u>\$ 11,697,587</u>	<u>\$ 11,840,132</u>	<u>\$ 12,209,863</u>	<u>\$ 12,487,635</u>	<u>\$ 12,639,532</u>	<u>\$ 12,975,391</u>
Change in Net Position										
Governmental Activities	\$ 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	\$ 1,552,119
Business-type Activities	(3,693)	1,654	(798)	2,256	1,749	3,690	(8,056)	290	(6,789)	(187)
Total District	<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>	<u>\$ 1,551,932</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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Assigned				\$ 332,548	\$ 366,311	\$ 208,124	\$ 145,240	\$ 52,856	\$ 155,042	\$ 113,407
Restricted/Reserved				2,062,231	2,448,979	2,837,306	2,667,619	2,600,495	2,469,697	2,490,401
Unassigned				355,400	279,627	275,317	241,364	367,781	345,453	375,947
Reserved	\$ 2,150,442	\$ 2,214,622	\$ 2,122,729							
Unreserved	321,615	308,188	265,759							
Total General Fund	\$ 2,472,058	\$ 2,522,810	\$ 2,388,488	\$ 2,750,179	\$ 3,094,917	\$ 3,320,747	\$ 3,054,223	\$ 3,021,132	\$ 2,970,192	\$ 2,979,755
All Other Governmental Funds										
Restricted/Reserved				\$ 192,134	\$ 178,581	\$ 145,224	\$ 145,224	\$ 145,225	\$ 145,225	\$ 145,225
Committed						31,937	31,937		104,928	
Reserved	\$ 41,474	\$ 2,374	\$ 313,316							
Unreserved, Reported in:										
Capital Projects Fund	122,851	142,851								
Debt Service Fund	1		50,649							
Unassigned / (Deficit)								(124,969)		
Total All Other Governmental Funds	\$ 164,325	\$ 145,225	\$ 363,965	\$ 192,134	\$ 178,581	\$ 177,161	\$ 177,161	\$ 20,256	\$ 250,153	\$ 145,225
Total Governmental Funds	\$ 2,636,383	\$ 2,668,035	\$ 2,752,453	\$ 2,942,313	\$ 3,273,498	\$ 3,497,908	\$ 3,231,384	\$ 3,041,388	\$ 3,220,345	\$ 3,124,980

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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Tax Levy	\$ 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	\$ 12,727,200
Tuition Charges	3,935	10,090	11,481	25,503	131,577	144,670	7,909	141,637	149,674	147,425
Other Local	34,296		21,203	40,095	44,112	44,335	18,193			16,300
Interest Earnings	109,325	6,961	2,006	354		250	250	2,690	5,328	8,467
Miscellaneous	26,875	107,124	134,934	111,676	147,430	64,896	250,274	155,107	47,064	131,977
State Sources	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	1,942,946
Federal Sources	146,402	146,443	205,600	237,614	175,527	148,335	146,742	152,653	191,499	183,456
Total Revenue	12,439,304	12,484,294	12,779,270	12,894,589	13,193,860	13,597,598	13,786,134	14,310,343	14,817,075	15,157,771
Expenditures										
Instruction										
Regular Instruction	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	4,096,740
Special Education Instruction	398,905	543,558	608,707	602,522	595,448	611,277	705,291	832,760	1,050,456	1,114,342
Other Special Instruction	178,395	199,771	178,589	185,403	201,941	178,354	156,157	140,597	93,469	99,721
School-Sponsored/Other Instruction	90,097	92,768	91,631	84,127	65,521	78,414	81,780	38,760	39,548	37,201
Support Services:										
Tuition	352,947	386,597	378,793	414,674	359,309	381,886	209,674	22,822	17,995	19,325
Student & Other Instruction Related Services	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	1,656,886
General Administrative Services	341,956	364,363	350,675	315,145	400,830	360,425	354,460	318,630	363,595	325,429
School Administrative Services	339,692	336,655	347,734	316,589	321,663	322,439	333,337	371,366	384,089	407,581
Central Services and Administrative										
Information Technology	194,138	201,209	207,193	210,672	235,189	210,782	215,309	227,030	245,846	229,326
Plant Operations and Maintenance	972,885	1,049,221	943,934	996,071	1,052,290	1,024,532	942,759	1,000,008	1,042,561	1,007,285
Pupil Transportation	556,975	508,771	571,497	530,465	511,509	537,064	468,272	477,048	514,096	510,818
Unallocated Benefits	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	3,459,394
Capital Outlay	545,640	38,810	138,557	289,352	80,289	188,797	639,556	698,334	193,238	235,475
Debt Service:										
Principal	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	2,015,000
Interest and Other Charges	583,356	545,013	401,926	414,400	360,400	317,200	270,300	204,688	124,100	38,613
Total Expenditures	12,857,846	12,452,643	12,694,852	12,704,529	12,862,675	13,373,188	14,052,658	14,500,339	14,638,118	15,253,136

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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Excess/(Deficit) of Revenues										
Over/(Under) Expenditures	\$ (418,543)	\$ 31,651	\$ 84,418	\$ 189,860	\$ 331,185	\$ 224,410	\$ (266,524)	\$ (189,996)	\$ 178,957	\$ (95,365)
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 Amount on Refunding			(649,777)							
Capital Leases (Non-budgeted)								408,988		105,858
Transfers in								(408,988)		(105,858)
Transfers out										
Total Other Financing Sources/(Uses)	455,000									
Net Change in Fund Balances	\$ 36,457	\$ 31,651	\$ 84,418	\$ 189,860	\$ 331,185	\$ 224,410	\$ (266,524)	\$ (189,996)	\$ 178,957	\$ (95,365)
Debt Service as a Percentage of										
Noncapital Expenditures	12.62%	13.05%	12.80%	13.73%	13.85%	13.78%	13.91%	14.02%	13.84%	13.67%

Source: School District Financial Reports

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>
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
2017	17,103	163,725	56,114	236,942

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		Farm		Residential	Commercial	Industrial	Apartment	Total Assessed Value	Public Utilities ^a	Net Valuation Taxable	Total Direct School Tax Rate ^b	Estimated Actual (County Equalized Value)
	Land		Regular	Qualified									
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	1,684,503,323	
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	
2016	31,504,200	1,334,125,900	342,600	5,280	303,605,500	6,414,300	47,850,000	1,723,847,780	1,140,757	1,724,988,537	0.764	1,723,610,561	

* - 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

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
	General Obligation		Total Direct	Regional High School		County	
	Basic Rate ^a	Debt Service ^b		Municipality	District		
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
2016	0.641	0.123	0.764	0.595	0.334	0.397	2.090

* - 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

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

Taxpayer	2017		
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value
Watchung Square Associates	\$ 67,430,000	1	3.91%
Levin Properties LP	56,036,100	2	3.25%
Avalon II New Jersey Value II, LP	48,325,000	3	2.80%
Watchung UE LLC	23,628,700	4	1.37%
Sears Roebuck & Company	16,390,000	5	0.95%
Walmart	16,350,000	6	0.95%
Target Corp.	15,280,000	7	0.89%
HD Development of Maryland, Inc	13,756,000	8	0.80%
680 Mountain Boulevard, LLC	12,100,000	9	0.70%
Weldon Materials Inc.	10,097,800	10	0.59%
	<u>\$ 279,393,600</u>		<u>16.21%</u>

Taxpayer	2008		
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value
Watchung Square Associates LLC	\$ 91,346,000	1	5.02%
Blue Star Shopping Center	60,600,000	2	3.33%
WM Crystal Ridge LLC	59,178,800	3	3.25%
Watchung VF LLC	27,345,400	4	1.50%
Sears Roebuck & Company	20,400,000	5	1.12%
Home Depot, USA Inc.	18,668,000	6	1.03%
Target Corp.	18,480,000	7	1.02%
Weldon Materials Inc.	10,437,700	8	0.57%
Twin Brooks County Club, L.P.	9,612,000	9	0.53%
Pitney Partners	8,100,000	10	0.45%
Total	<u>\$ 324,167,900</u>		<u>17.82%</u>

Note: A reassessment was effective in 2010.

Source: Municipal Tax Assessor

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^a</u>		<u>Collections in</u> <u>Subsequent</u> <u>Years</u>
		<u>Amount</u>	<u>Percentage</u> <u>of Levy</u>	
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-
2017	12,727,200	12,727,200	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										Total District	Percentage of Personal Income ^a	Per Capita ^a
	General Obligation Bonds	Certificates of Participation	Obligations Under		Bond Anticipation Notes (BANs)	Business-Type Activities		Capital	Leases	Total			
			Lease-Purchase Agreement										
2008	\$ 13,863,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 355,000	\$ 14,218,000	\$ 2,113	2.82%	\$			
2009	12,788,000	-0-	-0-	-0-	-0-	-0-	12,788,000	1,888	2.69%				
2010	11,415,000	-0-	-0-	-0-	-0-	-0-	11,415,000	1,962	2.75%				
2011	10,125,000	-0-	-0-	-0-	-0-	-0-	10,125,000	1,730	2.33%				
2012	8,715,000	-0-	-0-	-0-	-0-	-0-	8,715,000	1,479	1.89%				
2013	7,215,000	-0-	-0-	-0-	-0-	-0-	7,215,000	1,219	1.52%				
2014	5,620,000	-0-	-0-	-0-	-0-	-0-	5,620,000	948	1.13%				
2015	3,890,000	-0-	-0-	-0-	-0-	-0-	3,890,000	658	0.76%				
2016	2,015,000	-0-	-0-	-0-	-0-	-0-	2,015,000	339	0.39%				
2017	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-				

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.

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 ^a Taxable	Per Capita ^b
	General Obligation Bonds	Deductions	Net General Bonded Debt Outstanding		
2008	\$ 13,863,000	-0-	\$ 13,863,000	0.75%	\$ 2,060
2009	12,788,000	-0-	12,788,000	0.70%	1,888
2010	11,415,000	-0-	11,415,000	0.66%	1,962
2011	10,125,000	-0-	10,125,000	0.64%	1,495
2012	8,715,000	-0-	8,715,000	0.55%	1,489
2013	7,215,000	-0-	7,215,000	0.45%	1,224
2014	5,620,000	-0-	5,620,000	0.35%	950
2015	3,890,000	-0-	3,890,000	0.24%	656
2016	2,015,000	-0-	2,015,000	0.12%	341
2017	-0-	-0-	-0-	-0-	-0-

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.

WATCHUNG BOROUGH SCHOOL DISTRICT
RATIOS OF OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF DECEMBER 31, 2016
UNAUDITED

<u>Governmental Unit</u>	<u>Debt</u> <u>Outstanding</u>	<u>Estimated</u> <u>Percentage</u> <u>Applicable^a</u>	<u>Estimated</u> <u>Share of</u> <u>Overlapping</u> <u>Debt</u>
Debt Repaid With Property Taxes			
Watchung Hills Regional High School	\$ 36,914,000	21.34%	\$ 7,878,944
Borough of Watchung	21,626,422	100.00%	21,626,422
County of Somerset - Borough's Share	198,783,605	2.96%	<u>5,893,166</u>
Subtotal, Overlapping Debt			35,398,532
Watchung Borough School District Direct Debt			<u>-0-</u>
Total Direct and Overlapping Debt			<u>\$ 35,398,532</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.

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

Legal Debt Margin Calculation for Fiscal Year 2017

	Equalized valuation basis
2015	1,683,353,748
2016	1,686,194,531
2017	1,723,610,561
	\$ 5,093,158,840
Average Equalized Valuation of Taxable Property	\$ 1,697,719,613
Debt Limit (3% of average equalization value)	\$ 50,931,588 ^a
Net Bonded School Debt	-0-
Legal Debt Margin	\$ 50,931,588

	Fiscal Year				
	2013	2014	2015	2016	2017
Debt Limit	\$ 51,057,251	\$ 49,853,252	\$ 49,422,708	\$ 49,998,213	\$ 50,931,588
Total Net Debt Applicable to Limit	7,215,000	3,890,000	3,890,000	2,015,000	-0-
Legal Debt Margin	\$ 43,842,251	\$ 45,963,252	\$ 45,532,708	\$ 47,983,213	\$ 50,931,588
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	14.13%	7.80%	7.87%	4.03%	0.00%

	Fiscal Year				
	2008	2009	2010	2011	2012
Debt Limit	\$ 58,062,085	\$ 58,878,984	\$ 58,119,876	\$ 54,306,404	\$ 52,707,158
Total Net Debt Applicable to Limit	13,863,000	12,788,000	11,415,000	10,215,000	8,715,000
Legal Debt Margin	\$ 44,199,085	\$ 46,090,984	\$ 46,704,876	\$ 44,091,404	\$ 43,992,158
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	23.88%	21.72%	19.64%	18.81%	16.53%

^a Limit set by NJSIA 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

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

Year	Population ^a	Borough of Watchung Personal Income ^b	Somerset County Per Capita Personal Income ^c	Unemployment Rate ^d
2008	6,730	\$ 503,807,800	\$ 74,860	6.40%
2009	6,773	476,216,403	70,311	6.40%
2010	5,817	415,758,441	71,473	6.30%
2011	5,854	434,589,252	74,238	6.30%
2012	5,893	460,614,559	78,163	6.60%
2013	5,918	474,428,306	80,167	4.20%
2014	5,927	496,273,637	83,731	4.80%
2015	5,916	511,544,688	86,468	4.20%
2016	5,949	514,398,132	86,468 *	4.00%
2017	5,949 **	514,398,132 ***	86,468 *	N/A

* - Latest Somerset County per capita personal income available (2015) was used for calculation purposes.

** - Latest population data available (2016) was used for calculation purposes.

***- Latest Borough personal income available (2015) was used for calculation purposes.

N/A - Information not available

Source:

^a Population information provided by the NJ Dept of Labor and Workforce Development

^b Personal income has been estimated based upon the municipal population and per capita personal income presented

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

^d 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

2016		2007	
Employer	Employees	Employer	Employees
Percentage of Total Employment		Percentage of Total Employment	

INFORMATION NOT AVAILABLE

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

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Instruction	50	49	49	47	50	50	51	50	50	52
Regular	10	9	9	8	9	9	28	14	15	15
Special education	3	4	3	3	3	3	0	0	0	0
Other instruction										
Support Services:										
Student & instruction related services	29	27	28	25	21	21	9	9	9	9
School administrative services	5	6	6	6	6	6	6	6	6	6
General and business administrative services	5	5	5	5	5	5	3	5	5	5
Plant operations and maintenance	9	9	9	9	9	8	11	10	10	10
Pupil transportation	2	2	2	2	2	2	3	1	1	1
Total	113	111	111	105	105	104	111	95	96	98

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 ^a	Cost Per Pupil ^d	Percentage Change	Teaching Staff ^b	Pupil/Teacher Ratio		Average Daily Enrollment (ADE) ^c	Average Daily Attendance (ADA) ^c	% Change in Average Daily Enrollment	Student Attendance Percentage
						Elementary	Middle				
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%
2017	704	12,964,048	18,415	0.76%	63	N/A	N/A	707.6	676.9	3.50%	95.66%

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>District Building</u>	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	309	319	342	351	349	334	303	327	331	341
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	379	379	376	363	361	383	413	364	350	363

Number of Schools at June 30, 2017
 Elementary = 2

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

Source: District Facilities Office

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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Bayberry Elementary	\$ 44,220	\$ 67,286	\$ 50,885	\$ 42,778	\$ 84,421
Valley View	67,747	76,766	54,888	50,641	41,413
District Total	<u>\$ 111,967</u>	<u>\$ 144,052</u>	<u>\$ 105,773</u>	<u>\$ 93,419</u>	<u>\$ 125,834</u>

<u>*School Facility</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Bayberry Elementary	\$ 80,000	\$ 77,428	\$ 35,391	\$ 38,619	\$ 35,611
Valley View	112,785	86,713	33,374	24,557	29,294
District Total	<u>\$ 192,785</u>	<u>\$ 164,141</u>	<u>\$ 68,765</u>	<u>\$ 63,176</u>	<u>\$ 64,905</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

WATCHUNG BOROUGH SCHOOL DISTRICT
INSURANCE SCHEDULE
JUNE 30, 2017
UNAUDITED

	<u>COVERAGE</u>	<u>DEDUCTIBLE</u>
Diploma Joint Insurance Fund		
Package Policy:		
Blanket Real and Personal Property	\$ 500,000,000	\$ 5,000
Earthquake	25,000,000	5,000
Flood	10,000,000	5,000
Boiler and Machinery	100,000,000	5,000
Cyber Liability	2,000,000	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



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax
Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2017.

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.

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.

November 1, 2017
Mount Arlington, New Jersey

NISIVOCCIA LLP



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



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

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, 2017. 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 federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major 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.

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

Opinion on Each Major State Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the fiscal year ended June 30, 2017.

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.

November 1, 2017
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, 2017

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, 2016			Balance at June 30, 2017		
					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 554017	7/1/16-6/30/17	\$ 35,507				\$ 35,507	\$ (35,507)	
Title II, Part A	84.286A	NCLB 554017	7/1/16-6/30/17	15,780				15,780	(15,780)	
								51,287	(51,287)	
Special Education Cluster:										
IDEA Combined Grant:										
I.D.E.A. Part B, Basic	84.027	IDEA 554017	7/1/16-6/30/17	125,538				125,538	(125,538)	
I.D.E.A. Part B, Preschool	84.173	IDEA 554017	7/1/16-6/30/17	6,631				6,631	(6,631)	
Total Special Education Cluster								132,169	(132,169)	
Total U.S. Department of Education								183,456	(183,456)	
U.S. Department of Agriculture:										
Passed-through State Department of Agriculture:										
Child Nutrition Cluster:										
Special Milk Program	10.556	N/A	7/1/16-6/30/17	5,477				5,096	(5,477)	\$ (381)
Special Milk Program	10.556	N/A	7/1/15-6/30/16	4,900				840		
Total U.S. Department of Agriculture/Child Nutrition Cluster								5,936	(5,477)	(381)
Total Federal Awards								\$ 189,392	\$ (188,933)	\$ (381)
								\$ -0-	\$ -0-	\$ -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, 2017

State Grantor/Program Title	Grant or State Project Number	Grant Period	Award Amount	Balance at June 30, 2016		Cash Received	Budgetary Expenditures	Balance at June 30, 2017		MEMO	
				Budgetary Accounts Receivable	Due to Grantor			GAAP Accounts Receivable	Due to Grantor	Budgetary Accounts Receivable	Cumulative Total Expenditures
New Jersey Department of Education General Fund:											
Categorical Transportation Aid	17-495-034-5120-014	7/1/16-6/30/17	\$ 60,681			\$ 55,588	\$ (60,681)			\$ (5,093)	\$ 60,681
Categorical Special Education Aid	17-495-034-5120-089	7/1/16-6/30/17	339,314			310,835	(339,314)			(28,479)	339,314
Categorical Security Aid	17-495-034-5120-078	7/1/16-6/30/17	12,631			11,571	(12,631)			(1,060)	12,631
PARCC Readiness Aid	17-495-034-5120-098	7/1/16-6/30/17	6,910			6,330	(6,910)			(580)	6,910
Per Pupil Growth Aid	17-495-034-5120-097	7/1/16-6/30/17	6,910			6,330	(6,910)			(580)	6,910
Professional Learning Community Aid	17-495-034-5120-101	7/1/16-6/30/17	6,740			6,174	(6,740)			(566)	6,740
Extraordinary Aid	17-495-034-5120-044	7/1/16-6/30/17	155,345				(155,345)	\$ 155,345		(155,345)	155,345
Nonpublic Transportation	17-495-035-5120-014	7/1/16-6/30/17	6,960				(6,960)	6,960		(6,960)	6,960
Reimbursed TPAF Social Security Contributions	17-495-034-5094-003	7/1/16-6/30/17	357,699			339,675	(357,699)	18,024		(18,024)	357,699
On-Behalf TPAF Post Retirement Contributions	17-495-034-5094-001	7/1/16-6/30/17	448,337			448,337	(448,337)				448,337
On-Behalf Long Term Disability Insurance Contributions	17-495-034-5094-004	7/1/16-6/30/17	1,042			1,042	(1,042)				1,042
On-Behalf TPAF Pension Contributions	17-495-034-5094-002	7/1/16-6/30/17	519,258			519,258	(519,258)				519,258
On-Behalf TPAF Non-Contributory Insurance	17-495-034-5094-004	7/1/16-6/30/17	18,814			18,814	(18,814)				18,814
Categorical Transportation Aid	16-495-034-5120-014	7/1/15-6/30/16	52,008			4,623					52,008
Categorical Special Education Aid	16-495-034-5120-089	7/1/15-6/30/16	347,512			30,892	(30,892)				347,512
Categorical Security Aid	16-495-034-5120-078	7/1/15-6/30/16	11,137			990	(990)				11,137
PARCC Readiness Aid	16-495-034-5120-098	7/1/15-6/30/16	6,910			614	(614)				6,910
Per Pupil Growth Aid	16-495-034-5120-097	7/1/15-6/30/16	6,910			614	(614)				6,910
Extraordinary Aid	16-100-034-5120-473	7/1/15-6/30/16	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
Total General Fund State Aid				(170,919)		1,894,873	(1,940,641)	180,329		(216,687)	2,498,304
Capital Projects Fund:											
N.J. Schools Development Authority Grant	5540-050-09-0ZXX	N/A	56,509	(930)		930					56,509
Total Capital Projects Fund				(930)		930					56,509
Total State Department of Education				\$ (171,849)	\$ -0-	\$ 1,895,803	\$ (1,940,641)	\$ 180,329	\$ -0-	\$ (216,687)	\$ 2,554,813
Less: On-Behalf TPAF Pension System Contributions:											
On-Behalf TPAF Post Retirement Contributions	17-495-034-5094-001	7/1/16-6/30/17	(448,337)				448,337				
On-Behalf Long Term Disability Insurance Contributions	17-495-034-5094-004	7/1/16-6/30/17	(1,042)				1,042				
On-Behalf TPAF Pension Contributions	17-495-034-5094-002	7/1/16-6/30/17	(519,258)				519,258				
On-Behalf TPAF Non-Contributory Insurance	17-495-034-5094-004	7/1/16-6/30/17	(18,814)				18,814				
Subtotal - On-Behalf TPAF Pension System Contributions							987,451				
Total State Awards - for Major Program Determination							\$ (953,190)				
N/A - Not Available											

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

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2017. 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 not 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 \$1,375 for the general fund and \$930 for the capital projects 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.

WATCHUNG BOROUGH SCHOOL DISTRICT
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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:

	Federal	State	Total
General Fund		\$ 1,942,016	\$ 1,942,016
Special Revenue Fund	\$ 183,456		183,456
Capital Projects Fund		930	930
Food Service Fund	5,477		5,477
Total Awards	\$ 188,933	\$ 1,942,946	\$ 2,131,879

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, 2017.

NOTE 7. NJ SCHOOLS DEVELOPMENT AUTHORITY (NJSDA GRANTS)

The District has been awarded grants totaling \$56,509 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. As of June 30, 2017 all grant funds have been received.

WATCHUNG BOROUGH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2017 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>State:</u>	<u>Grant Number</u>	<u>Grant Period</u>	<u>Award Amount</u>	<u>Budgetary Expenditures</u>
Categorical Special Education Aid	17-495-034-5120-089	7/1/16-6/30/17	\$ 339,314	\$ 339,314
Categorical Security Aid	17-495-034-5120-078	7/1/16-6/30/17	12,631	12,631
Per Pupil Growth Aid	17-495-034-5120-097	7/1/16-6/30/17	6,910	6,910
PARCC Readiness Aid	17-495-034-5120-098	7/1/16-6/30/17	6,910	6,910
Professional Learning Communtiy Aid	17-495-034-5120-101	7/1/16-6/30/17	6,740	6,740

- 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.

WATCHUNG BOROUGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

Status of Prior Year Findings:

The District had no prior year audit findings.