

**WATCHUNG BOROUGH  
SCHOOL DISTRICT**

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

**Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2018**

**Comprehensive Annual  
Financial Report**

**of the**

**WATCHUNG BOROUGH SCHOOL DISTRICT**

**Watchung, New Jersey**

**For the Fiscal Year Ended June 30, 2018**

**Watchung Borough School District**

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

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INTRODUCTORY SECTION



# Watchung Borough Board of Education

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

Mrs. Stephanie Bilenker, Interim Superintendent  
Mrs. Valery Petronie, Interim Business Administrator/Board Secretary

January 18, 2019

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, 2018, 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 2017-2018 fiscal year with an enrollment of 723 students, which is 19 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  
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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 8<sup>th</sup> grade. The District maintains a tuition based, integrated, Preschool Program for 3 and 4- year old children. A full-day academic Kindergarten is offered to students who reach age 5 by October 1<sup>st</sup>. Spanish is offered to students in grades K through 4. Spanish and French are offered to students in grades 5 through 8. Mathematics in the Middle school includes accelerated geometry and algebra. In addition, Industrial Arts and Robotics are taught at the Middle School level. Award winning vocal and instrumental music, arts, and performing arts opportunities abound in our schools. SOAR, the District's program for gifted and talented students, is offered to students identified as eligible in grades K through 8. Guidance Counselors in both schools assist teachers and administrators with assessing and meeting the academic, social, and emotional needs of the students. Peer Mediation is offered at both schools. An Autism Class for students ages 5 through 8 is held in the Bayberry Elementary School. A Preschool Disabled Program is available for students beginning at age 3. Resource Center Programs are available in both schools.

Several successful initiatives were completed during the 2017-2018 school year. The following are some examples of program enhancements and District improvements:

Comprehensive Curriculum Development in English Language Arts and Mathematics for grades K through 8 were completed during the summer of 2018. A link to the public portal for parents to view District Curriculum is available through Rubicon Atlas, a software program. A Five-Year Curriculum Cycle was developed and approved by the Board of Education. Curriculum articulation occurs with other Sending Districts and Watchung Hills Regional High School. Teacher training has focused on Integrated Language Arts and Mathematics during the 2017-2018 school year. In addition, teachers continue to train in Readers Writers Workshops in order to support students in the reading and writing content areas. The District has implemented an ESL Program that serves students in grades K through 8. A new Studies Skill Curriculum was developed for the Middle School students and is available for students in grades 6 - 8. During the 2017-2018 school year, the Bayberry Elementary School received a "Sustainable Schools Award" from Sustainable Jersey for Schools, with a Bronze Level Certification.

Report Cards are distributed on a trimester basis at Bayberry Elementary School. Middle School students have acquired PowerSchool access to self-monitor their academic progress.

The District's Safety and Security plan was revised and updated during the 2018-2019 school year to ensure that all students and staff safety issues are addressed.

Valley View Middle School Band and Chorus earned Gold for their performances in the Adjudication Competition. The annual Middle School Play, High School Musical, Jr., was a successful event.



Students also participated in a wide range of activities that included, but not limited to, class trips, assemblies, fund raisers, concerts, art shows, science fairs, spelling bees, book author visits, and grade level plays/skits. Camp Mason continues to be a favorite trip.

Winning seasons were posted in Girls' Basketball, Boys' Basketball, and Softball. Track and Field contestants earned medals in the Sending District Meet and medals in the Rotary Meet.

The District entered into a Shared Services agreement with Northern Regional Educational Services Commission to meet its Technology requirement and staffing needs. In addition to the Districts' Chromebook Initiative, eReaders, iPads, Smart Boards, and Distance Learning equipment are available to all students. Chromebooks are distributed to all Middle School students to use at School and at home. On-line assessments, and computer literacy skills help to advance students' competencies for PARCC Assessments. The District's Chromebook initiative occurs at grades 2, 3, and 4. Students in grades K-1 have access to classroom sets of I-Pads.

A District Web-site offers a user-friendly format including Quick Links. Apps for the website were developed and are available for iPhone Android users. PowerSchool continues to be utilized as the District's web-based student information system (SIS) with robust tools for viewing, 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 and the OnCourse platform in Compliance with the State's evaluation requirements. The Marshall's Rubric was adopted to evaluate Administrators. Mandated training for staff is conducted through SafeSchools' On-Line Professional Development Service.

The Somerset County Youth Service Commission provided grants that sponsored spring and fall programs for Valley View Girls of 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. In addition, grants have support the TREP\$ (Entrepreneur) Program. This innovative program encourages students to create marketable items and to develop a marketing plan for their creations. A new Middle School program, The Pursuit of Excellence, provides students with tutoring in the Language Arts and Mathematics program.

The Watchung Education 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. Funds contributed by the Foundation help to maintain and enhance the quality of education in Watchung Borough District Schools.

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, and the Watchung Police Department's D.A.R.E. program.

**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, 2018.

**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.

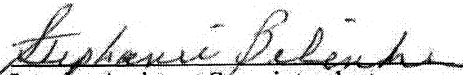
**8. RISK MANAGEMENT:** The Board carries various forms of insurance that includes, but not limited to, general liability, automobile liability and comprehensive/collision, hazard and theft insurance on property and contents, and fidelity bonds. A schedule of insurance coverage is found on J-20.

**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.

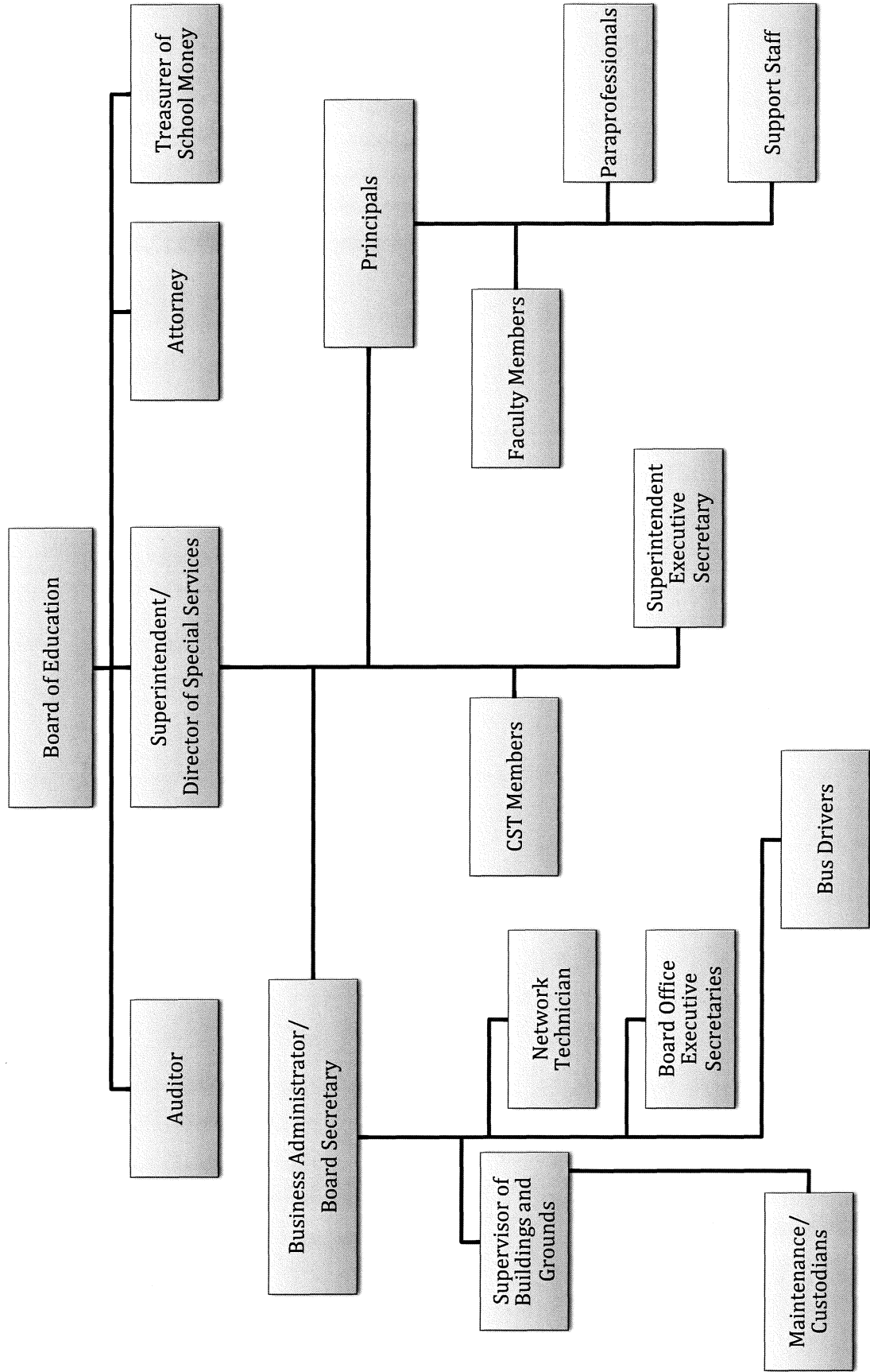
Honorable President and  
Members of the Board of Education  
Watchung Borough School District  
Page 5  
January 18, 2019

**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,

  
Interim Assistant Superintendent

# Watchung Borough Board of Education Organizational Chart Unit Control



WATCHUNG BOROUGH SCHOOL DISTRICT  
ROSTER OF OFFICIALS  
JUNE 30, 2018

**Members of the Board of Education**

**Term Expires**

Margo Langer, President	2018
Tina Kelly, Vice President	2020
James Rhyner	2018
Dennis Bakos	2019
George Colonias	2018
Georgia Glasser-Nehls	2019
Ellyn Margulies	2020
Joseph Mattiassi	2020
Thomas Sicola	2019

**Other Officials**

Barbara A. Resko, Ph. D., Superintendent of Schools  
Bert Arifaj, School Business Administrator/Board Secretary - through 01/21/2018  
Mark Resnick, Interim School Business Administrator/Board Secretary - from 01/22/2018  
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

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, 2018, 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, 2018, 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.

### ***Emphasis of Matter***

As discussed in Note 10 to the basic financial statements, the District implemented Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during the fiscal year ended June 30, 2018. Our opinions are not modified with respect to this matter.

### ***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 and post-employment benefit schedules in Exhibits L-1 through L-5 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 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 January 18, 2019 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.

January 18, 2019  
Mount Arlington, New Jersey

NISIVOCCIA LLP



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

REQUIRED SUPPLEMENTARY INFORMATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This section of Watchung Borough School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2018. 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 \$15.93 million.
- Overall expenses were \$16.34 million.
- Enrollment in the District has slightly increased for the current year and cost per pupil has been increasing.

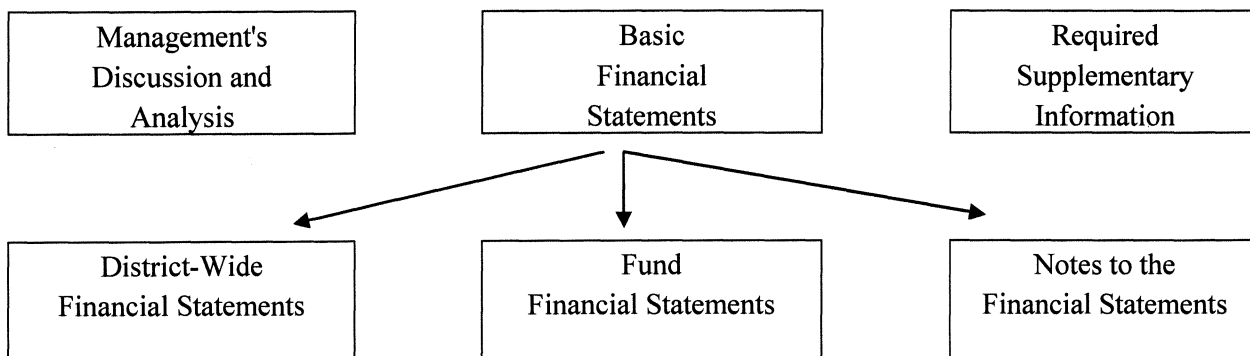
**Overview of the Financial Statements**

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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenue, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenue, expenses, and changes in net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenue and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

**District-wide Statements**

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

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

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

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

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

**Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

*Notes to the Basic Financial Statements.* The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the fund financial statements.

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

*Net Position.* The District’s combined net position decreased \$407,842. Net position from governmental activities decreased by \$405,424 and net position from business activities decreased by \$2,418. Net investment in capital assets decreased by \$347,788, restricted net position increased by \$65,299 and unrestricted net position decreased by \$125,353.

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

	Government Activities		Business-Type Activities		Total School District		Total Percentage Change
	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017	
Current and Other Assets	\$ 3,189,132	\$ 3,171,976	\$ 5,221	\$ 5,046	\$ 3,194,353	\$ 3,177,022	
Capital Assets, Net	13,956,016	14,301,211	7,232	9,825	13,963,248	14,311,036	
Total Assets	17,145,148	17,473,187	12,453	14,871	17,157,601	17,488,058	-1.89%
Deferred Outflows of Resources	874,324	1,221,628			874,324	1,221,628	-28.43%
Other Liabilities	198,728	171,689			198,728	171,689	
Long-Term Liabilities	3,422,524	4,351,699			3,422,524	4,351,699	
Total Liabilities	3,621,252	4,523,388			3,621,252	4,523,388	-19.94%
Deferred Inflows of Resources	907,974	198,864			907,974	198,864	356.58%
Net Position:							
Investment in Capital Assets							
Assets	13,956,016	14,301,211	7,232	9,825	13,963,248	14,311,036	
Restricted	2,700,925	2,635,626			2,700,925	2,635,626	
Unrestricted/(Deficit)	(3,166,695)	(3,041,167)	5,221	5,046	(3,161,474)	(3,036,121)	
Total Net Position	\$ 13,490,246	\$ 13,895,670	\$ 12,453	\$ 14,871	\$ 13,502,699	\$ 13,910,541	-2.93%

*Changes in Net Position.* The District’s *combined* net position was \$13,502,699 on June 30, 2018, or \$407,842 less than it was the year before. (See Figure A-3). Investment in capital assets decreased by \$347,788 due to additions to capital assets of \$73,000 offset by depreciation expense of \$420,788. Restricted net position increased by \$65,299 due to an increase in excess surplus of \$118,406 offset by a decrease in capital reserve of \$53,107. Unrestricted net position decreased by \$125,528 due primarily to the net of the decrease in the net pension liability, the net of the deferred inflows and outflows relating to pension liability and increase in compensated absences 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
	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017	
<b>Revenue:</b>							
<b>Program Revenue:</b>							
Tuition	\$ 176,427	\$ 163,725			\$ 176,427	\$ 163,725	
Charges for Services			\$ 6,046	\$ 7,335	6,046	7,335	
Operating Grants & Contributions	4,719,114	4,216,211	5,157	5,477	4,724,271	4,221,688	
Capital Grants & Contributions		930				930	
<b>General Revenue:</b>							
Property Taxes	10,887,059	12,727,200			10,887,059	12,727,200	
Unrestricted Federal & State Aid	64,714	174,936			64,714	174,936	
Other	75,752	73,217	112	38	75,864	73,255	
<b>Total Revenue</b>	<b>15,923,066</b>	<b>17,356,219</b>	<b>11,315</b>	<b>12,850</b>	<b>15,934,381</b>	<b>17,369,069</b>	<b>-8.26%</b>
<b>Expenses:</b>							
Instruction	10,085,748	9,863,220			10,085,748	9,863,220	
Pupil and Instruction Services	2,477,207	2,347,304			2,477,207	2,347,304	
Administrative and Business	1,826,043	1,636,133			1,826,043	1,636,133	
Maintenance and Operations	1,315,847	1,367,852			1,315,847	1,367,852	
Transportation	576,507	566,912			576,507	566,912	
Other	47,138	22,679	13,733	13,037	60,871	35,716	
<b>Total Expenses</b>	<b>16,328,490</b>	<b>15,804,100</b>	<b>13,733</b>	<b>13,037</b>	<b>16,342,223</b>	<b>15,817,137</b>	<b>3.32%</b>
<b>Increase/(Decrease) in Net Position</b>	<b>\$ (405,424)</b>	<b>\$ 1,552,119</b>	<b>\$ (2,418)</b>	<b>\$ (187)</b>	<b>\$ (407,842)</b>	<b>\$ 1,551,932</b>	<b>-126.28%</b>

**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-5 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-5**  
**Net Cost of Governmental Activities**

	<u>Total Costs of Services</u>		<u>Net Cost of Services</u>	
	<u>2017/2018</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>2016/2017</u>
Instruction	\$ 10,085,748	\$ 9,863,220	\$ 6,358,280	\$ 6,567,268
Pupil and Instruction Services	2,477,207	2,347,304	1,928,345	1,830,310
Administrative and Business	1,826,043	1,636,133	1,428,228	1,264,496
Maintenance and Operations	1,315,847	1,367,852	1,128,191	1,200,042
Transportation	576,507	566,912	542,767	538,439
Other	47,138	22,679	47,138	22,679
	<u>\$ 16,328,490</u>	<u>\$ 15,804,100</u>	<u>\$ 11,432,949</u>	<u>\$ 11,423,234</u>

- The cost of all governmental activities this year was approximately \$16.33 million.
- The federal and state governments subsidized certain programs with grants and contributions of \$4.79 million.
- Approximately \$10.89 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 \$2,418 (Refer to Figure A-4). Factors contributing to these results included:

- Food service operating revenues decreased by \$1,289 and non-operating revenue decreased by \$246 combined with an increase in the operating expenses of \$696. The increase in operating expenses is due to an increase in miscellaneous expenses paid by the General Fund on behalf of the Food Service Fund.

**Financial Analysis of the District's Funds**

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

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

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

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

**General Fund Budgetary Highlights**

Over the course of the fiscal year, the District revised the annual operating budget between budgetary line items for changes in school-based needs. Special education instruction and extraordinary services for special education increased \$23,180 and \$81,145, respectively above budgeted amounts due to the needs of incoming students. Student support services also increased \$17,067 over budgeted amounts. The District had a budgeted withdrawal of \$73,000 from the Capital Reserve for the replacement of PA system with emergency notifications software at Valley View Middle School.

**Capital Asset and Long-Term Liabilities**

Current year capital additions were \$73,000 and annual depreciation was \$420,788 (\$418,195 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-6**  
**Capital Assets (Net of Depreciation)**

	Government Activities		Business-Type Activities		Total School District		Total Percentage Change
	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017	
Land	\$ 411,364	\$ 411,364			\$ 411,364	\$ 411,364	
Building and Building Improvements	13,018,663	13,344,303			13,018,663	13,344,303	
Machinery and Equipment	525,989	545,544	\$ 7,232	\$ 9,825	533,221	555,369	
Total Capital Assets (Net of Depreciation)	<u>\$13,956,016</u>	<u>\$14,301,211</u>	<u>\$ 7,232</u>	<u>\$ 12,418</u>	<u>\$13,963,248</u>	<u>\$14,311,036</u>	<u>-2.43%</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-7**  
**Outstanding Long-Term Liabilities**

	Total School District		Percentage Change
	2017/2018	2016/2017	
Compensated Absences	\$ 233,329	\$ 194,666	
Net Pension Liability	3,189,195	4,157,033	
	<u>\$ 3,422,524</u>	<u>\$ 4,351,699</u>	<u>-21.35%</u>

- Compensated absences payable increased by a net amount of \$38,663.
- The net pension liability decreased by \$967,838 from the prior year.

**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 2018-2019 budget with a 2.4% 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 2019-2020 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 will expire in June 2019. The unknown of negotiations puts a stressor on the development of the 2019-2020 budget.
- Special Education Costs- These costs continue to rise and impacts our budget quite heavily. We continue to work to provide services in a cost effective manner.

The District is proud of its community support of our 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 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, 2018

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 789,983	\$ 8,140	\$ 798,123
Interfund Receivable	4,148		4,148
Internal Balances	3,349	(3,349)	
Receivable from State Government	69,382		69,382
Receivable from Federal Government	146,802	430	147,232
Other Accounts Receivable	7,383		7,383
<b>Restricted Assets:</b>			
Capital Reserve Account - Cash and Cash Equivalents	1,802,895		1,802,895
Maintenance Reserve Account - Cash and Cash Equivalents	365,190		365,190
<b>Capital Assets:</b>			
Sites (Land)	411,364		411,364
Depreciable Buildings and Building Improvements and Machinery and Equipment	13,544,652	7,232	13,551,884
Total Assets	17,145,148	12,453	17,157,601
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows Related to Pensions	874,324		874,324
Total Deferred Outflows of Resources	874,324		874,324
<b>LIABILITIES</b>			
Accounts Payable	188,236		188,236
Unearned Revenue	10,492		10,492
<b>Noncurrent Liabilities:</b>			
Due Within One Year	20,994		20,994
Due Beyond One Year	3,401,530		3,401,530
Total Liabilities	3,621,252		3,621,252
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows Related to Pensions	907,974		907,974
Total Deferred Inflows of Resources	907,974		907,974

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
NET POSITION			
Investment in Capital Assets	\$ 13,956,016	\$ 7,232	\$ 13,963,248
Restricted for:			
Capital Projects	1,948,120		1,948,120
Maintenance Reserve	365,190		365,190
Excess Surplus	387,615		387,615
Unrestricted/(Deficit)	<u>(3,166,695)</u>	<u>5,221</u>	<u>(3,161,474)</u>
Total Net Position	<u>\$ 13,490,246</u>	<u>\$ 12,453</u>	<u>\$ 13,502,699</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, 2018

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>						
<b>Instruction:</b>						
Regular	\$ 7,984,272		\$ 2,709,187	\$ (5,275,085)		\$ (5,275,085)
Special Education	1,816,370		923,710	(892,660)		(892,660)
Other Special Instruction	164,581		43,792	(120,789)		(120,789)
School-Sponsored Other Instruction	120,525		50,779	(69,746)		(69,746)
<b>Support Services:</b>						
Tuition	228,446	\$ 176,427		(52,019)		(52,019)
Student & Instruction Related Services	2,248,761		372,435	(1,876,326)		(1,876,326)
General Administrative Services	609,460		160,322	(449,138)		(449,138)
School Administrative Services	842,695		167,455	(675,240)		(675,240)
Central Services	342,930		70,038	(272,892)		(272,892)
Administrative Information Technology	30,958			(30,958)		(30,958)
Plant Operations and Maintenance	1,315,847		187,656	(1,128,191)		(1,128,191)
Pupil Transportation	576,507		33,740	(542,767)		(542,767)
Capital Outlay	47,138			(47,138)		(47,138)
<b>Total Governmental Activities</b>	<b>16,328,490</b>	<b>176,427</b>	<b>4,719,114</b>	<b>(11,432,949)</b>		<b>(11,432,949)</b>



WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Business-Type Activities:						
Food Service	\$ 13,733	\$ 6,046	\$ 5,157		\$ (2,530)	\$ (2,530)
Total Business-Type Activities	13,733	6,046	5,157		(2,530)	(2,530)
Total Primary Government	\$ 16,342,223	\$ 182,473	\$ 4,724,271	\$ (11,432,949)	(2,530)	(11,435,479)
General Revenue:						
Taxes:						
Property Taxes, Levied for General Purposes, Net			\$ 10,887,059		\$ 10,887,059	
Federal and State Aid not Restricted			64,714		64,714	
Miscellaneous Income			75,752		\$ 112	75,864
Total General Revenue			11,027,525		112	11,027,637
Change in Net Position			(405,424)		(2,418)	(407,842)
Net Position - Beginning			13,895,670		14,871	13,910,541
Net Position - Ending			\$ 13,490,246		\$ 12,453	\$ 13,502,699

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, 2018

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 509,742		\$ 280,241	\$ 789,983
Receivables From Federal Government		\$ 146,802		146,802
Receivables From State Government	69,382			69,382
Other Receivables	1,560	5,823		7,383
Interfund Receivables	280,884			280,884
Restricted Cash and Cash Equivalents	2,168,085			2,168,085
<b>Total Assets</b>	<u>\$ 3,029,653</u>	<u>\$ 152,625</u>	<u>\$ 280,241</u>	<u>\$ 3,462,519</u>

**LIABILITIES AND FUND BALANCES:**

<b>Liabilities:</b>				
Accounts Payable	\$ 45,474	\$ 7,762		\$ 53,236
Interfund Payable		138,371	\$ 135,016	273,387
Unearned Revenue	4,000	6,492		10,492
<b>Total Liabilities</b>	<u>49,474</u>	<u>152,625</u>	<u>135,016</u>	<u>337,115</u>

**Fund Balances:**

<b>Restricted:</b>				
Capital Reserve Account	1,802,895			1,802,895
Maintenance Reserve Account	365,190			365,190
Excess Surplus Designated for Subsequent Year's Expenditures	143,764			143,764
Excess Surplus Capital Projects Fund	243,851		145,225	243,851
<b>Assigned:</b>				
Designated for Subsequent Year's Expenditures	162,332			162,332

WATCHUNG BOROUGH SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Fund Balances:				
Unassigned:				
General Fund	\$ 262,147			\$ 262,147
Total Fund Balances	<u>2,980,179</u>		<u>\$ 145,225</u>	<u>3,125,404</u>
Total Liabilities and Fund Balances	<u>\$ 3,029,653</u>	<u>\$ 152,625</u>	<u>\$ 280,241</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 \$21,035,873 and the accumulated depreciation is \$7,079,857.

\$ 13,956,016

The Net Pension Liability for PERS is not Due and Payable in the Current Period and is not Reported in the Governmental Funds. (3,189,195)

Other Long-Term Liabilities are not due and payable in the current period and therefore are not reported as liabilities in the Funds. (233,329)

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 642,513

  Difference Between Estimated and Actual Experience - Pensions 75,095

  Net Difference Between Projected and Actual Investment Earnings - Pensions 21,716

Deferred Inflows:

  Changes in Assumptions - Pensions (640,157)

  Changes in Proportions - Pensions (267,817)

Net Position of Governmental Activities

\$ 13,490,246

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, 2018

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUE:				
Local Sources:				
Local Tax Levy	\$ 10,887,059			\$ 10,887,059
Tuition from Individuals	176,427			176,427
Interest Earned on Capital Reserve Funds	19,893			19,893
Miscellaneous	55,859	\$ 52,086		107,945
Total - Local Sources	<u>11,139,238</u>	<u>52,086</u>		<u>11,191,324</u>
State Sources	2,067,349			2,067,349
Federal Sources		190,329		190,329
Total Revenue	<u>13,206,587</u>	<u>242,415</u>		<u>13,449,002</u>
EXPENDITURES				
Current:				
Regular Instruction	3,785,179	109,060		3,894,239
Special Education Instruction	1,025,991	133,355		1,159,346
Other Special Instruction	99,630			99,630
School Sponsored/Other Instruction	43,504			43,504
Support Services and Undistributed Costs:				
Tuition	228,446			228,446
Student & Instruction Related Services	1,658,157			1,658,157
General Administrative Services	385,076			385,076
School Administrative Services	430,713			430,713
Central Services	210,274			210,274

WATCHUNG BOROUGH SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
EXPENDITURES				
Administrative Information Technology	\$ 30,958			\$ 30,958
Plant Operations and Maintenance	935,726			935,726
Pupil Transportation	512,601			512,601
Allocated and Unallocated Benefits	3,739,770			3,739,770
Capital Outlay	120,138			120,138
Total Expenditures	<u>13,206,163</u>	<u>\$ 242,415</u>		<u>13,448,578</u>
Excess/(Deficit) of Revenue over/(under) Expenditures	424			424
Fund Balance—July 1	<u>2,979,755</u>		<u>\$ 145,225</u>	<u>3,124,980</u>
Fund Balance—June 30	<u>\$ 2,980,179</u>	<u>\$ - 0 -</u>	<u>\$ 145,225</u>	<u>\$ 3,125,404</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, 2018

Total Net Change in Fund Balances - Governmental Funds (from Exhibit B-2) \$ 424

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	\$ (418,195)
Capital outlays	<u>73,000</u>
	(345,195)

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	967,838
Deferred Outflows:	
Changes in Assumptions	(218,602)
Difference Between Expected and Actual Experience	(2,213)
Net Difference between projected and actual investment earnings on Pension Plan Investments	(136,796)
Deferred Inflows:	
Changes in Assumptions	(640,157)
Changes in Proportions	<u>7,940</u>
	(21,990)

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) (38,663)

\$ (405,424)

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, 2018

	<u>Business-type            Activities -            Enterprise Funds</u> <u>Food Service</u> <u>Non-Major Fund</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 8,140
Intergovernmental Accounts Receivable:	
Federal	430
Total Current Assets	<u>8,570</u>
Non-Current Assets:	
Capital Assets	35,360
Less: Accumulated Depreciation	<u>(28,128)</u>
Total Non-Current Assets	<u>7,232</u>
Total Assets	<u>15,802</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Interfund Payable	<u>3,349</u>
Total Current Liabilities	<u>3,349</u>
<b>NET POSITION:</b>	
Investment in Capital Assets	7,232
Unrestricted	<u>5,221</u>
Total Net Position	<u>\$ 12,453</u>

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, 2018

	<u>Business-type</u> <u>Activities -</u> <u>Enterprise Funds</u> <u>Food Service</u> <u>Non-Major Fund</u>
Operating Revenue:	
Local Sources:	
Daily Sales - Reimbursable Programs	\$ 6,046
Total Operating Revenue	<u>6,046</u>
Operating Expenses:	
Cost of Sales- Reimbursable Programs	9,012
Miscellaneous Expenditures	2,128
Depreciation Expense	2,593
Total Operating Expenses	<u>13,733</u>
Operating Loss	(7,687)
Non-Operating Revenue:	
Local Sources:	
Interest Income	112
Federal Sources:	
Special Milk Program	<u>5,157</u>
Total Non-Operating Revenue	<u>5,269</u>
Change in Net Position	(2,418)
Net Position - Beginning of Year	<u>14,871</u>
Net Position - End of Year	<u><u>\$ 12,453</u></u>

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, 2018

	Business-type Activities - <u>Enterprise Funds</u> <u>Food Service</u> <u>Non-Major Fund</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 6,046
Payments to Milk Vendor	(11,140)
Other Costs	<u>2,129</u>
Net Cash Used for Operating Activities	<u>(2,965)</u>
Cash Flows from Investing Activities:	
Local Sources:	
Interest Income	<u>112</u>
Net Cash Provided by Investing Activities	<u>112</u>
Cash Flows from Noncapital Financing Activities:	
Federal Sources:	
Special Milk Program	<u>5,108</u>
Net Cash Provided by Noncapital Financing Activities	<u>5,108</u>
Net Increase in Cash and Cash Equivalents	2,255
Cash and Cash Equivalents, July 1	<u>5,885</u>
Cash and Cash Equivalents, June 30	<u>\$ 8,140</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (7,687)
Adjustment to Reconcile Operating Loss to Cash Used for Operating Activities:	
Depreciation	2,593
Changes in Assets and Liabilities:	
Increase in Interfund Payable	<u>2,129</u>
Net Cash Used for Operating Activities	<u>\$ (2,965)</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, 2018

	<u>Agency</u>	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 233,620	\$ 18,730	\$ 35,799
Interfund Receivable:			
Payroll Agency Fund		4,130	
 Total Assets	 <u>233,620</u>	 <u>22,860</u>	 <u>35,799</u>
 <b>LIABILITIES:</b>			
Accrued Salaries and Wages Payable	167,613		
Due to Student Groups	60,467		
Payroll Deductions and Withholdings	1,410		
Interfund Payable:			
General Fund		4,148	
Flexible Spending Trust	4,130		
 Total Liabilities	 <u>233,620</u>	 <u>4,148</u>	
 <b>NET POSITION:</b>			
Held in Trust for Flexible Spending Claims		18,712	
Held in Trust for Unemployment Claims			35,799
 Total Net Position	 <u>\$ -0-</u>	 <u>\$ 18,712</u>	 <u>\$ 35,799</u>

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, 2018

	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
Additions:		
Contributions:		
Employee Contributions	\$ 51,307	\$ 10,217
Total Contributions	<u>51,307</u>	<u>10,217</u>
Investment Earnings:		
Interest	<u>345</u>	<u>438</u>
Net Investment Earnings	<u>345</u>	<u>438</u>
Total Additions	<u>51,652</u>	<u>10,655</u>
Deductions		
Unemployment Compensation Claims		18,246
Flexible Spending Claims	<u>49,646</u>	
Total Deductions	<u>49,646</u>	<u>18,246</u>
Change in Net Position	2,006	(7,591)
Net Position - Beginning of the Year	<u>16,706</u>	<u>43,390</u>
Net Position - End of the Year	<u>\$ 18,712</u>	<u>\$ 35,799</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, 2018

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, 2018  
(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, 2018  
(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, 2018  
(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, 2018 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	\$ 13,210,165	\$ 242,415
Differences - Budget to GAAP:		
Prior Year State Aid Payments Recognized for GAAP Statements	36,358	
Current Year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	(39,936)	
Total Revenues as Reported on the Statement of Revenues,		
Expenditures and Changes in Fund Balances - Governmental Funds.	\$ 13,206,587	\$ 242,415



WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(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	\$ 13,206,163	\$ 242,415
Total Expenditures as Reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 13,206,163	\$ 242,415

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.

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 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.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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

F. Interfund Transactions (Cont'd)

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

G. Allowance for Uncollectible Accounts:

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

H. Encumbrances:

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

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

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

I. Short-term Interfund Receivables/Payables:

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

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, 2018.

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 acquisition value. The cost of normal maintenance and repairs is not capitalized. The District does not possess any infrastructure. Capital assets have been reviewed for impairment.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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

K. Capital Assets (Cont'd)

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.

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, 2018, the amount earned by these employees but not yet disbursed was \$167,613.

N. Compensated Absences:

The District accounts for compensated absences (e.g., unused vacation, sick leave) as directed by GASB. 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.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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

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 \$2,980,179 General Fund fund balance at June 30, 2018, \$365,190 is restricted in the maintenance reserve account; \$1,802,895 is restricted in the capital reserve account; \$143,764 is restricted as prior year excess surplus and has been appropriated and included as anticipated revenue for the fiscal year ended June 30, 2019; \$243,851 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, 2020; \$162,332 is assigned and has been appropriated and included as anticipated revenue for the fiscal year ended June 30, 2019; and \$262,147 in unassigned fund balance, which is \$39,936 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, 2019.

Capital Projects Fund: The \$145,225 fund balance in the Capital Projects Fund at June 30, 2018 is restricted.

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 \$39,936 as of June 30, 2018 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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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

Q. Fund Balance Restrictions, Commitments and Assignments (Cont'd)

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, 2018.

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 does not have assigned resources for year-end encumbrances, however it does have amount designated for subsequent year's expenditures at June 30, 2018 in the General Fund.

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, 2018 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, 2018 for the changes in assumptions in pensions and for 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.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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

S. Deficit Net Position:

The District has a deficit in unrestricted net position of \$3,166,695 in its governmental activities, which is due to unassigned General Fund balance of \$262,147, \$162,332 assigned fund balance and deferred outflows of resources related to pensions of \$739,324; offset by net pension liability of \$3,189,195, compensated absences payable of \$233,329 and deferred inflows of resources related to pensions of \$907,974. 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.

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.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

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.

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.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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

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;
- (4) Bonds or other obligations of the school district or bonds or other obligations of the local unit or units within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law", P.L. 1983, c.313 (C.40A:5A-1 et seq.). Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Investment in the Department of the Treasury for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or
- (8) Agreements for the repurchase of fully collateralized securities if:
  - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a. or are bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the requirements of the "Local Authorities Fiscal Control Law," P.L. 1983, c. 313 (C.40A:5A-1 et seq.) ;
  - (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; or



WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

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

Investments (Cont'd)

- (9) Deposit of funds in accordance with the following conditions:
- (a) The funds are initially invested through a public depository as defined in section 1 of P.L. 1970, c. 236 (C.17:9-41) designated by the school district;
  - (b) The designated public depository arranges for the deposit of the funds in deposit accounts in one or more federally insured banks, savings banks or savings and loan associations or credit unions for the account of the school district;
  - (c) 100 percent of the principal and accrued interest of each deposit is insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund;
  - (d) The designated public depository acts as custodian for the school district with respect to these deposits; and
  - (e) On the same date that the school district's funds are deposited pursuant to subparagraph (b) of this paragraph, the designated public depository receives an amount of deposits from customers of other financial institutions, wherever located, equal to the amounts of funds initially invested by the school district through the designated public depository.

As of June 30, 2018, cash and cash equivalents of the District consisted of the following:

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents Capital Reserve Account	Maintenance Reserve Account	Total
Checking Accounts	\$ 1,086,272	\$ 1,802,895	\$ 365,190	\$ 3,254,357
	<u>\$ 1,086,272</u>	<u>\$ 1,802,895</u>	<u>\$ 365,190</u>	<u>\$ 3,254,357</u>

During the period ended June 30, 2018, the District did not hold any investments. The carrying amount of the Board's cash and cash equivalents at June 30, 2018, was \$3,254,357 and the bank balance was \$3,634,785.

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

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

NOTE 4. CAPITAL RESERVE ACCOUNT (Cont'd)

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.

The activity of the capital reserve for the July 1, 2017 to June 30, 2018 fiscal year is as follows:

Beginning Balance, July 1, 2017	\$ 1,856,002
Interest Earnings	19,893
	1,875,895
Less: Budgeted Withdrawal	(73,000)
Ending Balance, June 30, 2018	\$ 1,802,895

The balance in the capital reserve account at June 30, 2018 did not exceed the balance of local support costs of uncompleted capital projects in the District's approved Long Range Facilities Plan. The withdrawals from the capital reserve were for use in DOE approved facilities projects, consistent with the District's LRFP.

NOTE 5. MAINTENANCE RESERVE ACCOUNT

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

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

The activity of the maintenance reserve for the July 1, 2017 to June 30, 2018 fiscal year is as follows:

Balance July 1, 2017	\$ 365,190
Balance July 1, 2018	\$ 365,190

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

NOTE 6. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2018 were as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
<b>Governmental Activities:</b>				
<b>Capital Assets not Being Depreciated:</b>				
Sites (Land)	\$ 411,364			\$ 411,364
Total Capital Assets Not Being Depreciated	411,364			411,364
<b>Capital Assets Being Depreciated:</b>				
Buildings and Building Improvements	19,159,257			19,159,257
Machinery and Equipment	1,392,252	\$ 73,000		1,465,252
Total Capital Assets Being Depreciated	20,551,509	73,000		20,624,509
Governmental Activities Capital Assets	20,962,873	73,000		21,035,873
<b>Less Accumulated Depreciation for:</b>				
Buildings and Building Improvements	(5,814,954)	(325,640)		(6,140,594)
Machinery and Equipment	(846,708)	(92,555)		(939,263)
	(6,661,662)	(418,195)		(7,079,857)
Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 14,301,211	\$ (345,195)	\$ - 0 -	\$ 13,956,016
<b>Business Type Activities:</b>				
<b>Capital Assets Being Depreciated:</b>				
Machinery and Equipment	\$ 35,360			\$ 35,360
Less Accumulated Depreciation	(25,535)	\$ (2,593)		(28,128)
Business Type Activities Capital Assets, Net of Accumulated Depreciation	\$ 9,825	\$ (2,593)	\$ - 0 -	\$ 7,232

Depreciation expense was charged to governmental functions as follows:

General Administration	\$ 22,202
Maintenance / Operations	24,755
Student & Instruction Related Services	5,517
Regular Instruction	349,391
Special Education Instruction	16,330
	<u>\$ 418,195</u>

NOTE 7: TRANSFERS TO CAPITAL OUTLAY

During the year ended June 30, 2018, the District did not transfer any funds to the capital outlay accounts.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

NOTE 8. LONG-TERM LIABILITIES

During the fiscal year ended June 30, 2018, 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>
Compensated Absences Payable	\$ 194,666	\$ 39,490	\$ 827	\$ 233,329
Net Pension Liability	4,157,033		967,838	3,189,195
	<u>\$ 4,351,699</u>	<u>\$ 39,490</u>	<u>\$ 968,665</u>	<u>\$ 3,422,524</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 are liquidated through the Debt Service Fund. The District had no bonds payable.

B. Bonds Authorized But Not Issued:

As of June 30, 2018, the Board had bonds authorized but not issued in the amount of \$355.

C. Capital Leases Payable:

As of June 30, 2018, the District had no capital leases payable.

D. Unamortized Bond Premium:

The District had no unamortized bond premium as of June 30, 2018.

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 \$212,335. The current portion of compensated absences payable is \$20,994. 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, 2018, 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, 2018 is \$-0- and the long-term portion is \$3,189,195. 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, 2018  
(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.nj.gov/treasury/pensions/financial-reports.shtml](http://www.nj.gov/treasury/pensions/financial-reports.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 1/55<sup>th</sup> of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60<sup>th</sup> of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 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  
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(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 \$128,417 for fiscal year 2018.

The employee contribution rate was 7.34% effective July 1, 2017. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1<sup>st</sup> to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

Pension Liabilities and Pension Expense

At June 30, 2018, the District reported a liability of \$3,189,195 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. 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, 2017, the District's proportion was 0.0137%, which was a decrease of 0.00034% from its proportion measured as of June 30, 2016.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(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, 2018, the District recognized pension expense of \$149,836. 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	\$ 36,178	
	2015	5.72	152,392	
	2016	5.57	453,943	
	2017	5.48		\$ 640,157
				<u>642,513</u>
Changes in Proportion	2014	6.44		\$ 33,841
	2015	5.72		47,856
	2016	5.57		126,292
	2017	5.48		59,828
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5	(38,216)	
	2015	5	32,600	
	2016	5	136,689	
	2017	5	(109,357)	
				<u>21,716</u>
Difference Between Expected and Actual Experience	2015	5.72	42,281	
	2016	5.57	13,776	
	2017	5.48	19,038	
			<u>75,095</u>	
District Contribution Subsequent to the Measurement Date	2017	1	135,000	
			<u>\$ 874,324</u>	<u>\$ 907,974</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Pension Liabilities and Pension Expense (Cont'd)

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
2018	\$ 75,077
2019	113,292
2020	68,650
2021	(91,304)
2022	(66,548)
	\$ 99,167

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

Inflation Rate	2.25%
Salary Increases:	
Through 2026	1.65 – 4.15% based on age
Thereafter	2.65 – 5.15% based on age
Investment Rate of Return	7.00%

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, 2016 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.



WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2017) 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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Market Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, 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, 2017 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, 2017		
	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
District's proportionate share of the Net Pension Liability	\$ 3,956,412	\$ 3,189,195	\$ 2,550,007

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.nj.gov/treasury/pensions/financial-reports.shtml](http://www.nj.gov/treasury/pensions/financial-reports.shtml).

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Benefits Provided

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

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

Contributions

The contribution policy for TPAF is set by N.J.S.A. 18A:66 and requires contributions by active members and contributing members. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which included the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2018, the State's pension contribution was less than the actuarial 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 2018, the State of New Jersey contributed \$715,713 to the TPAF for normal pension benefits on behalf of the District, which is less than the contractually required contribution of \$2,234,354.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Contributions (Cont'd)

The employee contribution rate was 7.34% effective July 1, 2017. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1<sup>st</sup> to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

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

At June 30, 2018, the State's proportionate share of the net pension liability associated with the District was \$32,253,421. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. 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, 2017, the District's proportion was 0.048%, which was an increase of 0.002% from its proportion measured as of June 30, 2016.

District's Proportionate Share of the Net Pension Liability	\$ -0-
State's Proportionate Share of the Net Pension Liability Associated with the District	32,253,421
Total	<u>\$ 32,253,421</u>

For the fiscal year ended June 30, 2018, the State recognized pension expense on behalf of the District in the amount of \$2,234,354 and the District recognized pension expense and revenue for that same amount in the fiscal year ended June 30, 2018 financial statements.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(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	\$ 1,383,974,317	
	2015	8.3	3,776,126,119	
	2016	8.3	8,218,154,928	
	2017	8.3		\$ 11,684,858,458
				<u>13,378,255,364</u>
Difference Between Expected and Actual Experience	2014	8.5		13,181,413
	2015	8.3	233,218,057	
	2016	8.3		102,199,790
	2017	8.3	207,898,332	
			<u>441,116,389</u>	<u>115,381,203</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5	(435,309,142)	
	2015	5	385,284,122	
	2016	5	1,295,565,574	
	2017	5	(904,033,050)	
			<u>341,507,504</u>	<u>\$ 14,160,879,257</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:

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2018	\$ 740,341,056
2019	1,175,650,200
2020	983,008,137
2021	551,152,948
2022	624,850,883
Thereafter	<u>(1,714,363,628)</u>
	<u>\$ 2,360,639,596</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(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, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.25%
Salary Increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment Rate of Return	7.00%

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, 2016 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 (7.00% at June 30, 2017) 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, 2017 are summarized in the following table:

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

Long Term Expected Rate of Return (Cont'd)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Market Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%

Discount Rate – TPAF

The discount rate used to measure the total pension liability was 4.25% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 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 40% 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 2036. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2036, 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, 2018  
(Continued)

NOTE 9. PENSION PLANS (Cont'd)

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

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

The following presents the State's proportionate share of the net pension liability associated with the District as of June 30, 2017 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, 2017		
	At 1% Decrease (3.25%)	At Current Discount Rate (4.25%)	At 1% Increase (5.25%)
	State's Proportionate Share of the Net Pension Liability Associated with the District	\$ 38,318,075	\$ 32,253,421

Pension Plan Fiduciary Net Position - TPAF

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

C. Defined Contribution Retirement Program (DCRP)

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

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

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

For DCRP, the District recognized pension expense of \$3,801 for the fiscal year ended June 30, 2018. Employee contributions to DCRP amounted to \$5,096 for the year ended June 30, 2018.



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

NOTE 10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

State Health Benefit Program Fund – Local Education Retired (including Prescription Drug Program Fund)

General Information about the OPEB Plan

Plan Description and Benefits Provided

The District is in a “special funding situation”, as described in GASB Statement No. 75, in that OPEB contributions and expenses are legally required to be made by and are the sole responsibility of the State of New Jersey, not the District.

The State of New Jersey reports a liability as a result of its statutory requirements to pay other post-employment (health) benefits for the State Health Benefit Local Education Retired Education Plan. The State Health Benefit Local Education Retired Employees Plan is a multiple-employer defined benefit OPEB plan that is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The State Health Benefits Local Education Retired Employees Plan provides medical, prescription drug, and Medicare Part B reimbursement to retirees and their covered dependents of local education employers.

The employer contributions for the participating local education employers are legally required to be funded by the State of New Jersey in accordance with N.J.S.A. 52:14-17.32f. According to N.J.S.A. 52:14-17.32f, the State provides employer-paid coverage to employees who retire from a board of education or county college with 25 years or more of service credit in, or retires on a disability pension from, one or more of the following plans: the Teachers’ Pension and Annuity Fund (TPAF), the Public Employees’ Retirement System (PERS), the Police and Firemen Retirement System (PFRS), or the Alternate Benefit Program (ABP). Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 years or more of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree’s annual retirement benefit and level of coverage.

The total nonemployer OPEB liability does not include certain other postemployment benefit obligations that are provided by the local education employers. The reporting of these benefits, if any, is the responsibility of the individual education employers.

Employees Covered by Benefit Terms

At June 30, 2016, the plan membership consisted of the following:

Inactive Plan Members or Beneficiaries Currently Receiving Benefit Payments	142,331
Active Plan Members	<u>223,747</u>
Total	<u><u>366,078</u></u>

Total Nonemployer OPEB Liability

The total nonemployer OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The total nonemployer OPEB liability as of June 30, 2016 was determined by an actuarial valuation as of June 30, 2016.

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

NOTE 10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Cont'd)

Actuarial Assumptions and Other Inputs

The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.50%		
	TPAF/ABP	PERS	PFRS
Salary Increases:			
Through 2026	1.55 - 4.55%	2.15 - 4.15%	2.10 - 8.98%
	based on years of service	based on age	based on age
Thereafter	2.00 - 5.45%	3.15 - 5.15%	3.10 - 9.98%
	based on years of service	based on age	based on age

Preretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Employee Male/Female Mortality Table with fully generational mortality improvement projections from the central year using MP-2017 scale. Postretirement mortality rates were based on the RP-2014 Headcount-Weighted Health Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2014 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies for the periods July 1, 2012 – June 30, 2015, July 1, 2010 – June 30, 2013, and July 1, 2011 – June 30, 2014 for TPAF, PFRS and PERS, respectively.

Health Care Trend Assumptions

For pre-Medicare preferred provider organization (PPO) medical benefits, this amount initially is 5.9% and decreases to a 5.0% long term trend rate after nine years. For self-insured post 65 PPO medical benefits, the trend rate is 4.5%. For health maintenance organization (HMO) medical benefits, the trend rate is initially 5.9% and decreases to a 5.0% long term rate after nine years. For prescription drug benefits, the initial trend rate is 10.5% and decreases to a 5.0% long term rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Discount Rate

The discount rate for June 30, 2017 and 2016 was 3.58% and 2.85%, respectively. This represents the municipal bond rate as chosen by the State of New Jersey Division of Pensions and Benefits. The source is 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.

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

NOTE 10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Cont'd)

Changes in the State's Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	\$ 57,831,784,184
Changes for Year:	
Service Cost	2,391,878,884
Interest on the Total OPEB Liability	1,699,441,736
Changes of Assumptions	(7,086,599,129)
Gross Benefit Payments by the State	(1,242,412,566)
Contributions from Members	45,748,749
Net Changes	(4,191,942,326)
Balance at June 30, 2017	\$ 53,639,841,858

Sensitivity of the Total Nonemployer OPEB Liability Attributable to the District to Changes in the Discount Rate

The following presents the total nonemployer OPEB Liability attributable to the District as of June 30, 2017 and 2016, respectively, calculated using the discount rate as disclosed in this note, as well as what the total nonemployer OPEB liability attributable to the District 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, 2017		
	At 1%	At	At 1%
	Decrease (2.58%)	Discount Rate (3.58%)	Increase (4.58%)
Total OPEB Liability Attributable to the District	\$ 24,462,137	\$ 20,607,119	\$ 17,549,282
	June 30, 2016		
	At 1%	At	At 1%
	Decrease (1.85%)	Discount Rate (2.85%)	Increase (3.85%)
Total OPEB Liability Attributable to the District	\$ 26,484,235	\$ 22,106,649	\$ 18,660,928

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

NOTE 10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Cont'd)

Sensitivity of the Total Nonemployer OPEB Liability Attributable to the District to Changes in the Healthcare Trend Rate

The following presents the total nonemployer OPEB Liability attributable to the District as of June 30, 2017 and 2016, respectively, calculated using the healthcare trend rate as disclosed in this note, as well as what the total nonemployer OPEB liability attributable to the District would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2017		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability Attributable to the District	\$ 16,947,363	\$ 20,607,119	\$ 25,467,232
	June 30, 2016		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability Attributable to the District	\$ 18,139,121	\$ 22,106,649	\$ 27,410,856

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018 the District recognized OPEB expense of \$1,440,664 as determined by the State of New Jersey Division of Pensions and Benefits. This expense and the related offsetting revenue are for benefits provided by the State through a defined benefit OPEB plan that meets the criteria in GASB Statement 75, in which there is a special funding situation.

In accordance with GASB Statement 75, as the District's proportionate share of the OPEB liability is \$-0, there is no recognition of the allocation of the proportionate share of the deferred inflows and outflows of resources. At June 30, 2017 the State had deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Assumption Changes		\$ (6,343,769,032)
Contributions Made in Fiscal Year Ending 2018 After June 30, 2017 Measurement Date	\$ 1,190,373,242	
	\$ 1,190,373,242	\$ (6,343,769,032)

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)

NOTE 10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Cont'd)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,	Total
2018	\$ (742,830,097)
2019	(742,830,097)
2020	(742,830,097)
2021	(742,830,097)
2022	(742,830,097)
Thereafter	(2,629,618,547)
	\$ (6,343,769,032)

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, 2018  
(Continued)

NOTE 11. RISK MANAGEMENT (Cont'd)

The financial information for Fund year ended June 30, 2018 is not available. Selected, summarized financial information for the Fund as of June 30, 2017 is as follows:

	<u>Diploma Joint Insurance Fund</u>
Total Assets	\$ 14,051,073
Net Position	\$ 6,383,491
Total Revenue	\$ 6,071,937
Total Expenses	\$ 6,164,525
Change in Net Position	\$ (92,588)
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>
2018	-0-	\$ 10,655	\$ 18,246	\$ 35,799
2017	-0-	10,291	31,353	43,390
2016	-0-	10,178	34,394	64,452

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, 2018  
(Continued)

NOTE 13. INTERFUND RECEIVABLES AND PAYABLES

The following interfund balances existed as of June 30, 2018:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 280,884	
Special Revenue Fund		\$ 138,371
Capital Projects Fund		135,016
Food Service Fund		3,349
Fiduciary Funds		4,148
	\$ 280,884	\$ 280,884

The interfund between the General Fund and the Fiduciary Funds represents payroll agency and flexible spending balances that are due to the General Fund but not turned over as of June 30, 2018. 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. The interfund payable from the Special Revenue Fund to the General Fund represents money loaned to the Special Revenue Fund as the federal grant funds had not been received by fiscal 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, 2018  
(Continued)

NOTE 15. CONTINGENT LIABILITIES (Cont'd)

Encumbrances

At June 30, 2018, there were no encumbrances in the governmental funds.

NOTE 16. ACCOUNTS PAYABLE

At June 30, 2018, there were accounts payable as detailed below in the governmental funds. All of the governmental funds are considered to be major funds.

	<u>Governmental Funds</u>		District Contribution	Total
	<u>General Fund</u>	<u>Special Revenue Fund</u>	Subsequent to Measurement Date	Governmental Activities
Vendors	\$ 45,474	\$ 7,762		\$ 53,236
State of New Jersey			\$ 135,000	135,000
	<u>\$ 45,474</u>	<u>\$ 7,762</u>	<u>\$ 135,000</u>	<u>\$ 188,236</u>

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 FOUR 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%
			3,189,195
			923,519
			345.33%
			48.10%

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 FOUR 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)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
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%
			13.45%
			\$ 128,417
			(128,417)

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 FOUR 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%
			2018
			0.0478369854%
			\$ 32,253,421
			\$ 5,048,273
			638.90%
			25.41%

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 FOUR 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	\$ 4,807,187	\$ 4,951,413
Contributions as a percentage of covered employee payroll	28.69%	36.36%	54.89%
			44.26%
			<u>(715,713)</u>
			<u>\$ 2,234,354</u>
			<u>\$ 1,518,641</u>

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 CHANGES IN THE STATE'S TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST TWO FISCAL YEARS  
UNAUDITED

	Fiscal Years Ending	
	June 30, 2016	June 30, 2017
Total OPEB Liability		
Service Cost	\$ 1,723,999,319	\$ 2,391,878,884
Interest Cost	1,823,643,792	1,699,441,736
Changes in Assumptions	8,611,513,521	(7,086,599,129)
Member Contributions	46,273,747	45,748,749
Gross Benefit Payments	<u>(1,223,298,019)</u>	<u>(1,242,412,566)</u>
Net Change in Total OPEB Liability	10,982,132,360	(4,191,942,326)
Total OPEB Liability - Beginning	<u>46,849,651,824</u>	<u>57,831,784,184</u>
Total OPEB Liability - Ending	<u>\$57,831,784,184</u>	<u>\$53,639,841,858</u>
State's Covered Employee Payroll *	\$13,493,400,208	\$13,493,400,208
Total OPEB Liability as a Percentage of Covered Employee Payroll	429%	398%

\* - Covered payroll for the fiscal years ending June 30, 2016 and June 30, 2017 is based on the payroll on the June 30, 2016 census data.

Note: This schedule does not contain ten years of information as GASB No. 75 was implemented during the fiscal year ended June 30, 2018.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Actuarial Assumptions

The discount rate changed from 3.98% as of June 30, 2016 to 5.00% as of June 30, 2017. The municipal bond rate changed from 2.85% to 3.58%. The long-term expected rate of return on pension plan investments changed from 7.65% to 7.00%.

The inflation rate changed from 3.08% as of June 30, 2016 to 2.25% as of June 30, 2017.

B. TEACHERS PENSION AND ANNUITY FUND

Benefit Changes

There were none.

Changes of Actuarial Assumptions

The discount rate changed from 3.22% as of June 30, 2016 to 4.25% as of June 30, 2017. The municipal bond rate changed from 2.85% to 3.58%. The long-term expected rate of return on pension plan investments changed from 7.65% to 7.00%.

The inflation rate changed from 2.50% as of June 30, 2016 to 2.25% as of June 30, 2017.

C. STATE HEALTH BENEFIT LOCAL EDUCATION RETIRED EMPLOYEES OPEB PLAN

Benefit Changes

There were none.

Changes of Actuarial Assumptions

The discount rate changed from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017.

BUDGETARY COMPARISON SCHEDULES



WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUES:</b>					
Local Sources:					
Local Tax Levy	\$ 10,887,059		\$ 10,887,059	\$ 10,887,059	
Tuition from Individuals	130,000		130,000	176,427	\$ 46,427
Interest Earned on Capital Reserve Funds	1,500		1,500	19,893	18,393
Miscellaneous	10,000		10,000	55,859	45,859
<b>Total - Local Sources</b>	<b>11,028,559</b>		<b>11,028,559</b>	<b>11,139,238</b>	<b>110,679</b>
State Sources:					
Transportation Aid	60,681		60,681	60,681	
Special Education Aid	375,176		375,176	375,176	
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				42,223	42,223
Nonpublic Transportation Aid				9,860	9,860
On-Behalf TPAF Pension Contribution (Non-Budgeted)				715,713	715,713
On-Behalf TPAF Non-Contributory Insurance (Non-Budgeted)				17,369	17,369
On-Behalf TPAF Post Retirement Medical Benefits (Non-Budgeted)				473,482	473,482
On-Behalf TPAF Long-Term Disability Insurance (Non-Budgeted)				762	762
TPAF Social Security (Reimbursed - Non-Budgeted)				342,470	342,470
<b>Total State Sources</b>	<b>469,048</b>		<b>469,048</b>	<b>2,070,927</b>	<b>1,601,879</b>
<b>TOTAL REVENUES</b>	<b>11,497,607</b>		<b>11,497,607</b>	<b>13,210,165</b>	<b>1,712,558</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Regular Programs - Instruction:					
Preschool - Salaries of Teachers	\$ 100,803	\$ 11,997	\$ 112,800	\$ 107,576	\$ 5,224
Kindergarten - Salaries of Teachers	273,460		273,460	273,460	
Grades 1-5 - Salaries of Teachers	1,632,837	(25,947)	1,606,890	1,602,437	4,453
Grades 6-8 - Salaries of Teachers	1,456,256	(17,388)	1,438,868	1,438,868	
Regular Programs - Home Instruction:					
Salaries of Teachers	3,000	24,947	27,947	27,947	
Purchased Professional - Educational Services	4,000	(2,760)	1,240	1,240	
Regular Programs - Undistributed Instruction:					
Other Salaries of Instruction	1,240	(1,240)			
Purchased Professional - Educational Services	110,000	(4,643)	105,357	105,357	
Other Purchased Services (400-500 series)	83,788	(1,921)	81,867	79,222	2,645
General Supplies	95,629	(1,083)	94,546	88,802	5,744
Textbooks	55,000		55,000	55,000	
Other Objects	5,270		5,270	5,270	
<b>Total Regular Programs - Instruction</b>	<b>3,821,283</b>	<b>(18,038)</b>	<b>3,803,245</b>	<b>3,785,179</b>	<b>18,066</b>
<b>Special Education:</b>					
Multiple Disabilities:					
Salaries of Teachers	59,985	(7,370)	52,615	52,615	
Purchased Professional - Educational Services	61,101		61,101	51,475	9,626
<b>Total Multiple Disabilities</b>	<b>121,086</b>	<b>(7,370)</b>	<b>113,716</b>	<b>104,090</b>	<b>9,626</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Resource Room/Resource Center:					
Salaries of Teachers	\$ 561,463	\$ (62,615)	\$ 498,848	\$ 498,848	
Other Salaries for Instruction	22,147		22,147	22,137	\$ 10
Purchased Professional - Educational Services	318,811	96,265	415,076	400,076	15,000
General Supplies	4,000	(3,100)	900	840	60
Total Resource Room/Resource Center	906,421	30,550	936,971	921,901	15,070
Total Special Education Instruction	1,027,507	23,180	1,050,687	1,025,991	24,696
Basic Skills/Remedial - Instruction:					
Salaries of Teachers	31,935	28,050	59,985	59,985	
Total Basic Skills/Remedial - Instruction	31,935	28,050	59,985	59,985	
School-Sponsored Cocurricular Activities - Instruction:					
Salaries	42,053	(1,909)	40,144	39,645	499
Total School-Sponsored Cocurricular Activities - Instruction	42,053	(1,909)	40,144	39,645	499

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
School-Sponsored Cocurricular Athletics - Instruction:					
Salaries	\$ 28,000	\$ 1,910	\$ 29,910	\$ 29,910	
Purchased Services (300-500 series)	5,000		5,000	5,000	
Supplies and Materials	4,600	270	4,870	4,594	\$ 276
<b>Total School-Sponsored Cocurricular Athletics - Instruction</b>	<b>37,600</b>	<b>2,180</b>	<b>39,780</b>	<b>39,504</b>	<b>276</b>
Community Services Programs/Operations:					
Other Objects	4,000		4,000	4,000	
<b>Total Community Services Programs/Operations</b>	<b>4,000</b>		<b>4,000</b>	<b>4,000</b>	
<b>Total Instruction</b>	<b>4,964,378</b>	<b>33,463</b>	<b>4,997,841</b>	<b>4,954,304</b>	<b>43,537</b>
Undistributed Expenditures:					
Instruction:					
Tuition to Other LEAs Within the State - Special	37,000	(33,800)	3,200	3,200	
Tuition to Private Schools for the Handicapped - Within State	71,000	154,246	225,246	225,246	
<b>Total Undistributed Expenditures - Instruction</b>	<b>108,000</b>	<b>120,446</b>	<b>228,446</b>	<b>228,446</b>	
Health Services:					
Salaries	138,900	776	139,676	139,676	
Purchased Professional and Technical Services	3,000	4,291	7,291	7,291	
Other Purchased Services (400-500 series)	500		500	198	302
Supplies and Materials	6,000	(776)	5,224	5,129	95
Other Objects	500		500	405	95
<b>Total Health Services</b>	<b>148,900</b>	<b>4,291</b>	<b>153,191</b>	<b>152,699</b>	<b>492</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Other Support Services - Speech, OT, PT and Related Services:					
Salaries		\$ 14,641	\$ 14,641	\$ 14,641	
Purchased Professional - Educational Services	\$ 214,218	2,589	216,807	216,807	
Supplies and Materials	1,000	(163)	837	825	\$ 12
<b>Total Other Support Services - Speech, OT, PT and Related Services</b>	<b>215,218</b>	<b>17,067</b>	<b>232,285</b>	<b>232,273</b>	<b>12</b>
Other Support Services - Students - Extra Services:					
Salaries	73,926		73,926	73,912	14
Purchased Professional - Educational Services	315,804	81,145	396,949	381,949	15,000
<b>Total Other Support Services - Students - Extra Services</b>	<b>389,730</b>	<b>81,145</b>	<b>470,875</b>	<b>455,861</b>	<b>15,014</b>
Other Support Services - Students - Guidance:					
Salaries of Other Professional Staff	169,018		169,018	169,018	
Other Purchased Services (400-500)	668		668	393	275
Supplies and Materials	1,680	(750)	930	810	120
<b>Total Other Support Services - Students - Guidance</b>	<b>171,366</b>	<b>(750)</b>	<b>170,616</b>	<b>170,221</b>	<b>395</b>
Other Support Services - Students - Child Study Teams:					
Salaries of Other Professional Staff	192,616	(34,851)	157,765	157,765	
Salaries of Secretarial and Clerical Assistants	37,060		37,060	37,018	42
Purchased Professional - Educational Services	28,760	61,833	90,593	90,593	
Other Objects	7,150	(7,150)			
Other Purchased Professional - Technical Services	8,000	3,115	11,115	11,115	
Misc. Pur. Serv. (400-500 series) Other Than Residential Costs	3,360	(2,361)	999	280	719
Supplies and Materials	11,667	(5,382)	6,285	6,021	264
<b>Total Other Support Services - Students - Child Study Teams</b>	<b>288,613</b>	<b>15,204</b>	<b>303,817</b>	<b>302,792</b>	<b>1,025</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Improvement of Instructional Services:					
Salaries of Supervisor of Instruction	\$ 17,199	\$ 1,086	\$ 1,086	\$ 1,086	
Salaries of Other Professional Staff	60,000	(949)	16,250	5,367	\$ 10,883
Purchased Professional - Educational Services	16,996		60,000	60,000	
Other Purchased Services (400-500)	1,000	(358)	16,996	14,596	2,400
Supplies and Materials			642	554	88
<b>Total Improvement of Instructional Services</b>	<b>95,195</b>	<b>(221)</b>	<b>94,974</b>	<b>81,603</b>	<b>13,371</b>
Educational Media Services/School Library:					
Salaries	159,210	(66,860)	92,350	92,350	
Purchased Professional and Technical Services	93,000		93,000	93,000	
Other Purchased Services (400-500)	5,729	3,291	9,020	8,758	262
Supplies and Materials	15,452	(4,000)	11,452	8,109	3,343
<b>Total Educational Media Services/School Library</b>	<b>273,391</b>	<b>(67,569)</b>	<b>205,822</b>	<b>202,217</b>	<b>3,605</b>
Instructional Staff Training Services:					
Salaries of Other Professional Staff	18,225	(9,525)	8,700	8,700	
Other Salaries	1,025	1,175	2,200	2,200	
Purchased Professional - Educational Services	46,966	299	47,265	47,265	
Other Purchased Services (400-500 series)	4,500	(2,560)	1,940	1,686	254
Other Objects	1,050		1,050	640	410
<b>Total Instructional Staff Training Services</b>	<b>71,766</b>	<b>(10,611)</b>	<b>61,155</b>	<b>60,491</b>	<b>664</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Support Services - General Administration:					
Salaries	\$ 246,714	\$ 20,850	\$ 267,564	\$ 252,517	\$ 15,047
Legal Services	30,000	22,649	52,649	52,649	
Audit Fees	16,050		16,050	16,050	
Architectural/Engineering Services	7,500	(7,484)	16		16
Other Purchased Professional Services	2,785	989	3,774	3,434	340
Communications/Telephone	52,040	(18,080)	33,960	33,731	229
BOE Other Purchased Services	4,000	(1,129)	2,871	2,871	
Miscellaneous Purchased Services (400-500 series)	13,479	(2,766)	10,713	10,332	381
General Supplies	3,200	44	3,244	3,244	
BOE In-House Training/Meeting Supplies	1,575	196	1,771	1,742	29
Miscellaneous Expenditures	2,750		2,750	2,709	41
BOE Membership Dues and Fees	6,000	(125)	5,875	5,797	78
<b>Total Support Services - General Administration</b>	<b>386,093</b>	<b>15,144</b>	<b>401,237</b>	<b>385,076</b>	<b>16,161</b>
Support Services - School Administration:					
Salaries of Principals/Assistant Principals	270,010	14,850	284,860	284,860	
Salaries of Secretarial and Clerical Assistants	139,077	495	139,572	139,572	
Other Purchased Services (400-500 series)	3,725		3,725	150	3,575
Supplies and Materials	4,723		4,723	4,491	232
Other Objects	2,759		2,759	1,640	1,119
<b>Total Support Services - School Administration</b>	<b>420,294</b>	<b>15,345</b>	<b>435,639</b>	<b>430,713</b>	<b>4,926</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Support Services - Central Services:					
Salaries	\$ 194,046	\$ (15,950)	\$ 178,096	\$ 177,519	\$ 577
Purchased Professional Services	1,750	28,550	30,300	30,300	
Miscellaneous Purchased Services (400-500 series)	2,200	(165)	2,035	1,146	889
Supplies and Materials	5,000	(3,415)	1,585	884	701
Miscellaneous Expenditures	1,400	15	1,415	425	990
<b>Total Support Services - Central Services</b>	<b>204,396</b>	<b>9,035</b>	<b>213,431</b>	<b>210,274</b>	<b>3,157</b>
Support Services - Administrative Information Technology:					
Purchased Professional Services	35,000		35,000	28,709	6,291
Supplies and Materials	3,000		3,000	2,249	751
<b>Total Support Services - Administrative Information Technology</b>	<b>38,000</b>		<b>38,000</b>	<b>30,958</b>	<b>7,042</b>
Required Maintenance of School Facilities:					
Cleaning, Repair and Maintenance Services	60,040	101	60,141	59,992	149
General Supplies	22,000	16,285	38,285	37,635	650
<b>Total Required Maintenance of School Facilities</b>	<b>82,040</b>	<b>16,386</b>	<b>98,426</b>	<b>97,627</b>	<b>799</b>
Custodial Services:					
Salaries	477,655	(10,885)	466,770	466,530	240
Purchased Professional and Technical Services	2,420	5,095	7,515	7,515	
Cleaning, Repair and Maintenance Services	12,800	(1,548)	11,252	11,140	112
Other Purchased Property Services	12,500		12,500	12,325	175
Insurance	108,500	(1,518)	106,982	106,982	



WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Custodial Services (Cont'd):					
Travel	\$ 2,000	\$ (2,000)			
General Supplies	49,000	(14,495)	\$ 34,505	\$ 33,634	\$ 871
Energy (Electricity)	165,750	(41,287)	124,463	123,267	1,196
Other Objects	4,000	1,842	5,842	5,842	
Energy (Natural Gas)	40,000	12,541	52,541	49,509	3,032
<b>Total Custodial Services</b>	<b>874,625</b>	<b>(52,255)</b>	<b>822,370</b>	<b>816,744</b>	<b>5,626</b>
Care and Upkeep of Grounds:					
Salaries	9,111		9,111	9,103	8
General Supplies	9,000	3,252	12,252	12,252	
<b>Total Care and Upkeep of Grounds</b>	<b>18,111</b>	<b>3,252</b>	<b>21,363</b>	<b>21,355</b>	<b>8</b>
Student Transportation Services:					
Salaries for Transportation - Between Home & School - Regular	82,298	3,218	85,516	85,516	
Management Fee - ESCs & CTSA's Transportation Program	2,500	(928)	1,572	1,572	
Other Purchased Professional and Technical Services	3,000		3,000	3,000	
Cleaning, Repair and Maintenance Services	15,001	(2,225)	12,776	12,776	
Contracted Services:					
Between Home and School - Vendors	187,243		187,243	187,243	
Other Than Between Home and School - Vendors	22,000	(1,610)	20,390	20,390	
Between Home and School - Joint Agreements	126,194	(3,252)	122,942	122,942	
Special Education Students - ESCs & CTSA's	51,540	(12,232)	39,308	39,308	
Aid in Lieu of Payments - NonPublic	30,000	2,405	32,405	32,405	

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE</b>					
Student Transportation Services (Cont'd):					
Supplies and Materials	\$ 5,000	\$ 1,148	\$ 6,148	\$ 6,148	
Other Objects	1,500	(56)	1,444	1,301	143
Total Student Transportation Services	526,276	(13,532)	512,744	512,601	143
Unallocated Benefits:					
Social Security Contributions	118,360	2,170	120,530	120,530	
Other Retirement Contributions- PERS	131,296	(2,343)	128,953	128,417	536
Other Retirement Contributions- Regular	4,000	173	4,173	3,801	372
Unemployment Compensation	20,000	(19,000)	1,000		1,000
Workmen's Compensation	63,000	(2,246)	60,754	60,754	
Health Benefits	2,028,244	(194,483)	1,833,761	1,817,816	15,945
Tuition Reimbursement	20,000		20,000	5,547	14,453
Other Employee Benefits	26,529	29,889	56,418	53,109	3,309
Total Unallocated Benefits	2,411,429	(185,840)	2,225,589	2,189,974	35,615
On-Behalf Contributions:					
On-Behalf TPAF Pension Contribution (Non-Budgeted)				715,713	(715,713)
On-Behalf TPAF Non-Contributory Insurance (Non-Budgeted)				17,369	(17,369)
On-Behalf TPAF Post Retirement Medical Benefits (Non-Budgeted)				473,482	(473,482)
On-Behalf TPAF Long-Term Disability Insurance (Non-Budgeted)				762	(762)
TPAF Social Security (Reimbursed - Non-Budgeted)				342,470	(342,470)
Total On-Behalf Contributions				1,549,796	(1,549,796)
Total Personal Services - Employee Benefits	2,411,429	(185,840)	2,225,589	3,739,770	(1,514,181)
Total Undistributed Expenses	6,723,443	(33,463)	6,689,980	8,131,721	(1,441,741)
<b>TOTAL CURRENT EXPENSE</b>	<b>11,687,821</b>		<b>11,687,821</b>	<b>13,086,025</b>	<b>(1,398,204)</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>CAPITAL OUTLAY</b>					
Facilities Acquisition and Construction Services:					
Infrastructure	\$ 73,000		\$ 73,000	\$ 73,000	
Assessment for Debt Service on SDA Funding	47,138		47,138	47,138	
Total Facilities Acquisition and Construction Services	<u>120,138</u>		<u>120,138</u>	<u>120,138</u>	
<b>TOTAL CAPITAL OUTLAY</b>	<u>120,138</u>		<u>120,138</u>	<u>120,138</u>	
<b>TOTAL EXPENDITURES</b>	<u>11,807,959</u>		<u>11,807,959</u>	<u>13,206,163</u>	<u>\$ (1,398,204)</u>
Excess (Deficiency) of Revenues Over/(Under) Expenditures	(310,352)		(310,352)	4,002	314,354
Fund Balance, July 1	3,016,113		3,016,113	3,016,113	
Fund Balance, June 30	<u>\$ 2,705,761</u>	<u>\$ -0-</u>	<u>\$ 2,705,761</u>	<u>\$ 3,020,115</u>	<u>\$ 314,354</u>
<u>Recapitulation:</u>					
Restricted:					
Excess Surplus				\$ 243,851	
Excess Surplus - For Subsequent Year's Expenditures				143,764	
Capital Reserve				1,802,895	
Maintenance Reserve				365,190	
Assigned:					
Assigned- For Subsequent Year's Expenditures				162,332	
Unassigned				<u>302,083</u>	
				<u>3,020,115</u>	
Reconciliation to Governmental Funds Statements (GAAP):					
Last Two State Aid Payments not Recognized on GAAP Basis				<u>(39,936)</u>	
Fund Balance per Governmental Funds (GAAP)				<u>\$ 2,980,179</u>	

WATCHUNG BOROUGH SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(UNAUDITED)

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUES:</b>					
Local Sources		\$ 61,822	\$ 61,822	\$ 52,086	\$ (9,736)
Federal Sources	\$ 150,306	40,023	190,329	190,329	
<b>Total Revenues</b>	<b>150,306</b>	<b>101,845</b>	<b>252,151</b>	<b>242,415</b>	<b>(9,736)</b>
<b>EXPENDITURES:</b>					
Instruction:					
Salaries of Teachers	28,406	2,640	31,046	31,046	
Purchased Professional/Technical Services	5,638	21,999	27,637	26,608	1,029
Tuition	86,773	31,945	118,718	118,718	
General Supplies	1,964	35,650	37,614	29,001	8,613
<b>Total Instruction</b>	<b>122,781</b>	<b>92,234</b>	<b>215,015</b>	<b>205,373</b>	<b>9,642</b>
Support Services:					
Personal Services - Employee Benefits		7,762	7,762	7,762	
Purchased Professional and Educational Services	9,525		9,525	9,525	
Purchased Professional/Technical Services	10,000		10,000	10,000	
Supplies and Materials	8,000	1,849	9,849	9,755	94
<b>Total Support Services</b>	<b>27,525</b>	<b>9,611</b>	<b>37,136</b>	<b>37,042</b>	<b>94</b>
<b>Total Expenditures</b>	<b>\$ 150,306</b>	<b>\$ 101,845</b>	<b>\$ 252,151</b>	<b>\$ 242,415</b>	<b>\$ 9,736</b>

WATCHUNG BOROUGH SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
NOTE TO RSI  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(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	\$ 13,210,165	\$ 242,415
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	36,358	
Current year State Aid Payments Recognized for Budgetary Purposes, not Recognized for GAAP Statements	<u>(39,936)</u>	
Total Revenues as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.	<u>\$ 13,206,587</u>	<u>\$ 242,415</u>
Uses/Outflows of Resources:		
Actual Amounts (Budgetary Basis) "Total Outflows" from the Budgetary Comparison Schedule	<u>\$ 13,206,163</u>	<u>\$ 242,415</u>
Total Expenditures as Reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 13,206,163</u>	<u>\$ 242,415</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, 2018 was submitted to the County office and was approved by a vote of the Board of Education. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)l. All budget amendments/transfers must be made by School Board resolution. All budgetary amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).

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

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

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

SCHOOL LEVEL SCHEDULES  
(NOT APPLICABLE)

SPECIAL REVENUE FUND

WATCHUNG BOROUGH SCHOOL DISTRICT  
SPECIAL REVENUE FUND  
COMBINING SCHEDULE OF REVENUE AND EXPENDITURES - BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Elementary and Secondary Education Act				IDEA Part B			Totals
	Title II Part A	Title I		Title III	Basic	Preschool	Local	
		Part A	Title IV					
<b>REVENUE:</b>								
Local Sources	\$ 9,525	\$ 35,485	\$ 10,000	\$ 1,964	\$ 126,718	\$ 6,637	\$ 52,086	\$ 52,086
Federal Sources	9,525	35,485	10,000	1,964	126,718	6,637	52,086	190,329
Total Revenue								242,415
<b>EXPENDITURES:</b>								
Instruction:								
Salaries of Teachers		27,723					3,323	31,046
Purchased Professional/Technical Services						6,637	19,971	26,608
Tuition				1,964	118,718		27,037	118,718
General Supplies								29,001
Total Instruction		27,723		1,964	118,718	6,637	50,331	205,373
Support Services:								
Personal Services - Employee Benefits		7,762						7,762
Purchased Professional and Educational Services	9,525		10,000					9,525
Purchased Professional and Technical Services							1,755	10,000
Supplies and Materials					8,000			9,755
Total Support Services	9,525	7,762	10,000		8,000		1,755	37,042
Total Expenditures	\$ 9,525	\$ 35,485	\$ 10,000	\$ 1,964	\$ 126,718	\$ 6,637	\$ 52,086	\$ 242,415



WATCHUNG BOROUGH SCHOOL DISTRICT  
SPECIAL REVENUE FUND  
PRESCHOOL EDUCATION AID SCHEDULE OF EXPENDITURES  
BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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, 2018

Fund Balance - Beginning of Year	<u>\$ 145,225</u>
Fund Balance - End of Year	<u><u>\$ 145,225</u></u>
<u>Recapitulation:</u>	
Restricted Fund Balance	<u><u>\$ 145,225</u></u>

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, 2018

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Costs</u>
<b>Revenue and Other Financing Sources:</b>				
State Sources - SDA Grant	\$ 5,096,645		\$ 5,096,645	\$ 5,096,645
Bond Proceeds	18,903,000		18,903,000	18,903,355
<b>Total Revenue and Other Financing Sources</b>	<u>23,999,645</u>		<u>23,999,645</u>	<u>24,000,000</u>
<b>Expenditures:</b>				
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
<b>Total Expenditures</b>	<u>23,854,420</u>		<u>23,854,420</u>	<u>24,000,000</u>
<b>Excess of Revenue and Other Financing Sources over Expenditures</b>	<u>\$ 145,225</u>	<u>\$ - 0 -</u>	<u>\$ 145,225</u>	<u>\$ - 0 -</u>
<b>Additional Project Information:</b>				
Project Number	SP201964/201965			
Grant Date	2/14/2003			
Bond Authorization Date	8/19/2009			
Bonds Authorized	\$ 18,903,355			
Bonds Issued	\$ 18,903,000			
Original Authorized Cost	\$ 24,000,000			
Change Orders	- 0 -			
Revised Authorized Costs	<u>\$ 24,000,000</u>			
Percentage Increase over Original Authorized Cost	0.00%			
Percentage Completion	99.39%			
Original Target Completion Date	9/1/2004			
Revised Target Completion Date	9/1/2018			

PROPRIETARY FUNDS

WATCHUNG BOROUGH SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2018

## ASSETS:

## Current Assets:

Cash and Cash Equivalents	\$	8,140
Intergovernmental Accounts Receivable:		
Federal		430
		430

## Total Current Assets

8,570

## Non-Current Assets:

Capital Assets		35,360
Less: Accumulated Depreciation		(28,128)
		(28,128)

## Total Non-Current Assets

7,232

## Total Assets

15,802

## LIABILITIES:

## Current Liabilities:

Interfund Payable		3,349
		3,349

## Total Current Liabilities

3,349

## NET POSITION:

Investment in Capital Assets		7,232
Unrestricted		5,221
		5,221

## Total Net Position

\$ 12,453

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, 2018

Operating Revenue:	
Local Sources:	
Daily Sales - Reimbursable Programs	\$ 6,046
Total Operating Revenue	<u>6,046</u>
Operating Expenses:	
Cost of Sales - Reimbursable Programs	9,012
Miscellaneous Expenditures	2,128
Depreciation Expense	<u>2,593</u>
Total Operating Expenses	<u>13,733</u>
Operating (Loss)	(7,687)
Non-Operating Revenue:	
Local Sources:	
Interest Income	112
Federal Sources:	
Special Milk Program	<u>5,157</u>
Total Non-Operating Revenue	<u>5,269</u>
Change in Net Position	(2,418)
Net Position - Beginning of Year	<u>14,871</u>
Net Position - End of Year	<u><u>\$ 12,453</u></u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 6,046
Payments to Milk Vendor	(11,140)
Other Costs	2,129
	<hr/>
Net Cash Used for Operating Activities	(2,965)
	<hr/>
Cash Flows provided for Investing Activities:	
Local Sources:	
Interest Income	112
	<hr/>
Net Cash Provided by Investing Activities	112
	<hr/>
Cash Flows from Noncapital Financing Activities:	
Federal Sources:	
Special Milk Program	5,108
	<hr/>
Net Cash Provided by Noncapital Financing Activities	5,108
	<hr/>
Net Decrease in Cash and Cash Equivalents	2,255
Cash and Cash Equivalents, July 1	5,885
	<hr/>
Cash and Cash Equivalents, June 30	\$ 8,140
	<hr/> <hr/>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	\$ (7,687)
Adjustment to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	2,593
Changes in Assets and Liabilities:	
Increase in Interfund Payable	2,129
	<hr/>
Net Cash Used for Operating Activities	\$ (2,965)
	<hr/> <hr/>



FIDUCIARY FUNDS

WATCHUNG BOROUGH SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2018

	<u>Student</u>	<u>Payroll</u>	<u>Total</u>	<u>Flexible</u>	<u>Unemployment</u>
	<u>Activities</u>	<u>Agency</u>	<u>Agency</u>	<u>Spending</u>	<u>Compensation</u>
				<u>Trust</u>	<u>Trust</u>
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 60,467	\$ 173,153	\$ 233,620	\$ 18,730	\$ 35,799
Interfund Receivable:					
Payroll Agency Fund				4,130	
<b>Total Assets</b>	<u>60,467</u>	<u>173,153</u>	<u>233,620</u>	<u>22,860</u>	<u>35,799</u>
<b>LIABILITIES:</b>					
Accrued Salaries and Wages Payable		167,613	167,613		
Due to Student Groups	60,467		60,467		
Payroll Deductions and Withholdings		1,410	1,410		
Interfund Payable:					
General Fund				4,148	
Flexible Spending Trust		4,130	4,130		
<b>Total Liabilities</b>	<u>60,467</u>	<u>173,153</u>	<u>233,620</u>	<u>4,148</u>	
<b>NET POSITION:</b>					
Held in Trust for Flexible Spending Claims				18,712	35,799
Held in Trust for Unemployment Claims					
<b>Total Net Position</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 18,712</u>	<u>\$ 35,799</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
FIDUCIARY FUNDS  
COMBINING STATEMENT OF CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Flexible Spending Trust</u>	<u>Unemployment Compensation Trust</u>
Additions:		
Contributions:		
Employee Contributions	\$ 51,307	\$ 10,217
Total Contributions	<u>51,307</u>	<u>10,217</u>
Investment Earnings:		
Interest	345	438
Net Investment Earnings	<u>345</u>	<u>438</u>
Total Additions	<u>51,652</u>	<u>10,655</u>
Deductions		
Unemployment Compensation Claims		18,246
Flexible Spending Claims	<u>49,646</u>	
Total Deductions	<u>49,646</u>	<u>18,246</u>
Change in Net Position	2,006	(7,591)
Net Position - Beginning of the Year	<u>16,706</u>	<u>43,390</u>
Net Position - End of the Year	<u>\$ 18,712</u>	<u>\$ 35,799</u>

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

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 50,615	\$ 77,320	\$ 67,468	\$ 60,467
Total Assets	<u>\$ 50,615</u>	<u>\$ 77,320</u>	<u>\$ 67,468</u>	<u>\$ 60,467</u>
 <u>LIABILITIES:</u>				
Liabilities:				
Due to Student Groups	\$ 50,615	\$ 77,320	\$ 67,468	\$ 60,467
Total Liabilities	<u>\$ 50,615</u>	<u>\$ 77,320</u>	<u>\$ 67,468</u>	<u>\$ 60,467</u>

WATCHUNG BOROUGH SCHOOL DISTRICT  
STUDENT ACTIVITY AGENCY FUND  
STATEMENT OF ACTIVITY

	<u>Balance</u> <u>July 1, 2017</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2018</u>
Elementary School:				
Valley View School	\$ 22,433	\$ 54,480	\$ 51,501	\$ 25,412
Bayberry School	23,056	17,786	11,637	29,205
Sporting Officials	5,126	5,054	4,330	5,850
	<u>50,615</u>	<u>77,320</u>	<u>67,468</u>	<u>60,467</u>
Total All Schools	<u>\$ 50,615</u>	<u>\$ 77,320</u>	<u>\$ 67,468</u>	<u>\$ 60,467</u>

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<u>ASSETS:</u>				
Cash and Cash Equivalents	\$ 185,036	\$ 7,383,441	\$ 7,395,324	\$ 173,153
Total Assets	<u>\$ 185,036</u>	<u>\$ 7,383,441</u>	<u>\$ 7,395,324</u>	<u>\$ 173,153</u>
<u>LIABILITIES:</u>				
Net Payroll		\$ 3,871,654	\$ 3,870,654	\$ 1,000
Accrued Salaries and Wages Payable	\$ 180,322	171,937	184,646	167,613
Payroll Deduction and Withholdings	584	3,339,850	3,340,024	410
Interfund Payable:				
Flexible Spending Trust	4,130			4,130
Total Liabilities	<u>\$ 185,036</u>	<u>\$ 7,383,441</u>	<u>\$ 7,395,324</u>	<u>\$ 173,153</u>

LONG-TERM DEBT  
(NOT APPLICABLE)

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

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

**Contents**

	<b><u>Exhibit</u></b>
<b>Financial Trends</b> 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
<b>Revenue Capacity</b> 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
<b>Debt Capacity</b> 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
<b>Demographic and Economic Information</b> 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
<b>Operating Information</b> 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,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Governmental Activities</b>										
Net Investment in Capital Assets	\$ 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	\$ 13,956,016
Restricted	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	2,700,925
Unrestricted/(Deficit)	119,772	(914,897)	(797,669)	(341,668)	(417,691)	(3,138,438)	(3,186,255)	(2,873,757)	(3,041,167)	(3,166,695)
<b>Total Governmental Activities Net Position</b>	<b>\$ 13,280,887</b>	<b>\$ 14,012,515</b>	<b>\$ 15,208,340</b>	<b>\$ 7,730,877</b>	<b>\$ 10,145,576</b>	<b>\$ 8,624,062</b>	<b>\$ 10,479,923</b>	<b>\$ 12,343,551</b>	<b>\$ 13,895,670</b>	<b>\$ 13,490,246</b>
<b>Business-type Activities</b>										
Net Investment in Capital Assets	\$ 2,519	\$ 1,721	\$ 3,977	\$ 5,726	\$ 20,197	\$ 17,604	\$ 15,011	\$ 12,418	\$ 9,825	\$ 7,232
Unrestricted	2,519	1,721	3,977	5,726	9,416	3,953	6,836	2,640	5,046	5,221
<b>Total Business-type Activities Net Position</b>	<b>\$ 2,519</b>	<b>\$ 1,721</b>	<b>\$ 3,977</b>	<b>\$ 5,726</b>	<b>\$ 29,613</b>	<b>\$ 21,557</b>	<b>\$ 21,847</b>	<b>\$ 15,058</b>	<b>\$ 14,871</b>	<b>\$ 12,453</b>
<b>District-wide</b>										
Net Investment in Capital Assets	\$ 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	\$ 13,963,248
Restricted	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	2,700,925
Unrestricted/(Deficit)	122,291	(913,176)	(793,692)	(335,942)	(408,275)	(3,134,485)	(3,179,419)	(2,871,117)	(3,036,121)	(3,161,474)
<b>Total District Net Position</b>	<b>\$ 13,283,406</b>	<b>\$ 14,014,236</b>	<b>\$ 15,212,317</b>	<b>\$ 7,736,603</b>	<b>\$ 10,175,189</b>	<b>\$ 8,645,619</b>	<b>\$ 10,501,770</b>	<b>\$ 12,358,609</b>	<b>\$ 13,910,541</b>	<b>\$ 13,502,699</b>

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,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Expenses</b>										
<b>Governmental Activities</b>										
<b>Instruction:</b>										
Regular	\$ 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	\$ 7,984,272
Special Education	833,309	882,425	873,731	891,087	918,890	1,012,370	1,206,798	1,502,409	1,612,823	1,816,370
Other Special Instruction	199,771	286,326	311,516	307,659	274,789	235,535	214,587	141,104	158,855	164,581
School-Sponsored/ Other Instruction	177,429	91,631	84,127	89,208	130,134	134,127	60,608	69,464	56,003	120,525
<b>Support Services:</b>										
Tuition	386,597	378,793	414,674	359,309	381,886	209,674	22,822	17,995	19,325	228,446
Student & Instruction Related Services	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	2,248,761
General Administrative Services	354,789	571,162	453,102	480,517	432,302	426,100	470,641	512,228	505,382	609,460
School Administrative Services	437,933	515,665	528,936	466,518	480,194	467,853	597,384	663,060	765,508	842,695
Plant Operations and Maintenance	1,151,374	1,129,582	1,206,358	1,224,782	1,188,082	1,106,697	1,267,013	1,326,845	1,367,852	1,315,847
Pupil Transportation	526,882	597,244	565,314	540,830	563,612	492,628	514,800	558,121	566,912	576,507
Central Services and Administrative Information Technology	353,600	207,193	210,672	308,359	271,782	273,991	326,803	352,306	365,243	373,888
Capital Outlay	543,333	560,823	57,866	37,147	119,998	129,852	47,138	56,138	59,532	47,138
Interest on Long-term Debt	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	16,328,490
<b>Total Governmental Activities Expenses</b>	<b>20,414</b>	<b>19,187</b>	<b>16,080</b>	<b>14,348</b>	<b>11,712</b>	<b>21,698</b>	<b>12,621</b>	<b>17,329</b>	<b>13,037</b>	<b>13,733</b>
<b>Business-type Activities:</b>										
Food Service	20,414	19,187	16,080	14,348	11,712	21,698	12,621	17,329	13,037	13,733
<b>Total Business-type Activities Expense</b>	<b>20,414</b>	<b>19,187</b>	<b>16,080</b>	<b>14,348</b>	<b>11,712</b>	<b>21,698</b>	<b>12,621</b>	<b>17,329</b>	<b>13,037</b>	<b>13,733</b>
<b>Total District Expenses</b>	<b>\$ 11,472,169</b>	<b>\$ 12,066,829</b>	<b>\$ 11,714,645</b>	<b>\$ 11,801,526</b>	<b>\$ 12,241,257</b>	<b>\$ 12,267,972</b>	<b>\$ 13,563,301</b>	<b>\$ 14,350,453</b>	<b>\$ 15,817,137</b>	<b>\$ 16,342,223</b>
<b>Program Revenues</b>										
<b>Governmental Activities:</b>										
Charges for Services	\$ 10,090	\$ 32,684	\$ 65,598	\$ 175,689	\$ 189,005	\$ 26,102	\$ 155,457	\$ 149,674	\$ 163,725	\$ 176,427
Instruction (Tuition)	588,273	901,996	928,058	1,320,584	1,568,461	1,550,169	2,763,449	3,177,650	4,216,211	4,719,114
Operating Grants and Contributions								229,897	930	
Capital Grants and Contributions	598,363	934,680	993,656	1,496,273	1,757,466	1,576,271	2,918,906	3,557,221	4,380,866	4,895,541
<b>Total Governmental Activities Program Revenues</b>	<b>11,189</b>	<b>10,731</b>	<b>10,237</b>	<b>8,326</b>	<b>8,353</b>	<b>7,235</b>	<b>6,450</b>	<b>5,640</b>	<b>7,335</b>	<b>6,046</b>
<b>Business-type Activities:</b>										
Charges for Services	9,644	7,658	8,099	7,771	7,049	6,407	6,461	4,900	5,477	5,157
Food Service	20,833	18,389	18,336	16,097	15,402	13,642	12,911	10,540	12,812	11,203
Operating Grants and Contributions	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	4,906,744
<b>Total Business-type Activities Program Revenues</b>	<b>\$ 20,833</b>	<b>\$ 18,389</b>	<b>\$ 18,336</b>	<b>\$ 16,097</b>	<b>\$ 15,402</b>	<b>\$ 13,642</b>	<b>\$ 12,911</b>	<b>\$ 10,540</b>	<b>\$ 12,812</b>	<b>\$ 11,203</b>
<b>Total District Program Revenues</b>	<b>\$ 619,196</b>	<b>\$ 953,069</b>	<b>\$ 1,011,992</b>	<b>\$ 1,512,370</b>	<b>\$ 1,772,868</b>	<b>\$ 1,589,913</b>	<b>\$ 2,931,817</b>	<b>\$ 3,567,761</b>	<b>\$ 4,393,678</b>	<b>\$ 4,906,744</b>

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

	Fiscal Year Ending June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Net (Expense)/Revenue</b>										
Governmental Activities	\$ (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)	\$ (11,432,949)
Business-type Activities	419	(798)	2,256	1,749	3,690	(8,056)	290	(6,789)	(225)	(2,530)
<b>Total District-wide Net Expense</b>	<b>\$ (10,852,973)</b>	<b>\$ (11,113,759)</b>	<b>\$ (10,702,653)</b>	<b>\$ (10,289,156)</b>	<b>\$ (10,468,389)</b>	<b>\$ (10,678,059)</b>	<b>\$ (10,631,484)</b>	<b>\$ (10,782,692)</b>	<b>\$ (11,423,459)</b>	<b>\$ (11,435,479)</b>
<b>General Revenues and Other Changes in Net Position</b>										
Governmental Activities:										
Property Taxes Levied for General Purposes, Net	\$ 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	\$ 10,887,059
Taxes Levied for Debt Service	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	64,714
Federal and State Aid not Restricted	887,882	490,662	386,722	82,040	58,675	38,852	166,027	144,323	174,936	
Investment Earnings	6,961	2,006	354	7,931	250	250				
Miscellaneous Income	107,124	92,717	68,093	45,403	25,475	168,159	67,147	21,539	73,217	75,752
<b>Total Governmental Activities</b>	<b>11,885,931</b>	<b>11,844,590</b>	<b>11,900,733</b>	<b>11,697,587</b>	<b>11,840,132</b>	<b>12,209,863</b>	<b>12,487,635</b>	<b>12,639,532</b>	<b>12,975,353</b>	<b>11,027,525</b>
Business-type Activities:										
Investment Earnings	\$ 1,235								\$ 38	\$ 112
<b>Total Business-type Activities</b>	<b>1,235</b>								<b>38</b>	<b>112</b>
<b>Total District-wide</b>	<b>\$ 11,887,166</b>	<b>\$ 11,844,590</b>	<b>\$ 11,900,733</b>	<b>\$ 11,697,587</b>	<b>\$ 11,840,132</b>	<b>\$ 12,209,863</b>	<b>\$ 12,487,635</b>	<b>\$ 12,639,532</b>	<b>\$ 12,975,391</b>	<b>\$ 11,027,637</b>
<b>Change in Net Position</b>										
Governmental Activities	\$ 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	\$ (405,424)
Business-type Activities	1,654	(798)	2,256	1,749	3,690	(8,056)	290	(6,789)	(187)	(2,418)
<b>Total District</b>	<b>\$ 1,034,193</b>	<b>\$ 730,830</b>	<b>\$ 1,198,080</b>	<b>\$ 1,408,431</b>	<b>\$ 1,371,743</b>	<b>\$ 1,531,804</b>	<b>\$ 1,856,151</b>	<b>\$ 1,856,840</b>	<b>\$ 1,551,932</b>	<b>\$ (407,842)</b>

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,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>General Fund</b>										
Assigned				\$ 366,311	\$ 208,124	\$ 145,240	\$ 52,856	\$ 155,042	\$ 113,407	\$ 162,332
Restricted/Reserved			\$ 332,548	2,448,979	2,837,306	2,667,619	2,600,495	2,469,697	2,490,401	2,555,700
Unassigned	\$ 2,214,622	\$ 2,122,729	2,062,231	279,627	275,317	241,364	367,781	345,453	375,947	262,147
Reserved	308,188	265,759	355,400							
Unreserved										
<b>Total General Fund</b>	<b>\$ 2,522,810</b>	<b>\$ 2,388,488</b>	<b>\$ 2,750,179</b>	<b>\$ 3,094,917</b>	<b>\$ 3,320,747</b>	<b>\$ 3,054,223</b>	<b>\$ 3,021,132</b>	<b>\$ 2,970,192</b>	<b>\$ 2,979,755</b>	<b>\$ 2,980,179</b>
<b>All Other Governmental Funds</b>										
Restricted/Reserved			\$ 192,134	\$ 178,581	\$ 145,224	\$ 145,224	\$ 145,225	\$ 145,225	\$ 145,225	\$ 145,225
Committed					31,937	31,937		104,928		
Reserved	\$ 2,374	\$ 313,316								
Unreserved, Reported in:										
Capital Projects Fund	142,851									
Debt Service Fund		50,649								
Unassigned / (Deficit)							(124,969)			
<b>Total All Other Governmental Funds</b>	<b>\$ 145,225</b>	<b>\$ 363,965</b>	<b>\$ 192,134</b>	<b>\$ 178,581</b>	<b>\$ 177,161</b>	<b>\$ 177,161</b>	<b>\$ 20,256</b>	<b>\$ 250,153</b>	<b>\$ 145,225</b>	<b>\$ 145,225</b>
<b>Total Governmental Funds</b>	<b>\$ 2,668,035</b>	<b>\$ 2,752,453</b>	<b>\$ 2,942,313</b>	<b>\$ 3,273,498</b>	<b>\$ 3,497,908</b>	<b>\$ 3,231,384</b>	<b>\$ 3,041,388</b>	<b>\$ 3,220,345</b>	<b>\$ 3,124,980</b>	<b>\$ 3,125,404</b>

Source: School District Financial Reports

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

	Fiscal Year Ending June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenues</b>										
Tax Levy	\$ 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	\$ 10,887,059
Tuition Charges	10,090	11,481	25,503	131,577	144,670	7,909	141,637	149,674	147,425	176,427
Other Local		21,203	40,095	44,112	44,335	18,193			16,300	
Interest Earnings	6,961	2,006	354		250	250	2,690	5,328	8,467	19,893
Miscellaneous	107,124	134,934	111,676	147,430	64,896	250,274	155,107	47,064	131,977	107,945
State Sources	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	2,067,349
Federal Sources	146,443	205,600	237,614	175,527	148,335	146,742	152,653	191,499	183,456	190,329
<b>Total Revenue</b>	<b>12,484,294</b>	<b>12,779,270</b>	<b>12,894,389</b>	<b>13,193,860</b>	<b>13,597,598</b>	<b>13,786,134</b>	<b>14,310,343</b>	<b>14,817,075</b>	<b>15,157,771</b>	<b>13,449,002</b>
<b>Expenditures</b>										
Instruction										
Regular Instruction	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	3,894,239
Special Education Instruction	543,558	608,707	602,522	595,448	611,277	705,291	832,760	1,050,456	1,114,342	1,159,346
Other Special Instruction	199,771	178,589	185,403	201,941	178,354	156,157	140,597	93,469	99,721	99,630
School-Sponsored/Other Instruction	92,768	91,631	84,127	65,521	78,414	81,780	38,760	39,548	37,201	43,504
Support Services:										
Tuition	386,597	378,793	414,674	359,309	381,886	209,674	22,822	17,995	19,325	228,446
Student & Other Instruction Related Services	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	1,658,157
General Administrative Services	364,363	350,675	315,145	400,830	360,425	354,460	318,630	363,595	325,429	385,076
School Administrative Services	336,655	347,734	316,589	321,663	322,439	333,337	371,366	384,089	407,581	430,713
Central Services and Administrative										
Information Technology	201,209	207,193	210,672	235,189	210,782	215,309	227,030	245,846	229,326	241,232
Plant Operations and Maintenance	1,049,221	943,934	996,071	1,052,290	1,024,532	942,759	1,000,008	1,042,561	1,007,285	935,726
Pupil Transportation	508,771	571,497	530,465	511,509	537,064	468,272	477,048	514,096	510,818	512,601
Unallocated Benefits	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	3,739,770
Capital Outlay	38,810	138,557	289,352	80,289	188,797	639,556	698,334	193,238	235,475	120,138
Debt Service:										
Principal	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	545,013	401,926	414,400	360,400	317,200	270,300	204,688	124,100	38,613	
<b>Total Expenditures</b>	<b>12,452,643</b>	<b>12,694,852</b>	<b>12,704,529</b>	<b>12,862,675</b>	<b>13,373,188</b>	<b>14,052,658</b>	<b>14,500,339</b>	<b>14,638,118</b>	<b>15,253,136</b>	<b>13,448,578</b>
<b>Excess/(Deficit) of Revenues Over/(Under) Expenditures</b>	<b>31,651</b>	<b>84,418</b>	<b>189,860</b>	<b>331,185</b>	<b>224,410</b>	<b>(266,524)</b>	<b>(189,996)</b>	<b>178,957</b>	<b>(95,365)</b>	<b>424</b>
<b>Other Financing Sources/(Uses)</b>										
Serial Bonds Issued										
Serial Bonds Defeased		8,770,000								
Bond Issuance Costs		(8,938,000)								
Bond Premium		(126,832)								
Deferred Amount on Refunding		944,609								
Transfers in		(649,777)							105,858	
Transfers out									(105,858)	
<b>Total Other Financing Sources/(Uses)</b>										
<b>Net Change in Fund Balances</b>	<b>\$ 31,651</b>	<b>\$ 84,418</b>	<b>\$ 189,860</b>	<b>\$ 331,185</b>	<b>\$ 224,410</b>	<b>\$ (266,524)</b>	<b>\$ (189,996)</b>	<b>\$ 178,957</b>	<b>\$ (95,365)</b>	<b>\$ 424</b>
<b>Debt Service as a Percentage of Noncapital Expenditures</b>	<b>13.05%</b>	<b>12.80%</b>	<b>13.73%</b>	<b>13.85%</b>	<b>13.78%</b>	<b>13.91%</b>	<b>14.02%</b>	<b>13.84%</b>	<b>13.67%</b>	<b>0.00%</b>

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>
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
2018	37,268	176,427	38,484	252,179

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		Farm		Residential	Farm Regular	Farm Qualified	Commercial	Industrial	Apartment	Total Assessed Value	Public Utilities <sup>a</sup>	Net Valuation Taxable	Total Direct School Tax Rate <sup>b</sup>	Estimated Actual (County Equalized Value)
	Land														
2008	\$ 41,366,100	\$	1,373,917,500	N/A	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	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	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	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	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	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	6,237,500	47,400,000		1,628,308,080	1,151,575	1,629,459,655	0.737	1,684,505,323
2015	32,019,400		1,280,593,700	334,100	5,280	297,786,500	6,359,500	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	6,414,300	47,850,000		1,723,847,780	1,140,757	1,724,988,537	0.764	1,723,610,561
2017	30,704,300		1,365,322,000	348,000	5,280	304,472,700	6,439,400	6,439,400	48,325,000		1,755,616,680	1,127,931	1,756,744,611	0.620	1,765,566,805

\* - 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
	Basic Rate <sup>a</sup>	General Obligation Debt Service <sup>b</sup>	Total Direct	Municipality	Regional High School District	County	
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
2017	0.620		0.620	0.603	0.349	0.396	1.968

\* - 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	2018		
	Taxable Assessed Value	Rank	% of Total District Net Assessed Value
Watchung Square Associates, LLC	\$ 68,493,000	1	3.90%
PP Watchung Investors, LLC	61,600,000	2	3.51%
Levin Properties LP	56,894,500	3	3.24%
Watchung UE LLC	23,980,100	4	1.37%
Walmart	16,622,000	5	0.95%
Sears Roebuck & Company	16,390,000	6	0.93%
Target Corp.	15,529,000	7	0.88%
HD Development of Maryland, Inc	14,032,500	8	0.80%
680 Mountain Boulevard, LLC	12,240,000	9	0.70%
Route 22 East, LLC	11,251,900	10	0.64%
	<u>\$ 297,033,000</u>		<u>16.92%</u>

Taxpayer	2009		
	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 Ended June 30,</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected within the Fiscal Year of the Levy<sup>a</sup></u>		<u>Collections in Subsequent Years</u>
		<u>Amount</u>	<u>Percentage of Levy</u>	
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-
2018	10,887,059	10,887,059	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 <sup>a</sup>	Per Capita <sup>a</sup>
	General Obligation Bonds	Certificates of Participation	Obligations Under		Bond Anticipation Notes (BANs)	Business-Type Activities		Capital Leases	Total	District			
			Lease-Purchase Agreement			Capital	Leases						
2009	\$ 12,788,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 12,788,000	2.71%	\$ 1,888		
2010	11,415,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	11,415,000	2.80%	1,951		
2011	10,125,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	10,125,000	2.39%	1,721		
2012	8,715,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	8,715,000	1.94%	1,471		
2013	7,215,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	7,215,000	1.54%	1,213		
2014	5,620,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	5,620,000	1.14%	944		
2015	3,890,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	3,890,000	0.74%	655		
2016	2,015,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,015,000	0.37%	338		
2017	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-		
2018	-0-	-0-	-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 <sup>a</sup> Taxable	Per Capita <sup>b</sup>
	General Obligation Bonds	Deductions	Net General Bonded Debt Outstanding		
2009	\$ 12,788,000	-0-	\$ 12,788,000	0.70%	\$ 1,888
2010	11,415,000	-0-	11,415,000	0.66%	1,951
2011	10,125,000	-0-	10,125,000	0.64%	1,495
2012	8,715,000	-0-	8,715,000	0.55%	1,481
2013	7,215,000	-0-	7,215,000	0.45%	1,218
2014	5,620,000	-0-	5,620,000	0.35%	945
2015	3,890,000	-0-	3,890,000	0.24%	653
2016	2,015,000	-0-	2,015,000	0.12%	339
2017	-0-	-0-	-0-	-0-	-0-
2018	-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, 2017  
UNAUDITED

<u>Governmental Unit</u>	<u>Debt</u> <u>Outstanding</u>	<u>Estimated</u> <u>Percentage</u> <u>Applicable <sup>a</sup></u>	<u>Estimated</u> <u>Share of</u> <u>Overlapping</u> <u>Debt</u>
Debt Repaid With Property Taxes			
Watchung Hills Regional High School	\$ 33,683,000	21.43%	\$ 7,216,920
Borough of Watchung	20,469,878	100.00%	20,469,878
County of Somerset - Borough's Share	206,591,021	2.97%	<u>6,139,486</u>
Subtotal, Overlapping Debt			33,826,284
Watchung Borough School District Direct Debt			<u>-0-</u>
Total Direct and Overlapping Debt			<u>\$ 33,826,284</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 2018

	Equalized valuation basis
2016	1,686,194,531
2017	1,722,469,804
2018	1,724,367,736
	\$ 5,133,032,071
Average Equalized Valuation of Taxable Property	\$ 1,711,010,690
Debt Limit (3% of average equalization value)	\$ 51,330,321 <sup>a</sup>
Net Bonded School Debt	-0-
Legal Debt Margin	\$ 51,330,321

	Fiscal Year				
	2014	2015	2016	2017	2018
Debt Limit	\$ 49,853,252	\$ 49,422,708	\$ 49,998,213	\$ 50,931,588	\$ 51,330,321
Total Net Debt Applicable to Limit	5,620,000	3,890,000	2,015,000	-0-	-0-
Legal Debt Margin	\$ 44,233,252	\$ 45,532,708	\$ 47,983,213	\$ 50,931,588	\$ 51,330,321
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	11.27%	7.87%	4.03%	0.00%	0.00%

	Fiscal Year				
	2009	2010	2011	2012	2013
Debt Limit	\$ 58,878,984	\$ 58,119,876	\$ 54,306,404	\$ 52,707,158	\$ 51,057,251
Total Net Debt Applicable to Limit	12,788,000	11,415,000	10,215,000	8,715,000	7,215,000
Legal Debt Margin	\$ 46,090,984	\$ 46,704,876	\$ 44,091,404	\$ 43,992,158	\$ 43,842,251
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	21.72%	19.64%	18.81%	16.53%	14.13%

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

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

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

Year	Population <sup>a</sup>	Borough of Watchung Personal Income <sup>b</sup>	Somerset County Per Capita Personal Income <sup>c</sup>	Unemployment Rate <sup>d</sup>
2009	6,773	\$ 471,258,567	\$ 69,579	6.40%
2010	5,851	407,288,110	69,610	6.30%
2011	5,884	423,171,396	71,919	6.30%
2012	5,924	448,316,472	75,678	6.60%
2013	5,946	468,318,852	78,762	4.20%
2014	5,954	492,193,364	82,666	4.80%
2015	5,943	522,567,990	87,930	4.20%
2016	5,959	537,907,012	90,268	4.00%
2017	5,985	540,253,980	90,268 *	3.40%
2018	5,985 **	540,253,980 ***	90,268 *	N/A

\* - Latest Somerset County per capita personal income available (2016) was used for calculation purposes.

\*\* - Latest population data available (2017) was used for calculation purposes.

\*\*\*- Latest Borough personal income available (2017) was used for calculation purposes.

N/A - Information not available

Source:

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

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

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

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

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

2017		2008	
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

<u>Function/Program</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Instruction										
Regular	49	49	47	50	50	51	50	50	52	52
Special education	9	9	8	9	9	28	14	15	15	15
Other instruction	4	3	3	3	3	0	0	0	0	0
Support Services:										
Student & instruction related services	27	28	25	21	21	9	9	9	9	9
School administrative services	6	6	6	6	6	6	6	6	6	6
General and business administrative services	5	5	5	5	5	3	5	5	5	5
Plant operations and maintenance	9	9	9	9	8	11	10	10	10	10
Pupil transportation	2	2	2	2	2	3	1	1	1	1
<b>Total</b>	<b>111</b>	<b>111</b>	<b>105</b>	<b>105</b>	<b>104</b>	<b>111</b>	<b>95</b>	<b>96</b>	<b>98</b>	<b>98</b>

Source: School District of the Borough of Watchung Personnel Records

WATCHUNG BOROUGH SCHOOL DISTRICT  
OPERATING STATISTICS  
LAST TEN FISCAL YEARS  
UNAUDITED

Fiscal Year	Enrollment	Operating Expenditures <sup>a</sup>	Cost Per Pupil <sup>d</sup>	Percentage Change	Teaching Staff <sup>b</sup>	Pupil/Teacher Ratio		Average Daily Enrollment (ADE) <sup>c</sup>	Average Daily Attendance (ADA) <sup>c</sup>	% Change in Average Daily Enrollment	Student Attendance Percentage
						Elementary	Middle				
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%
2018	723	13,328,440	18,435	0.11%	63	N/A	N/A	688.5	657.9	-2.69%	95.55%

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>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	319	342	351	349	334	303	327	331	341	347
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	376	363	361	383	413	364	350	363	376

Number of Schools at June 30, 2018  
 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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Bayberry Elementary	\$ 38,557	\$ 44,220	\$ 67,286	\$ 50,885	\$ 42,778
Valley View	59,070	67,747	76,766	54,888	50,641
District Total	<u>\$ 97,627</u>	<u>\$ 111,967</u>	<u>\$ 144,052</u>	<u>\$ 105,773</u>	<u>\$ 93,419</u>

<u>*School Facility</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Bayberry Elementary	\$ 84,421	\$ 80,000	\$ 77,428	\$ 35,391	\$ 38,619
Valley View	41,413	112,785	86,713	33,374	24,557
District Total	<u>\$ 125,834</u>	<u>\$ 192,785</u>	<u>\$ 164,141</u>	<u>\$ 68,765</u>	<u>\$ 63,176</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, 2018  
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

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 18, 2019.

**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.

January 18, 2019  
Mount Arlington, New Jersey

NISIVOCCIA LLP



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





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

Independent Auditors' Report

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

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

We have audited the Board of Education of the Watchung Borough's (the "District's") compliance with the types of compliance requirements described in the *New Jersey State Aid/ Grant Compliance Supplement* that could have a direct and material effect on each of the District's major state programs for the fiscal year ended June 30, 2018. 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, 2018.

**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.

January 18, 2019  
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, 2018

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, 2017			Balance at June 30, 2018		
					Budgetary Accounts Receivable	Budgetary Unearned Revenue	Due to Grantor	Budgetary Accounts Receivable	Budgetary Unearned Revenue	Due to Grantor
<b>U.S. Department of Education Passed-through State Department of Education:</b>										
<b>Elementary and Secondary Education Act Consolidated Grant:</b>										
Title I, Part A	84.010A	ESEA 554018	7/1/17-6/30/18	\$ 35,485				\$ (35,485)		
Title II, Part A	84.286A	ESEA 554018	7/1/17-6/30/18	9,525				(9,525)		
Title III	84.365A	ESEA 554018	7/1/17-6/30/18	1,964				(1,964)		
Title IV	84.186A	ESEA 554018	7/1/17-6/30/18	10,000				(10,000)		
								(56,974)		
<b>Special Education Cluster:</b>										
<b>IDEA Combined Grant:</b>										
I.D.E.A. Part B, Basic	84.027	IDEA 554018	7/1/17-6/30/18	126,718			43,527	(83,191)		
I.D.E.A. Part B, Preschool	84.173	IDEA 554018	7/1/17-6/30/18	6,637				(6,637)		
							43,527	(89,828)		
<b>Total Special Education Cluster</b>										
							43,527	(146,802)		
<b>Total U.S. Department of Education</b>										
<b>U.S. Department of Agriculture:</b>										
<b>Passed-through State Department of Agriculture:</b>										
<b>Child Nutrition Cluster:</b>										
Special Milk Program	10.556	N/A	7/1/17-6/30/18	5,157			4,727	(430)		
Special Milk Program	10.556	N/A	7/1/16-6/30/17	5,477	\$ (381)		381			
					(381)		5,108	(430)		
<b>Total U.S. Department of Agriculture/Child Nutrition Cluster</b>										
					\$ (381)		\$ 48,635	\$ (147,232)		
<b>Total Federal Awards</b>										
					\$ -0-		\$ -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, 2018

State Grantor/Program Title	Grant or State Project Number	Grant Period	Award Amount	Balance at June 30, 2017			Balance at June 30, 2018			MEMO	
				Budgetary Accounts Receivable	Due to Grantor	Cash Received	Budgetary Expenditures	GAAP Accounts Receivable	Due to Grantor	Budgetary Accounts Receivable	Cumulative Total Expenditures
<b>New Jersey Department of Education</b>											
<b>General Fund:</b>											
Categorical Transportation Aid	18-495-034-5120-014	7/1/17-6/30/18	\$ 60,681			\$ 55,514	\$ (60,681)			\$ 5,167	\$ 60,681
Categorical Special Education Aid	18-495-034-5120-089	7/1/17-6/30/18	375,176			343,232	(375,176)			31,944	375,176
Categorical Security Aid	18-495-034-5120-078	7/1/17-6/30/18	12,631			11,556	(12,631)			1,075	12,631
PARCC Readiness Aid	18-495-034-5120-098	7/1/17-6/30/18	6,910			6,322	(6,910)			588	6,910
Per Pupil Growth Aid	18-495-034-5120-097	7/1/17-6/30/18	6,910			6,322	(6,910)			588	6,910
Professional Learning Community Aid	18-495-034-5120-101	7/1/17-6/30/18	6,740			6,166	(6,740)			574	6,740
Extraordinary Aid	18-495-034-5120-044	7/1/17-6/30/18	42,223				(42,223)		\$ 42,223	42,223	42,223
Nonpublic Transportation	18-495-035-5120-014	7/1/17-6/30/18	9,860				(9,860)		9,860	9,860	9,860
Reimbursed TPAF Social Security Contributions	18-495-034-5094-003	7/1/17-6/30/18	342,470			325,171	(342,470)		17,299	17,299	342,470
On-Behalf TPAF Post Retirement Contributions	18-495-034-5094-001	7/1/17-6/30/18	473,482			473,482	(473,482)				473,482
On-Behalf Long Term Disability Insurance Contributions	18-495-034-5094-004	7/1/17-6/30/18	762			762	(762)				762
On-Behalf TPAF Pension Contributions	18-495-034-5094-002	7/1/17-6/30/18	715,713			715,713	(715,713)				715,713
On-Behalf TPAF Non-Contributory Insurance	18-495-034-5094-004	7/1/17-6/30/18	17,369			17,369	(17,369)				17,369
Categorical Transportation Aid	17-495-034-5120-014	7/1/16-6/30/17	60,681	\$ (5,093)		5,093					60,681
Categorical Special Education Aid	17-495-034-5120-089	7/1/16-6/30/17	339,314	(28,479)		28,479					339,314
Categorical Security Aid	17-495-034-5120-078	7/1/16-6/30/17	12,631	(1,060)		1,060					12,631
PARCC Readiness Aid	17-495-034-5120-098	7/1/16-6/30/17	6,910	(580)		580					6,910
Per Pupil Growth Aid	17-495-034-5120-097	7/1/16-6/30/17	6,910	(580)		580					6,910
Professional Learning Community Aid	17-495-034-5120-101	7/1/16-6/30/17	6,740	(566)		566					6,740
Extraordinary Aid	17-495-034-5120-044	7/1/16-6/30/17	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
Reimbursed TPAF Social Security Contributions	17-495-034-5094-003	7/1/16-6/30/17	357,699	(18,024)		18,024					357,699
<b>Total General Fund State Aid</b>				(216,687)		2,178,296	(2,070,927)		69,382	109,318	3,024,117
<b>Total State Department of Education</b>				\$ (216,687)	\$ -0-	\$ 2,178,296	\$ (2,070,927)	\$ 69,382	\$ -0-	\$ 109,318	\$ 3,024,117
<b>Less: On-Behalf TPAF Pension System Contributions:</b>											
On-Behalf TPAF Post Retirement Contributions	18-495-034-5094-001	7/1/17-6/30/18	(473,482)				473,482				
On-Behalf Long Term Disability Insurance Contributions	18-495-034-5094-004	7/1/17-6/30/18	(762)				762				
On-Behalf TPAF Pension Contributions	18-495-034-5094-002	7/1/17-6/30/18	(715,713)				715,713				
On-Behalf TPAF Non-Contributory Insurance	18-495-034-5094-004	7/1/17-6/30/18	(17,369)				17,369				
<b>Subtotal - On-Behalf TPAF Pension System Contributions</b>							1,207,326				
<b>Total State Awards - for Major Program Determination</b>							\$ (863,601)				

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, 2018

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, 2018. 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 (\$3,578) for the general fund. See Note 1D for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds.

WATCHUNG BOROUGH SCHOOL DISTRICT  
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(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		\$ 2,067,349	\$ 2,067,349
Special Revenue Fund	\$ 190,329		190,329
Food Service Fund	5,157		5,157
Total Awards	\$ 195,486	\$ 2,067,349	\$ 2,262,835

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, 2018.

WATCHUNG BOROUGH SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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, 2018 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	18-495-034-5120-089	7/1/17-6/30/18	\$ 375,176	\$ 375,176
Categorical Security Aid	18-495-034-5120-078	7/1/17-6/30/18	12,631	12,631
Per Pupil Growth Aid	18-495-034-5120-097	7/1/17-6/30/18	6,910	6,910
PARCC Readiness Aid	18-495-034-5120-098	7/1/17-6/30/18	6,910	6,910
Professional Learning Communtiy Aid	18-495-034-5120-101	7/1/17-6/30/18	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, 2018

Status of Prior Year Findings:

The District had no prior year audit findings.