

***SCHOOL DISTRICT***

***OF***

***HIGHLANDS***

**Highlands Board of Education  
Highlands, New Jersey**

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

# HIGHLANDS SCHOOL DISTRICT

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## **INTRODUCTORY SECTION**

**HIGHLAND BOARD OF EDUCATION**

HIGHLANDS ELEMENTARY SCHOOL

360 NAVESINK AVENUE

HIGHLANDS, NEW JERSEY

07732-1323

Christopher J. Mullins  
School Business Administrator/  
Board Secretary

(732) 872-9228  
Fax (732) 872-0432

November 15, 2016

Honorable President and  
Members of the Board of Education  
Highlands School District  
Monmouth County, New Jersey

Dear Board Members:

The Comprehensive Annual Financial Report (CAFR) of the Highlands School District (District) for the fiscal year ended June 30, 2016, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Board of Education (Board). 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 financial position and results of operations of the various funds and account groups 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, the District's organizational chart and a list of principal officials. The financial section begins with the Independent Auditors' Report and includes the Management's Discussion and Analysis, the Basic Financial Statements and Notes providing an overview of the School District's financial position and operating results, and other schedules providing detailed budgetary information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. Information related to the single audit, including the auditor's report on the internal control structure and compliance with applicable laws and regulations and findings and recommendations are included in the single audit section of this report.

The District is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments, OMB Circular Uniform Guidance and the New Jersey 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 auditor's report on the internal control structure and compliance with applicable laws and regulations and findings and questioned costs are included in the single audit section of this report.

**1) REPORTING ENTITY AND ITS SERVICES:**

Highlands School District is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board (GASB) as established by GASB Statement No. 14. All funds and account groups of the District are included in this report. The Highlands Board of Education and its elementary school constitute the District's reporting entity.

The District completed the 2015-2016 fiscal year with an average enrollment of 190 students (both regular and special education), which is an increase over the previous year's enrollment.

## **2) ECONOMIC CONDITION:**

The Borough of Highlands is located in Monmouth County on the Shrewsbury River at the easterly tip of Central New Jersey encompassing .67 square miles. Highlands offers magnificent views of the Atlantic Ocean, Sandy Hook, New York City, New York Harbor, and the Verrazano Narrows Bridge. The borough is situated along the waterfront and is comprised mainly of marinas, restaurants, residences and seasonal homes. The mountainous areas contain mostly residences, condominiums and hotels. Highlands most historic site is the Twin Lights, built in 1862.

## **3) INTERNAL ACCOUNTING CONTROLS:**

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

As a recipient of federal awards and state financial assistance, the District also is responsible for ensuring that an adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. Internal control 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 structure, 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.

## **4) BUDGETARY CONTROLS:**

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

An encumbrances 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 reservations of fund balance at June 30, 2016.

## **5) 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 and account groups. These funds and account groups are explained in "Notes to the Financial Statements", Note 1.

## **6) CASH MANAGEMENT:**

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

**7) RISK MANAGEMENT:**

The Board carries various forms of insurance, including general liability, school board legal liability, excess umbrella liability, hazard and theft insurance on property and contents, workers compensation insurance, and fidelity bonds. Student accident insurance during school hours only and secondary to parents' primary insurance is also carried.


**8) OTHER INFORMATION:**

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Alvino & Shechter L.L.C., CPA's, was selected by the Board's audit committee. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act Amendments, OMB Circular Uniform Guidance and the New Jersey OMB Circular 15-08, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid". The auditor's report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the single audit section of this report.

**9) ACKNOWLEDGMENTS:**

We would like to express our appreciation to the members of the Highlands 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 financial and accounting staff.

Respectfully submitted,

  
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Susan E. Compton Ed. D,  
Superintendent

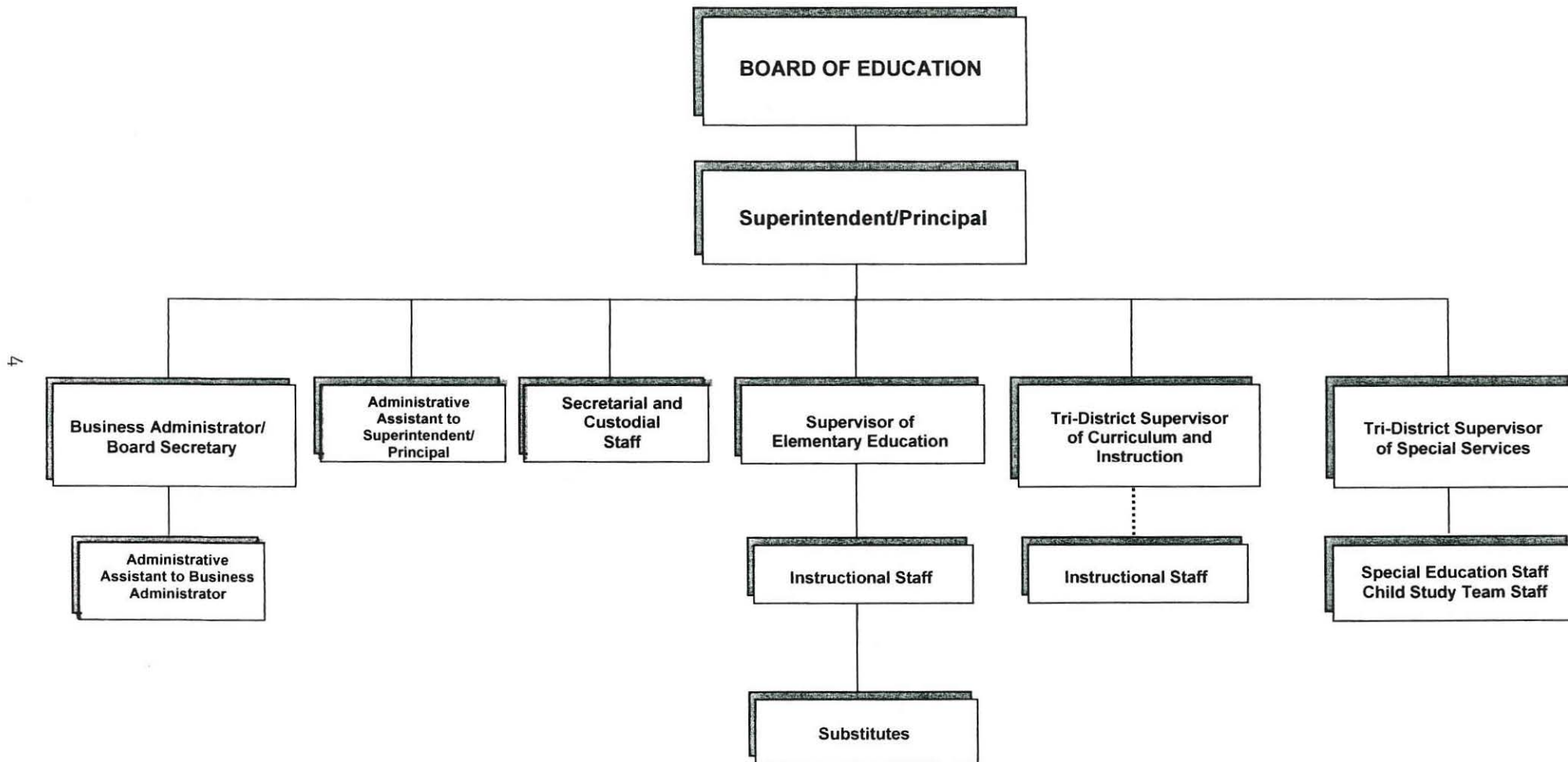
  
\_\_\_\_\_  
Christopher J. Mullins  
School Business  
Administrator/Board Secretary





# HIGHLANDS ELEMENTARY SCHOOL

## ORGANIZATIONAL CHART



**HIGHLANDS SCHOOL DISTRICT**  
**Highlands, New Jersey**

**ROSTER OF OFFICIALS**  
**JUNE 30, 2016**

<u>Members of the Board of Education</u>	<u>Term Expires</u>
Cynthia A. Fair, President	2017
Maryann Fiel, Vice President	2018
Nancy Messina	2016
Irene Campbell	2018
Diane Knox	2016
Nina Flannery	2018
Suzanne Thomas	2016

Other Officials

Susan E. Compton Ed. D - Superintendent (Tri District Shared Service Agreement - Henry Hudson Regional/Atlantic Highlands)

Christopher J. Mullins - School Business Administrator/Board Secretary (Shared Service Agreement - Hazlet)

Lorraine Gallagher - Treasurer of School Moneys

Michael J. Gross, Esq. - Solicitor

# HIGHLANDS SCHOOL DISTRICT

## CONSULTANTS AND ADVISORS

### AUDIT FIRM

Allen B. Shechter, CPA, RMA, PSA  
Alvino & Shechter, L.L.C.  
110 Fortunato Place  
Neptune, NJ 07753

### ATTORNEY

Kenney, Gross, Kovats and Parton  
P.O. Box 8610  
Red Bank, NJ 07710

### OFFICIAL DEPOSITORIES

Bank of America  
950 Highway 36  
Leonardo, NJ 07737

Two Rivers Community Bank  
2347 Route 36  
Atlantic Highlands, NJ 07716

Valley National Bank  
301 Shore Drive  
Highlands, NJ 07732

**FINANCIAL SECTION**

# ALVINO & SHECHTER, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

110 Fortunato Place

Neptune, New Jersey 07753-3767

VINCENT J. ALVINO, CPA, PSA  
ALLEN B. SHECHTER, CPA, RMA, PSA

Phone: (732) 922-4222  
Fax: (732) 922-4533

**Member**

American Institute of Certified Public Accountants  
New Jersey Society of Certified Public Accountants  
PCPS of the AICPA Division of CPA Firms

## INDEPENDENT AUDITOR'S REPORT

The Honorable President and  
Members of the Board of Education  
Highlands Board of Education  
County of Monmouth, 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 Highlands School District (the "District") in the County of Monmouth, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's 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 Highlands School District, in the County of Monmouth, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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 inquires 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 introductory section, supplementary information such as the combining and individual non-major fund financial statements section, statistical section, schedule of expenditures of federal 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* (Uniform Guidance), and the schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 15-08, "*Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*", 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, schedule of expenditures of federal awards as required by the Uniform Guidance and schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 15-08 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules and the schedule of expenditures of federal awards as required by the Uniform Guidance and the schedule of state financial assistance as required by New Jersey OMB Circular 15-08 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Allen B. Shechter  
Licensed Public School Accountant No. 2183  
Certified Public Accountant

November 14, 2016  
Neptune, New Jersey

**REQUIRED SUPPLEMENTARY INFORMATION - PART I**

**HIGHLANDS SCHOOL DISTRICT  
HIGHLANDS, NEW JERSEY**

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

**(Unaudited)**

The discussion and analysis of the Highlands School District's financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the MD&A.

**Financial Highlights**

Key financial highlights for the 2015-2016 fiscal year are as follows:

In total, net position increased \$223,543 which represents a 13.72% increase from 2015.

General revenues were \$3,882,568 which represent 74.14% of revenues for the year. Program specific revenues in the form of charges for services, operating and capital grants and contributions accounted for \$1,354,371 or 25.86% of total revenues of \$5,236,939.

The School District had \$4,902,741 in expenses, only \$1,354,371 were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and State Formula Aid) of \$3,882,568 were adequate to provide for these programs.

The General Fund has \$4,147,894 in revenues and \$4,062,590 in expenditures. The General Fund's balance increased \$85,304 over 2015. This increase was caused mainly by the increase in the local tax levy.

**Using this Comprehensive Annual Financial Report (CAFR)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Highlands School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at the specific financial activities.

*The Statement of Net Position and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Highlands School District, the General Fund is by far the most significant fund.



## **Reporting the School District as a Whole**

### **Statement of Net Position and the Statement of Activities**

While this document contains the large number of funds by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during the 2015-2016 fiscal year?” The *Statement of Net Position and the Statement of Activities* helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net position and changes in those positions. This change in net position is important because it tells the reader that, for the school district as a whole, the financial positions of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the School District’s property tax base, current laws in New Jersey restricting revenue growth, facility condition, required educational programs and other factors.

In the *Statement of Net Position and the Statement of Activities*, the School District is divided into two distinct kinds of activities:

Governmental Activities - All of the School District’s programs and services are reported here including, but not limited to, instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.

Business-Type Activities - This service is provided on a charge for goods or services basis to recover all the expense of the goods or services provided. The Food Service Enterprise Fund is reported as a business activity.

## **Reporting the School District’s Most Significant Funds**

### **Fund Financial Statements**

The analysis of the School District’s major funds begins on page 17. Fund financial reports provide detailed information about the School District’s funds. The School District uses many funds to account for a multitude of financial transactions. The School District’s governmental funds are the General Fund, Special Revenue Fund, Capital Projects Fund and Debt Service Fund.

### **Governmental Funds**

The School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future years. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District’s general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs, the relationship (or differences) between governmental activities (reported in the *Statement of Net Position and the Statement of Activities*) and the governmental funds is reconciled in the financial statements.

## Enterprise Fund

The Enterprise Fund uses the same basis of accounting as business-type activities; therefore, those statements are essentially the same.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the District-Wide and fund financial statements. The notes to the financial statements can be found on pages 24 to 47 of this report.

## The School District as a Whole

Recall that the *Statement of Net Position* provides the perspective of the School District as a whole. Net Position may serve over time as a useful indicator of a government's financial position.

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

Table 1 provides a summary of the School District's net position for 2016 and 2015.

**Table 1**  
**Net Position**

	<u>2016</u>	<u>(Adjusted)</u> <u>2015</u>
<b>Assets</b>		
Current and Other Assets	1,473,742	1,485,535
Capital Assets, Net	<u>1,698,156</u>	<u>1,627,959</u>
<b>Total Assets</b>	<b><u>\$3,171,898</u></b>	<b><u>\$3,113,494</u></b>
<b>Deferred Outflows of Resources</b>		
Deferred Outflows Related to Pensions	\$ <u>169,716</u>	\$ <u>64,137</u>
<b>Liabilities</b>		
Current Liabilities	22,289	122,378
Long-Term Liabilities	<u>1,433,538</u>	<u>1,370,762</u>
<b>Total Liabilities</b>	<b><u>\$1,455,827</u></b>	<b><u>\$1,493,140</u></b>
<b>Deferred Inflows of Resources</b>		
Deferred Commodities Revenue	595	210
Deferred Outflows Related to Pensions	<u>31,870</u>	<u>54,502</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>32,465</u></b>	<b><u>54,712</u></b>
<b>Net Position</b>		
Investment in Capital Assets, Net of Related Debt	1,503,116	1,314,671
Restricted	1,207,891	1,040,357
Unrestricted	<u>(857,685)</u>	<u>(725,249)</u>
<b>Total Net Position</b>	<b><u>\$1,853,322</u></b>	<b><u>\$1,629,779</u></b>

Table 2 shows the changes in net position for fiscal year 2016 and 2015.

**Table 2**  
**Changes in Net Position**

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Program Revenues:		
Charge for Services	43,001	39,356
Operating Grants and Contributions	1,311,370	1,046,225
Capital Grants and Contributions	0	0
General Revenues:		
Property Taxes	3,227,450	2,959,536
State Formula Aid	651,826	666,935
Other	<u>3,292</u>	<u>4,285</u>
<b>Total Revenues</b>	<u>\$5,236,939</u>	<u>\$4,716,337</u>
 <b>Program Expenses</b>		
Instruction	2,677,011	2,509,534
Student Support Services	2,207,775	2,131,739
Food Service	110,655	106,193
Other	<u>17,956</u>	<u>26,063</u>
<b>Total Expenses</b>	<u>\$5,013,397</u>	<u>\$4,773,529</u>
 <b>Increase (Decrease) in Net Position</b>	 <u>\$ 223,542</u>	 <u>\$ (57,192)</u>

**Governmental Activities**

The unique nature of property taxes in New Jersey creates the need to annually seek voter approval for the School District operations. Effective January 17, 2012, P.L. 2011 c.202 eliminated the annual voter referendum on budgets which meet the statutory tax levy cap limitations. Property taxes made up 69.27% of revenues for governmental activities for the Highlands School District for the fiscal year 2016. Federal and state grants accounted for another 29.76% of revenues.

Program expenses include instruction that comprise 53.40% of the total expenses. Support services comprise 44.04 % of total expenses.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for the year ended June 30, 2016. Table 3 shows the total cost of services and the net cost of services. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

**Table 3**

	<u>Total Cost of Services 2016</u>	<u>Net Cost of Services 2016</u>	<u>Total Cost of Services 2015</u>	<u>Net Cost of Services 2015</u>
Instruction	2,677,011	1,794,523	2,509,534	1,837,484
Support Services:				
Pupil and Instructional Staff	1,314,611	1,018,373	1,298,954	1,049,679
Administration	330,139	286,387	306,882	270,050
Operation & Maintenance of Facilities	395,299	395,299	352,590	352,590
Pupil Transportation	167,726	167,726	173,313	173,313
Interest on Long-Term Debt	<u>17,955</u>	<u>17,955</u>	<u>26,063</u>	<u>26,063</u>
<b>Total Expenses</b>	<u>\$4,902,741</u>	<u>\$3,680,263</u>	<u>\$4,667,336</u>	<u>\$3,709,179</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and student.

Pupil and instructional staff include the activities involved with assisting staff with the content and process of teaching to students, including curriculum and staff development.

Administration includes expenses associated with administrative and financial supervision of the district.

Operation & Maintenance of facilities activities involve keeping the school grounds, buildings and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Interest on debt involves the transactions associated with the payment of interest and other related charges to debt of the School District.

### **The School District's Fund**

Information about the School District's governmental funds start on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,659,464 and expenditures of \$4,587,000.

At the end of the current fiscal year, the Board's governmental funds reported combined ending fund balances of \$1,407,274. Of this fund balance, \$181,747 is unassigned which is available for spending at the Board's discretion. The remainder of fund balance is restricted or assigned to indicate that it is not available for spending because it has already been committed (1) for capital reserve \$72,128, (2) for maintenance reserve \$106,546, (3) for excess surplus \$478,677, (4) for excess surplus designated for subsequent year's expenditures \$358,464, (5) for payment of debt \$8,606, (6) for capital projects \$183,470, (7) for year-end encumbrances \$17,636. Unassigned general fund balance represents 4.47% of total general fund expenditures.

## General Fund Budgeting Highlights

The School District's budget is prepared according to the law of the State of New Jersey, and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrance. The most significant budgeted fund is the General Fund.

During the course of the fiscal 2016 year, the School District amended its General Fund budget as needed. The School District uses program based budgeting and the budgeting systems designed to tightly control total program budgets but provide flexibility for program management. Revisions in the budget were made to recognize revenues and expenditures that were not anticipated and to prevent over expenditures in specific expense accounts.

## Capital Assets

At the end of the fiscal 2016 year, the School District has \$3,337,035 invested in buildings, furniture and equipment. Table 4 shows fiscal 2016 and 2015 balances.

**Table 4**  
**Capital Assets (Net Depreciation) at June 30**

	<u>2016</u>	<u>2015</u>
Land	174,413	174,413
Site Improvements	6,906	9,984
Buildings and Improvements	1,447,722	1,408,277
Machinery and Equipment	<u>51,921</u>	<u>25,051</u>
<b>Totals</b>	<b><u>\$1,680,962</u></b>	<b><u>\$1,617,725</u></b>

## Debt Administration

At June 30, 2016, the School District had \$1,433,538 as outstanding debt. This amount consisted of compensated absences \$39,703, certificates of participation \$155,000, capital leases \$40,040, FEMA Community Disaster Loan \$197,798 and pension liability \$1,000,997.

## For the Future

The Highlands School District is in good financial condition presently. The School District is proud of its community support of the public schools. A major concern is future enrollment growth of the District with the increased reliance on local property taxes. However, future finances are not without challenges as the community continues to grow and State funding is decreased.

In conclusion, the Highlands School District has committed itself to financial excellence for many years. In addition, the School District's system for financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenge of the future.

## Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Christopher J. Mullins, at Highlands Board of Education, Highlands Elementary School, 360 Navesink Avenue, Highlands, NJ 07732.

## **BASIC FINANCIAL STATEMENTS**

## **DISTRICT-WIDE FINANCIAL STATEMENTS**

The statement of net position and the statement of activities display information about the District. These statements include the financial activities of the overall District, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District.

**HIGHLANDS SCHOOL DISTRICT**  
**Statement of Net Position**  
**June 30, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	1,128,411.10	16,883.59	1,145,294.69
Receivables, Net	37,353.83	33,635.57	70,989.40
Inventory	.00	1,823.00	1,823.00
Restricted Assets:			
Investments	183,506.91	.00	183,506.91
Capital Reserve Account - Cash	72,128.00	.00	72,128.00
Capital Assets, Net (Note 5):	<u>1,680,962.00</u>	<u>17,194.27</u>	<u>1,698,156.27</u>
Total Assets	<u>3,102,361.84</u>	<u>69,536.43</u>	<u>3,171,898.27</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred Outflows Related to Pensions (Note 11)	<u>169,716.00</u>	<u>.00</u>	<u>169,716.00</u>
<b>LIABILITIES:</b>			
Accounts Payable	245.00	.00	245.00
Other Payable	11,468.40	190.15	11,658.55
Unearned Revenue	2,412.30	.00	2,412.30
Accrued Interest Payable	7,973.44	.00	7,973.44
Noncurrent Liabilities (Note 6):			
Due Within One Year	162,617.55	.00	162,617.55
Due Beyond One Year	269,923.13	.00	269,923.13
Net Pension Liability (Note 11)	<u>1,000,997.00</u>	<u>.00</u>	<u>1,000,997.00</u>
Total Liabilities	<u>1,455,636.82</u>	<u>190.15</u>	<u>1,455,826.97</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred Commodities Revenue	.00	595.05	595.05
Deferred Inflows Related to Pensions (Note 11)	<u>31,870.00</u>	<u>.00</u>	<u>31,870.00</u>
Total Deferred Inflows of Resources	<u>31,870.00</u>	<u>595.05</u>	<u>32,465.05</u>
<b>NET POSITION:</b>			
Investment in Capital Assets, Net of Related Debt	1,485,921.85	17,194.27	1,503,116.12
Restricted for:			
Capital Projects	183,470.21	.00	183,470.21
Debt Service	8,606.43	.00	8,606.43
Other Purposes	1,015,814.73	.00	1,015,814.73
Unrestricted	<u>(909,242.20)</u>	<u>51,556.96</u>	<u>(857,685.24)</u>
Total Net Position	<u>\$1,784,571.02</u>	<u>68,751.23</u>	<u>1,853,322.25</u>

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



**HIGHLANDS SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016**

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes In Net Position		Total
			Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	
<b>GOVERNMENTAL ACTIVITIES:</b>								
Instruction:								
Regular Instruction	1,379,621.39	458,787.00	.00	663,729.99	.00	(1,174,678.40)	.00	(1,174,678.40)
Special Education Instruction	452,245.11	180,771.65	.00	157,505.75	.00	(475,511.01)	.00	(475,511.01)
Other Instruction	138,948.16	66,637.60	.00	61,252.24	.00	(144,333.52)	.00	(144,333.52)
Support Services:								
Tuition	70,565.00	.00	.00	.00	.00	(70,565.00)	.00	(70,565.00)
Student & Instruction Related Services	987,934.90	256,110.88	.00	296,238.99	.00	(947,806.79)	.00	(947,806.79)
General Administrative Services	112,661.11	3,407.07	.00	.00	.00	(116,068.18)	.00	(116,068.18)
School Administration Services	92,551.35	48,477.95	.00	43,751.60	.00	(97,277.70)	.00	(97,277.70)
Central Services	68,401.60	4,640.16	.00	.00	.00	(73,041.76)	.00	(73,041.76)
Plant Operations and Maintenance	370,362.90	24,935.82	.00	.00	.00	(395,298.72)	.00	(395,298.72)
Pupil Transportation	165,000.30	2,725.65	.00	.00	.00	(167,725.95)	.00	(167,725.95)
Unallocated Benefits	962,055.78	(962,055.78)	.00	.00	.00	(.00)	.00	(.00)
Unallocated Depreciation	84,438.00	(84,438.00)	.00	.00	.00	(.00)	.00	(.00)
Interest on Long-Term Debt	17,955.69	.00	.00	.00	.00	(17,955.69)	.00	(17,955.69)
Total Governmental Activities	<u>\$4,902,741.29</u>	<u>.00</u>	<u>.00</u>	<u>1,222,478.57</u>	<u>.00</u>	<u>(3,680,262.72)</u>	<u>.00</u>	<u>(3,680,262.72)</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>								
Food Service	<u>110,655.28</u>	<u>.00</u>	<u>43,000.63</u>	<u>88,891.92</u>	<u>.00</u>	<u>(.00)</u>	<u>21,237.27</u>	<u>21,237.27</u>
Total Business-Type Activities	<u>110,655.28</u>	<u>.00</u>	<u>43,000.63</u>	<u>88,891.92</u>	<u>.00</u>	<u>(.00)</u>	<u>21,237.27</u>	<u>21,237.27</u>
Total Primary Government	<u>\$5,013,396.57</u>	<u>.00</u>	<u>43,000.63</u>	<u>1,311,370.49</u>	<u>.00</u>	<u>(3,680,262.72)</u>	<u>21,237.27</u>	<u>(3,659,025.45)</u>
<b>GENERAL REVENUES:</b>								
Taxes:								
Property Taxes Levied for General Purposes, Net						3,063,326.00	.00	3,063,326.00
Taxes Levied for Debt Service						164,124.00	.00	164,124.00
State Aid Not Restricted						651,826.40	.00	651,826.40
Miscellaneous Income						3,291.76	.00	3,291.76
Total General Revenues, Special Items, Extraordinary Items and Transfers						<u>3,882,568.16</u>	<u>.00</u>	<u>3,882,568.16</u>
Change in Net Position						202,305.44	21,237.27	223,542.71
Net Position - Beginning of Fiscal Year (Adjusted)						<u>1,582,265.58</u>	<u>47,513.96</u>	<u>1,629,779.54</u>
Net Position - Ending of Fiscal Year						<u>\$1,784,571.02</u>	<u>68,751.23</u>	<u>1,853,322.25</u>

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

## **FUND FINANCIAL STATEMENTS**

The Individual Fund statements and schedules present more detailed information for the individual fund in a format that segregates information fund type.

**HIGHLANDS SCHOOL DISTRICT****Balance Sheet****Governmental Funds****June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Fund</u>
<b>ASSETS:</b>					
Cash and Cash Equivalents	1,041,343.30	80,341.80	.00	6,726.00	1,128,411.10
Investments	.00	.00	183,470.21	36.70	183,506.91
Receivables from Other Governments	13,756.00	16,347.00	.00	1,880.00	31,983.00
Interfund Receivable	115,922.60	.00	.00	.00	115,922.60
Restricted Cash and Cash Equivalents	<u>72,128.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>72,128.00</u>
Total Assets	<u>\$1,243,149.90</u>	<u>96,688.80</u>	<u>183,470.21</u>	<u>8,642.70</u>	<u>1,531,951.61</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
Liabilities:					
Accounts Payable	.00	245.00	.00	.00	245.00
Interfunds Payable	9,610.40	110,515.50	.00	36.27	120,162.17
Payable to Other Governments	.00	1,858.00	.00	.00	1,858.00
Unearned Revenue	<u>.00</u>	<u>2,412.30</u>	<u>.00</u>	<u>.00</u>	<u>2,412.30</u>
Total Liabilities	<u>9,610.40</u>	<u>115,030.80</u>	<u>.00</u>	<u>36.27</u>	<u>124,677.47</u>
Fund Balances:					
Restricted for:					
Capital Reserve Account	72,128.00	.00	.00	.00	72,128.00
Maintenance Reserve	106,546.00	.00	.00	.00	106,546.00
Excess Surplus - Designated for Subsequent Year's Expenditures	358,463.61	.00	.00	.00	358,463.61
Excess Surplus - Current Year	478,677.12	.00	.00	.00	478,677.12
Debt Service	.00	.00	.00	8,606.43	8,606.43
Capital Projects	.00	.00	183,470.21	.00	183,470.21
Assigned:					
Year End Encumbrances	17,635.77	.00	.00	.00	17,635.77
Unassigned:					
General Fund	200,089.00	.00	.00	.00	200,089.00
Special Revenue Fund	<u>.00</u>	<u>(18,342.00)</u>	<u>.00</u>	<u>.00</u>	<u>(18,342.00)</u>
Total Fund Balances	<u>1,233,539.50</u>	<u>(18,342.00)</u>	<u>183,470.21</u>	<u>8,606.43</u>	<u>1,407,274.14</u>
Total Liabilities and Fund Balances	<u>\$1,243,149.90</u>	<u>96,688.80</u>	<u>183,470.21</u>	<u>8,642.70</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 governmental funds. The cost of the assets is \$3,337,035.00 and the accumulated depreciation is \$1,656,073.00 (See Note 5).

1,680,962.00

The District's proportionate share of net pension assets and liabilities as well as pension-related deferred outflows and deferred inflows of resources are recognized in the government-wide statements and include (See Note 11).

Deferred Outflows of Resources from Pensions	169,716.00	
Net Pension Liability	(1,000,997.00)	
Deferred Inflows of Resources from Pensions	<u>(31,870.00)</u>	(863,151.00)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. (See Note 6)

(432,540.68)

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due.

(7,973.44)

Net Position of Government Funds

\$1,784,571.02

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

**HIGHLANDS SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds**  
**For the Fiscal Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Fund</u>
<b>REVENUES:</b>					
Local Sources:					
Local Tax Levy	3,063,326.00	.00	.00	164,124.00	3,227,450.00
Miscellaneous	<u>3,291.76</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>3,291.76</u>
Total - Local Sources	3,066,617.76	.00	.00	164,124.00	3,230,741.76
State Sources	1,039,393.37	170,580.60	.00	.00	1,209,973.97
Federal Sources	<u>.00</u>	<u>176,866.00</u>	<u>.00</u>	<u>.00</u>	<u>176,866.00</u>
Total Revenues	<u>4,106,011.13</u>	<u>347,446.60</u>	<u>.00</u>	<u>164,124.00</u>	<u>4,617,581.73</u>
<b>EXPENDITURES:</b>					
Current:					
Regular Instruction	1,098,860.62	282,805.00	.00	.00	1,381,665.62
Special Education Instruction	452,245.11	.00	.00	.00	452,245.11
Other Instruction	138,948.16	.00	.00	.00	138,948.16
Support Services:					
Tuition	70,565.00	.00	.00	.00	70,565.00
Student & Instruction Related Services	901,811.48	77,481.00	.00	.00	979,292.48
General Administration Services	103,234.91	.00	.00	.00	103,234.91
School Administrative Services	92,551.35	.00	.00	.00	92,551.35
Central Services	68,401.60	.00	.00	.00	68,401.60
Plant Operations and Maintenance	370,362.90	.00	.00	.00	370,362.90
Pupil Transportation	165,000.30	.00	.00	.00	165,000.30
Unallocated Benefits	451,564.78	.00	.00	.00	451,564.78
Debt Service:					
Principal	.00	.00	.00	145,000.00	145,000.00
Interest and Other Charges	.00	.00	.00	19,125.00	19,125.00
Capital Outlay	<u>149,043.44</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>149,043.44</u>
Total Expenditures	<u>4,062,589.65</u>	<u>360,286.00</u>	<u>.00</u>	<u>164,125.00</u>	<u>4,587,000.65</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>43,421.48</u>	<u>(12,839.40)</u>	<u>.00</u>	<u>(1.00)</u>	<u>30,581.08</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Capital Leases (non-budgeted)	<u>41,882.64</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>41,882.64</u>
Total Other Financing Sources and Uses	<u>41,882.64</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>41,882.64</u>
Net Change in Fund Balances	85,304.12	(12,839.40)	.00	(1.00)	72,463.72
Fund Balance - July 1 (Unadjusted)	1,146,231.38	(5,502.60)	183,470.21	8,607.43	1,332,806.42
Prior Period Adjustment	<u>2,004.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>2,004.00</u>
Fund Balance - July 1 (Adjusted)	<u>1,148,235.38</u>	<u>(5,502.60)</u>	<u>183,470.21</u>	<u>8,607.43</u>	<u>1,334,810.42</u>
Fund Balance - June 30	<u>\$1,233,539.50</u>	<u>(18,342.00)</u>	<u>183,470.21</u>	<u>8,606.43</u>	<u>1,407,274.14</u>

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

**HIGHLANDS SCHOOL DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2016**

Total net change in fund balances - governmental funds (from B-2)	72,463.72
Amounts reported for governmental activities in the statement of activities (A-2) are different because:	
Capital outlays are reported in governmental funds as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current fiscal year.	
Depreciation Expense	(84,438.00)
Capital Outlay	<u>147,675.00</u>
	63,237.00
Repayment of bond principal, capital lease principal and early retirement funds are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.	152,958.51
District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.	
Pension Expense - PERS Contribution - 2016	38,337.00
State Share of Unfunded TPAF Pension Expenses	611,718.00
Unfunded TPAF Pension Expense	(611,718.00)
Pension Expense	<u>(61,363.00)</u>
	(23,026.00)
In the statement of activities, certain operating expenses, e.g., compensated absences (vacation and sick pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation.	(22,614.46)
In the governmental funds, capital leases are reported as an other financing source. These leases and liabilities are a reduction to the reconciliation.	(41,882.64)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due.	<u>1,169.31</u>
Change in net position of governmental activities	<u>\$202,305.44</u>

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

**HIGHLANDS SCHOOL DISTRICT**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

**Business-Type Activities-**  
**Enterprise Funds**

**Food Service Fund**

**ASSETS:**

Current Assets:	
Cash and Cash Equivalents	16,883.59
Accounts Receivable:	
State	338.94
Federal	23,686.23
Interfunds	9,610.40
Inventories	<u>1,823.00</u>
Total Current Assets	<u>52,342.16</u>
Capital Assets:	
Equipment	23,764.83
Less Accumulated Depreciation	<u>6,570.56</u>
Total Capital Assets, Net	<u>17,194.27</u>
Total Assets	<u>69,536.43</u>

**LIABILITIES:**

Current Liabilities:	
Student Prepaid Accounts	<u>190.15</u>
Total Current Liabilities	<u>190.15</u>

**DEFERRED INFLOWS OF RESOURCES:**

Deferred Commodities Revenue	<u>595.05</u>
Total Deferred Inflows of Resources	<u>595.05</u>
Total Liabilities and Deferred Inflows of Resources	<u>785.20</u>

**NET POSITION:**

Net Investment in Capital Assets	17,194.27
Unrestricted	<u>51,556.96</u>
Total Net Position	<u>\$68,751.23</u>

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

**HIGHLANDS SCHOOL DISTRICT**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016**

**Business-Type Activities-**  
**Enterprise Funds**

**Food Service Fund**

**OPERATING REVENUES:**

Local Sources:

Daily Sales - Reimbursable Programs	19,123.63
Daily Sales - Non-Reimbursable Programs	7,776.00
Breakfast After Bell - Reimbursable Programs	<u>16,101.00</u>

Total Operating Revenues	<u>43,000.63</u>
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**OPERATING EXPENSES:**

Food Service Costs:

Cost of Food	59,299.22
Wages	27,541.78
Payroll Taxes and Benefits	4,203.65
Insurance	2,955.36
Supplies	4,119.37
Miscellaneous	2,886.83
Management Fee	<u>7,376.00</u>
	108,382.21

Other Expenses:

Repairs	445.20
Depreciation	<u>1,827.87</u>

Total Operating Expenses	<u>110,655.28</u>
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Operating Loss	<u>(67,654.65)</u>
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**NON-OPERATING REVENUES:**

State Sources:

State School Lunch Program	1,144.99
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Federal Sources:

National School Lunch Program	49,898.12
School Breakfast Program	29,480.77
Food Distribution Program	<u>8,368.04</u>

Total Non-Operating Revenues	<u>88,891.92</u>
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Income (Loss) Before Contributions and Transfers	21,237.27
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Operating Transfer In: Board Contribution	<u>.00</u>
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Change in Net Position	21,237.27
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Total Net Position - July 1 (Unadjusted)	47,482.67
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Prior Period Adjustment	<u>31.29</u>
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Total Net Position - July 1 (Adjusted)	<u>47,513.96</u>
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Total Net Position - June 30	<u>\$ 68,751.23</u>
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The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**HIGHLANDS SCHOOL DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016**

**Business-Type Activities-**  
**Enterprise Funds**

**Food Service Fund**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from Customers	26,899.63
Payments to Food Service Vendor	(83,888.11)
Payments for Other Expenses	<u>(445.20)</u>

Net Cash Used for Operating Activities (57,433.68)

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:**

State Sources	1,084.92
Federal Sources	73,909.24
Transfers from Other Funds - Board Contribution	.00
Interfunds	(8,974.50)
Student Charge Accounts	<u>190.15</u>

Net Cash Provided by Non-Capital Financing Activities 66,209.81

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchase of Equipment	<u>(8,788.00)</u>
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Net Cash Used for Capital and Related Financing Activities (8,788.00)

Net Increase (Decrease) in Cash and Cash Equivalents (11.87)

Cash and Cash Equivalents - July 1 16,895.46

Cash and Cash Equivalents - June 30 16,883.59

**Reconciliation of Operating Loss to Net Cash Used by Operating Activities:**

Operating Loss	<u>(67,654.65)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities

Net Cash Provided By (Used For) Operating Activities:	
Food Distribution Program - Federal Assistance (Non-Cash)	8,368.04
(Increase) Decrease in Inventories	(359.53)
Increase (Decrease) in Deferred Commodities Revenue	384.59
Depreciation	<u>1,827.87</u>

Total Adjustments 10,220.97

Net Cash Used for Operating Activities \$(57,433.68)

Non-Cash Financing Activities:

The Food Service Enterprise Fund received and utilized commodities from the Federal Food Program valued at \$8,752.63 for the fiscal year ended June 30, 2016.

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



**HIGHLANDS SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

	<b><u>Agency Fund</u></b>
<b>ASSETS:</b>	
Cash and Cash Equivalents	<u>10,849.69</u>
Total Assets	<u>10,849.69</u>
<b>LIABILITIES:</b>	
Interfunds Payable	5,370.83
Payable to Student Groups	5,282.76
Payroll Deductions and Withholdings	<u>196.10</u>
Total Liabilities	<u>10,849.69</u>
<b>Net Position</b>	<b><u>\$ .00</u></b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Introduction**

The Highlands School District is an instrumentality of the State of New Jersey, established to function as an educational institution. The Board consists of elected officials who are 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.

The financial statements of the Board of Education of Highlands School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Reporting Entity:**

The Highlands School District is a Type II district located in the County of Monmouth, State of New Jersey. As a Type II District, the School District functions independently through a Board of Education. The board is comprised of seven members elected to three year-terms. The purpose of the District is to educate students in grades K-6.

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

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

Based on the aforementioned criteria, the District has no component units.

**B. New Accounting Standards:**

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

- GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. Implementation of this Statement did not impact the District's financial statements.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68, and amendments to certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. Implementation of this Statement did not impact the District's financial statements.
- GASB Statement No. 76, *The Hierarchy of General Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify - in the context of the governmental financial reporting environment - the hierarchy of generally accepted accounting principles. Implementation of this Statement did not impact the District's financial statements.

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**B. New Accounting Standards (Cont'd):**

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

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be effective for the year ended June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The District does not expect this Statement to impact its financial statements.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for the year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The District does not expect this Statement to impact its financial statements.
- GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for the year ended June 30, 2017. The objective of this Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. Management does not expect this Statement to impact the District's financial statements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, will be effective for the year ended June 30, 2017. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. Management does not expect this Statement to impact the District's financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, will be effective for the year ended June 30, 2017. The objective of this Statement is to address accounting and financial reporting for certain external investment pools and pool participants. Management does not expect this Statement to impact the District's financial statements.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, will be effective for the year ended June 30, 2018. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No 14, *The Financial Reporting Entity, as amended*. Management does not expect this Statement to impact the District's financial statements.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, will be effective for the year ended June 30, 2018. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Management does not expect this Statement to impact the District's financial statements.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68 and No. 73*, will be effective for the year ended June 30, 2018. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Management has not yet determined the potential impact on the District's financial statements.

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**C. Basis of Presentation, Basis of Accounting:**

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

Basis of Presentation

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

The statement of net position presents the financial condition of the governmental and business-type activity of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the School 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 Statement 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 all expendable financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment which are classified in the capital outlay subfund.

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

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

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**C. Basis of Presentation, Basis of Accounting (Cont'd):**

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

**Debt Service Fund:** The debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on bonds issued to finance major property acquisition, construction and improvement programs.

The District reports the following proprietary fund:

**Enterprise (Food Service) Fund:** The enterprise fund accounts for all revenues and expenses pertaining to the Board's cafeteria operations. The food 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 (ie. 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 and Payroll Agency Fund.

**Basis of Accounting:**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

*District-Wide, Proprietary, and Fiduciary Fund Financial Statements:* The District-Wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; the enterprise fund and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures. Ad Valorem (Property) Taxes are susceptible to accrual as under New Jersey State Statute a municipality is required to remit to its school district the entire balance of taxes in the amount voted upon or certified, prior to the end of the school year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available. The District is entitled to receive monies under the established payment schedule and the unpaid amount is considered to be an "accounts receivable". Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements:* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**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 budgets are submitted to the county office for approval and are voted upon at the annual school election on the third Tuesday in April. The Board voted to adopt P.L. 2011 c.202, effective January 17, 2012, which eliminated the annual voter referendum on budgets which meet the statutory tax levy cap limitations and the board of education members are elected at the November general elections. Budgets are prepared using the modified accrual basis of accounting except for the special revenue fund as described later. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. All budget amendments/transfers must be approved by School Board resolution. All budget 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 GAAP with the exception of the legally mandated revenue recognition of the last state aid payment for budgetary purposes only and the special revenue fund as presented in the Notes to Required Supplementary Information. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at year end.

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

**E. Encumbrances:**

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

Open encumbrances in the Special Revenue Fund, for which the District has received advances, are reflected in the balance sheet as unearned revenues at fiscal year end.

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

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance:**

**Cash, Cash Equivalents, and Investments:**

Cash and cash equivalents include cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. The Board classifies U.S. Treasury and agency obligations and certificates of deposit which have maturity dates of less than twelve months from date of purchase as investments and are stated at cost.

New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts. Investments are reported at fair value.

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Cont'd):**

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 Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

**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 as non-operating revenues/expenses in the enterprise fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

**Allowance for Uncollectible Accounts:**

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

**Inventories:**

Inventory purchases, other than those recorded in the enterprise fund, are recorded as expenditures during the year of purchase. Enterprise fund inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

**Capital Assets:**

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$2,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.



**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Cont'd):**

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Site Improvements	15-20
Building Improvements	20-40
Administrative - EDP Equipment	5
Telephone Systems	10
Office Machines - Administration	8
Food Service Equipment	15
Athletic Equipment	10
Music and Band Equipment	10
EDP Equipment	5
General Plant/Grounds Equipment	15
Textbooks and Library Books	7

Unearned Revenue:

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received in the Special Revenue Fund before they have been earned are recorded as unearned revenue.

Accrued Liabilities and Long-Term Obligations:

All payables, accrued liabilities, and long-term obligations are reported on the District-Wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

Net Position:

Net position represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets.

Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Cont'd):**

Fund Balance:

Beginning with the fiscal year 2011, the District implemented GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definition*". The School District reports fund balance in classifications that comprise a hierarchy based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The School District's classifications, and policies for determining such classifications, are as follows:

**Nonspendable** - The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as inventories and prepaid amounts.

**Restricted** - The restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources either by being (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

**Committed** - The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority, which, for the School District, is the Board of Education. Such formal action consists of an affirmative vote by the Board of Education, memorialized by the adoption of a resolution. Once committed, amounts cannot be used for any other purposes unless the Board of Education removes, or changes, the specified use by taking the same type of action (resolution) it employed to previously commit these amounts.

**Assigned** - The assigned fund balance classification includes amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by either the Board of Education or by the business administrator, to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes. Such authority of the business administrator is established by way of a formal job description for the position, approved by the Board of Education.

**Unassigned** - The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, it is the policy of the School District to spend restricted fund balance first. Moreover, when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, it is the policy of the School District to spend fund balances, if appropriate, in the following order: committed, assigned, then unassigned.

Deferred Outflows/Inflows of Resources:

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

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Cont'd):**

In addition to liabilities, the statement of net position report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items, deferred inflows related to pension and deferred commodities revenue, that qualify for reporting in this category. The latter item is reported in both the district-wide and the propriety funds statements of net position. The deferred commodities revenue represents the estimated market value of the donated and unused Federal commodities at year end. This amount is deferred and recognized as an inflow of resources in the period the commodities are consumed.

Revenues - 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 income taxes is recognized in the period in which the income is earned. 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 available as an advance, interest and tuition.

Operating Revenue and Expenses:

Operating revenues 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.

Allocation of Indirect Expenses:

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses are allocated to functions but are reported separately in the Statement of Activities. Employee benefits, including the employer's share of social security, workers compensation and medical and pension benefits, were allocated based on salaries of that program. Depreciation expense, where practicable, is specifically identified by function and is included in the indirect expense column of the Statement of Activities.

Management Estimates:

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

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The District's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). GUDPA requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances are insured up to \$250,000.00 in the aggregate by the FDIC for each bank. At June 30, 2016, the book value of the District's deposits was \$1,217,422.66 and the bank balance of the District's deposits was \$1,416,268.13. Of the bank balances \$250,000.00 was covered by FDIC and \$1,166,268.13 was covered by GUDPA.

The District is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 18A:20-37. Examples of the allowable investments are bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, 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, Local Government investment pools, and agreements or the repurchase of fully collateralized securities, if transacted in accordance with the above statute.

As of June 30, 2016, the District had the following investments:

U.S. Treasury Obligations	\$183,506.91
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The District has implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 "Deposit and Investment Risk Disclosures" (GASB 40") and accordingly the District has assessed the Custodial Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its cash and investments.

- (a) Custodial Credit Risk - The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The deposit risk is that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District and are held by either: the counterparty or the counterparty's trust department or agent but not in the District's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of the investment or collateral securities that are in possession of an outside party.

As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk since the full amount was covered by either FDIC insurance or GUDPA. The District does not have a formal policy for deposit custodial credit risk other than to maintain sufficient funds in the checking account to cover checks that have not cleared the account as of a specific date.

As of June 30, 2016, the District's investments were comprised of U.S. Treasuries in the amount of \$183,506.91. Since the investments are not registered in the District's name and were not held by the counterparty they are exposed to custodial credit risk. The District does not have a formal policy for investment securities custodial credit risk other than to maintain a safekeeping account for the securities at a financial institution.

- (b) Concentration of Credit Risk - This is the risk associated with the amount of investments the District has with any one issuer that exceeds 5 percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONT'D)**

- (c) Credit Risk - GASB Statement No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the District does not have an investment policy regarding Credit Risk except to the extent previously outlined under the District's investment policy.
- (d) Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations. As of June 30, 2016, the U.S. Treasury obligations all had short term maturities.

**NOTE 3. CAPITAL RESERVE ACCOUNT**

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 of any unanticipated revenue or unexpended line-item appropriation amounts, or both.. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A. 19:60-2*. Pursuant to *N.J.A.C. 6:23A-5.1(d) 7*, 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, 2015 to June 30, 2016 fiscal year is as follows:

Beginning balance, July 1, 2015	\$72,128.00
Interest earnings	.00
Deposits	
Approved by Board Resolution	50,000.00
Withdrawals	
Per Approved Budget	<u>(50,000.00)</u>
Ending balance, June 30, 2016	<u>\$ 72,128.00</u>

**NOTE 4. RECEIVABLES**

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

	<b><u>Governmental Fund Financial Statements</u></b>	<b><u>District-Wide Financial Statements</u></b>
State Aid	13,756.00	14,094.94
Federal Aid	16,347.00	40,033.23
Interfunds	115,922.60	14,981.23
Tax Levy	<u>1,880.00</u>	<u>1,880.00</u>
Gross Receivables	147,905.60	70,989.40
Less: Allowance for Uncollectibles	<u>.00</u>	<u>.00</u>
Total Receivables, Net	<u>\$147,905.60</u>	<u>70,989.40</u>

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 5. CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	174,413.00	.00	.00	174,413.00
Total capital assets not being depreciated	<u>174,413.00</u>	<u>.00</u>	<u>.00</u>	<u>174,413.00</u>
Capital assets being depreciated:				
Site improvements	128,152.00	.00	.00	128,152.00
Building and building improvements	2,617,669.00	105,793.00	.00	2,723,462.00
Machinery and equipment	326,696.00	41,882.00	(57,570.00)	311,008.00
Total capital assets being depreciated	<u>3,072,517.00</u>	<u>147,675.00</u>	<u>(57,570.00)</u>	<u>3,162,622.00</u>
Total at historical cost	<u>3,246,930.00</u>	<u>147,675.00</u>	<u>(57,570.00)</u>	<u>3,337,035.00</u>
Less accumulated depreciation for:				
Site improvements	(118,168.00)	(3,078.00)	.00	(121,246.00)
Building and improvements	(1,209,392.00)	(66,348.00)	.00	(1,275,740.00)
Machinery and equipment	(301,645.00)	(15,012.00)	57,570.00	(259,087.00)
Total accumulated depreciation	<u>(1,629,205.00)</u>	<u>(84,438.00)</u>	<u>57,570.00</u>	<u>(1,656,073.00)</u>
Governmental activity capital assets, net	<u>\$ 1,617,725.00</u>	<u>63,237.00</u>	<u>.00</u>	<u>1,680,962.00</u>
<b>Business-type activities:</b>				
Capital assets being depreciated:				
Equipment	14,976.83	8,788.00	.00	23,764.83
Less accumulated depreciation	<u>(4,742.69)</u>	<u>(1,827.87)</u>	<u>(.00)</u>	<u>(6,570.56)</u>
Enterprise fund capital assets, net	<u>\$ 10,234.14</u>	<u>6,960.13</u>	<u>.00</u>	<u>17,194.27</u>

**Depreciation expense was charged to the following governmental programs:**

Instruction:	
Regular	38,977.00
Special Education	13,046.00
Other Instruction	1,233.00
Support Services:	
Student and Instruction Related Services	16,676.00
School Administrative Services	1,832.00
General Administrative Services	3,242.00
Central Services	3,757.00
Plant Operation and Maintenance	4,923.00
Pupil Transportation	752.00
Total Depreciation Expense, Governmental Activities	<u>\$84,438.00</u>

**NOTE 6. GENERAL LONG-TERM DEBT**

Long-Term Liability Activity for the year ended June 30, 2016, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Obligations Under Capital Leases	6,116.02	41,882.64	7,958.51	40,040.15	7,617.55
Compensated Absences Payable	17,088.07	24,331.96	1,717.50	39,702.53	.00
Certificates of Participation	300,000.00	.00	145,000.00	155,000.00	155,000.00
FEMA Community Disaster Loan (See Note 20)	<u>197,798.00</u>	<u>.00</u>	<u>.00</u>	<u>197,798.00</u>	<u>.00</u>
	<u>\$521,002.09</u>	<u>66,214.60</u>	<u>154,676.01</u>	<u>432,540.68</u>	<u>162,617.55</u>

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 6. GENERAL LONG-TERM DEBT (CONT'D)**

**A. Bonds Authorized But Not Issued** - As of June 30, 2016, the District had no authorized but not issued bonds.

**B. Capital Leases** - The District is leasing three copiers under capital leases. The following is a schedule of the future minimum lease payments under these capital leases and the net minimum lease payments at June 30, 2016.

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	7,617.55	1,931.69	9,549.24
2018	8,029.66	1,519.58	9,549.24
2019	8,464.07	1,085.17	9,549.24
2020	8,922.01	627.23	9,549.24
2021	<u>7,006.86</u>	<u>155.07</u>	<u>7,161.93</u>
	<u>\$40,040.15</u>	<u>\$5,318.74</u>	<u>45,358.89</u>

**C. Lease Purchase Agreement (COPS):**

On January 9, 1997, pursuant to N.J.S.A. 18A:20-4.2(f), the Board of Education (the Lessee) entered into a school building lease purchase agreement with FFL Services Corporation, Inc., (the Lessor) to finance the construction of additions to and renovations of the existing Highlands Elementary School Building. The approval was obtained from the Commissioner of Education of the State of New Jersey and the New Jersey Local Finance Board in the Department of Community Affairs on December 11, 1996. The building is located on land owned by the Board of Education that has been leased to FFL Services Corporation, pursuant to a ground lease agreement dated December 15, 1996. Certificates of Participation (the Certificates) in the par amount of \$1,995,000.00 were issued and the proceeds budgeted as follows:

Project Construction Fund	1,717,530.00
Reserve Fund	183,470.00
Cost of Issuance	<u>94,000.00</u>
	<u>\$1,995,000.00</u>

Proceeds from the sale of the Certificates were used to finance the construction and acquisition of an addition, renovations and other improvements to the Highlands Elementary School.

Under the lease, the Board is required to pay Basic Rent to the agent on each August 1 and February 1, commencing August 1, 1997. Basic Rent is composed of an interest component and a principal component. The Certificates carry interest rates in the range of 4.60% to 6.375%; and the Certificates mature on February 1, 2017. Distributions of the applicable portions of Basic Rent by the Agent to the registered owners are payable initially on August 15, 1997 and on each February 15 and August 15 thereafter through and including February 15, 2017, unless paid earlier upon redemption. The Bank of New York has been appointed to serve as trustee in the agreement.

Future Minimum Lease Program:

Future minimum lease payments for the fiscal year under the lease purchase agreement along with the present value of the minimum lease payments as of June 30, 2016 are:

<u>Year</u>	<u>Amount</u>
2017	<u>164,881.26</u>
Total Minimum Lease Payments	164,881.26
Less Amount Representing Interest	<u>9,881.26</u>
Present Value of Lease Payments	<u>\$155,000.00</u>

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 6. GENERAL LONG-TERM DEBT (CONT'D)**

**C. Lease Purchase Agreement (COPS) (cont'd):**

Optional Redemption:

The Certificates maturing on or prior to February 15, 2007 were not subject to redemption prior to their stated maturities. The Certificates maturing on or after February 15, 2008 are redeemable at the option of the School District in whole on any date or in part on any Interest Payment Date on or after February 15, 2007 upon notice as required below at the respective prices (expressed as percentages of the principal amount to be redeemed) set forth below ("Redemption Price") plus accrued interest to the date fixed for redemption.

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption</u> <u>Price</u>
February 15, 2008 and thereafter	100%

Mandatory Sinking Fund Redemption:

The Certificates maturing on February 15, 2017, shall be subject to mandatory sinking fund redemption, at a price equal to the Principal Amount thereof plus the interest thereon accrued to the date fixed for redemption, by deposits of Basic Rent which are required to be made into the Principal Account of the Certificate Fund in amounts sufficient to redeem the Certificates specified on each of the dates shown below:

<u>Date</u>	<u>Sinking Fund</u> <u>Installment</u>
February 15, 2017 (final maturity)	155,000.00

Mandatory Redemption:

The Certificates are subject to mandatory redemption at a redemption price equal to their principal amount plus accrued interest to the redemption date: (I) on any Interest Payment Date, in whole or in part (and if in part, in inverse order to maturities and within a maturity by lot) from the net proceeds of insurance or condemnation proceedings exceeding \$100,000.00, and if the School District determines not to repair, restore or reconstruct all or a part of the Project affected by such loss or taking, together with any Available Revenues permitted to be applied, or (ii) in whole or in part at any time, from moneys received by the Agent on the exercise of its rights under the Agent Agreement with respect to an Event of Default or an Event of Nonappropriation. This provision is not intended to be applicable if the School District itself should attempt to exercise eminent domain over the Land, the Project, or any interest therein.

**NOTE 7. DEFICIT FUND BALANCES**

The District has a deficit fund balance of \$18,342.00 in the Special Revenue Fund as of June 30, 2016 as reported in the fund statements (modified accrual basis). N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, districts must record the delayed one or more June state aid payments 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 two state aid payments in the subsequent fiscal year, the school district can not recognize the last two state aid payments on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the last state aid payment, the Special Revenue Fund Balance deficit does not alone indicate that the district is facing financial difficulties.

Pursuant to N.J.S.A. 18A:44.2 any negative unrestricted, undesignated general or special revenue fund balance that is reported as a direct result from a delay in the payment of state aid until the following fiscal year, is not considered in violation of New Jersey statute and regulation nor in need of corrective action. The District deficit in the GAAP funds statements of \$18,342.00 is equal to the last two state aid payments.



**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 8. FUND BALANCE APPROPRIATED**

General Fund - Of the \$1,233,539.50 General Fund fund balance at June 30, 2016, \$478,677.12 is restricted as excess surplus in accordance with N.J.S.A. 18A:7F-7; \$358,463.61 was restricted as excess surplus at June 30, 2015 and has been appropriated and included as anticipated revenue for the year ending June 30, 2017; \$72,128.00 has been restricted in the Capital Reserve Account; \$106,546.00 has been restricted in the Maintenance Reserve Account; \$17,635.77 of encumbrances for outstanding purchase orders have been assigned for other purposes; and \$200,089.00 is unassigned.

**NOTE 9. 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 1997 (CEIFA). New Jersey school districts are required to reserve 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 years' budget. The excess fund balance at June 30, 2016 is \$478,677.12.

**NOTE 10. CONTINGENT LIABILITIES**

Grant Programs:

The School District participates in federal awards and state financial assistance grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**NOTE 11. PENSION PLANS**

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

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

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

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 11. PENSION PLANS (CONT'D)**

**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*

The employer contributions for the district are legally required to be funded by the State in accordance with N.J.S.A. 18:66-33. Therefore, the district (employer) is considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the district (employer) does not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the district. However, the state's portion of the net pension liability that was associated with the district was \$10,018,473 as measured on June 30, 2015 and \$9,110,221 as measured on June 30, 2014.

*For the year ended June 30, 2016, the District recognized pension expense of \$611,718 and revenue of \$611,718 for support provided by the State. The measurement period for the pension expense and revenue reported in the district's financial statements (A-2) at June 30, 2016 is based upon changes in the collective net pension liability with a measurement period of June 30, 2014 through June 30, 2015. Accordingly, the pension expense and the related revenue associated with the support provided by the State is based upon the changes in the collective net pension liability between July 1, 2014 and June 30, 2015.*

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

	<u>06/30/2014</u>	<u>06/30/2015</u>
Collective deferred outflows of resources	\$2,306,623,861	\$7,521,378,257
Collective deferred inflows of resources	1,763,205,593	554,399,005
Collective net pension liability (Nonemployer-State of New Jersey)	\$53,446,745,367	63,204,270,305
State's portion of the net pension liability that was associated with the district	9,110,221	10,018,473
State's portion of the net pension liability that was associated with the district as a percentage of the collective net pension liability	0.0170454174%	0.0158509431%

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

Inflation:	2.50%
Salary Increases:	Varies based on experience
Investment Rate of Return:	7.90%

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

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

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 11. PENSION PLANS (CONT'D)**

**Teachers' Pension and Annuity Fund (TPAF) (Cont'd)**

*Long-Term Expected Rate of Return* - In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2015 are summarized in the following table:

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
US Cash	5.00%	0.53%
US Government Bonds	1.75%	1.39%
US Credit Bonds	13.50%	2.72%
US Mortgages	2.10%	2.54%
US Inflation-Indexed Bonds	1.50%	1.47%
US High Yield Bonds	2.00%	4.57%
US Equity Market	27.25%	5.63%
Foreign-Developed Equity	12.00%	6.22%
Emerging Markets Equity	6.40%	8.46%
Private Real Estate Property	4.25%	3.97%
Timber	1.00%	4.09%
Farmland	1.00%	4.61%
Private Equity	9.25%	9.15%
Commodities	1.00%	3.58%
Hedge Funds - MultiStrategy	4.00%	4.59%
Hedge Funds - Equity Hedge	4.00%	5.68%
Hedge Funds - Distressed	4.00%	4.30%

*Discount rate.* The discount rate used to measure the State's total pension liability was 4.13% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers (State of New Jersey) will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

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

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 11. PENSION PLANS (CONT'D)**

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

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

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

At June 30, 2016, the District reported a liability of \$1,000,997 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The District's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the year ended June 30, 2015. At June 30, 2015, the District's proportion was 0.0044591813% which was a decrease of 0.0000794716% from its proportion measured as of June 30, 2014.

*For the year ended June 30, 2016, the District recognized in the district-wide statement of activities (accrual basis) pension expense of \$61,363. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:*

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	23,880	-
Changes of assumptions	107,499	-
Net difference between projected and actual earnings on pension plan investments	-	16,094
Changes in proportion and differences between District contributions and proportionate share of contributions	-	15,776
District contributions subsequent to the measurement date	<u>38,337</u>	<u>-</u>
Total	<u>\$169,716</u>	<u>\$31,870</u>

\$38,337 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date (ie. for the school year ending June 30, 2016, the plan measurement date is June 30, 2015) will be recognized as a reduction of the net pension liability measured as of June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>Year Ended June 30</b>
2017	\$17,023
2018	17,023
2019	17,021
2020	29,567
2021	<u>18,875</u>
Total	<u>\$99,509</u>

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 11. PENSION PLANS (CONT'D)**

**Public Employees' Retirement System (PERS) (Cont'd)**

	<u>06/30/2014</u>	<u>06/30/2015</u>
Collective deferred outflows of resources	\$952,194,675	\$3,578,755,666
Collective deferred inflows of resources	1,479,224,662	993,410,455
Collective net pension liability (Non State - Local Group)	\$18,722,735,003	22,447,996,119
District's portion of net pension liability	849,760	1,000,997
District's portion %	0.0045386529%	0.0044591813%

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

Inflation:	3.04%
Salary Increases	
2012-2013:	2.15%-4.40% based on age
Thereafter:	3.15%-5.40% based on age
Investment Rate of Return:	7.90%

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

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

*Long-Term Expected Rate of Return* - In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

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

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 11. PENSION PLANS (CONT'D)**

**Public Employees' Retirement System (PERS) (Cont'd)**

*Discount rate.* The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

*Sensitivity of the 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 net pension liability measured as of June 30, 2015, calculated using the discount rate of 4.90%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.90%) or 1-percentage-point higher (5.90%) than the current rate:

	<b><u>1%</u></b> <b><u>Decrease</u></b> <b><u>(3.90%)</u></b>	<b><u>Current</u></b> <b><u>Discount</u></b> <b><u>Rate</u></b> <b><u>(4.90%)</u></b>	<b><u>1%</u></b> <b><u>Increase</u></b> <b><u>(5.90%)</u></b>
District's proportionate share of the net pension liability	\$1,244,117	\$1,000,997	\$797,167

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

**Defined Contribution Retirement Plan (DCRP)** - The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2007 under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et. seq.). The DCRP is a cost-sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by N.J.S.A. 43:15C-1 et. seq.

The contribution requirements of plan members are determined by state statute. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. Member contributions are matched by a 3% employer contribution. For the year ended June 30, 2016, employee contributions totaled \$10,173.20 and the District recognized pension expense of \$5,550.00. The State Treasurer has the right under current law to make temporary reductions in member rates based on the existence of surplus plan assets in the retirement system; however statute also requires the return to the normal rate when such surplus pension assets no longer exist.

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

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 11. PENSION PLANS (CONT'D)**

**PERS and TPAF Vesting and Benefit Provisions (Cont'd)**

The TPAF and PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% 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.

**Significant Legislation** - Chapter 78, P.L. 2011, effective June 28, 2011, made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- New members of the PERS hired on or after June 28, 2011, (Tier 5 members), will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in PERS is increased from age 63 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011, (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%. For fiscal year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PES members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

**Contribution Requirements** - The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 (PERS) and N.J.S.A. 18:66 (TPAF) requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. TPAF and PERS provide for employee contributions of 7.06% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. The current TPAF rate is 7.06% and the PERS rate is 7.06% of covered payroll.

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 11. PENSION PLANS (CONT'D)**

**Contribution Requirements (Cont'd)**

The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the District is a non-contributing employer of the TPAF.

**Three-Year Trend Information for PERS**

<u>Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Liability</u>
6/30/16	38,337	100%	1,000,997
6/30/15	37,416	100%	849,760
6/30/14	34,378	100%	871,997

**Three-Year Trend Information for TPAF (Paid on-behalf of the District)**

<u>Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Liability</u>
6/30/16	124,253	100%	-
6/30/15	85,696	100%	-
6/30/14	72,109	100%	-

During the fiscal year ended June 30, 2016, the State of New Jersey did contribute \$147,951.00 to the TPAF for post-retirement medical benefits on behalf of the District. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the District \$115,362.97 during the year ended June 30, 2016, for the employer's share of social security contributions for TPAF members, as calculated on their base salaries. The PERS amounts have been included in the fund-based statements as pension expense and the TPAF on-behalf amounts have been included in the fund-based statements as revenues and expenditures. The PERS and TPAF amounts have been modified and included in the District-wide financial statements in accordance with GASB Statement No. 68.

**NOTE 12. POST-RETIREMENT BENEFITS**

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2015, there were 107,314 retirees eligible for receiving post-retirement medical benefits, and the State contributed 1.25 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to P.L. 1992 c.126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$214.1 million toward Chapter 126 benefits for 19,056 eligible retired members in Fiscal Year 2015.

GASB Statement No. 45 requires certain disclosures relating to governmental entities obligations for other post-employment benefits (OPEB), which are post-employment benefits other than pensions. The District does not provide post-employment benefits other than pension. Healthcare provided to eligible TPAF and PERS board of education retirees through the NJ State Health Benefits Program are paid by the State of New Jersey and as such, no district OPEB liability exists.



**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 13. COMPENSATED ABSENCES**

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

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's policy permits 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.

The entire liability for compensated absences is reported in the District-Wide Statements of Net Position.

**NOTE 14. DEFERRED COMPENSATION**

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

Axa Equitable

**NOTE 15. 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.

**Property and Liability Insurance** - The District maintains commercial insurance coverage for property, liability and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

**NOTE 16. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at June 30, 2016 consisted of the following individual fund receivable and payables:

	<b><u>Due From Other Funds</u></b>	<b><u>Due To Other Funds</u></b>
General Fund:		
Special Revenue Fund	110,515.50	.00
Agency Fund	5,370.83*	.00
Food Service Fund	.00	9,610.40**
Debt Service Fund	36.27	.00
Special Revenue Fund:		
General Fund	.00	110,515.50
Agency Fund:		
General Fund	.00	5,370.83
Food Service Fund		
General Fund	9,610.40*	.00
Debt Service Fund:		
General Fund	.00	36.27

All of the above interfunds represent short-term loans.

\*Reported as receivable on the District-Wide statement of net position.

\*\*Reported as payable on the District-Wide statement of net position.

The District had no operating transfers during the fiscal year ended June 30, 2016.

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**NOTE 17. INVENTORY**

Inventory in the Food Service Fund at June 30, 2016 consisted of the following:

Food	1,329.92
Supplies	<u>493.08</u>
	<u>\$1,823.00</u>

**NOTE 18. DEFICIT UNRESTRICTED NET POSITION**

As reflected on Exhibit A-1, Statement of Net Position, a deficit in unrestricted net position of (\$909,242) existed as of June 30, 2016 for governmental activities. The primary causes of this deficit is the District not recognizing the receivable for the last two state aid payments and the recording of the long-term liability for compensated absences and net pension. In accordance with full accrual accounting, which is the basis of accounting for Exhibit A-1, Statement of Net Position, such liabilities are required to be recorded in the period in which they are incurred. However, in accordance with the rules and regulations that govern the District in the formulation of their annual budget (see Note 1), compensated absences and pension liabilities that relate to future services, or that are contingent on a specific event outside the control of the District and its employees, are funded in the period in which such services are rendered or in which such events take place. Therefore, this deficit in unrestricted net position for governmental activities does not indicate that the District is facing financial difficulties.

**NOTE 19. PRIOR PERIOD ADJUSTMENT**

The District had to increase prior year accounts receivable as reflected on the Schedule of Expenditures of State Awards in the adjustment column. The cumulative effect of this adjustment has resulted in a prior period adjustment of \$31.29 for Business-Type Activities. This District also had to decrease unearned revenue as reflected on the Schedule of Expenditures of Federal Awards in the adjustment column. The cumulative effect of this adjustment has resulted in a prior period adjustment of \$2,004.00 to the General Fund.

**NOTE 20. FEMA COMMUNITY DISASTER LOAN (CDL)**

**General Fund (Exhibits A-1, A-2, B-1, B-2, C-1)** - The school district applied for and received a CDL in response to the devastating effects on the property tax ratable base of the municipality due to Superstorm Sandy in October 2012. The district was approved for \$729,497.00 total loan and chose to withdraw \$.00 as a reduction of the tax levy assessed for the 2015-16 school year, the final year of the draw down period. The amount of principal outstanding and interest accrued through June 30, 2016 is \$197,798.00 and \$4,267.96 respectively. This loan is subject to FEMA review in 2016 and may be fully or partially cancelled based upon FEMA's calculation of the revenue loss that the district experienced over a specified period. The loan matures in 2018.

**NOTE 21. SUBSEQUENT EVENTS**

Management has reviewed and evaluated all events and transactions that occurred between June 30, 2016 and November 14, 2016, the date that the financial statements were available to be issued for possible disclosure and recognition in the financial statements, and no items have come to the attention of the District that would require disclosure.

**REQUIRED SUPPLEMENTARY INFORMATION - PART II**

**BUDGETARY COMPARISON SCHEDULES**

**HIGHLANDS SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2016**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
<b>REVENUES:</b>					
<b>Local Sources:</b>					
Local Tax Levy	3,063,326.00	0.00	3,063,326.00	3,063,326.00	0.00
Miscellaneous	1,200.00	0.00	1,200.00	3,291.76	2,091.76
<b>Total - Local Sources</b>	<b>3,064,526.00</b>	<b>0.00</b>	<b>3,064,526.00</b>	<b>3,066,617.76</b>	<b>2,091.76</b>
<b>State Sources:</b>					
Special Education Categorical Aid	91,617.00	0.00	91,617.00	91,617.00	0.00
Security Aid	47,943.00	0.00	47,943.00	47,943.00	0.00
Adjustment Aid	364,545.00	0.00	364,545.00	364,545.00	0.00
Transportation Aid	41,745.00	0.00	41,745.00	41,745.00	0.00
Supplemental Enrollment Growth Aid	88,935.00	0.00	88,935.00	88,935.00	0.00
PARCC Readiness Aid	1,640.00	0.00	1,640.00	1,640.00	0.00
Per Pupil Growth Aid	1,640.00	0.00	1,640.00	1,640.00	0.00
Extraordinary Special Education Costs Aid	0.00	0.00	0.00	7,492.00	7,492.00
Reimbursement of Nonpublic School Transportation Costs	0.00	0.00	0.00	6,264.00	6,264.00
TPAF - Post Retirement Medical (On-Behalf - Non-Budgeted)	0.00	0.00	0.00	147,951.00	147,951.00
Teacher's Pension & Annuity Fund (On-Behalf-Non-Budgeted)	0.00	0.00	0.00	124,253.00	124,253.00
Reimbursed TPAF Social Security Contributions (Non-Budgeted)	0.00	0.00	0.00	115,362.97	115,362.97
<b>Total State Sources</b>	<b>638,065.00</b>	<b>0.00</b>	<b>638,065.00</b>	<b>1,039,387.97</b>	<b>401,322.97</b>
<b>Total Revenues</b>	<b>3,702,591.00</b>	<b>0.00</b>	<b>3,702,591.00</b>	<b>4,106,005.73</b>	<b>403,414.73</b>
<b>EXPENDITURES:</b>					
<b>Current Expense:</b>					
<b>Regular Programs - Instruction:</b>					
Preschool - Salaries of Teachers	750.00	0.00	750.00	0.00	750.00
Kindergarten - Salaries of Teachers	119,890.00	16,985.00	136,875.00	136,125.00	750.00
Grades 1-5 - Salaries of Teachers	540,632.00	25,790.80	566,422.80	562,314.81	4,107.99
Grades 6-8 - Salaries of Teachers	105,000.00	(7,711.80)	97,288.20	95,288.20	2,000.00
<b>Regular Programs - Home Instruction:</b>					
Salaries of Teachers	2,000.00	0.00	2,000.00	1,190.00	810.00
Purchased Professional-Educational Services	800.00	0.00	800.00	0.00	800.00
<b>Regular Programs - Undistributed Instruction:</b>					
Other Salaries for Instruction	4,000.00	171.66	4,171.66	4,171.66	0.00
Purchased Professional-Educational Services	31,000.00	(1,656.58)	29,343.42	24,028.00	5,315.42
Purchased Technical Services	4,500.00	5,417.67	9,917.67	9,917.67	0.00
Other Purchased Services (400-500 series)	25,350.00	0.00	25,350.00	8,106.75	17,243.25
General Supplies	82,500.00	(3,967.95)	78,532.05	56,985.52	21,546.53
Textbooks	20,000.00	0.00	20,000.00	588.91	19,411.09
Other Objects	7,000.00	14,933.03	21,933.03	20,634.03	1,299.00
<b>TOTAL REGULAR PROGRAMS - INSTRUCTION</b>	<b>943,422.00</b>	<b>49,961.83</b>	<b>993,383.83</b>	<b>919,350.55</b>	<b>74,033.28</b>
<b>SPECIAL EDUCATION - INSTRUCTION</b>					
<b>Learning and/or Language Disabilities:</b>					
Salaries of Teachers	68,905.00	20,155.00	89,060.00	89,060.00	0.00
Other Salaries for Instruction	22,000.00	0.00	22,000.00	18,801.00	3,199.00
<b>Total Learning and/or Language Disabilities</b>	<b>90,905.00</b>	<b>20,155.00</b>	<b>111,060.00</b>	<b>107,861.00</b>	<b>3,199.00</b>
<b>Resource Room/Resource Center:</b>					
Salaries of Teachers	262,905.00	(52,919.98)	209,985.02	205,660.00	4,325.02
<b>Total Resource Room/Resource Center</b>	<b>262,905.00</b>	<b>(52,919.98)</b>	<b>209,985.02</b>	<b>205,660.00</b>	<b>4,325.02</b>
<b>Home Instruction:</b>					
Salaries of Teachers	1,500.00	0.00	1,500.00	0.00	1,500.00
Purchased Professional-Educational Services	1,500.00	0.00	1,500.00	0.00	1,500.00
<b>Total Home Instruction</b>	<b>3,000.00</b>	<b>0.00</b>	<b>3,000.00</b>	<b>0.00</b>	<b>3,000.00</b>
<b>TOTAL SPECIAL EDUCATION - INSTRUCTION</b>	<b>356,810.00</b>	<b>(32,764.98)</b>	<b>324,045.02</b>	<b>313,521.00</b>	<b>10,524.02</b>
<b>Basic Skills/Remedial - Instruction</b>					
Salaries of Teachers	78,360.00	9,165.00	87,525.00	86,607.00	918.00
<b>Total Basic Skills/Remedial - Instruction</b>	<b>78,360.00</b>	<b>9,165.00</b>	<b>87,525.00</b>	<b>86,607.00</b>	<b>918.00</b>

**HIGHLANDS SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2016**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
<b>EXPENDITURES (Continued):</b>					
<b>Current Expense (Continued):</b>					
<b>Bilingual Education - Instruction</b>					
General Supplies	1,000.00	0.00	1,000.00	92.15	907.85
<b>Total Bilingual Education - Instruction</b>	<b>1,000.00</b>	<b>0.00</b>	<b>1,000.00</b>	<b>92.15</b>	<b>907.85</b>
<b>School-Spon. Cocurricular Actvts. - Inst.</b>					
Salaries	7,200.00	1,902.28	9,102.28	9,102.28	0.00
Other Objects	5,000.00	0.00	5,000.00	2,545.53	2,454.47
<b>Total School-Spon. Cocurricular Actvts. - Inst.</b>	<b>12,200.00</b>	<b>1,902.28</b>	<b>14,102.28</b>	<b>11,647.81</b>	<b>2,454.47</b>
<b>Other Instructional Programs - Instruction</b>					
Salaries	15,000.00	(5,988.00)	9,012.00	9,012.00	0.00
Other Salaries for Instruction	3,500.00	2,618.66	6,118.66	6,118.66	0.00
Purchased Professional-Educational Services	15,000.00	0.00	15,000.00	8,838.00	6,162.00
Purchased Services (300-500 series)	6,000.00	(2,603.43)	3,396.57	0.00	3,396.57
Supplies and Materials	1,500.00	(1,411.81)	88.19	88.19	0.00
<b>Total Other Instructional Programs - Instruction</b>	<b>41,000.00</b>	<b>(7,384.58)</b>	<b>33,615.42</b>	<b>24,056.85</b>	<b>9,558.57</b>
<b>Other Instructional Programs - Instruction</b>					
<b>Before/After School Programs - Instruction</b>					
Salaries	24,500.00	0.00	24,500.00	13,915.60	10,584.40
Other Salaries for Instruction	5,000.00	0.00	5,000.00	2,628.75	2,371.25
<b>Total Before/After School Programs - Instruction</b>	<b>29,500.00</b>	<b>0.00</b>	<b>29,500.00</b>	<b>16,544.35</b>	<b>12,955.65</b>
<b>TOTAL INSTRUCTION AND AT-RISK PROGRAMS</b>	<b>1,462,292.00</b>	<b>20,879.55</b>	<b>1,483,171.55</b>	<b>1,371,819.71</b>	<b>111,351.84</b>
<b>Undistributed Expenditures - Instruction:</b>					
Tuition to Other LEAs Within the State - Special	100,000.00	(48,979.70)	51,020.30	51,020.30	0.00
Tuition to Other LEAs Within the State - Private	0.00	25,000.00	25,000.00	19,544.70	5,455.30
<b>Total Undistributed Expenditures - Instruction:</b>	<b>100,000.00</b>	<b>(23,979.70)</b>	<b>76,020.30</b>	<b>70,565.00</b>	<b>5,455.30</b>
<b>Undistributed Expend. - Attend. &amp; Social Work</b>					
Salaries	44,800.00	656.00	45,456.00	44,731.00	725.00
Purchased Professional and Technical Services	24,200.00	0.00	24,200.00	21,589.10	2,610.90
Other Purchased Services (400-500 series)	17,000.00	(326.87)	16,673.13	11,468.08	5,205.05
Supplies and Materials	5,500.00	351.94	5,851.94	5,851.94	0.00
<b>Total Undistributed Expend. - Attend. &amp; Social Work</b>	<b>91,500.00</b>	<b>681.07</b>	<b>92,181.07</b>	<b>83,640.12</b>	<b>8,540.95</b>
<b>Undist. Expend. - Health Services</b>					
Salaries	59,825.00	485.00	60,310.00	60,310.00	0.00
Purchased Professional and Technical Services	2,000.00	6,778.00	8,778.00	8,778.00	0.00
Supplies and Materials	2,000.00	0.00	2,000.00	1,350.78	649.22
Other Objects	400.00	0.00	400.00	156.75	243.25
<b>Total Undistributed Expenditures - Health Services</b>	<b>64,225.00</b>	<b>7,263.00</b>	<b>71,488.00</b>	<b>70,595.53</b>	<b>892.47</b>
<b>Undist. Expend. - Speech/Occ Therapy, PT &amp; Related Serv.</b>					
Salaries	63,425.00	(28,941.93)	34,483.07	34,483.07	0.00
Purchased Professional - Educational Services	85,000.00	50,698.28	135,698.28	135,698.28	0.00
<b>Total Undist. Expend. - Speech/Occ Therapy, PT &amp; Related Serv.</b>	<b>148,425.00</b>	<b>21,756.35</b>	<b>170,181.35</b>	<b>170,181.35</b>	<b>0.00</b>
<b>Other Support Services - Students - Extraordinary</b>					
Salaries	113,700.00	(23,800.98)	89,899.02	85,049.98	4,849.04
<b>Total Support Services - Students - Extraordinary</b>	<b>113,700.00</b>	<b>(23,800.98)</b>	<b>89,899.02</b>	<b>85,049.98</b>	<b>4,849.04</b>
<b>Undist. Expend. - Guidance</b>					
Salaries of Other Professional Staff	34,000.00	0.08	34,000.08	34,000.08	0.00
Other Purchased Prof. and Tech. Services	3,400.00	0.00	3,400.00	0.00	3,400.00
<b>Total Undist. Expend. - Guidance</b>	<b>37,400.00</b>	<b>0.08</b>	<b>37,400.08</b>	<b>34,000.08</b>	<b>3,400.00</b>

**HIGHLANDS SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2016**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
<b>EXPENDITURES (Continued):</b>					
<b>Current Expense (Continued):</b>					
<b>Undist. Expend. - Child Study Teams</b>					
Salaries of Other Professional Staff	90,486.00	26,977.71	117,463.71	117,463.71	0.00
Salaries of Secretarial and Clerical Assistants	51,800.00	1,128.60	52,928.60	51,586.52	1,342.08
Other Salaries	1,000.00	0.00	1,000.00	0.00	1,000.00
Purchased Professional - Educational Services	59,149.00	(40,000.00)	19,149.00	7,465.00	11,684.00
Other Purchased Prof. and Tech. Services	5,500.00	0.00	5,500.00	4,570.06	929.94
Miscellaneous Purchased Services (400-500 series)	10,400.00	0.00	10,400.00	5,454.53	4,945.47
Supplies and Materials	4,500.00	0.00	4,500.00	3,065.51	1,434.49
Other Objects	6,000.00	0.00	6,000.00	0.00	6,000.00
<b>Total Undist. Expend. - Child Study Teams</b>	<b>228,835.00</b>	<b>(11,893.69)</b>	<b>216,941.31</b>	<b>189,605.33</b>	<b>27,335.98</b>
<b>Undist. Expend. - Improvement of Instructional Services</b>					
Salaries of Other Professional Staff	40,000.00	8,107.56	48,107.56	45,735.56	2,372.00
Salaries of Secretarial and Clerical Assistants	1,000.00	(1,000.00)	0.00	0.00	0.00
Purchased Professional - Educational Services	65,000.00	(1,100.00)	63,900.00	50,147.01	13,752.99
Other Purchased Services (400-500 series)	500.00	0.00	500.00	118.00	382.00
Other Objects	500.00	0.00	500.00	298.00	202.00
<b>Total Undist. Expend. - Improvement of Instructional Services</b>	<b>107,000.00</b>	<b>6,007.56</b>	<b>113,007.56</b>	<b>96,298.57</b>	<b>16,708.99</b>
<b>Undist. Expend. - Edu. Media Serv./Sch. Library</b>					
Salaries	23,930.00	1,120.00	25,050.00	19,679.60	5,370.40
Purchased Professional and Technical Services	7,500.00	0.00	7,500.00	6,140.96	1,359.04
Other Purchased Services (400-500 series)	13,000.00	345.08	13,345.08	13,345.08	0.00
Supplies and Materials	2,000.00	0.00	2,000.00	0.00	2,000.00
Other Objects	1,000.00	(773.62)	226.38	0.00	226.38
<b>Total Undist. Expend. - Edu. Media Serv./Sch. Library</b>	<b>47,430.00</b>	<b>691.46</b>	<b>48,121.46</b>	<b>39,165.64</b>	<b>8,955.82</b>
<b>Undist. Expend. - Instructional Staff Training Services</b>					
Salaries of Supervisors of Instruction	2,500.00	0.00	2,500.00	0.00	2,500.00
Purchased Professional-Educational Services	7,500.00	0.00	7,500.00	1,308.28	6,191.72
Other Purchased Services (400-500 series)	250.00	0.00	250.00	0.00	250.00
Other Objects	250.00	0.00	250.00	0.00	250.00
<b>Total Undist. Expend. - Instructional Staff Training Services</b>	<b>10,500.00</b>	<b>0.00</b>	<b>10,500.00</b>	<b>1,308.28</b>	<b>9,191.72</b>
<b>Undist. Expend. - Supp. Serv. - General Admin.</b>					
Salaries	5,000.00	64.00	5,064.00	5,064.00	0.00
Legal Services	10,000.00	0.00	10,000.00	4,810.00	5,190.00
Audit Fees	11,000.00	0.00	11,000.00	10,500.00	500.00
Other Purchased Professional Services	52,500.00	3,333.34	55,833.34	55,833.34	0.00
Communications/Telephone	4,000.00	0.00	4,000.00	2,310.88	1,689.12
BOE Other Purchased Services	4,000.00	1,193.15	5,193.15	5,193.15	0.00
Miscellaneous Purchased Services (400-500 series other than 530/585)	11,500.00	(29.18)	11,470.82	6,751.83	4,718.99
General Supplies	750.00	682.15	1,432.15	1,432.15	0.00
BOE In-House Training/Meeting Supplies	250.00	0.00	250.00	33.50	216.50
Miscellaneous Expenditures	6,000.00	2,758.26	8,758.26	8,758.26	0.00
BOE Membership Dues and Fees	3,000.00	(40.86)	2,959.14	2,547.80	411.34
<b>Total Undist. Expend. - Supp. Serv. - General Admin.</b>	<b>108,000.00</b>	<b>7,960.86</b>	<b>115,960.86</b>	<b>103,234.91</b>	<b>12,725.95</b>
<b>Undist. Expend. - Support Serv. - School Admin.</b>					
Salaries of Principal/Asst. Principals/Program Directors	77,500.00	949.92	78,449.92	78,449.92	0.00
Salaries of Secretarial and Clerical Assistants	4,000.00	6,341.68	10,341.68	10,341.68	0.00
Other Purchased Services (400-500 series)	1,000.00	(465.72)	534.28	239.03	295.25
Supplies and Materials	1,500.00	465.72	1,965.72	1,965.72	0.00
Other Objects	100.00	955.00	1,055.00	1,055.00	0.00
<b>Total Undist. Expend. - Support Serv. - School Admin.</b>	<b>84,100.00</b>	<b>8,246.60</b>	<b>92,346.60</b>	<b>92,051.35</b>	<b>295.25</b>
<b>Undistributed Expenditures - Central Services</b>					
Salaries	6,600.00	0.00	6,600.00	5,901.60	698.40
Purchased Professional Services	62,500.00	(500.00)	62,000.00	62,000.00	0.00
Supplies and Materials	500.00	0.00	500.00	500.00	0.00
<b>Total Undistributed Expenditures - Central Services</b>	<b>69,600.00</b>	<b>(500.00)</b>	<b>69,100.00</b>	<b>68,401.60</b>	<b>698.40</b>

**HIGHLANDS SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2016**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
<b>EXPENDITURES (Continued):</b>					
<b>Current Expense (Continued):</b>					
<b>Undist. Expend. -Required Maintenance for School Facilities</b>					
Cleaning, Repair, and Maintenance Services	97,723.00	5,310.00	103,033.00	77,384.84	25,648.16
General Supplies	2,500.00	954.06	3,454.06	3,454.06	0.00
Other Objects	1,500.00	0.00	1,500.00	0.00	1,500.00
<b>Total Undist. Expend. -Required Maintenance for School Facilities</b>	<b>101,723.00</b>	<b>6,264.06</b>	<b>107,987.06</b>	<b>80,838.90</b>	<b>27,148.16</b>
<b>Undist. Expend. - Other Operation &amp; Maintenance of Plant Services</b>					
Salaries	128,600.00	0.00	128,600.00	119,477.23	9,122.77
Purchased Professional and Technical Services	22,500.00	(632.19)	21,867.81	2,871.00	18,996.81
Cleaning, Repair and Maintenance Services	30,000.00	0.00	30,000.00	0.00	30,000.00
Other Purchased Property Services	7,000.00	0.00	7,000.00	5,548.94	1,451.06
Insurance	25,100.00	0.00	25,100.00	21,108.53	3,991.47
Miscellaneous Purchased Services	5,000.00	0.00	5,000.00	4,671.87	328.13
General Supplies	14,000.00	312.02	14,312.02	14,312.02	0.00
Energy - Electricity	40,000.00	0.00	40,000.00	26,754.37	13,245.63
Energy - Natural Gas	42,000.00	(1,873.00)	40,127.00	23,041.68	17,085.32
<b>Total Undist. Expend. - Other Operation &amp; Maintenance of Plant Serv</b>	<b>314,200.00</b>	<b>(2,193.17)</b>	<b>312,006.83</b>	<b>217,785.64</b>	<b>94,221.19</b>
<b>Undist. Expend. - Care &amp; Upkeep of Grounds</b>					
Purchased Professional and Technical Services	13,500.00	0.00	13,500.00	10,670.00	2,830.00
<b>Total Undist. Expend. - Care &amp; Upkeep of Grounds</b>	<b>13,500.00</b>	<b>0.00</b>	<b>13,500.00</b>	<b>10,670.00</b>	<b>2,830.00</b>
<b>Undist. Expend. - Security</b>					
Purchased Professional and Technical Services	7,000.00	0.00	7,000.00	6,651.66	348.34
<b>Total Undist. Expend. - Security</b>	<b>7,000.00</b>	<b>0.00</b>	<b>7,000.00</b>	<b>6,651.66</b>	<b>348.34</b>
<b>Total Undist. Expend. - Oper. &amp; Maint. Of Plant Services</b>					
	<b>436,423.00</b>	<b>4,070.89</b>	<b>440,493.89</b>	<b>315,946.20</b>	<b>124,547.69</b>
<b>Undist. Expend. - Student Transportation Serv.</b>					
Salaries for Pupil Trans. (Bet. Home & Sch) - Special Ed	11,100.00	0.12	11,100.12	11,100.12	0.00
Management Fee - ESC & CTSA Trans. Program	4,000.00	0.00	4,000.00	0.00	4,000.00
Contract Services (Other than Between Home & School) - Vendors	6,500.00	0.00	6,500.00	4,730.00	1,770.00
Contract Services (Bet. Home & Sch.) - Joint Agrmnts	20,000.00	(20,000.00)	0.00	0.00	0.00
Contract Services (Spl. Ed. Students) - Vendors	60,000.00	(57,812.00)	2,188.00	0.00	2,188.00
Contract Services (Spl. Ed. Students) - ESCs & CTAs	60,000.00	52,364.15	112,364.15	112,364.15	0.00
Contract Services - Aid in Lieu Pymts - NonPublic Students	25,000.00	5,056.00	30,056.00	30,056.00	0.00
<b>Total Undist. Expend. - Student Transportation Serv.</b>	<b>186,600.00</b>	<b>(20,391.73)</b>	<b>166,208.27</b>	<b>158,250.27</b>	<b>7,958.00</b>
<b>Regular Programs - Instruction - Employee Benefits</b>					
Social Security Contributions	12,000.00	0.00	12,000.00	12,000.00	0.00
Other Retirement Contributions - PERS	10,000.00	0.00	10,000.00	7,201.00	2,799.00
Health Benefits	245,000.00	0.00	245,000.00	160,309.07	84,690.93
Tuition Reimbursement	1,000.00	0.00	1,000.00	0.00	1,000.00
<b>Total Regular Programs - Instruction</b>	<b>268,000.00</b>	<b>0.00</b>	<b>268,000.00</b>	<b>179,510.07</b>	<b>88,489.93</b>
<b>Special Programs - Instruction - Employee Benefits</b>					
Social Security Contributions	10,000.00	0.00	10,000.00	8,320.62	1,679.38
Other Retirement Contributions - PERS	15,000.00	0.00	15,000.00	7,201.00	7,799.00
Health Benefits	175,000.00	0.00	175,000.00	123,202.49	51,797.51
Tuition Reimbursement	1,000.00	0.00	1,000.00	0.00	1,000.00
<b>Total Special Programs - Instruction</b>	<b>201,000.00</b>	<b>0.00</b>	<b>201,000.00</b>	<b>138,724.11</b>	<b>62,275.89</b>
<b>Attendance and Social Work Services - Employee Benefits</b>					
Social Security Contributions	4,000.00	0.00	4,000.00	4,000.00	0.00
Other Retirement Contributions - PERS	1,500.00	0.00	1,500.00	1,500.00	0.00
Health Benefits	29,000.00	0.00	29,000.00	29,000.00	0.00
<b>Total Attendance and Social Work Services</b>	<b>34,500.00</b>	<b>0.00</b>	<b>34,500.00</b>	<b>34,500.00</b>	<b>0.00</b>



**HIGHLANDS SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2016**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
<b>EXPENDITURES (Continued):</b>					
<b>Current Expense (Continued):</b>					
<b>Health Services - Employee Benefits</b>					
Health Benefits	29,000.00	2,416.63	31,416.63	31,416.63	0.00
<b>Total Health Services</b>	29,000.00	2,416.63	31,416.63	31,416.63	0.00
<b>Other Support Services - Students - Extraordinary Services - Employee Benefits</b>					
Social Security Contributions	9,000.00	0.00	9,000.00	9,000.00	0.00
Other Retirement Contributions - PERS	5,000.00	0.00	5,000.00	5,000.00	0.00
Health Benefits	25,000.00	2,083.33	27,083.33	27,083.33	0.00
<b>Total Support Services - Students - Extraordinary Services</b>	39,000.00	2,083.33	41,083.33	41,083.33	0.00
<b>Other Support Services - Guidance - Employee Benefits</b>					
Social Security Contributions	2,300.00	0.00	2,300.00	2,300.00	0.00
Other Retirement Contributions - PERS	1,500.00	0.00	1,500.00	1,500.00	0.00
Health Benefits	5,000.00	416.67	5,416.67	5,416.67	0.00
<b>Total Other Support Services - Guidance</b>	8,800.00	416.67	9,216.67	9,216.67	0.00
<b>Other Support Services - Child Study Team - Employee Benefits</b>					
Social Security Contributions	3,000.00	0.00	3,000.00	3,000.00	0.00
Other Retirement Contributions - PERS	1,500.00	0.00	1,500.00	1,500.00	0.00
Health Benefits	5,000.00	416.67	5,416.67	5,416.67	0.00
<b>Other Support Services - Child Study Team</b>	9,500.00	416.67	9,916.67	9,916.67	0.00
<b>Improvement of Instruction Services - Employee Benefits</b>					
Health Benefits	5,000.00	833.30	5,833.30	5,833.30	0.00
<b>Total Improvement of Instruction Services</b>	5,000.00	833.30	5,833.30	5,833.30	0.00
<b>Support Services - School Administration - Employee Benefits</b>					
Social Security Contributions	500.00	0.00	500.00	500.00	0.00
Other Retirement Contributions - PERS	250.00	0.00	250.00	0.00	250.00
<b>Support Services - School Administration</b>	750.00	0.00	750.00	500.00	250.00
<b>Operation and Maintenance of Plant Services - Employee Benefits</b>					
Social Security Contributions	10,000.00	0.00	10,000.00	10,000.00	0.00
Other Retirement Contributions - PERS	6,500.00	0.00	6,500.00	6,500.00	0.00
Health Benefits	32,500.00	5,416.70	37,916.70	37,916.70	0.00
<b>Total Operation and Maintenance of Plant Services</b>	49,000.00	5,416.70	54,416.70	54,416.70	0.00
<b>Student Transportation Services - Employee Benefits</b>					
Social Security Contributions	850.00	0.00	850.00	850.00	0.00
Other Retirement Contributions - PERS	900.00	0.00	900.00	900.00	0.00
Health Benefits	4,000.00	1,000.03	5,000.03	5,000.03	0.00
<b>Total Student Transportation Services</b>	5,750.00	1,000.03	6,750.03	6,750.03	0.00
<b>Total Allocated Benefits</b>	650,300.00	12,583.33	662,883.33	511,867.51	151,015.82
<b>UNALLOCATED BENEFITS</b>					
Other Retirement Contributions - PERS	7,035.00	0.00	7,035.00	7,035.00	0.00
Unemployment Compensation	7,000.00	2,790.29	9,790.29	9,790.29	0.00
Workmen's Compensation	32,000.00	(1,653.66)	30,346.34	27,522.53	2,823.81
Other Benefits	20,000.00	1,392.57	21,392.57	19,649.99	1,742.58
<b>TOTAL UNALLOCATED BENEFITS</b>	66,035.00	2,529.20	68,564.20	63,997.81	4,566.39
On-behalf TPAF Pension Contributions (non-budgeted)	0.00	0.00	0.00	124,253.00	(124,253.00)
On-behalf TPAF OPEB (Post Retire. Medical) Contrib.(non-budgeted)	0.00	0.00	0.00	147,951.00	(147,951.00)
Reimbursed TPAF Social Security Contributions (non-budgeted)	0.00	0.00	0.00	115,362.97	(115,362.97)
<b>TOTAL ON-BEHALF CONTRIBUTIONS</b>	0.00	0.00	0.00	387,566.97	(387,566.97)

**HIGHLANDS SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2016**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
EXPENDITURES (Continued):					
Current Expense (Continued):					
<b>TOTAL PERSONAL SERVICES - EMPLOYEE BENEFITS</b>	716,335.00	15,112.53	731,447.53	963,432.29	(231,984.76)
<b>TOTAL UNDISTRIBUTED EXPENDITURES</b>	2,550,073.00	(8,775.70)	2,541,297.30	2,541,726.50	(429.20)
<b>TOTAL GENERAL CURRENT EXPENSE</b>	4,012,365.00	12,103.85	4,024,468.85	3,913,546.21	110,922.64
<b>CAPITAL OUTLAY</b>					
<b>Facilities Acquisition and Construction Services</b>					
Construction Services	50,000.00	70,316.00	120,316.00	105,792.80	14,523.20
Assessment for Debt Service on SDA Funding	1,368.00	0.00	1,368.00	1,368.00	0.00
<b>Total Facilities Acquisition and Construction Services</b>	51,368.00	70,316.00	121,684.00	107,160.80	14,523.20
<b>Assets Acquired Under Capital Leases (Non-Budgeted)</b>					
Equipment/Instruction	0.00	0.00	0.00	15,915.40	(15,915.40)
Equipment/ Support Services	0.00	0.00	0.00	25,967.24	(25,967.24)
<b>Total Assets Acquired Under Capital Leases (Non-Budgeted)</b>	0.00	0.00	0.00	41,882.64	(41,882.64)
<b>TOTAL CAPITAL OUTLAY</b>	51,368.00	70,316.00	121,684.00	149,043.44	(27,359.44)
<b>TOTAL EXPENDITURES</b>	4,063,733.00	82,419.85	4,146,152.85	4,062,589.65	83,563.20
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(361,142.00)	(82,419.85)	(443,561.85)	43,416.08	486,977.93
<b>Other Financing Sources (Uses):</b>					
Capital Leases (non-budgeted)	0.00	0.00	0.00	41,882.64	41,882.64
<b>Total Other Financing Sources (Uses):</b>	0.00	0.00	0.00	41,882.64	41,882.64
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	(361,142.00)	(82,419.85)	(443,561.85)	85,298.72	528,860.57
<b>Fund Balance, July 1 (Unadjusted)</b>	1,209,903.78	0.00	1,209,903.78	1,209,903.78	0.00
Prior Period Adjustment	2,004.00	0.00	2,004.00	2,004.00	0.00
<b>Fund Balance, July 1 (Adjusted)</b>	1,211,907.78	0.00	1,211,907.78	1,211,907.78	0.00
<b>Fund Balance, June 30</b>	\$850,765.78	(\$82,419.85)	\$768,345.93	\$1,297,206.50	\$486,977.93
<b>Recapitulation:</b>					
<b>Restricted Fund Balance:</b>					
Capital Reserve				72,128.00	
Maintenance Reserve				106,546.00	
Excess Surplus - Designated for Subsequent Year's Expenditures				358,463.61	
Excess Surplus - Current Year				478,677.12	
<b>Assigned Fund Balance:</b>					
Year End Encumbrances				17,635.77	
Designated for Subsequent Year's Expenditures				0.00	
<b>Unassigned Fund Balance</b>				263,756.00	
<b>Reconciliation to Governmental Funds Statements (GAAP):</b>				1,297,206.50	
Last Two State Aid Payments not recognized on GAAP basis				(63,667.00)	
<b>Fund Balance per Governmental Funds (GAAP)</b>				\$1,233,539.50	

**HIGHLANDS SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Special Revenue Fund**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
<b>REVENUES:</b>					
State Sources	183,420.00	.00	183,420.00	183,420.00	.00
Federal Sources	<u>159,974.00</u>	<u>18,436.00</u>	<u>178,410.00</u>	<u>176,866.00</u>	<u>1,544.00</u>
Total Revenues	<u>343,394.00</u>	<u>18,436.00</u>	<u>361,830.00</u>	<u>360,286.00</u>	<u>1,544.00</u>
<b>EXPENDITURES:</b>					
Instruction					
Salaries of Teachers	201,974.00	(33,474.00)	168,500.00	168,500.00	.00
Other Salaries for Instruction	34,900.00	.00	34,900.00	34,900.00	.00
Purchased Professional & Technical Services	.00	1,367.00	1,367.00	1,367.00	.00
Tuition	68,000.00	.00	68,000.00	68,000.00	.00
General Supplies	<u>.00</u>	<u>10,038.00</u>	<u>10,038.00</u>	<u>10,038.00</u>	<u>.00</u>
Total Instruction	<u>304,874.00</u>	<u>(22,069.00)</u>	<u>282,805.00</u>	<u>282,805.00</u>	<u>.00</u>
Support Services					
Salaries of Other Professional Staff	.00	3,500.00	3,500.00	3,500.00	.00
Personal Services - Employee Benefits	38,520.00	13,650.00	52,170.00	52,170.00	.00
Purchased Professional and Technical Services	.00	4,671.00	4,671.00	3,127.00	1,544.00
Purchased Professional - Educational Services	.00	5,000.00	5,000.00	5,000.00	.00
Other Purchased Services	.00	10,872.00	10,872.00	10,872.00	.00
Supplies and Materials	<u>.00</u>	<u>2,812.00</u>	<u>2,812.00</u>	<u>2,812.00</u>	<u>.00</u>
Total Support Services	<u>38,520.00</u>	<u>40,505.00</u>	<u>79,025.00</u>	<u>77,481.00</u>	<u>1,544.00</u>
Total Expenditures	<u>343,394.00</u>	<u>18,436.00</u>	<u>361,830.00</u>	<u>360,286.00</u>	<u>1,544.00</u>
Excess (Deficiency) of Revenues Over (Under)					
Expenditures & Other Financing					
Sources (Uses)	<u>\$ .00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>

**NOTES TO THE REQUIRED SUPPLEMENTARY  
INFORMATION - PART II**

**HIGHLANDS SCHOOL DISTRICT**  
**Notes To The Required Supplementary Information**  
**Budget-to-GAAP Reconciliation**  
**For the Fiscal Year Ended June 30, 2016**

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

	<b><u>General Fund</u></b>	<b><u>Special Revenue Fund</u></b>
<b>Sources/inflows of resources</b>		
Actual amounts (budgetary) "revenues" from the budgetary comparison schedules	4,106,005.73	360,286.00
Difference - budget to GAAP:		
State aid payment recognized for GAAP statements in the current year, previously recognized for budgetary purposes.	63,672.40	5,502.60
State aid payment recognized for budgetary purposes, not recognized for GAAP statements until the subsequent year.	<u>(63,667.00)</u>	<u>(18,342.00)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>4,106,011.13</u>	<u>347,446.60</u>
<b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	<u>4,062,589.65</u>	<u>360,286.00</u>
No Differences - budget to GAAP		
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	<u>\$4,062,589.65</u>	<u>360,286.00</u>

**REQUIRED SUPPLEMENTARY  
INFORMATION - PART III**

**HIGHLANDS SCHOOL DISTRICT**  
**Schedule of the District's Proportionate Share of the Net Position Liability - PERS**  
**Last Ten Fiscal Years\***

**Public Employees' Retirement System (PERS)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
District's proportion of the net pension liability (asset)	0.0044591813%	0.0045386529%	0.0045625656%							
District's proportionate share of the net pension liability (asset)	<u>\$ 1,000,997</u>	<u>\$ 849,760</u>	<u>\$ 871,997</u>							
District's covered-employee payroll	\$294,480	\$320,860	\$295,234							
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	339.92%	264.84%	295.36%							
Plan fiduciary net position as a percentage of the total pension liability (local)	52.07%	52.08%	48.72%							

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

**HIGHLANDS SCHOOL DISTRICT**  
**Schedule of District's Contribution - PERS**  
**Last Ten Fiscal Years\***

**Public Employees' Retirement System (PERS)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 38,337	\$ 37,416	\$ 34,378							
Contribution in relation to the contractually required contribution	<u>(38,337)</u>	<u>(37,416)</u>	<u>(34,378)</u>							
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>							
District's covered-employee payroll	\$ 294,480	\$ 320,860	\$ 295,234							
Contributions as a percentage of covered-employee payroll	13.02%	1.66%	11.64%							

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



**HIGHLANDS SCHOOL DISTRICT**  
**Schedule of the District's Proportionate Share of the Net Pension Liability - TPAF**  
**Last Ten Fiscal Years\***

**Teachers' Pension and Annuity Fund (TPAF)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
District's proportion of the net pension liability (asset) **	N/A	N/A	N/A							
District's proportionate share of the net pension liability (asset) **	N/A	N/A	N/A							
State's proportionate share of the net pension liability (asset) associated with the District	\$ 10,018,473	\$ 9,110,221	\$ 7,298,583							
Total	<u>\$ 10,018,473</u>	<u>\$ 9,110,221</u>	<u>\$ 7,298,583</u>							
District's covered-employee payroll	\$ 1,605,384	\$ 1,550,672	\$ 1,541,780							
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	N/A	N/A	N/A							
Plan fiduciary net position as a percentage of the total pension liability	28.71%	33.64%	33.76%							

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

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

**NOTES TO THE REQUIRED SUPPLEMENTARY  
INFORMATION - PART III**

**HIGHLANDS SCHOOL DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - PART III**  
**PENSION SCHEDULES**  
**June 30, 2016**

**Teachers' Pension and Annuity Fund (TPAF)**

*Changes of benefit terms.* The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF provides retirement, death and disability benefits. All benefits vest after ten years of services, except for medical benefits, which vest after 25 years of service or under the disability 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.

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

**Public Employees' Retirement System (PERS)**

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

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

**OTHER SUPPLEMENTARY INFORMATION**

## **SPECIAL REVENUE FUND DETAIL STATEMENTS**

The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

**HIGHLANDS SCHOOL DISTRICT**  
**Special Revenue Fund**  
**Combining Schedule of Revenues and Expenditures**  
**Budgetary Basis**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Preschool Education Aid</u>	<u>Title I Part A</u>	<u>Title II Part A</u>	<u>IDEA Part B Basic</u>	<u>IDEA Part B Preschool</u>	<u>Totals 2016</u>
<b>REVENUES:</b>						
State Sources	183,420.00	.00	.00	.00	.00	183,420.00
Federal Sources	<u>.00</u>	<u>82,555.00</u>	<u>19,372.00</u>	<u>70,812.00</u>	<u>4,127.00</u>	<u>176,866.00</u>
Total Revenues	<u>183,420.00</u>	<u>82,555.00</u>	<u>19,372.00</u>	<u>70,812.00</u>	<u>4,127.00</u>	<u>360,286.00</u>
<b>EXPENDITURES:</b>						
Instruction:						
Salaries of Teachers	110,000.00	58,500.00	.00	.00	.00	168,500.00
Other Salaries for Instruction	34,900.00	.00	.00	.00	.00	34,900.00
Purchased Professional & Technical Services	.00	1,367.00	.00	.00	.00	1,367.00
Tuition to Other LEA's Within the State - Regular	.00	.00	.00	68,000.00	.00	68,000.00
General Supplies	<u>.00</u>	<u>9,038.00</u>	<u>.00</u>	<u>.00</u>	<u>1,000.00</u>	<u>10,038.00</u>
Total Instruction	<u>144,900.00</u>	<u>68,905.00</u>	<u>.00</u>	<u>68,000.00</u>	<u>1,000.00</u>	<u>282,805.00</u>
Support Services:						
Salaries of Other Professional Staff	.00	.00	3,500.00	.00	.00	3,500.00
Personal Services - Employee Benefits	38,520.00	13,650.00	.00	.00	.00	52,170.00
Purchased Professional and Technical Services	.00	.00	.00	.00	3,127.00	3,127.00
Purchased Professional - Educational Services	.00	.00	5,000.00	.00	.00	5,000.00
Other Purchased Services	.00	.00	10,872.00	.00	.00	10,872.00
Supplies and Materials	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>2,812.00</u>	<u>.00</u>	<u>2,812.00</u>
Total Support Services	<u>38,520.00</u>	<u>13,650.00</u>	<u>19,372.00</u>	<u>2,812.00</u>	<u>3,127.00</u>	<u>77,481.00</u>
Total Expenditures	<u>183,420.00</u>	<u>82,555.00</u>	<u>19,372.00</u>	<u>70,812.00</u>	<u>4,127.00</u>	<u>360,286.00</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>	<u>.00</u>

**HIGHLANDS SCHOOL DISTRICT**  
**Special Revenue Fund**  
**Schedule of Preschool Education Aid Expenditures**  
**Budgetary Basis**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>EXPENDITURES:</b>					
Instruction:					
Salaries of Teachers	110,000.00	.00	110,000.00	110,000.00	.00
Other Salaries for Instruction	<u>34,900.00</u>	<u>.00</u>	<u>34,900.00</u>	<u>34,900.00</u>	<u>.00</u>
Total Instruction	<u>144,900.00</u>	<u>.00</u>	<u>144,900.00</u>	<u>144,900.00</u>	<u>.00</u>
Support Services:					
Personal Services - Employee Benefits	<u>38,520.00</u>	<u>.00</u>	<u>38,520.00</u>	<u>38,520.00</u>	<u>.00</u>
Total Support Services	<u>38,520.00</u>	<u>.00</u>	<u>38,520.00</u>	<u>38,520.00</u>	<u>.00</u>
Total Expenditures	<u>\$183,420.00</u>	<u>.00</u>	<u>183,420.00</u>	<u>183,420.00</u>	<u>.00</u>

**CALCULATION OF BUDGET & CARRYOVER**

Total 2015-16 PreK Aid Allocation	\$183,420.00
Add: Actual PreK/ECPA Aid Carryover June 30, 2015	.00
Add: Budgeted Transfer from General Fund	<u>.00</u>
Total Funds Available for 2015-16 Budget	183,420.00
Less: 2015-16 Budgeted PreK/ECPA (Including prior year budgeted carryover)	<u>183,420.00</u>
Available & Unbudgeted Funds as of June 30, 2016	.00
Add: June 30, 2016 Unexpended PreK Aid	<u>.00</u>
2016 Actual Carryover - PreK Aid	<u>.00</u>
2015-16 PreK Aid Carryover Budgeted in 2016-17	<u>\$ .00</u>

**CAPITAL PROJECTS FUND  
DETAIL STATEMENT**

The Capital Projects Fund is used to account for the acquisition and construction of major capital facilities and equipment purchases other than those financed by proprietary funds.



**HIGHLANDS SCHOOL DISTRICT**  
**Capital Projects Fund**  
**Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis**  
**For the Fiscal Year Ended June 30, 2016**

**Revenue and Other Financing Sources:**

State Sources - SCC Grant	.00
BAN Proceeds and Transfers	.00
Contribution from Private Source	.00
Transfer from Capital Reserve	.00
Transfer from Capital Outlay	.00
Interest Earned	<u>.00</u>
 Total Revenues	 <u>.00</u>

**Expenditures:**

Purchased Professional and Technical Services	.00
Construction Services	.00
General Supplies	.00
Other Objects	<u>.00</u>
 Total Expenditures	 <u>.00</u>

Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>.00</u>
--	------------

**Other Financing Uses:**

Transfer Out - Debt Service Fund	<u>(.00)</u>
Excess (Deficiency) of Revenue and Other Financing Uses Over Expenditures	.00
Fund Balance - July 1	<u>183,470.21</u>
Fund Balance - June 30	<u>\$183,470.21</u>

**Analysis of Fund Balance**

Reserve Fund - 1997 Project (Required by Agreement to be Held for Final COP Payment)	183,470.21
Bond Anticipation Notes Outstanding	<u>.00</u>
Fund Balance - June 30, 2016	<u>\$183,470.21</u>

## **FIDUCIARY FUNDS DETAIL STATEMENTS**

Fiduciary Funds are used to account for funds received by the school district for a specific purpose.

Agency Funds are used to account for assets held by the school district as an agent for individuals, private organizations, other governments and/or other funds.

**Student Activity Fund** - This agency fund is used to account for student funds held at the schools.

**Payroll Fund** - This agency fund is used to account for payroll transactions of the school district.

**HIGHLANDS SCHOOL DISTRICT**  
**Combining Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

	<u>Agency</u>		
	<u>Student</u>		<u>Totals</u>
	<u>Activity</u>	<u>Payroll</u>	
<b>ASSETS:</b>			
Cash and Cash Equivalents	<u>5,282.76</u>	<u>5,566.93</u>	<u>10,849.69</u>
Total Assets	<u>5,282.76</u>	<u>5,566.93</u>	<u>10,849.69</u>
<b>LIABILITIES:</b>			
Interfunds Payable	.00	5,370.83	5,370.83
Payroll Deductions and Withholdings	.00	196.10	196.10
Payable to Student Groups	<u>5,282.76</u>	<u>.00</u>	<u>5,282.76</u>
Total Liabilities	<u>5,282.76</u>	<u>5,566.93</u>	<u>10,849.69</u>
<b>Net Position</b>	<u>\$ .00</u>	<u>.00</u>	<u>.00</u>

**HIGHLANDS SCHOOL DISTRICT**  
**Schedule of Receipts and Disbursements**  
**Student Activity Agency Fund**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Balance</u> <u>July 1, 2015</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2016</u>
Elementary Schools:				
Highlands Elementary	<u>18,930.35</u>	<u>20,775.23</u>	<u>34,422.82</u>	<u>5,282.76</u>
<b>Total Elementary Schools</b>	<u>\$18,930.35</u>	<u>20,775.23</u>	<u>34,422.82</u>	<u>5,282.76</u>

**HIGHLANDS SCHOOL DISTRICT**  
**Schedule of Receipts and Disbursements**  
**Payroll Agency Fund**  
**For the Fiscal Year Ended June 30, 2016**

	<b><u>Balance</u></b> <b><u>July 1, 2015</u></b>	<b><u>Cash</u></b> <b><u>Receipts</u></b>	<b><u>Cash</u></b> <b><u>Disbursements</u></b>	<b><u>Balance</u></b> <b><u>June 30, 2016</u></b>
Payroll Deductions and Withholdings	.00	916,927.24	916,731.14	196.10
Interfunds	<u>398.01</u>	<u>167,937.64</u>	<u>162,964.82</u>	<u>5,370.83</u>
<b>Total</b>	<b><u>\$398.01</u></b>	<b><u>1,084,864.88</u></b>	<b><u>1,079,695.96</u></b>	<b><u>5,566.93</u></b>

## **LONG-TERM DEBT SCHEDULES**

The Long-Term Debt schedules are used to reflect the outstanding principal balances of the general long-term liabilities of the school district. This includes serial bonds outstanding.

**HIGHLANDS SCHOOL DISTRICT**  
**Long-Term Debt**  
**Schedule of Obligations Under Capital Leases**  
**For the Fiscal Year Ended June 30, 2016**

<u>Series</u>	<u>Date of Lease</u>	<u>Term of Lease</u>	<u>Interest Rate Payable</u>	<u>Amount of Original Lease</u>	<u>Amount Outstanding June 30, 2015</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding June 30, 2016</u>
(3) Savin Copiers	2/02/11	5 Years	5.93%	40,494.14	6,116.02	.00	6,116.02	.00
(3) Savin Copiers	3/07/16	5 Years	4.40%	41,882.64	.00	<u>41,882.64</u>	<u>1,842.49</u>	<u>40,040.15</u>
					<u>\$6,116.02</u>	<u>41,882.64</u>	<u>7,958.51</u>	<u>40,040.15</u>

**HIGHLANDS SCHOOL DISTRICT**  
**Long-Term Debt**  
**Schedule of Obligations Under Capital Leases (COPS)**  
**For the Fiscal Year Ended June 30, 2016**

<u>Issue</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Annual Date</u>	<u>Maturities Amount</u>	<u>Interest Rate</u>	<u>Amount Outstanding July 1, 2015</u>	<u>Retired Current Year</u>	<u>Amount Outstanding June 30, 2016</u>
Certificates of Participation	12-15-96	\$1,995,000.00	2-15-2017	155,000.00	6.38%	<u>\$300,000.00</u>	<u>145,000.00</u>	<u>155,000.00</u>



**HIGHLANDS SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Debt Service Fund**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative) Final to Actual</u>
<b>REVENUES:</b>					
Local Sources:					
Local Tax Levy	<u>164,124.00</u>	<u>      .00</u>	<u>164,124.00</u>	<u>164,124.00</u>	<u>      .00</u>
Total Revenues	<u>164,124.00</u>	<u>      .00</u>	<u>164,124.00</u>	<u>164,124.00</u>	<u>      .00</u>
<b>EXPENDITURES:</b>					
Regular Debt Service:					
Principal - Commissioner Approved Lease Purchase Agreements	145,000.00	.00	145,000.00	145,000.00	.00
Interest - Commissioner Approved Lease Agreements	<u>19,124.00</u>	<u>      .00</u>	<u>19,124.00</u>	<u>19,125.00</u>	<u>(1.00)</u>
Total Regular Debt Service - Expenditures	<u>164,124.00</u>	<u>      .00</u>	<u>164,124.00</u>	<u>164,125.00</u>	<u>(1.00)</u>
<b>Excess (Deficiency) of Revenues Under Expenditures</b>	.00	.00	.00	(1.00)	(1.00)
<b>Fund Balance - July 1</b>	<u>8,607.43</u>	<u>      .00</u>	<u>8,607.43</u>	<u>8,607.43</u>	<u>      .00</u>
<b>Fund Balance - June 30</b>	<u>\$ 8,607.43</u>	<u>      .00</u>	<u>8,607.43</u>	<u>8,606.43</u>	<u>(1.00)</u>

**STATISTICAL SECTION (Unaudited)**

**Highlands School District**  
**Net Assets by Component**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Governmental activities</b>										
Invested in capital assets, net of related debt	\$ 603,760	\$ 688,270	\$ 797,493	\$ 900,471	\$ 954,234	\$ 1,015,908	\$ 1,106,573	\$ 1,232,934	\$ 1,304,437	\$ 1,485,922
Restricted	380,373	482,123	763,067	853,017	955,444	1,314,825	1,352,380	1,165,977	1,040,358	1,207,891
Unrestricted	201,431	272,577	272,460	171,025	328,784	263,595	199,460	97,393	(764,533)	(909,242)
<b>Total governmental activities net position</b>	<b>\$ 1,185,564</b>	<b>\$ 1,442,970</b>	<b>\$ 1,833,020</b>	<b>\$ 1,924,513</b>	<b>\$ 2,238,462</b>	<b>\$ 2,594,328</b>	<b>\$ 2,658,413</b>	<b>\$ 2,496,304</b>	<b>\$ 1,580,262</b>	<b>\$ 1,784,571</b>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ 14,228	\$ 13,230	\$ 12,231	\$ 11,232	\$ 10,234	\$ 17,194
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	2,828	2,127	6,470	5,658	8,020	6,591	9,569	14,963	37,249	51,557
<b>Total business-type activities net position</b>	<b>\$ 2,828</b>	<b>\$ 2,127</b>	<b>\$ 6,470</b>	<b>\$ 5,658</b>	<b>\$ 22,248</b>	<b>\$ 19,821</b>	<b>\$ 21,800</b>	<b>\$ 26,195</b>	<b>\$ 47,483</b>	<b>\$ 68,751</b>
<b>District-wide</b>										
Invested in capital assets, net of related debt	\$ 603,760	\$ 688,270	\$ 797,493	\$ 900,471	\$ 968,462	\$ 1,029,138	\$ 1,118,804	\$ 1,244,166	\$ 1,314,671	\$ 1,503,116
Restricted	380,373	482,123	763,067	853,017	955,444	1,314,825	1,373,004	1,165,977	1,040,358	1,207,891
Unrestricted	204,259	274,704	278,930	176,683	336,804	270,186	188,405	112,356	(727,284)	(857,685)
<b>Total district net position</b>	<b>\$ 1,188,392</b>	<b>\$ 1,445,097</b>	<b>\$ 1,839,490</b>	<b>\$ 1,930,171</b>	<b>\$ 2,260,710</b>	<b>\$ 2,614,149</b>	<b>\$ 2,680,213</b>	<b>\$ 2,522,499</b>	<b>\$ 1,627,745</b>	<b>\$ 1,853,322</b>

**Highlands School District**  
**Changes in Net Assets/Net Position**  
**Last Ten Fiscal Year**  
(accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses</b>										
Governmental activities:										
Instruction:										
Regular	1,670,898	1,624,230	1,456,930	1,352,372	1,302,167	1,440,586	1,679,707	1,522,768	1,592,714	1,838,408
Special education	465,345	435,065	528,461	527,450	562,173	656,408	633,255	631,226	709,008	633,017
Other instruction	87,132	168,262	112,598	149,931	121,016	100,911	104,317	175,855	207,811	205,586
Support Services:										
Tuition	77,138	20,162	74,759	60,407	66,287	49,895	47,672	48,475	56,400	70,565
Student & instruction related services	787,310	850,577	871,215	850,405	904,841	881,952	938,380	1,071,302	1,242,554	1,244,046
School Administrative Services	112,487	71,352	89,314	86,102	51,388	53,236	71,976	78,886	137,592	141,029
General administration	164,799	198,635	146,963	158,266	132,470	120,346	97,078	116,729	100,333	116,068
Central Services	134,048	153,847	109,123	93,771	88,593	67,630	66,302	71,689	68,958	73,042
Other administrative services	-	-	-	-	-	-	-	-	-	-
Plant operations and maintenance	322,053	396,267	431,090	409,491	369,866	343,705	381,583	361,345	352,590	395,299
Pupil transportation	162,028	139,939	128,371	150,215	155,246	140,807	184,945	273,293	173,313	167,726
Interest on long-term debt	115,451	72,997	69,965	65,003	57,628	49,930	41,800	34,158	26,063	17,955
Total governmental activities expenses	4,098,689	4,131,333	4,018,789	3,903,413	3,811,675	3,905,406	4,247,015	4,385,726	4,667,336	4,902,741
Business-type activities:										
Food service	78,387	77,572	74,638	81,130	87,438	91,820	83,823	80,615	106,193	110,655
Total business-type activities expense	78,387	77,572	74,638	81,130	87,438	91,820	83,823	80,615	106,193	110,655
Total district expenses	\$ 4,177,076	\$ 4,208,905	\$ 4,093,427	\$ 3,984,543	\$ 3,899,113	\$ 3,997,226	\$ 4,330,838	\$ 4,466,341	\$ 4,773,529	\$ 5,013,396
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
Operating grants and contributions	755,639	720,281	494,464	445,077	440,903	518,671	580,696	615,831	958,157	1,222,478
Total governmental activities program revenues	755,639	720,281	494,464	445,077	440,903	518,671	580,696	615,831	958,157	1,222,478
<b>Program Revenues (Continued)</b>										
Business-type activities:										
Charges for services:										
Food service	36,944	40,407	39,690	36,054	38,964	32,394	24,153	25,350	39,356	43,001
Operating grants and contributions	34,534	36,464	37,293	44,264	65,064	56,999	61,635	59,593	88,068	88,891
Total business type activities program revenues	71,478	76,871	76,983	80,318	104,028	89,393	85,788	84,943	127,424	131,892
Total district program revenues	\$ 827,117	\$ 797,152	\$ 571,447	\$ 525,395	\$ 544,931	\$ 608,064	\$ 666,484	\$ 700,774	\$ 1,085,581	\$ 1,354,370

**Highlands School District**  
**Changes in Net Assets/Net Position**  
**Last Ten Fiscal Year**  
(accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Net (Expense)/Revenue</b>										
Governmental activities	\$ (3,343,050.00)	\$ (3,411,052.00)	\$ (3,524,325.00)	\$ (3,458,336.00)	\$ (3,370,772.00)	\$ (3,386,735.00)	\$ (3,666,319.00)	\$ (3,769,895.00)	\$ (3,709,179.00)	\$ (3,680,263.00)
Business-type activities	(6,909)	(701)	2,345	(812)	16,590	(2,427)	1,965	4,328	21,231	21,237
Total district-wide net expense	\$ (3,349,959)	\$ (3,411,753)	\$ (3,521,980)	\$ (3,459,148)	\$ (3,354,182)	\$ (3,389,162)	\$ (3,664,354)	\$ (3,765,567)	\$ (3,687,948)	\$ (3,659,026)
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental activities:										
Property taxes levied for general purposes, net	\$ 2,788,389.00	\$ 2,860,142.00	\$ 2,969,548.00	\$ 2,914,576.00	\$ 2,860,588.00	\$ 2,849,388.00	\$ 2,881,778.00	\$ 2,782,879.00	\$ 2,782,879.00	\$ 3,063,326.00
Taxes levied for debt service	253,770	257,355	248,725	178,691	185,926	185,894	185,926	174,777	176,657	164,124
Unrestricted grants and contributions	463,020	510,860	657,886	453,391	637,992	702,696	638,060	648,981	666,935	651,826
Investment earnings	11,383	10,366	1,665	76	6	-	-	-	-	-
Miscellaneous income	-	4,735	38,553	3,094	209	9,327	24,639	1,149	4,285	3,292
EDA	-	-	-	-	-	-	-	-	-	-
Other financing sources	72,736	25,000	(2,000)	-	-	-	-	-	-	-
Total governmental activities	\$ 3,589,298.00	\$ 3,668,458.00	\$ 3,914,377.00	\$ 3,549,828.00	\$ 3,684,721.00	\$ 3,747,305.00	\$ 3,730,403.00	\$ 3,607,786.00	\$ 3,630,756.00	\$ 3,882,568.00
Business-type activities:										
Miscellaneous income	\$ 2,049.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15.00	\$ -	\$ -	\$ -
Prior year adjustment	-	-	-	-	-	-	-	-	-	-
Transfers	1,500	-	2,000	-	-	-	-	-	-	-
Total business-type activities	\$ 3,549.00	\$ -	\$ 2,000.00	\$ -	\$ -	\$ -	\$ 15.00	\$ -	\$ -	\$ -
Total district-wide	\$ 3,592,847	\$ 3,668,458	\$ 3,916,377	\$ 3,549,828	\$ 3,684,721	\$ 3,747,305	\$ 3,730,418	\$ 3,607,786	\$ 3,630,756	\$ 3,882,568
<b>Change in Net Position</b>										
Governmental activities	\$ 246,248.00	\$ 257,406.00	\$ 390,052.00	\$ 91,492.00	\$ 313,949.00	\$ 360,570.00	\$ 64,084.00	\$ (162,109.00)	\$ (78,423.00)	\$ 202,305.00
Business-type activities	(3,360)	(701)	4,345	(812)	16,590	(2,427)	1,980	4,328	21,231	21,237
Total district	\$ 242,888	\$ 256,705	\$ 394,397	\$ 90,680	\$ 330,539	\$ 358,143	\$ 66,064	\$ (157,781)	\$ (57,192)	\$ 223,542

**Highlands School District**  
**Fund Balances - Governmental Funds**  
**Last Ten Fiscal Years**  
*(modified accrual basis of accounting)*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>General Fund</b>										
Reserved	\$ 249,742	\$ 320,193	\$ 570,202	\$ 669,514	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	217,288	286,809	297,773	194,330	-	-	-	-	-	-
Restricted	-	-	-	-	771,934	1,128,869	1,181,774	982,506	848,280	1,015,815
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	50,000	-	-	-	82,420	17,636
Unassigned	-	-	-	-	309,691	292,959	203,179	213,679	215,531	200,089
<b>Total general fund</b>	<b>\$ 467,030</b>	<b>\$ 607,002</b>	<b>\$ 867,975</b>	<b>\$ 863,844</b>	<b>\$ 1,131,625</b>	<b>\$ 1,421,828</b>	<b>\$ 1,384,953</b>	<b>\$ 1,196,185</b>	<b>\$ 1,146,231</b>	<b>\$ 1,233,540</b>
<b>All Other Governmental Funds</b>										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 183,509	\$ 185,956	\$ 188,405	\$ 183,471	\$ 192,078	\$ 192,076
Unassigned - special revenue fund (deficit)					\$ (7,016)	\$ (10,524)	\$ (8,936)	\$ (8,254)	\$ (5,503)	\$ (18,342)
Unreserved, reported in:										
Special revenue fund	(10,406)	(11,981)	(4,668)	(4,668)	-	-	-	-	-	-
Capital projects fund	133,470	158,470	183,470	183,470	-	-	-	-	-	-
Debt service fund	7,566	15,441	9,396	33	-	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 130,630</b>	<b>\$ 161,930</b>	<b>\$ 188,198</b>	<b>\$ 178,835</b>	<b>\$ 176,493</b>	<b>\$ 175,432</b>	<b>\$ 179,469</b>	<b>\$ 175,217</b>	<b>\$ 186,575</b>	<b>\$ 173,734</b>

Note: GASB 54 was implemented in the 2011 fiscal year, which required the presentation of fund balances to be reported in different classifications from those presented in prior years (See footnote 1 in the basic financial statements). Prior years have not been restated above and are not required to be.

**Highlands School District**  
**Changes in Fund Balances - Governmental Funds,**  
**Last Ten Fiscal Years**  
*(modified accrual basis of accounting)*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Revenues</b>										
Tax levy	\$ 3,042,159	\$ 3,117,497	\$ 3,218,273	\$ 3,093,267	\$ 3,046,514	\$ 3,035,282	\$ 3,067,704	\$ 2,957,656	\$ 2,959,536	\$ 3,227,450
Tuition charges	-	-	-	-	-	-	-	-	-	-
Interest earnings	11,383	10,366	1,665	76	5	-	-	-	-	-
Miscellaneous	-	4,735	38,553	3,094	209	9,327	24,639	61,499	9,544	3,292
State sources	1,045,160	1,090,446	977,244	702,251	914,369	1,037,160	1,042,364	1,042,256	1,056,845	1,209,974
Federal sources	173,499	140,695	175,106	196,217	164,527	184,207	176,392	162,206	158,468	176,866
<b>Total revenue</b>	<b>4,272,201</b>	<b>4,363,739</b>	<b>4,410,841</b>	<b>3,994,905</b>	<b>4,125,624</b>	<b>4,265,976</b>	<b>4,311,099</b>	<b>4,223,617</b>	<b>4,184,393</b>	<b>4,617,582</b>
<b>Expenditures</b>										
<b>Instruction</b>										
Regular Instruction	1,147,093	1,367,878	1,289,760	1,218,108	1,168,521	1,264,002	1,466,917	1,336,816	1,253,784	1,381,666
Special education instruction	317,974	349,262	465,188	474,880	496,404	565,218	541,610	542,958	538,876	452,245
Other special instruction	5,740	-	-	-	-	-	-	-	-	-
School sponsored/other instructional	53,955	160,154	95,642	131,497	105,285	83,880	89,872	148,283	151,303	138,948
<b>Support Services:</b>										
Tuition	77,138	20,162	74,759	60,407	66,287	49,895	47,673	48,475	56,400	70,565
Student & inst. related services	606,577	740,893	804,467	812,031	802,992	800,710	836,639	980,731	1,001,938	979,293
General administration	135,387	177,310	131,463	142,491	125,911	116,041	92,776	112,582	97,083	103,235
School administrative services	76,944	59,300	72,667	73,235	47,479	43,033	58,598	69,561	87,030	92,551
Central services	92,995	129,133	89,942	79,623	78,736	63,257	62,514	66,658	65,160	68,402
Plant operations and maintenance	274,973	363,889	423,213	404,568	361,050	334,859	372,972	353,441	343,348	370,363
Pupil transportation	155,168	134,996	127,426	149,719	154,204	139,629	183,798	272,358	168,381	165,000
Other support services	-	-	-	-	-	-	-	-	-	-
Employee benefits	840,545	465,011	288,009	273,754	266,278	326,269	373,319	352,831	389,167	451,565
Capital outlay	51,532	-	29,295	-	41,606	6,593	29,070	51,131	1,368	149,043
<b>Debt service:</b>										
Principal	166,930	173,917	180,987	120,344	125,437	130,535	135,640	145,751	140,000	145,000
Interest and other charges	83,515	75,563	73,783	67,742	60,489	52,912	45,011	36,786	28,050	19,125
<b>Total expenditures</b>	<b>4,086,466</b>	<b>4,217,468</b>	<b>4,146,601</b>	<b>4,008,399</b>	<b>3,900,679</b>	<b>3,976,833</b>	<b>4,336,409</b>	<b>4,518,362</b>	<b>4,321,888</b>	<b>4,587,001</b>
<b>Excess (Deficiency) of revenues over (under) expenditures</b>	<b>185,735</b>	<b>146,271</b>	<b>264,240</b>	<b>(13,494)</b>	<b>224,945</b>	<b>289,143</b>	<b>(25,310)</b>	<b>(294,745)</b>	<b>(137,495)</b>	<b>30,581</b>

**Highlands School District**  
**Changes in Fund Balances - Governmental Funds**  
**Last Ten Fiscal Years**  
*(modified accrual basis of accounting)*

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Other Financing sources (uses)</b>										
CDL Property Tax Offset - Super Storm Sandy	-	-	-	-	-	-	-	98,899	98,899	-
Capital leases (non-budgeted)	49,236	-	-	-	40,494	-	-	-	-	41,883
BAN payment	25,000	25,000	25,000	-	-	-	-	-	-	-
Adjustment	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	30,827	31	5	-	-	-	-	-
Transfers out	(1,500)	-	(32,827)	(31)	(5)	-	-	-	-	-
Total other financing sources (uses)	72,736	25,000	23,000	-	40,494	-	-	98,899	98,899	41,883
Net change in fund balances	\$ 258,471	\$ 171,271	\$ 287,240	\$ (13,494)	\$ 265,439	\$ 289,143	\$ (25,310)	\$ (195,846)	\$ (38,596)	\$ 72,464
Debt service as a percentage of noncapital expenditures	6.21%	5.92%	6.40%	4.75%	4.82%	4.62%	4.19%	4.09%	3.89%	3.70%

Source: District records

Note: Noncapital expenditures are total expenditures less capital outlay.

Central Service and Administrative Information Technology account classifications were added beginning with year end June 30, 2007.

Prior to June 30, 2007, Central Service and Administrative Information Technology were combined in Other Support Services as Business and Other Support Services.



**Highlands School District**  
**General Fund Other Local Revenue by Source**  
**Last Ten Fiscal Years**  
*(modified accrual basis of accounting)*

Fiscal Year Ended June 30,	Sale of Capital Assets	Donations	Rentals	Prior Year Refunds	Sale and Leaseback of Textbooks	Miscellaneous	Annual Totals
2007	-	-	-	-	-	-	-
2008	-	-	-	-	-	4,735	4,735
2009	-	-	-	-	-	38,553	38,553
2010	-	-	-	-	-	3,094	3,094
2011	-	-	-	-	-	209	209
2012	-	-	-	-	-	9,327	9,327
2013	-	-	-	-	-	24,369	24,369
2014	-	-	-	-	-	1,149	1,149
2015	-	-	-	-	-	4,284	4,284
2016	-	-	-	-	-	3,292	3,292

**Source:** District records

**Highlands School District  
Assessed Value and Estimated Actual Value of Taxable Property  
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Vacant Land	Residential	Farm Reg.	Qfarm	Commercial	Industrial	Apartment	Total Assessed Value	Public Utilities <sup>a</sup>	Net Valuation Taxable	Estimated Actual (County Equalized) Value	Total Direct School Tax Rate <sup>b</sup>
2007	6,532,800	477,469,900	-	-	47,140,200	-	4,760,900	535,903,800	303,109	536,206,909	736,155,437	0.581
2008	5,921,900	484,293,700	-	-	46,798,200	-	4,782,300	541,796,100	297,546	542,093,646	798,253,973	0.594
2009	6,137,100	486,093,700	-	-	45,560,300	-	5,451,300	543,242,400	312,133	543,554,533	817,622,643	0.569
2010	6,508,500	484,247,200	-	-	45,943,500	-	5,451,300	542,150,500	313,236	542,463,736	811,686,264	0.562
RV 2011	8,537,000	531,161,900	-	-	60,490,500	-	7,191,200	607,380,600	385,327	607,765,927	737,073,270	0.500
2012	8,219,700	530,670,500	-	-	59,937,900	-	7,191,200	606,019,300	329,409	606,348,709	686,922,552	0.506
2013	10,641,100	502,960,100	-	-	54,962,600	-	6,417,800	574,981,600	364,416	575,346,016	611,059,315	0.514
2014	15,190,700	497,195,200	-	-	51,194,500	-	6,380,400	569,960,800	322,671	570,283,471	608,946,446	0.519
2015	14,285,900	504,097,000	-	-	49,673,700	-	7,099,800	575,156,400	320,042	575,476,442	627,593,021	0.561
r 2016	14,508,700	515,280,600	-	-	50,347,500	-	7,128,200	587,265,000	317,915	587,582,915	607,248,669	0.562

Source: Municipal Tax Assessor

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.

r Reassessment occurs when the County Board of Taxation requests Treasury to order a reassessment

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

b Tax rates are per \$100

RV Property Revaluation

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

Fiscal Year Ended June 30,	Highlands School District Direct Rate			Overlapping Rates			Total Direct and Overlapping Tax Rate
	Basic Rate <sup>a</sup>	General Obligation Debt Service <sup>b</sup>	(From J-6) Total Direct School Tax Rate	Regional School Rate	Municipality of Highlands	Monmouth County	
2007	0.532	0.049	0.581	0.736	0.912	0.372	2.601
2008	0.545	0.049	0.594	0.756	0.974	0.379	2.703
2009	0.525	0.044	0.569	0.789	1.052	0.387	2.797
2010	0.527	0.035	0.562	0.785	1.073	0.403	2.823
RV 2011	0.470	0.030	0.500	0.678	0.921	0.337	2.436
2012	0.476	0.030	0.506	0.679	1.031	0.329	2.545
2013	0.484	0.030	0.514	0.707	1.052	0.321	2.594
2014	0.489	0.030	0.519	0.689	1.161	0.329	2.698
2015	0.528	0.033	0.561	0.690	1.211	0.333	2.795
r 2016	0.529	0.033	0.562	0.629	1.273	0.303	2.767

Source: Municipal Tax Collector

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.  
RV Property Revaluation  
r Reassessment

**Highlands School District  
Principal Property Taxpayers\*  
Current Year and Nine Years Ago**

	2016			2007		
	Taxable Assessed Value	Rank (Optional)	% of Total District Net Assessed Value	Taxable Assessed Value	Rank (Optional)	% of Total District Net Assessed Value
Pulte Homes of NJ LP	\$9,798,800	1	1.67%	-	-	-
Highlands Landing Corporation	3,613,500	2	0.62%	\$ 1,568,700	1	0.71%
Bahr's Restaurant Incorporated	2,990,800	3	0.51%	833,000	5	0.37%
Portland Road LLC	2,917,600	4	0.50%	-	-	-
DBCDS, LLC	2,481,100	5	0.42%	-	-	-
Highlander Development Group, LLC	2,243,200	6	0.38%	-	-	-
Individual Taxpayer #1	2,061,500	7	0.35%	1,142,800	3	0.52%
Gateway Realty Inc	2,030,600	8	0.35%	-	-	-
Highlands Waterfront, LLC	1,993,500	9	0.34%	-	-	-
Shore Landing, LLC	1,871,100	10	0.32%	-	-	-
Highlander Assoc.	-	-	-	1,491,700	2	0.67%
Black Brothers Construction	-	-	-	948,900	4	0.43%
Dan-Rob Property Associates, LLC	-	-	-	660,000	6	-
B & C Bayshore Development Co. Inc.	-	-	-	651,400	7	0.29%
Oakland Service Co.	-	-	-	590,500	8	0.27%
Marina On The Bay Assoc.	-	-	-	556,800	9	0.25%
CMB LLC	-	-	-	525,100	10	0.24%
Total	<u>\$ 32,001,700</u>		<u>5.45%</u>	<u>\$ 8,968,900</u>		<u>3.75%</u>

Source: Municipal Tax Assessor

**Highlands School District  
Property Tax Levies and Collections  
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy <sup>a</sup>		Collections in Subsequent Years
		Amount	Percentage of Levy	
2007	3,042,159	3,042,159	100.00%	-
2008	3,117,497	3,117,497	100.00%	-
2009	3,218,273	3,218,273	100.00%	-
2010	3,093,267	3,093,267	100.00%	-
2011	3,046,514	3,046,514	100.00%	-
2012	3,035,282	3,035,282	100.00%	-
2013	3,067,704	3,067,704	100.00%	-
2014	2,957,656	2,957,656	100.00%	-
2015	2,959,536	2,959,536	100.00%	-
2016	3,227,450	3,227,450	100.00%	-

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

<sup>a</sup> School taxes 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.

**Highlands School District  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Governmental Activities						Total District	Percentage of Personal Income <sup>a</sup>	Per Capita <sup>a</sup>
	Certificates of Participation	Capital Leases	Loans	Compensated Absences Payable	Bond Anticipation Notes (BANs)	Community Disaster Loan			
2007	1,250,000	42,253	152,608	15,857	50,000	-	1,510,718	3.88%	58,622
2008	1,150,000	33,279	103,691	14,232	25,000	-	1,326,202	4.52%	59,915
2009	1,045,000	26,521	52,706	20,645	-	-	1,144,872	5.01%	57,337
2010	935,000	22,532	42,362	18,637	-	-	1,018,531	5.68%	57,873
2011	820,000	43,756	31,926	23,890	-	-	919,572	6.64%	61,036
2012	700,000	34,642	21,391	14,137	-	-	770,170	8.18%	63,001
2013	575,000	25,624	10,751	15,407	-	-	626,782	10.06%	63,067
2014	440,000	15,375	-	8,522	-	98,899	562,796	11.73%	66,019
2015	300,000	6,116	-	17,088	-	197,798	521,002		Not Available
2016	155,000	40,040	-	39,703	-	197,798	432,541		Not Available

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

<sup>a</sup> These ratios are calculated using personal income for the prior calendar year.

**Highlands School District  
Ratios of General Bonded Debt Outstanding  
Last Ten Fiscal Years**

<u>General Bonded Debt Outstanding</u>					
<u>Fiscal Year Ended June 30,</u>	<u>EDA Loans</u>	<u>Deductions</u>	<u>Net General Bonded Debt Outstanding</u>	<u>Percentage of Actual Taxable Value <sup>a</sup> of Property</u>	<u>Per Capita <sup>b</sup></u>
2007	152,608	-	152,608	0.03%	58,622
2008	103,691	-	103,691	0.02%	59,915
2009	52,706	-	52,706	0.01%	57,337
2010	42,362	-	42,362	0.01%	57,873
2011	31,926	-	31,926	0.01%	61,039
2012	21,391	-	21,391	0.01%	63,001
2013	10,751	-	10,751	0.01%	63,067
2014	-	-	-	0.00%	66,019
2015	-	-	-	0.00%	Not Available
2016	-	-	-	0.00%	Not Available

**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.

**b** Per capital personal income data can be found in Exhibit J-14.

**Highlands School District  
Direct and Overlapping Governmental Activities Debt  
As of June 30, 2016**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable <sup>a</sup></u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Borough of Highlands	\$ 17,023,006	100.000%	\$ 17,023,006
Monmouth County General Obligation Debt	479,236,724	0.525%	<u>2,517,835</u>
Subtotal, overlapping debt			19,540,841
Highlands School District Direct Debt			<u>197,798</u>
Total direct and overlapping debt			<u>\$ 19,738,639</u>

**Sources** Assessed value data used to estimate applicable percentages provided by the Monmouth County Board of Taxation.  
Debt outstanding data provided by each governmental unit.

**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 the residents and businesses of any town. This process recognizes that, when considering the District's ability to issue and repay long-term debt, 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 payment.

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



Highlands School District  
 Legal Debt Margin Information  
 Last Ten Fiscal Years

Legal Debt Margin Calculation for Fiscal Year 2015

	Equalized valuation basis	
	2015	\$ 600,252,389
	2014	607,698,902
	2013	612,856,107
	[A]	<u>\$ 1,820,807,398</u>
Average equalized valuation of taxable property	[A/3]	\$ 606,935,799
Debt limit (2.5 % of average equalization value)	[B]	15,173,395
Total Net Debt Applicable to Limit	[C]	<u>197,798</u>
Legal debt margin	[B-C]	<u>\$ 14,975,597</u>

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit as a percentage of debt limit	\$ 15,973,565	\$ 18,090,414	\$ 19,569,473	\$ 20,150,280	\$ 19,719,851	\$ 18,603,596	\$ 17,193,943	\$ 16,183,378	\$ 16,183,378	\$ 15,173,395
Total net debt applicable to limit	<u>152,608</u>	<u>103,691</u>	<u>52,706</u>	<u>42,362</u>	<u>31,926</u>	<u>21,391</u>	<u>10,751</u>	<u>98,899</u>	<u>197,798</u>	<u>197,798</u>
Legal debt margin	<u>\$ 15,820,957</u>	<u>\$ 17,986,723</u>	<u>\$ 19,516,767</u>	<u>\$ 20,107,918</u>	<u>\$ 19,687,925</u>	<u>\$ 18,582,205</u>	<u>\$ 17,183,192</u>	<u>\$ 16,084,479</u>	<u>\$ 15,985,580</u>	<u>\$ 14,975,597</u>
Total net debt applicable to the limit as a percentage of debt limit	0.96%	0.57%	0.27%	0.21%	0.16%	0.11%	0.06%	0.61%	1.22%	1.30%

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

**Highlands School District  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

<u>Year</u>	<u>Population</u> <sup>a</sup>	<u>Personal Income</u> <sup>b</sup>	<u>Per Capita Personal Income</u> <sup>c</sup>	<u>Unemployment Rate</u> <sup>d</sup>
2007	5,286	309,875,892	58,622	5.40%
2008	5,254	314,793,410	59,915	6.90%
2009	5,251	301,076,587	57,337	11.20%
2010	5,016	290,290,968	57,873	11.40%
2011	5,003	305,378,117	61,039	11.50%
2012	4,980	313,744,980	63,001	11.90%
2013	4,970	313,442,990	63,067	11.40%
2014	4,905	323,823,195	66,019	6.90%
2015	4,867	N/A	N/A	5.80%
2016	N/A	N/A	N/A	N/A

**Source:**

- a Population information provided by the NJ Dept of Labor and Workforce Development
- b Personal income has been estimated based upon the municipal population and per capita personal income presented
- c Per capita personal income by municipality estimated based upon the 2000 Census published by the US Bureau of Economic Analysis
- d Unemployment data provided by the NJ Dept of Labor and Workforce Development

**Highlands School District  
Principal Employers  
Current Year and Nine Years Ago**

<u>Employer</u>	<u>2016</u>			<u>2007</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Municipal Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Municipal Employment</u>
			*NOT AVAILABLE			
	<u>-</u>		<u>0.00%</u>	<u>-</u>		<u>0.00%</u>

\*Highlands does not have any employers with more than 100 employees.

**Highlands School District  
Full-time Equivalent District Employees by Function/Program  
Last Ten Fiscal Years**

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Instruction</b>										
Regular	21	20	15	15	15	15	15	15	15	15
Special education	7	5	5	5	5	5	5	5	5	5
Other special education	0	1	1	1	1	1	1	1	1	1
Vocational	0	0	0	0	0	0	0	0	0	0
Other instruction	0	0	0	0	0	0	0	0	0	0
Nonpublic school programs	0	0	0	0	0	0	0	0	0	0
Adult/continuing education programs	0	0	0	0	0	0	0	0	0	0
<b>Support Services:</b>										
Student & instruction related services	7	9	8	5	5	5	5	5	5	5
General administration	2	2	2	2	2	2	2	2	2	2
School administrative services	1	1	1	1	1	1	1	1	1	1
Other administrative services	1	1	1	1	1	1	1	1	1	1
Central services	3	2	2	2	2	2	2	2	2	2
Administrative information technology	0	0	0	0	0	0	0	0	0	0
Plant operations and maintenance	5	5	5	5	5	5	5	5	5	5
Pupil transportation	0	0	0	0	0	0	0	0	0	0
Other support services	4	4	5	7	7	7	7	7	7	7
Special Schools	0	0	0	0	0	0	0	0	0	0
Food Service	0	0	0	0	0	0	0	0	0	0
Child Care	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<u>51</u>	<u>50</u>	<u>45</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>

Source: District Personnel Records

**Highlands School District  
Operating Statistics  
Last Ten Fiscal Years**

<u>Fiscal Year Ended June 30,</u>	<u>Enrollment</u>	<u>Operating Expenditures <sup>a</sup></u>	<u>Cost Per Pupil</u>	<u>Percentage Change</u>	<u>Teaching Staff <sup>b</sup></u>	<u>Pupil/Teach Ratio Elementary</u>	<u>Average Daily Enrollment (ADE) <sup>c</sup></u>	<u>Average Daily Attendance (ADA) <sup>c</sup></u>	<u>% Change in Average Daily Enrollment</u>	<u>Student Attendance Percentage</u>
2007	198	3,784,489	19,114	7.75%	31	6.4	192.0	181	-9.43%	94.27%
2008	179	3,967,988	22,168	15.98%	30	6.0	178.0	165	-18.64%	92.70%
2009	167	3,891,831	23,304	5.13%	29	5.8	167.0	155	-6.18%	92.81%
2010	176	3,820,314	21,706	-6.86%	28	6.3	176.0	162	5.39%	92.05%
2011	193	3,673,147	19,032	-12.32%	28	6.9	200.0	184	13.64%	92.00%
2012	194	3,786,794	19,520	2.56%	28	6.9	192.0	181	-4.00%	94.27%
2013	174	4,126,687	23,717	21.50%	28	6.2	174.0	163	-9.38%	87.86%
2014	179	4,284,694	23,937	0.93%	28	6.2	175.0	163	0.57%	93.36%
2015	187	4,152,470	22,206	-7.23%	28	6.2	181.0	173	3.43%	95.42%
2016	192	4,273,832	22,260	0.24%	28	6.2	189.7	178	4.79%	94.15%

Sources: District records

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).

**Highlands School District  
School Building Information  
Last Ten Fiscal Years**

<u>District Building</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Elementary</u>										
Highlands Elementary (1931)										
Square Feet	26,677	36,677	36,677	36,677	36,677	36,677	36,677	36,677	36,677	36,677
Capacity (students)	300	300	300	300	300	300	300	300	300	300
Enrollment	198	179	167	176	193	194	174	179	187	192
Number of Schools at June 30, 2014										
Elementary = 1										

**Source:** District Facilities Office

**Note:** Increases in square footage and capacity are the result of additions.  
Enrollment is based on the annual October district count.

## Highlands School District Schedule of Required Maintenance by School Facility Last Ten Fiscal Years

**UNDISTRIBUTED EXPENDITURES - REQUIRED  
MAINTENANCE FOR SCHOOL FACILITIES  
11-000-261-xxx**

	<u>*School Facilities Project # (s)</u>	<u>Highlands Elementary 2160-050-02-1011, 2160-050-02-0955</u>
2007		37,884
2008		58,626
2009		70,167
2010		48,070
2011		34,301
2012		45,348
2013		70,757
2014		100,287
2015		71,140
2016		80,839
		80,839
		\$617,419
Total School Facilities		

\* 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

Highlands School District  
Insurance Schedule  
June 30, 2016

	<u>Coverage</u>	<u>Deductible</u>
School Package Policy - NJSIG		
Property - Blanket Building and Contents	\$ 10,490,606,131	\$ 1,000
Electronic Data Processing	101,145	1,000
Boiler and Machinery	100,000,000	-
Crime	25,000	500
Comprehensive General Liability	6,000,000	1,000
Automobile	6,000,000	-
School Leaders Errors and Omissions Liability - NJSIG	2,000,000	5,000
Workers' Compensation and Employers' Liability - NJSIG	2,000,000	-
Public Officials Bonds - Selective Insurance Co.		
Board Secretary	200,000	-
Treasurer of School Monies	200,000	-

Source: District records



**SINGLE AUDIT SECTION**

# ALVINO & SHECHTER, L.L.C.

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PCPS of the AICPA Division of CPA Firms

Exhibit K-1

**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 AUDITOR'S REPORT**

The Honorable President and  
Members of the Board of Education  
Highlands Board of Education  
County of Monmouth, 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 Highlands School District, in the County of Monmouth (the "District") as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 14, 2016.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

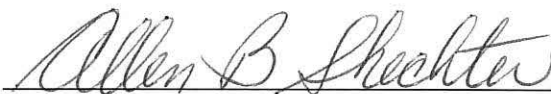
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey. We noted certain matters that we reported to the management of the Highlands Board of Education in a separate report entitled, *Auditor's Management Report on Administrative Findings - Financial Compliance and Performance* dated November 14, 2016.

### 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 for New Jersey Department of Education use, 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.



Allen B. Shechter  
Licensed Public School Accountant No. 2183  
Certified Public Accountant

November 14, 2016  
Neptune, New Jersey

# ALVINO & SHECHTER, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Exhibit K-2

**REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE AND NEW JERSEY OMB CIRCULAR 15-08**

**INDEPENDENT AUDITOR'S REPORT**

The Honorable President and  
Members of the Board of Education  
Highlands Board of Education  
County of Monmouth, New Jersey

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

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

**Management's Responsibility**

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

**Auditor's 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; audit requirements prescribed by the Office of School Finance, Department of Education, State of New Jersey; 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 OMB Circular 15-08, "*Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*". Those standards and the Uniform Guidance and New Jersey 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 procedure as we considered necessary in the circumstances.

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

## Opinion on Each Major State Program

In our opinion, the District 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, 2016.

## 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 a 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 New Jersey OMB Circular 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 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 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 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 the 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 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 that the testing based on the requirements of the Uniform Guidance and New Jersey OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.



Allen B. Shechter  
Licensed Public School Accountant No. 2183  
Certified Public Accountant

November 14, 2016  
Neptune, New Jersey

HIGHLANDS SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards  
for the Fiscal Year ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal FAN Number	Grant or State Project Number	Program or Award Amount	Grant Period From	To	Balance at June 30, 2015			Balance at June 30, 2016		
							Accounts Receivable	Unearned Revenue	Due to Grantor	Accounts Receivable	Unearned Revenue	Due to Grantor
<b>U.S. Department of Homeland Security</b>												
Community Disaster Loan	97.030	N/A	4086N48	720,497.00	7/17/13	7/17/18	(98,899.00)					
<b>Total General Fund</b>												
<b>U.S. Department of Education</b>												
<b>Passed-through State Department of Education</b>												
<b>Special Revenue Fund:</b>												
Special Education Cluster												
LD.E.A. Part B, Basic Regular	84-027	1027A150100	IDEA 2160-16	70,812.00	7/1/15	6/30/16						
LD.E.A. Part B, Preschool	84-027	1027A150100	IDEA 2160-16	4,127.00	7/1/15	6/30/16						
LD.E.A. Part B, Basic Regular	84-027	1027A150100	IDEA 2160-15	69,701.00	7/1/14	6/30/15	(49,155.00)				(1,627.00)	
LD.E.A. Part B, Preschool	84-027	1027A150100	IDEA 2160-15	4,083.00	7/1/14	6/30/15	(4,083.00)					
Total Special Education Cluster							(53,238.00)				(1,627.00)	
No Child Left Behind Consolidated Grant												
Title I, Part A	84-010	S010A150030	NCLB 2160-16	84,099.00	7/1/15	6/30/16						
Title I, Part A	84-010	S010A150030	NCLB 2160-15	79,185.00	7/1/14	6/30/15	(57,780.70)				(6,075.00)	
Total Title I, Part A							(57,780.70)					2,412.30
Title II, Part A, Improving Teacher Quality	84-367A	S367A150029	NCLB 2160-16	10,372.00	7/1/15	6/30/16						
Title II, Part A, Improving Teacher Quality	84-367A	S367A150029	NCLB 2160-15	17,478.00	7/1/14	6/30/15	(13,197.48)				0.48	
Total Title II, Part A, Improving Teacher Quality							(13,197.48)				0.48	
Race to the Top	84-413A	84-413A120008	N/A	5,504.00	9/1/11	11/30/15		2,004.00			(2,004.00)	
Total Special Revenue Fund							(124,216.18)	2,004.00			(2,003.52)	2,412.30
<b>U.S. Department of Agriculture</b>												
<b>Passed-through State Department of Education</b>												
<b>Enterprise Fund:</b>												
Child Nutrition Cluster												
Food Distribution Program (Non-Cash)	10-550	1616IN304N1099	N/A	8,752.63	7/1/15	6/30/16						
Food Distribution Program (Non-Cash)	10-550	1616IN304N1099	N/A	6,505.16	7/1/14	6/30/15						
School Breakfast Program	10-553	1616IN304N1099	N/A	29,480.77	7/1/15	6/30/16		210.46				
School Breakfast Program	10-553	1616IN304N1099	N/A	32,042.43	7/1/14	6/30/15	(7,350.18)					
National School Lunch Program	10-555	1616IN304N1099	N/A	49,898.12	7/1/15	6/30/16						
National School Lunch Program	10-555	1616IN304N1099	N/A	32,042.43	7/1/14	6/30/15	(10,866.40)					
Total Child Nutrition Cluster							(18,216.58)	210.46				595.05
Total Enterprise Fund							(18,216.58)	210.46				595.05
Total Federal Financial Awards							(241,331.76)	2,214.46			(2,003.52)	3,007.35

( Note: Single Audit is not Required )

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

**HIGHLANDS SCHOOL DISTRICT**  
**Schedule of Expenditures of State Financial Assistance**  
**for the Fiscal Year ended June 30, 2016**

SCHEDULE B  
 Exhibit K-4

State Grantor Program Title	Grant or State Project Number	Program or Award Amount	Grant Period		Balance at June 30, 2015				Budgetary Expenditures	Adjustments/ Repayment of Prior Years' Balances	Balance at June 30, 2016			MEMO		
			From	To	Unearned Revenue (Accts Receivable)	Due to Grantor	Carryover (Walkover) Amount	Cash Received			(Accounts Receivable)	Unearned Revenue/ Interfund Payable	Due to Grantor	Budgetary Receivable	Cumulative Total Expenditures	
<b>State Department of Education</b>																
<b>General Fund:</b>																
State Aid - Public Cluster																
Adjustment Aid	16-495-034-5120-085	364,545.00	7/1/15	6/30/16					364,545.00	(364,545.00)				*	36,377.87	364,545.00
Security Aid	16-495-034-5120-084	47,943.00	7/1/15	6/30/16					47,943.00	(47,943.00)				*	4,784.22	47,943.00
Special Education Categorical Aid	16-495-034-5120-089	91,617.00	7/1/15	6/30/16					91,617.00	(91,617.00)				*	9,142.45	91,617.00
Supplemental Enrollment Growth Aid	16-495-034-5120-094	88,935.00	7/1/15	6/30/16					88,935.00	(88,935.00)				*	8,874.81	88,935.00
Per Pupil Growth Aid	16-495-034-5120-097	1,640.00	7/1/15	6/30/16					1,640.00	(1,640.00)				*	163.66	1,640.00
PARCC Readiness Aid	16-495-034-5120-098	1,640.00	7/1/15	6/30/16					1,640.00	(1,640.00)				*	163.66	1,640.00
<b>Total State Aid - Public Cluster</b>									<u>596,320.00</u>	<u>(596,320.00)</u>				*	<u>59,506.67</u>	<u>596,320.00</u>
Transportation Aid	16-495-034-5120-014	41,745.00	7/1/15	6/30/16					41,745.00	(41,745.00)				*	4,160.33	41,745.00
Extraordinary Special Education Costs Aid	16-100-034-5120-473	7,492.00	7/1/15	6/30/16						(7,492.00)		(7,492.00)		*		7,492.00
Extraordinary Special Education Costs Aid	15-100-034-5120-473	25,028.00	7/1/14	6/30/15	(25,028.00)			25,028.00						*		
Reimbursed Nonpublic School Transportation Costs Aid	16-495-034-5120-014	6,264.00	7/1/15	6/30/16						(6,264.00)		(6,264.00)		*		6,264.00
Reimbursed Nonpublic School Transportation Costs Aid	15-495-034-5120-014	4,176.00	7/1/14	6/30/15	(4,176.00)			4,176.00						*		
On Behalf TPAF Pension Contributions	16-495-034-5094-002	124,253.00	7/1/15	6/30/16					124,253.00	(124,253.00)				*		124,253.00
On Behalf TPAF Post Retirement Medical	16-495-034-5094-001	147,951.00	7/1/15	6/30/16					147,951.00	(147,951.00)				*		147,951.00
Reimbursed TPAF Social Security Contributions	16-495-034-5094-003	115,362.97	7/1/15	6/30/16					115,362.97	(115,362.97)				*		115,362.97
<b>Total General Fund</b>					<u>(29,204.00)</u>				<u>1,054,835.97</u>	<u>(1,039,387.97)</u>		<u>(13,756.00)</u>		*	<u>63,667.00</u>	<u>1,039,387.97</u>
<b>Special Revenue Fund:</b>																
Preschool Education Aid	16-495-034-5120-086	183,420.00	7/1/15	6/30/16					183,420.00	(183,420.00)				*		183,420.00
<b>Total Special Revenue Fund</b>									<u>183,420.00</u>	<u>(183,420.00)</u>				*	<u>18,342.00</u>	<u>183,420.00</u>
<b>State Department of Agriculture</b>																
<b>Enterprise Fund:</b>																
National School Lunch Program (State Share)	16-100-010-3360-067	1,144.99	7/1/15	6/30/16					922.24	(1,144.99)		(222.75)		*		1,144.99
National School Lunch Program (State Share)	15-100-010-3360-067	1,122.18	7/1/14	6/30/15	(247.58)			162.68			31.29	(116.19)		*		
<b>Total Enterprise Fund</b>					<u>(247.58)</u>			<u>1,084.92</u>	<u>(1,144.99)</u>	<u>31.29</u>	<u>(338.94)</u>			*		<u>1,144.99</u>
<b>Total State Financial Assistance</b>					<u>\$ (29,451.58)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,239,340.89</u>	<u>\$ (1,223,952.96)</u>	<u>\$ 31.29</u>	<u>\$ (14,094.94)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,009.00</u>	<u>\$ 1,223,952.96</u>
<b>Less:</b>																
On Behalf Assistance Not Included in State Single Audit - Major Program Determination																
On Behalf TPAF Pension Contributions									124,253.00							
On Behalf TPAF Post Retirement Contr.									147,951.00							
<b>Total State Financial Assistance Subject to State Single Audit - Major Program Determination</b>									<u>\$ (951,748.96)</u>							

**HIGHLANDS SCHOOL DISTRICT**  
**Notes to the Schedules of Expenditures of Awards and Financial Assistance**  
**June 30, 2016**

**NOTE 1. GENERAL**

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state award activity of the Board of Education, Highlands School District. The Board of Education is defined in Note 1 to the Board basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedules of expenditures of federal awards and state financial assistance.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying schedules of expenditures of awards and financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which is presented using the accrual basis of accounting. These bases of accounting are described in Notes 1 to the Board's basic financial statements. The accompanying schedules of expenditures of awards and financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Note 1 to the Board's basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance) and New Jersey OMB Circular 15-08, "Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 3. RELATIONSHIP TO GENERAL PURPOSE 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 those 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 revenues, whereas the GAAP basis does not. The special revenue fund also recognizes the last two state aid payments in the current budget year, consistent with *N.J.S.A. 18A:22-4.2*.

The net adjustment to reconcile from the budgetary basis to the GAAP basis is \$5.40 for the general fund and \$(12,839.40) for the special revenue fund. See Note A for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the Board's basic financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	.00	1,039,393.37	1,039,393.37
Special Revenue Fund	176,866.00	170,580.60	347,446.60
Food Service Fund	<u>87,746.93</u>	<u>1,144.99</u>	<u>88,891.92</u>
Total Awards & Financial Assistance	<u>\$264,612.93</u>	<u>1,211,118.96</u>	<u>1,475,731.89</u>



**HIGHLANDS SCHOOL DISTRICT**  
**Notes to the Schedules of Expenditures of Awards and Financial Assistance**  
**June 30, 2016**

**NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS**

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

**NOTE 5. FEDERAL AND STATE LOANS OUTSTANDING**

Highlands School District has the following loan balances outstanding at June 30, 2016:

<b><u>Loan Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Amount Outstanding</u></b>
Community Disaster Loan	97.030	\$197,798.00

**NOTE 6. OTHER INFORMATION**

TPAF Social Security contributions in the amount of \$115,362.97, represents the amount reimbursed by the State for employer's share of social security contributions for TPAF members for the fiscal year ended June 30, 2016. The amount reported as TPAF Pension System Contributions in the amount of \$124,253.00 and TPAF Post-Retirement Medical Benefits Contributions in the amount of \$147,951.00 represents the amount paid by the State on behalf of the District for the fiscal year ended June 30, 2016.

**NOTE 7. ADJUSTMENTS**

The District had to increase prior year state accounts receivable in the Enterprise Fund for additional state aid received from the National School Lunch Program. The increase in aid received is reflected in the adjustments column on the accompanying Schedule of Expenditures of State Financial Assistance. The District had to decrease unearned revenue in the Special Revenue Fund Program from the Race to the Top program for prior year expenditures in the general fund. The decrease in unearned revenue is reflected in the adjustment column on the accompanying Schedule of Expenditures of Federal Awards.

**NOTE 8. ON-BEHALF PROGRAMS - STATE SINGLE AUDIT MAJOR PROGRAM DETERMINATION**

On-behalf State Programs for TPAF Pension and Post-Retirement Medical Benefits Contributions payments are excluded from the calculation for State single audit major program determination. The Schedule of State Financial Assistance provides a reconciliation of State Financial assistance reported in the District's basic financial statements and the amount subject to State single audit major program determination.

**NOTE 9. DE MINIMUS INDIRECT COST RATE**

The District has not elected to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

**HIGHLANDS SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2016**

**Section I - Summary of Auditor's Report**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- 1) Material weakness(es) identified? \_\_\_\_\_ yes  X  no
- 2) Were significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Noncompliance material to general-purpose financial statements noted? \_\_\_\_\_ yes  X  no

**State Awards**

Dollar threshold used to distinguish between type A and B programs: \$750,000.00

Auditee qualified as low-risk auditee?  X  yes \_\_\_\_\_ no

Type of auditor's report issued on compliance for major programs: Unmodified

Internal Control over major programs:

- 1) Material weakness(es) identified? \_\_\_\_\_ yes  X  no
- 2) Were significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 Section .516(a) of the Uniform Guidance or New Jersey OMB Circular Letter 15.08 as applicable? \_\_\_\_\_ yes  X  no

Identification of major programs:

<u>GMIS Number(s)</u>	<u>Name of State Program</u>
_____	State Aid Public Cluster
16-495-034-5120-085	_____
16-495-034-5120-084	Adjustment Aid
16-495-034-5120-089	_____
16-495-034-5120-094	Security Aid
16-495-034-5120-097	_____
16-495-034-5120-098	Special Education Categorical Aid
_____	Supplemental Enrollment Growth Aid
_____	Per Pupil Growth Aid
_____	PARCC Readiness Aid

**Section II - Financial Statement Findings**

NONE

**Section III - State Financial Assistance Findings and Questioned Costs**

NONE

**HIGHLANDS SCHOOL DISTRICT**  
**Summary Schedule of Prior Year Audit Findings**  
**For the Fiscal Year Ended June 30, 2016**

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year findings since all areas of State financial assistance for the prior year were found to be in compliance.