

*Auditor's Management Report*

*for the*

*Township of Berkeley Heights  
School District*

*in the*

*County of Union  
New Jersey*

*for the*

*Fiscal Year Ended  
June 30, 2016*



**AUDITOR'S MANAGEMENT REPORT ON ADMINISTRATIVE  
FINDINGS – FINANCIAL AND COMPLIANCE**

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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Honorable President and Members  
of the Board of Trustees  
Berkeley Heights Board of Education  
Berkeley Heights, New Jersey 07922

We have audited, in accordance with U.S. generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Township of Berkeley Heights School District in the County of Union for the year ended June 30, 2016, and have issued our report dated November 15, 2016.

As part of our audit, we performed procedures required by the New Jersey Department of Education, and the findings and results are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended solely for the information of the Township of Berkeley Heights School District, County of Union, New Jersey, the New Jersey Department of Education and federal and state audit awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
CERTIFIED PUBLIC ACCOUNTANTS

November 15, 2016

  
PUBLIC SCHOOL ACCOUNTANT NO. 948

**Independent Auditor's Management Report of Administrative Findings – Financial and Compliance**

**Scope of Audit**

The audit covered the financial transactions of the Board Secretary/School Business Administrator and the activities of the Township of Berkeley Heights - Board of Education, the records of the various funds under the auspices of the Board of Education.

**Administrative Practices and Procedures**

**Insurance**

Fire insurance coverage was carried in the amounts as detailed on the Insurance Schedule (Exhibit J-20) contained in the District's Comprehensive Annual Financial Report (CAFR).

**Official Bonds (N.J.S.A. 18A:17-26, 17-32)**

<u>Name</u>	<u>Position</u>	<u>Amount of Bonds</u>
Harold Kessler	Treasurer of School Monies	\$300,000.00
Donna Felezzola	Business Administrator/Board Secretary	\$300,000.00

There is a Public Employees' Blanket Position Bond with Selective Insurance Company covering all other employees with multiple coverage of \$100,000.

**Tuition Charges**

A comparison of tentative tuition charges and actual certified tuition charges was made. The actual costs were less than estimated costs. The board made a proper adjustment to the billings to sending districts for the per pupil costs in accordance with *N.J.A.C. 6A:23A-17.1(f)3*.

**Financial Planning, Accounting and Reporting**

**Examination of Claims**

Our audit of claims paid during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

**Payroll Accounts**

The net salaries of all employees of the Board were deposited in the Net Payroll Account. Employees' payroll deductions and employer's share of fringe benefits were deposited in the Payroll Agency Account.

All payrolls tested were approved by the Superintendent and were certified by the President of the Board, the Board Secretary/Business Administrator and the Chief School Administrator.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**Payroll Accounts (Continued)**

Salary withholdings were promptly remitted to the proper agencies including health benefits premium amounts withheld due to the general fund.

Payrolls were delivered to the treasurer of school moneys with a warrant made to his order for the full amount of each payroll.

**2016-01 Finding:** We noted that payment of federal and state payroll taxes are not confirmed as paid by an individual not involved in the process of paying payroll taxes. This resulted in a late payment of payroll taxes.

**2016-01 Recommendation:** That the payment of federal and state taxes be confirmed as paid by an individual not involved in the process of paying payroll taxes.

**Financial Planning, Accounting and Reporting (Continued)**

**Position Control Roster**

The Position Control Roster was reviewed and compared to payroll records, employee benefit records and charges made to the general ledger to ensure proper and consistent financial reporting and that employee benefits are only offered to current employees.

**Reserve for Encumbrances and Accounts Payable**

A review of outstanding issued purchase orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable.

**Classification of Expenditures**

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 6A:23A-16.2(f) as part of our test of transactions of randomly selected expenditure items. We also reviewed the coding of all expenditures included in our compliance and single audit testing procedures. In addition to randomly selecting a test sample, our sample selection specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23A-8.3. As a result of the procedures performed, no errors were noted and no additional procedures were deemed necessary to the test the propriety of expenditure classification.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**Board Secretary's Records**

The records maintained by the Board Secretary were in agreement with the records maintained by the Treasurer.

**2016-02 Finding:** We noted that 1099s were not issued to several vendors who performed services for the District and were paid in excess of \$600.00 with no evidence that they were identified as a corporation on form W-9.

**2016-02 Recommendation:** That 1099s be issued to all vendors who perform services for the District and are paid in excess of \$600.00 with no evidence that they are identified as a corporation on form W-9.

**Treasurer's Records**

The records maintained by the Treasurer were in satisfactory condition and were in agreement with the records maintained by the Board Secretary/Business Administrator.

**Elementary and Secondary Education Act (E.S.E.A.)/Improving America's Schools Act (IASA) as Reauthorized by the No Child Left Behind Act of 2001**

The E.S.E.A./N.C.L.B. financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the projects under Title I, Title II and Title III of the Elementary and Secondary Education Act as amended and reauthorized.

**Other Special Federal and/or State Projects**

The District's Special Projects were approved as listed on Exhibits K-3 and K-4 located in the CAFR.

Our audit of the federal and state funds on a test basis indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

The financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the aforementioned special projects.

**T.P.A.F. Reimbursement**

Our audit procedures included a test of the semi-monthly reimbursement filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund.



**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**T.P.A.F. Reimbursement (Continued)**

The amount of the expenditure charged to the current year's Final Report(s) for all federal awards for the school district to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the school district for those employees whose salaries are identified as being paid from federal funds was made prior to the end of the 60 day grant liquidation period required by the Office of Grants Management. The expenditure was reviewed subsequent to the reimbursement. Minor overpayment to the State of New Jersey was noted and the District has already received a full refund of the overpayment.

**School Purchasing Program**

**Contracts and Agreements Requiring Advertisement for Bids**

N.J.S.A. 18A:18A-3 states "a. When the cost or price of any contract awarded by the purchasing agent in the aggregate, does not exceed in a contract year the total sum of \$29,000.00, the contract may be awarded by a purchasing agent when so authorized by resolution of the board of education without public advertising for bids and bidding therefor, except that the board of education may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. (pending before the Legislature as section 15 of this bill) of section 9 of P.L. 1971 c. 198 (C.40A:11-9) the board of education may establish that the bid threshold may be up to \$40,000.00. Such authorization may be granted for each contract for by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Commencing in the fifth year after the year in which P.L. 1999 c. 440 takes effect, and every five years thereafter, the Governor, in consultation with the Department of Treasury, shall adjust the threshold amount and the higher threshold amount which the board of education is permitted to establish as set forth in subsection a. of this section or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in N.J.S.A. 18A:18A-2 and shall round the adjustment to the nearest \$1,000.00. The Governor shall notify all local school districts of the adjustment no later than June 1 of every fifth year. The adjustment shall become effective on July 1 of every year in which it is made. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection a. of N.J.S.A. 18A:18A-5 may be awarded for a period not exceeding 12 consecutive months."

N.J.S.A. 18A:18A-4 states, "Every contract for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the board of education to the lowest responsible bidder after public advertising for bids and bidding therefor, except as is provided otherwise in this chapter or specifically by any other law.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**School Purchasing Programs (Continued)**

**Contracts and Agreements Requiring Advertisement for Bids (Continued)**

The Board of Education may, by resolution, approve by the majority of the board of education and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board of education finds that it has had negative prior experience with the bidder."

Effective July 1, 2015, the bid threshold in accordance with N.J.S.A. 18A:18A-3(a) and (c) is \$29,000.00. In accordance with N.J.S.A. 40A:11-9 (b) the bid threshold for all purchases made by the District's qualified purchasing agent is \$40,000.00. The law regulating bidding for public school student transportation contracts under N.J.S.A. 18:39-3 is currently \$18,800.00.

The Board of Education has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 18A:18A-4.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 18A:18A-5.

The system of records did not provide for an accumulation of purchases for which the School Board used contracts entered into by the State Department of Purchase and Property pursuant to Ch. 114, P.L. 1977, therefore, the extent of such purchases could not reasonably be ascertained. Our examination did reveal however, that the district made purchases through the use of state contracts.

**School Food Service**

The District has elected not to participate in the federally assisted child nutrition programs encompassing the National School Lunch, Breakfast and Special Milk programs.

The financial transactions and statistical records of the School Food Services were maintained in satisfactory condition. The financial accounts were reviewed on a test-check basis.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food and supply items were currently maintained and properly applied in determining the cost of food and supplies used.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**School Food Service (Continued)**

The cash disbursements records reflected expenditures for program related goods and services. The District is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34 and 19-1 through 19-4.1. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Provisions of the FSMC contract/addendum were reviewed and audited. The FSMC contract includes an operating results provision which guarantees that the food service program will break even. The operating results provision has been met.

Net cash resources did not exceed three months average expenditures.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all School Food Service employees. No exceptions were noted.

Cash receipts and bank records were reviewed for timely deposit

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Section B.

**Student Body Activities**

The records for the Student Body Activities were maintained in satisfactory condition.

**Application for State School Aid**

Our audit procedures included a test of information reported in the October 15, 2015 Application for State School Aid (A.S.S.A.) for on-roll, private schools for the handicapped, low-income and bilingual. We also performed a review of the district procedures related to its completion. The information on the A.S.S.A. was compared to the district workpapers with minor exceptions. The information that was included on the workpapers was verified with minor exceptions. The results of our procedures are presented in the Schedule of Audited Enrollments.

The district maintained workpapers on the prescribed state forms or their equivalent.

The district had written procedures for the recording of student enrollment.

**Pupil Transportation**

Our audit procedures included a test of on-roll status reported in the 2015-2016 District Report of Transported Resident Students (DRTRS). The information that was included on the DRTRS was verified to the DRTRS Eligibility Summary Report with minor exceptions. The results of our procedures are presented in the Schedule of Audited Enrollments.

Our procedures also included a review of transportation related contracts and purchases. Based on our review, the district complied with proper bidding procedures and award of contracts. The bid specifications for the purchase of buses were in compliance with applicable statutes. No exceptions were noted in our review of transportation related purchases of goods and services.

**Independent Auditor's Management Report of Administrative  
Findings – Financial and Compliance**

**Capital Assets and Facilities**

Our procedures included a review of the SDA grant agreements for consistency with recording of SDA revenue, transfer of local funds from the general or capital reserve account, and awarding of contracts for eligible facilities construction.

**Follow-Up Prior Year's Audit Findings**

Not Applicable

**Independent Auditor's Management Report of Administrative Findings – Financial and Compliance**

**Recommendations**

**Administrative Practices and Procedures**

None

**Financial Planning, Accounting and Reporting**

**2016-01 Recommendation:** That the payment of federal and state taxes be confirmed as paid by an individual not involved in the process of paying payroll taxes.

**2016-02 Recommendation:** That 1099s be issued to all vendors who perform services for the District and are paid in excess of \$600.00 with no evidence that they are identified as a corporation on form W-9.

**School Purchasing Program**

None

**School Food Service**

None

**Student Body Activities**

None

**Application for State School Aid**

None

**Pupil Transportation**

None

**Capital Assets and Facilities**

None

BERKELEY HEIGHTS BOARD OF EDUCATION  
 SCHEDULE OF AUDITED ENROLLMENTS  
 APPLICATION FOR STATE SCHOOL AID SUMMARY  
 ENROLLMENT AS OF OCTOBER 15, 2015

10

	2016-17 Application for State School Aid (10/15/15 data)						Sample for Verification						Private School for Disabled			
	Reported as on Roll		Reported on Workpapers on Roll		Errors		Sample Selected from Workpapers		Verified per Registers on Roll		Errors per Registers on Roll		Reported on A.S.S.A. as Private Schools	Sample for Veri- fication	Sample Verified	Sample Errors
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared				
Half Day Preschool - 3 Yr	11		11		-	-	1		1		-	-				
Half Day Preschool - 4 Yr	18		18		-	-	2		2		-	-				
Half Day Kindergarten	113		113		-	-	12		12		-	-				
One	172		172		-	-	19		19		-	-				
Two	139		139		-	-	15		15		-	-				
Three	151		151		-	-	17		17		-	-				
Four	191		191		-	-	21		21		-	-				
Five	161		161		-	-	18		18		-	-				
Six	130		130		-	-	14		14		-	-				
Seven	174		174		-	-	19		19		-	-				
Eight	188		188		-	-	21		21		-	-				
Nine	198		198		-	-	22		22		-	-				
Ten	243		243		-	-	27		27		-	-				
Eleven	242	4	242	4	-	-	26	3	26	3	-	-				
Twelve	203	2	203	2	-	-	21	2	21	2	-	-				
<b>Subtotal</b>	<b>2,334</b>	<b>6</b>	<b>2,334</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>255</b>	<b>5</b>	<b>255</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Sp. Ed - Elementary	115		115		-	-	13		13		-	-	4	3	3	-
Sp. Ed - Middle School	76		76		-	-	8		8		-	-				-
Sp. Ed - High School	136	6	136	6	-	-	15	5	15	5	-	-	7.5	6	6	-
<b>Subtotal</b>	<b>327</b>	<b>6</b>	<b>327</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>36</b>	<b>5</b>	<b>36</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>11.5</b>	<b>9</b>	<b>9</b>	<b>0</b>
Co. Voc. - Regular					-	-					-	-				-
Co. Voc. Ft. Post Sec.					-	-					-	-				-
<b>Totals</b>	<b>2,661</b>	<b>12</b>	<b>2,661</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>291</b>	<b>10</b>	<b>291</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>11.5</b>	<b>9</b>	<b>9</b>	<b>0</b>
<b>Percentage Error</b>					<u>0.00%</u>	<u>0.00%</u>					<u>0.00%</u>	<u>0.00%</u>				<u>0.00%</u>

**BERKELEY HEIGHTS BOARD OF EDUCATION  
SCHEDULE OF AUDITED ENROLLMENTS  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015**

11

	Resident Low Income			Sample for Verification			Resident LEP Low Income			Sample for Verification		
	Reported on A.S.S.A. as Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors	Reported on A.S.S.A. as LEP low Income	Reported on Workpapers as LEP low Income	Errors	Sample Selected from Workpapers	Verified to Test Score and Register	Sample Errors
Half Day Preschool - 3 Yr			-			-			-			-
Half Day Preschool - 4 Yr			-			-			-			-
Half Day Kindergarten	1	1	-	1	1	-			-			-
One	1	1	-	1	1	-			-			-
Two	2	2	-	2	2	-			-			-
Three	4	4	-	3	3	-			-			-
Four	3	3	-	2	2	-			-			-
Five	2	2	-	2	2	-			-			-
Six	1	1	-	1	1	-			-			-
Seven	6	6	-	5	5	-			-			-
Eight	2	1	1	1	1	-	1	1	-	1	1	-
Nine	3	3	-	2	2	-			-			-
Ten	4	3	1	2	2	-	1	1	-	1	1	-
Eleven	1.5	1.5	-	1	1	-			-			-
Twelve	4	4	-	3	3	-			-			-
<b>Subtotal</b>	<b>34.5</b>	<b>32.5</b>	<b>2.0</b>	<b>26</b>	<b>26</b>		<b>2</b>	<b>2</b>		<b>2</b>	<b>2</b>	
Sp. Ed - Elementary	1	1	-	1	1	-			-			-
Sp. Ed - Middle School	6	6	-	5	5	-			-			-
Sp. Ed - High School	18	17.0	1	13	13	-	1	1	-	1	1	-
<b>Subtotal</b>	<b>25.0</b>	<b>24.0</b>	<b>1.0</b>	<b>19</b>	<b>19</b>		<b>1.0</b>	<b>1</b>		<b>1.0</b>	<b>1</b>	
<b>Totals</b>	<b>59.5</b>	<b>56.5</b>	<b>3.0</b>	<b>45</b>	<b>45</b>		<b>3.0</b>	<b>3</b>		<b>3.0</b>	<b>3</b>	
<b>Percentage Error</b>			<u>5.04%</u>									

(d)

**Transportation**

	Reported on DRTRS by DOE/county	Reported on DRTRS by District	Errors	Tested	Verified	Errors
	Reg. - Public Schools, col. 1	779	779			
Reg -SpEd, col. 4	17	17		5	5	
Transported - Non-Public, col. 3	1	1		1		1
Special Ed Spec, col. 6	32	32		9	9	
<b>Totals</b>	<b>829</b>	<b>829</b>	<b>-</b>	<b>232</b>	<b>231</b>	<b>1</b>

L = LEP Low Income students were counted twice

**Percentage Error**

0.43%

	Reported	Recalculated
Reg Avg (Mileage) = Regular Including Grade PK students (Part A)	4.5	4.5
Reg Avg (Mileage) = Regular Excluding Grade PK students (Part B)	4.5	N/A
Spec Avg = Special Ed with Special Needs	8.2	8.2

**BERKELEY HEIGHTS BOARD OF EDUCATION  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015**

Notes to Auditor:

(e) Sample size based on resident LEP NOT low-income students listed on ASSA using table in Section I, Chapter 3 of the Audit Program.

	Resident LEP NOT Low Income			Sample for Verification		
	Reported on A.S.S.A. as NOT Low Income	Reported on Workpapers as NOT Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors
Half Day Preschool - 3 Yr			-			-
Half Day Preschool - 4 Yr			-			-
Half Day Kindergarten	1	1	-	1	1	-
One	5	5	-	4	4	-
Two			-			-
Three			-			-
Four	4	4	-	3	3	-
Five			-			-
Six			-			-
Seven			-			-
Eight	2	2	-	2	2	-
Nine	2	2	-	2	2	-
Ten	2	2	-	2	2	-
Eleven	1	1	-	1	1	-
Twelve			-			-
<b>Subtotal</b>	<b>17</b>	<b>17</b>		<b>15</b>	<b>15</b>	
Special Ed - Elementary			-			-
Special Ed - Middle			-			-
Special Ed - High			-			-
<b>Subtotal</b>						
Co. Voc. - Regular			-			-
Co. Voc. Ft. Post Sec.			-			-
<b>Totals</b>	<b>17.0</b>	<b>17</b>		<b>15.0</b>	<b>15</b>	
<b>Percentage Error</b>						



TOWNSHIP OF BERKELEY HEIGHTS SCHOOL DISTRICT

SCHEDULE OF CALCULATION OF EXCESS SURPLUS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

REGULAR DISTRICT

SECTION 1

2% Calculation of Excess Surplus

2015 - 2016 Total General Fund Expenditures per the CAFR, Ex. C-1	\$ 51,403,713.62
Increased by:	
Transfer to Food Service Fund	27,000.00
Transfer from Capital Outlay to Capital Projects Fund	360,303.00
Decreased by:	
On-Behalf TPAF Pension & Social Security	5,601,878.31
Assets Acquired Under Capital Leases	<u>625,376.61</u>
Adjusted 2015 - 2016 General Fund Expenditures	\$ <u>45,563,761.70</u>
2% of Adjusted 2015 - 2016 General Fund Expenditures	\$ <u>911,275.23</u>
Greater of Line Above or \$250,000.00	\$ <u>911,275.23</u>
Increased by: Allowable Adjustment	\$ <u>291,687.00</u>
Maximum Unreserved/Undesignated Fund Balance	\$ <u><u>1,202,962.23</u></u>

SECTION 2

Total General Fund - Fund Balances @ 6-30-16	\$ <u>4,182,777.95</u>
Decreased by:	
Year-End Encumbrances	202,182.56
Legally Restricted-Excess Surplus-Designated for Subsequent Year's Expenditures	833,018.00
Other Restricted Fund Balances	<u>1,309,477.03</u>
Total Unassigned Fund Balance	\$ <u>1,838,100.36</u>

SECTION 3

Restricted Fund Balance-Excess Surplus	\$ <u><u>635,138.13</u></u>
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Recapitulation of Excess Surplus as of June 30, 2016

Reserved Excess Surplus - Designated for Subsequent Year's Expenditures	\$ <u>833,018.00</u>
Reserved Excess Surplus	\$ <u>635,138.13</u>
Total Excess Surplus	\$ <u><u>1,468,156.13</u></u>

Detail of Allowable Adjustments

Extraordinary Aid	\$ 256,539.00
Additional Non-Public School Transportation Aid	<u>35,148.00</u>
	\$ <u><u>291,687.00</u></u>

**Detail of Other Restricted Fund Balance:**

Capital Reserve	\$ <u>1,309,477.03</u>
	\$ <u><u>1,309,477.03</u></u>



