

KINNELON BOROUGH SCHOOL DISTRICT  
COUNTY OF MORRIS  
AUDITORS' MANAGEMENT REPORT ON  
ADMINISTRATIVE FINDINGS - FINANCIAL,  
COMPLIANCE AND PERFORMANCE  
FISCAL YEAR ENDED JUNE 30, 2016

KINNELON BOROUGH SCHOOL DISTRICT  
COUNTY OF MORRIS  
AUDITORS' MANAGEMENT REPORT ON ADMINISTRATIVE  
FINDINGS - FINANCIAL,  
COMPLIANCE AND PERFORMANCE  
FISCAL YEAR ENDED JUNE 30, 2016  
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October 15, 2016

The Honorable President and Members  
 of the Board of Education  
 Kinnelon Borough School District  
 County of Morris, NJ

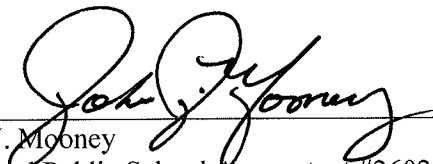
We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Board of Education of the Kinnelon Borough School District in the County of Morris for the fiscal year ended June 30, 2016, and have issued our report thereon dated October 15, 2016.

As part of our audit, we performed procedures required by the New Jersey Department of Education, and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents. This letter does not affect our report dated October 15, 2016 on the financial statements of the District.

We will review the status of the comments during our next audit engagement. We have already discussed these comments and suggestions with various management personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended for the information of the Kinnelon Borough School District's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

*Nisivoccia LLP*  
 NISIVOCCIA LLP

  
 John J. Mooney  
 Licensed Public School Accountant #2602  
 Certified Public Accountant

KINNELON BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
FISCAL YEAR ENDED JUNE 30, 2016

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator and Treasurer of School Moneys, the activities of the Board of Education, the records of the various funds under the auspices of the Board of Education.

Administrative Practices and Procedures

Insurance

Multi-peril insurance coverage was carried in the amounts as detailed on Exhibit J-20, Insurance Schedule contained in the District's CAFR.

Officials in Office and Surety Bonds

<u>Name</u>	<u>Position</u>	<u>Coverage</u>
Jennifer L. Stillman	Treasurer of School Monies	\$ 250,000
Kerry A. Keane	Board Secretary/School Business Administrator	250,000

Tuition Charges

A comparison of tentative tuition charges and actual certified tuition charges was made. The actual costs were different than estimated costs. The Board made a proper adjustment to the billings to sending Districts for the change in per pupil costs in accordance with N.J.A.C. 6A:23A-3.1(f)3.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid on a test basis, during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Account and Position Control Roster

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

Payrolls were approved by the Superintendent and were certified by the Superintendent, President of the Board and the Board Secretary/School Business Administrator.

Salary withholdings were promptly remitted to the proper agencies, including health benefits withholding due to the general fund.

The required certification (E-CERT1) of compliance with requirements for income tax on compensation of administrators (superintendent, assistant superintendent, and business administrator) to the NJ Department of Treasury was filed in a timely manner.

KINNELON BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made on a test basis 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-8.2. As a result of the procedures performed, a transaction error rate of 0% was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

Board Secretary's Records

In planning and performing our audit of the financial statements of the Board, we considered the condition of the Board Secretary's records for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments except as noted herein.

Treasurer's Records

In planning and performing our audit of the financial statements of the Board, we considered the condition of the Treasurer's records for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments except as noted herein.

No Child Left Behind (N.C.L.B.)

The N.C.L.B. financial exhibits are contained within the Special Revenue Section of the District's CAFR. This section of the CAFR documents the financial position pertaining to projects under Title I and Title II of the No Child Left Behind Act.

The study of compliance for the N.C.L.B. did not indicate any area of noncompliance.

Other Special Federal and/or State Projects

The District's Special Projects were approved as listed on Schedule A and Schedule B 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 biweekly reimbursements filed with the Department of Education for District employees who are members of the Teachers' Pension and Annuity Fund.

KINNELON BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
FISCAL YEAR ENDED JUNE 30, 2016  
 (Continued)

T.P.A.F. Reimbursement (Cont'd)

The T.P.A.F. Reimbursement to the State for Federal Salary Expenditures was remitted to the State of New Jersey prior to the required deadline of October 1, 2016. The reimbursement form was reviewed and no exceptions were noted.

School Purchasing Programs

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 \$17,500, 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 therefore, 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. of section 9 of P.L.1971, c. 198 the Board of Education may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or 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. 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 the year in which it is made . . . ."

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 therefore, except as is provided otherwise in this chapter or specifically by any other law . . . ."

Effective July 1, 2015 and thereafter the bid thresholds in accordance with N.J.S.A. 18A:18A-2 and 18A:18A-3(a) are \$40,000 (with a Qualified Purchasing Agent) and \$29,000 (without a Qualified Purchasing Agent), respectively. The law regulating bidding for public school student transportation contracts under N.J.S.A 18A:39-3 is currently \$18,800.

The Board of Education has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Attorney'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. General compliance was noted.

KINNELON BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

School Purchasing Programs (Cont'd)

Contracts and Agreements Requiring Advertisement for Bids (Cont'd)

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 provision 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.

Finding:

During the course of our audit, it was noted that that for certain expenditures the same individual was purchasing goods, assigning purchase order numbers, and receiving orders.

Recommendation:

It is recommended that there be a segregation of duties for all online ordering during the purchasing process.

Management's Response:

The District will review their current purchasing procedures and revise them accordingly to ensure that there is a proper segregation of duties in the purchasing process in the future.

School Food Service

The school food service was not selected as a major federal and/or state program and state and federal program expenditures did not exceed \$100,000 in federal and/or state support.

Student Body Activities

In planning and performing our audit of the financial statements of the Board, we considered the condition of the records of the Student Activities Fund for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records.

Finding:

During our testing of transactions we noted that that for the athletics account, there were no vouchers where are generated for payment of sports officials.

Recommendation:

It is recommended that there is a formal voucher process instituted for payment of officials of sporting events.

Management's Response:

The District will implement a voucher process for payment of officials.

KINNELON BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

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, bilingual education and low income students. 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 a few exceptions. The information that was included on the workpapers was verified without exception. 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 has adequate written procedures for the recording of student enrollment data.

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 without 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. No exceptions were noted in our review of transportation related purchases of goods and services.

Facilities and Capital Assets

The District does not have any active Schools Development Authority (“SDA”) grant agreements.

Travel Expense and Reimbursement Policy

Travel regulations require each District to adopt a formal policy and procedure pertaining to travel and expense reimbursement for its employees and board members. The regulations require the District to establish maximum travel for the year and to account separately that the maximum is not exceeded. The regulations also require that all travel be approved prior by the Board of Education and that the approval must be itemized by event, event total cost, and individuals attending. During the course of our testing, we have noted that the travel expenses and reimbursements for employees and board members were in accordance with the guidelines set forth by the State of New Jersey.

Management Suggestions

Cyber Security

Cyber-crime has become much more prevalent in the last few years. Websites and internal networks, including personally identifiable information (“PII”), have been hacked and resulted in significant losses to organizations, both financial and reputational. We suggest that the District consider options to test and protect the District from cyber-crime.



KINNELON BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

Governmental Accounting Standards Board Statements:

The next Governmental Accounting Standards Board (“GASB”) statement which will have a significant impact on the District will be GASB#75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, will be effective for the fiscal year ending June 30, 2018. This standard replaces GASB#45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. It is similar to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* GASB#68 in that successful implementation of this standard will require the provision of certain key financial and non-financial information from the New Jersey Division of Pensions.

Status of Prior Year's Findings/Recommendations

The recommendation in the prior year’s audit regarding monitoring of budget appropriation lines and making transfers accordingly was cleared and is not included in the current year’s audit. The recommendation concerning a formal voucher process for the student activities athletic account was not cleared and is included in the current year’s audit.

BOROUGH OF KINNELON BOARD OF EDUCATION  
SCHEDULE OF AUDITED ENROLLMENT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015

	2016-2017 Application for State School Aid						Sample for Verification					
	Reported on		Reported on		Errors		Sample		Verified per		Errors	
	Revised ASSA		Workpapers				Selected from		Registers			
	On Roll		On Roll		Workpapers		On Roll					
Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	
Full Day Preschool 4 Years Old	8		8				8		8			
Full Day Kindergarten	75		75				75		75			
Grade One	105		105				105		105			
Grade Two	111		111				111		111			
Grade Three	113		113				113		113			
Grade Four	118		118				118		118			
Grade Five	148		148				148		148			
Grade Six	138		138				138		138			
Grade Seven	145		145				145		145			
Grade Eight	160		160				160		160			
Grade Nine	144		144				144		144			
Grade Ten	145		145				145		145			
Grade Eleven	139	1	139	1			139	1	139	1		
Grade Twelve	149	3	149	3			149	3	149	3		
Subtotal	1,698	4	1,698	4			1,698	4	1,698	4		
Special Education:												
Elementary	109		109				10		10			
Middle	57		57				7		7			
High	93	9	93	9			8		8			
Subtotal	259	9	259	9			25		25			
Totals	1,957	13	1,957	13	-0-	0	1,723	4	1,723	4	-0-	-0-
Percentage Error					0.00%	0.00%					0.00%	0.00%

BOROUGH OF KINNELON BOARD OF EDUCATION  
SCHEDULE OF AUDITED ENROLLMENT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015

	Private Schools for Disabled					Resident Low Income						
	Reported on ASSA as Private Schools	Reported on Workpapers as Private Schools	Errors	Sample for Verification	Sample Verified	Sample Errors	Reported on ASSA as Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors
Full Day Kindergarten							6	6		2	2	
Grade One							3	3				
Grade Two							2	2		1	1	
Grade Three							7	7				
Grade Four							1	1				
Grade Five							4	4				
Grade Six							6	6		1	1	
Grade Seven							5	5		2	2	
Grade Eight							2	2				
Grade Nine							3	3				
Grade Ten							5	5		1	1	
Grade Eleven							3	3				
Grade Twelve							3	3				
Subtotal							50	50		7	7	
Special Education:												
Elementary School	3	3		1	1		5	5		2	2	
Middle School	2	2		2	2		8	8		1	1	
High School	11	11		3	3		4	4				
Subtotal	16	16		6	6		17	17		3	3	
Totals	16	16		6	6		67	67		10	10	
Percentage Error			0.00%				0.00%			0.00%		0.00%

BOROUGH OF KINNELON BOARD OF EDUCATION  
SCHEDULE OF AUDITED ENROLLMENT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015

	Resident LEP Low Income					
	Reported on ASSA as LEP Low Income	Reported on Workpapers as LEP Low Income	Errors	Sample Selected from Workpapers	Verified to Test Scores, Application and Register	Sample Errors
Full Day Kindergarten	1	1		1	1	
Grade Four	1	1				
Grade Five		1	1			
Subtotal	<u>2</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>1</u>	
Totals	<u>2</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>1</u>	
Percentage Error			<u>33.33%</u>			<u>0.00%</u>

BOROUGH OF KINNELON BOARD OF EDUCATION  
SCHEDULE OF AUDITED ENROLLMENT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015

	Resident LEP Not Low Income					
	Reported on ASSA as LEP Not Low Income	Reported on Workpapers as LEP Not Low Income	Errors	Sample Selected from Workpapers	Verified to Test Scores and Register	Sample Errors
Full Day Kindergarten	3	3		1	1	
Grade One	1		(1)			
Grade Two	1		(1)			
Grade Three		1	1			
Grade Eight	2	2		1	1	
Grade Eleven	1	1		1	1	
Grade Twelve	1	1				
Totals	<u>9</u>	<u>8</u>	<u>(1)</u>	<u>3</u>	<u>3</u>	
Percentage Error			<u>-12.50%</u>			<u>0.00%</u>

BOROUGH OF KINNELON BOARD OF EDUCATION  
SCHEDULE OF AUDITED ENROLLMENT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015

	Transportation					
	Reported on DRTRS by DOE	Reported on DRTRS by District	Errors	Tested	Verified	Errors
Regular - Public Schools	1,162	1,162		25	25	
Regular - Special Education	229	228.5		23	23	
AIL - Non Public	67	67		7	7	
Special Needs - Public	73.5	73.5		7	7	
Special Needs - Private	14	14		4	4	
Totals	1,545	1,545	-0-	66	66	
Percentage Error			0.00%			0.00%

	Reported	Recalculated
Average Mileage - Regular Including Grade PK Students	4.2	4.2
Average Mileage - Regular Excluding Grade PK Students	4.2	4.2
Average Mileage - Special Education with Special Needs	7.1	7.1

**KINNELON BOROUGH SCHOOL DISTRICT**  
**EXCESS SURPLUS CALCULATION**  
**FISCAL YEAR ENDED JUNE 30, 2016**

**Regular District****Section 1****2% Calculation of Excess Surplus**

2015-16 Total General Fund Expenditures per the CAFR, Ex. C-1	<u>\$ 39,601,880</u> (B)	
Increased by:		
Transfer from Capital Outlay to Capital Projects Fund	<u>\$ -0-</u> (B1a)	
Transfer from Capital Reserve to Capital Projects Fund	<u>\$ -0-</u> (B1b)	
Decreased by:		
On-Behalf TPAF Pension and Social Security	<u>\$ 4,028,957</u> (B2a)	
Assets Acquired Under Capital Leases	<u>\$ 273,737</u> (B2b)	
Adjusted 2015-16 General Fund Expenditures [(B)+(B1's)-(B2's)]	<u>\$ 35,299,186</u> (B3)	
2% of Adjusted 2015-16 General Fund Expenditures [(B5) times .02]	<u>\$ 705,984</u> (B4)	
Enter Greater of (B4) or \$250,000	<u>\$ 705,984</u> (B5)	
Increased by: Allowable Adjustment	<u>\$ 346,131</u> (K)	
Maximum Unassigned Fund Balance [(B5)+(K)]		<u>\$ 1,052,115</u> (M)

**Section 2**

Total General Fund - Fund Balances @ 6/30/16 (Per CAFR Budgetary Comparison Schedule/Statement)	<u>\$ 2,667,645</u> (C)	
Decreased by:		
Year-end Encumbrances	<u>\$ 345,991</u> (C1)	
Legally Restricted - Designated for Subsequent Year's Expenditures	<u>\$ -0-</u> (C2)	
Legally Restricted Excess Surplus - Designated for Subsequent Year's Expenditures	<u>\$ 150,000</u> (C3)	
Other Restricted Fund Balances	<u>\$ 1,119,539</u> (C4)	
Assigned - Designated for Subsequent Year's Expenditures	<u>\$ -0-</u> (C5)	
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]		<u>\$ 1,052,115</u> (U)

**Section 3**

Restricted Fund Balance-Excess Surplus [(U)-(M)] IF NEGATIVE, ENTER -0-	<u>\$ 0</u> (E)
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KINNELON BOROUGH SCHOOL DISTRICT  
EXCESS SURPLUS CALCULATION  
FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)

**Recapitulation of Excess Surplus as of June 30, 2016**

Restricted Excess Surplus - Designated for Subsequent Year's Expenditures	\$ -0- (C3)
Restricted Excess Surplus [(E)]	<u>\$ -0- (E)</u>
 Total [(C3)+(E)]	 <u><u>\$ -0- (D)</u></u>

**Detail of Allowable Adjustments**

Impact Aid	\$ -0- (H)
Sale & Lease-back	\$ -0- (I)
Extraordinary Aid	\$ 334,473 (J1)
Additional Nonpublic School Transportation Aid	<u>\$ 11,658 (J2)</u>
 Total Adjustments (H)+(I)+(J1)+(J2)+(J3)	 <u><u>\$ 346,131 (K)</u></u>

**Detail of Other Restricted Fund Balances**

Statutory Restrictions:

Approved Unspent Separate Proposal	\$ -0-
Sale/Lease-back Reserve	\$ -0-
Capital Reserve	\$ 1,119,539
Maintenance Reserve	\$ -0-
Tuition Reserve	\$ -0-
Emergency Reserve	\$ -0-
 Other Restricted Fund Balance not Noted Above	 <u>\$ -0-</u>
 Total Other Restricted Fund Balance	 <u><u>\$ 1,119,539 (C-4)</u></u>



KINNELON BOROUGH SCHOOL DISTRICT  
SUMMARY OF RECOMMENDATIONS  
FISCAL YEAR ENDED JUNE 30, 2016

It is recommended that:

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

None

3. School Purchasing Program

There be a segregation of duties for all online ordering during the purchasing process.

4. School Food Service

None

5. Student Body Activities

A formal voucher process instituted for payment of officials of sporting events.

6. Application for State School Aid

None

7. Pupil Transportation

None

8. Facilities and Capital Assets

None

9. Status of Prior Year's Findings/Recommendations

The recommendation in the prior year's audit regarding monitoring of budget appropriation lines and making transfers accordingly was cleared and is not included in the current year's audit. The recommendation concerning a formal voucher process for the student activities athletic account was not cleared and is included in the current year's audit.