

*Auditor's Management Report*

*for the*

*Borough of South Bound Brook  
School District*

*in the*

*County of Somerset  
New Jersey*

*for the*

*Fiscal Year Ended  
June 30, 2016*



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

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# SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Honorable President and Members  
of the Board of Education  
Borough of South Bound Brook  
County of Somerset  
South Bound Brook, New Jersey 08880

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 Borough of South Bound Brook School District in the County of Somerset for the year ended June 30, 2016, and have issued our report dated November 18, 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 Borough of South Bound Brook School District, County of Somerset, 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

  
PUBLIC SCHOOL ACCOUNTANT NO. 948

November 18, 2016

**Auditor’s Management Report on Administrative Findings – Financial and Compliance**

**Scope of Audit**

The audit covered the financial transactions of the Board Secretary/School Business Administrator and Treasurer of School Monies, the activities of the Borough of South Bound Brook - Board of Education, the records of the various funds under the auspices of the Board of Education.

**Administrative Practices and Procedures**

**Insurance**

Insurance coverage was carried in the amounts as detailed in the District's CAFR. (See Exhibit J-20)

**Official Bonds**

<u>Name</u>	<u>Position</u>	<u>Amount Of Bonds</u>
Joseph Marra	Treasurer of School Monies	\$200,000.00
Michael Steinmetz	Business Administrator/Board Secretary	100,000.00
All Employees	All Employee Faithful Position Bond	250,000.00

Adequacy of insurance coverage is the responsibility of the Board of Education.

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

Salary withholdings were properly remitted to the proper agencies, including health benefits withholdings 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.

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

**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:23-2.2(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 test the propriety of expenditure classification.

**Board Secretary's Records**

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

**2016-01 Finding:** The district transferred from facilities acquisition and construction (fund 12) an amount, that on a cumulative basis, exceeded 10 percent of the total amount of facilities acquisition and construction included in the original budget without proper department approval.

**2016-01 Recommendation:** Executive County Superintendent approval should be requested for any transfer from an advertised appropriation account as defined under N.J.A.C. 6A:23A-13.3(f), which is cumulatively more than 10 percent of that amount. The district should maintain documentation that substantiates the request was received by the Executive County Superintendent when written approval is not received.

**Treasurer's Records**

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

**Auditor’s Management Report on Administrative  
Findings – Financial and Compliance**

**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./NCLB 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 Titles I and IV of the Elementary and Secondary Education Act as amended and reauthorized.

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.

**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.

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 reimbursement filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

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. 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 \$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 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 on each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.



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

**School Purchasing Programs (Continued)**

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

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.

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 and thereafter, the bid thresholds in accordance with N.J.S.A. 18A:18A-3(a) are \$40,000.00 (with a Qualified Purchasing Agent), \$29,000.00 (without a Qualified Purchasing Agent), respectively. 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.

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

**School Purchasing Programs (Continued)**

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

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 audit did reveal however, that the District did make purchases under State contracts and cooperative purchasing agreements.

**School Food Service**

The school food service program was not selected as a major federal and/or State program. However, the program expenditures exceeded \$100,000 in federal and/or State support. Accordingly, we inquired of school management, or appropriate school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims, and as to whether the SFA's expenditures of school food service revenues were limited to allowable direct and indirect costs. No exceptions were noted.

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

The number of meals claimed for reimbursement was verified against sales and meal count records. As part of the claims review process the edit check worksheet was completed. Reimbursement vouchers were timely filed, and meals claimed agreed with meal count records.

Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed as served did not exceed the number of valid applications on file, times the number of operating days, on a school by school basis. The free and reduced priced meal policy is uniformly administered throughout the School system. The required verification procedures for free and reduced price applications were completed and available for review.

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.

The cash disbursements records reflected expenditures for program related goods and services. The Board 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.

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

**School Food Service (Continued)**

The district utilizes a food service management company (FSMC) and is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34 and 19-1 through 19-4.1. 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 return an operating profit of at least \$4,000.00. The operating results provision has been met.

Net cash resources exceeded three months average expenditures.

Cash receipts and bank records were reviewed for timely deposit.

National Food Distribution Commodities were received and an inventory was maintained on a first-in, first-out basis.

The school district renaissance school project maintains the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

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

**2016-02 Finding:** Net cash resources exceeded three months average expenditures.

**2016-02 Recommendation:** Appropriate action be taken to ensure that net cash resources of the Food Service Fund do not exceed (3) months average expenditures.

**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, 2014 Application for State School Aid (A.S.S.A.) for on-roll, private schools for the handicapped, and low-income. 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 without exception. 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 had written procedures for the recording of student enrollment.

## **Auditor's Management Report on Administrative Findings – Financial and Compliance**

### **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 exception. 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.

### **Facilities and Capital Assets**

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

**2016-03 Finding:** The district did not properly separate its capital projects on the accounting system. Also, the budgeted amount of withdrawal from capital reserve was not made in the correct amount.

**2016-03 Recommendation:** The district accounts for each capital project separately and only transfer required amounts out of capital reserve.

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

In accordance with *Government Auditing Standards*, our procedures included a review of the prior year audit recommendations. There were no prior year audit findings.

**Auditor’s Management Report on Administrative  
Findings – Financial and Compliance**

**Recommendations**

**Administrative Practices and Procedures**

None

**Financial Planning, Accounting and Reporting**

**2016-01 Recommendation:** Executive County Superintendent approval should be requested for any transfer from an advertised appropriation account as defined under N.J.A.C. 6A:23A-13.3(f), which is cumulatively more than 10 percent of that amount. The district should maintain documentation that substantiates the request was received by the Executive County Superintendent when written approval is not received.

**School Purchasing Program**

None

**School Food Service**

**2016-02 Recommendation:** Appropriate action be taken to ensure that net cash resources of the Food Service Fund do not exceed (3) months average expenditures.

**Student Body Activities**

None

**Application for State School Aid**

None

**Pupil Transportation**

None

**Facilities and Capital Assets**

**2016-03 Recommendation:** The district accounts for each capital project separately and only transfer required amounts out of capital reserve.

**Prior Year’s Findings/Recommendations**

None

BOROUGH OF SOUTH BOUND BROOK SCHOOL DISTRICT  
SCHEDULE OF AUDITED ENROLLMENTS  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015

	2016-17 Application for State School Aid				Sample for Verification				Private School for Handicapped								
	Reported on A.S.S.A. as on Roll		Workpapers Reported 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 Verification		
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	
Half Day Preschool	24		24		0		15		15		0						
Full Day Kindergarten	50		50		0		20		20		0						
One	45		45		0		18		18		0						
Two	39		39		0		18		18		0						
Three	55		55		0		18		18		0						
Four	52		52		0		18		18		0						
Five	30		30		0		15		15		0						
Six	33		33		0		15		15		0						
Seven	45		45		0		16		16		0						
Eight	38		38		0		19		19		0						
Nine	0		0		0		0		0		0						
Ten	0		0		0		0		0		0						
Eleven	0		0		0		0		0		0						
Twelve	0		0		0		0		0		0						
Subtotal	411	0	411	0	0	0	172	0	172	0	0	0	0	0	0	0	0
SpEd Elementary	18		18		0		12		12		0		0	0	0	0	0
SpEd Middle School	18		18		0		13		13		0		2	2	2	2	0
SpEd High School	0		0		0		0		0		0		5	4	4	4	0
Subtotal	36	0	36	0	0	0	25	0	25	0	0	0	7	6	6	6	0
Totals	447	0	447	0	0	0	197	0	197	0	0	0	7	6	6	6	0
Percentage					0.00%						0.00%		0.00%				0.00%

BOROUGH OF SOUTH BOUND BROOK SCHOOL DISTRICT  
 SCHEDULE OF AUDITED ENROLLMENTS  
 APPLICATION FOR STATE SCHOOL AID SUMMARY  
 ENROLLMENT AS OF OCTOBER 15, 2015

	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 Application and Register	Sample Errors
Half Day Preschool	0	0	0	0	0	0	0	0	0	0	0	0
Full Day Kindergarten	20	20	0	10	10	0	3	3	0	3	3	0
One	19	19	0	10	10	0	2	2	0	2	2	0
Two	23	23	0	12	12	0	3	3	0	2	2	0
Three	31	31	0	16	16	0	2	2	0	1	1	0
Four	24	24	0	12	12	0	2	2	0	2	2	0
Five	14	14	0	7	7	0	1	1	0	1	1	0
Six	19	19	0	10	10	0	0	0	0	0	0	0
Seven	24	24	0	12	12	0	1	1	0	1	1	0
Eight	11	11	0	6	6	0	0	0	0	0	0	0
Nine	10.5	10.5	0	5	5	0	0	0	0	0	0	0
Ten	14	14	0	8	8	0	2	2	0	2	2	0
Eleven	13	13	0	7	7	0	1	1	0	1	1	0
Twelve	13	13	0	7	7	0	0	0	0	0	0	0
Subtotal	235.5	235.5	0	122	122	0	17	17	0	15	15	0
			0.00%			0.00%			0.00%			0.00%
SpEd Elementary	10	10	0	5	5	0	0	0	0	0	0	0
SpEd Middle School	10	10	0	5	5	0	0	0	0	0	0	0
SpEd High School	9	9	0	5	5	0	0	0	0	0	0	0
Subtotal	29	29	0	15	15	0	0	0	0	0	0	0
Totals	264.5	264.5	0	137	137	0	17	17	0	15	15	0
Percentage Error			0.00%			0.00%			0.00%			0.00%

	Transportation		
	Reported on DRTS by DOE	Reported on DRTS by District	Tested
Reg. Public Schools, col.1	45	45	39
Transported - Non-Public, col.3	0	0	0
Reg. - SpEd, Col.4	0	0	0
Special Ed Spec, col.6	10	10	9
Totals	55	55	48
Percentage Error			0.00%

BOROUGH OF SOUTH BOUND BROOK SCHOOL DISTRICT  
SCHEDULE OF AUDITED ENROLLMENTS  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015

	Resident LEP NOT Low Income		Sample for Verification		
	Reported on A.S.A. as NOT Low Income	Reported on Workpapers as NOT Low Income	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors
Half Day Preschool	0	0	0	0	0
Full Day Kindergarten	2	2	2	2	0
One	2	2	1	1	0
Two	0	0	0	0	0
Three	0	0	0	0	0
Four	1	1	1	1	0
Five	1	1	1	1	0
Six	0	0	0	0	0
Seven	0	0	0	0	0
Eight	0	0	0	0	0
Nine	1	1	1	1	0
Ten	0	0	0	0	0
Eleven	0	0	0	0	0
Twelve	0	0	0	0	0
Subtotal	7	7	6	6	0
SpEd Elementary	0	0	0	0	0
SpEd Middle School	0	0	0	0	0
SpEd High School	0	0	0	0	0
Subtotal	0	0	0	0	0
Totals	7	7	6	6	0
Percentage Error					0.00%



SOUTH BOUND BROOK 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	\$ <u>9,572,681.61</u>	
Increased by:		
Transfer to Food Service Fund	<u>                    </u>	
Transfer from Capital Outlay to Capital Projects Fund	<u>                    </u>	
Transfer from Capital Reserve to Capital Projects Fund	<u>394,918.00</u>	
Decreased by:		
On-Behalf TPAF Pension & Social Security	\$ <u>816,193.27</u>	
Assets acquired under Capital Leases	<u>                    </u>	
Adjusted 2015 - 2016 General Fund Expenditures		\$ <u>9,151,406.34</u>
2% of Adjusted 2015 - 2016 General Fund Expenditures		\$ <u>183,028.13</u>
Greater of line above or \$250,000.00		\$ <u>250,000.00</u>
Increased by: Allowable Adjustment		\$ <u>                    </u>
Maximum Unreserved/Undesignated Fund Balance		\$ <u>250,000.00</u>

SECTION 2

Total General Fund - Fund Balances @ 6-30-16	\$ <u>3,504,237.91</u>	
Decreased by:		
Year-end Encumbrances	\$ <u>29,103.46</u>	
Legally Restricted-Designated for Subsequent Year's Expenditures	\$ <u>378.00</u>	
Legally Restricted-Designated for Subsequent Year's Expenditures - Capital Reserve	\$ <u>                    </u>	
Legally Restricted-Excess Surplus-Designated for Subsequent Year's Expenditures	\$ <u>248,868.00</u>	
Other Restricted Fund Balances:		
Maintenance Reserve	\$ <u>477,620.00</u>	
Capital Reserve	\$ <u>2,172,529.18</u>	
Assigned Fund Balance - Unreserved-Designated for Subsequent Year's Expenditures	\$ <u>                    </u>	
Total Unassigned Fund Balance		\$ <u>575,739.27</u>

SECTION 3

Restricted Fund Balance-Excess Surplus \$ 325,739.27

Recapitulation of excess surplus as of June 30, 2016

Reserved Excess Surplus - Designated for Subsequent Year's Expenditures \$ 248,868.00

Reserved Excess Surplus \$ 325,739.27

Total Excess Surplus \$ 574,607.27

Detail of Allowable Adjustments

Extraordinary Aid \$ \_\_\_\_\_

\$ \_\_\_\_\_

