

Auditor's Management Report

for the

*Borough of Garwood
School District*

in the

*County of Union
New Jersey*

for the

*Fiscal Year Ended
June 30, 2018*

**AUDITOR'S MANAGEMENT REPORT OF ADMINISTRATIVE
FINDINGS-FINANCIAL AND COMPLIANCE**

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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Education
Borough of Garwood School District
County of Union
Garwood, New Jersey 07027

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 Garwood School District in the County of Union for the year ended June 30, 2018, and have issued our report dated February 4, 2019.

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 Garwood 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



PUBLIC SCHOOL ACCOUNTANT NO. 948

February 4, 2019

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 Treasurer of School Monies, the activities of the Borough of Garwood Board of Education, and the records of the various funds under the auspices of the Board of Education.

ADMINISTRATIVE PRACTICES AND PROCEDURES

Insurance (N.J.S.A. 18A:17-26, 18A: 17-32)

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>
Eric Larson	Board Secretary/Business Administrator	\$190,000.00
Raymond Krov	Treasurer of School Monies	190,000.00
Blanket Bond	All Employees	400,000.00

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

FINANCIAL PLANNING, ACCOUNTING AND REPORTING

Examination of Claims

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

Payroll Account

The gross salaries of all employees of the Board and the Board's required payroll contributions were deposited in the Payroll 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 promptly remitted to the proper agencies, including health benefits withholdings due to the general fund.

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

FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONTINUED)

Payroll Account (Continued)

Our audit of the district's payroll accounts also revealed:

2018-1 Finding: There is no evidence the district is in compliance with N.J.A.C. 5:30-17 in that there appears to be no board authorization to utilize the R&L payroll service and Ceridian tax services, there is no approval designating an approval officer responsible for authorizing and supervising the activities of the payroll provider, and no evidence of a contract with R&L on file.

2018-1 Recommendation: That the district take the required steps to comply with the provisions of N.J.A.C. 5:30-17 for the utilization of 3rd party payroll services.

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, Liability (Current) for Accounts Payable

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

Unemployment Compensation Insurance Trust Fund

The Board has adopted the direct reimbursement method and has established an Unemployment Compensation Insurance Trust Fund.

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 specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23A-2.4. 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.

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

FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONTINUED)

Board Secretary's Records

Our review of the financial records and books of account of the Board Secretary disclosed the following:

2018-2 Finding: The business office does not properly maintain an analysis of the balances in the payroll accounts. The payroll clerk prepares a ledger of account activity; however, it is not totaled/summarized, and verified back to the Treasurer's reconciliations each month.

2018-2 Recommendation: That the business office maintain a complete and accurate analysis of all payroll account balances each month.

2018-3 Finding: Our examination of the board secretary reports approved in the minutes each month reveal that cash balances due not match to reconciled balances per the treasurer's reconciliations. This appears to be due to the timing of data entry into the district's finance system.

2018-3 Recommendation: That all receipts & disbursements be entered in a more timely fashion and that all board secretary reports match to the reconciled cash balances in the treasurer's reports.

Treasurer's Records

The records maintained by the Treasurer of School Monies were in satisfactory condition and independently maintained from the Board Secretary/Board Administrator.

Elementary and Secondary Education Act/ 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 projects under Title II and III of the Elementary and Secondary Education Act as amended and reauthorized.

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

FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONTINUED)

Other Special Federal and 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 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 reimbursement to the State for the amount of the expenditure charged to the current year's Final Reports 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 subsequent to the end of the 60 day grant liquidation period, but prior to the 90 days required by N.J.S.A. 18A:66-90. Accordingly, the expenditure was made in accordance with State law (90 days) and properly reported as obligated and not expended and as an unliquidated balance in the current year's Final Reports for all federal awards.

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. (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 or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

**Independent Auditor's Management Report of 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 \$19,000.00.

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.

**Independent Auditor's Management Report of 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. Our examination of professional services contracts revealed:

2018-4 Finding: Our examination of the district's professional services contracts revealed instances where either no amount, or only an hourly rate, were approved, but no specific maximum amount was mentioned in the minutes.

2018-4 Recommendation: That all professional services contracts be awarded with either a specific total or 'not to exceed' amount mentioned in the board minutes.

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 and/or through cooperative purchasing agreements, 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 and/or cooperative purchasing agreements..

SCHOOL FOOD SERVICE FUND

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. No exceptions were noted. Cash receipts and bank records were reviewed for timely deposit without exception.

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 properly computed and timely filed. Meals claimed agreed with the meal count records tested. No exceptions were noted.

Applications for free and reduced price meals were reviewed for completeness and accuracy. The amount of free and reduced 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 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. No exceptions were noted.

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. No exceptions were noted.

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

SCHOOL FOOD SERVICE FUND (CONTINUED)

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

The cash disbursements records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Net cash resources did not exceed three months average expenditures.

The District utilizes a food service management company and is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34, and 19-1 through 19-4.1.

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

Exhibits reflecting Child Nutrition Program operations are included in Exhibits B-4, B-5, and B-6 of the CAFR.

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

STUDENT BODY ACTIVITIES

The District maintains a General Activity Account and an Athletic Account. Our examination of these accounts revealed:

2018-5 Finding: Receipts and disbursements ledgers, monthly bank reconciliations, and an analysis of sub-account balances by each club/function was not maintained.

2018-5 Recommendation: That the district maintain receipts and disbursement ledgers, perform monthly bank reconciliations, and continuously analyze the balances by each club/function in the student activities and athletic accounts.

APPLICATION FOR STATE SCHOOL AID

Our audit procedures included a test of information reported in the October 14, 2016 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 that was included on the workpapers was verified with exceptions noted below. The district maintained workpapers on the prescribed state forms or their equivalent. The district has adequate procedures for the recording of student enrollment data. 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 procedures for the recording of student enrollment data.

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

PUPIL TRANSPORTATION

Our audit procedures included a test of on roll status reported in the 2017-18 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 include reviews of the SDA grant agreement for consistency with recording SDA revenue, transfer of local funds for the general fund or from the capital reserve account, and awarding of contracts for eligible facilities construction. No exceptions were noted.

Our procedures also included examination and interviews regarding the districts compliance with N.J.A.C. 26-1.2 and 12.4 relating to the testing for lead in drinking water. No exceptions were noted.

TESTING FOR LEAD OF ALL DRINKING WATER IN EDUCATIONAL FACILITIES

Our procedures included examination and interviews regarding the districts compliance with N.J.A.C. 26-1.2 and 12.4 relating to the testing for lead in drinking water. No exceptions were noted.

FOLLOW-UP ON PRIOR YEAR'S FINDINGS

In accordance with governmental auditing standards, our procedures included a review of all prior year recommendation. The items noted on the following page with an "*" are repeat unresolved items.

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

It is recommended that:

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

2018-1 Recommendation: That the district take the required steps to comply with the provisions of NJAC 5:30-17 for the utilization of 3rd party payroll services.

***2018-2 Recommendation:** That the business office maintain a complete and accurate analysis of all payroll account balances each month.

2018-3 Recommendation: That all receipts & disbursements be entered in a more timely fashion and that all board secretary reports match to the reconciled cash balances in the treasurer's reports.

3. School Purchasing Program

2018-4 Recommendation: That all professional services contracts be awarded with either a specific total or 'not to exceed' amount mentioned in the board minutes.

4. School Food Service

None

5. Student Body Activities

***2018-5 Recommendation:** That the district maintain receipts and disbursement ledgers, perform monthly bank reconciliations, and continuously analyze the balances by each club/function in the student activities and athletic accounts.

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

Items notated above with an "*" are repeated/unresolved findings.

BOROUGH OF GARWOOD SCHOOL DISTRICT
 SCHEDULE OF AUDITED ENROLLMENTS
 APPLICATION FOR STATE SCHOOL AID SUMMARY
 ENROLLMENT AS OF OCTOBER 13, 2017

	2018-19 Application for State School Aid						Sample for Verification						Private School for Handicapped						
	Reported on A.S.S.A. 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 Verification		Sample for Handicapped		
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	
Full Day Kindergarten	31		31				15												
One	41		41				20												
Two	25		25				14												
Three	38		38				15												
Four	36		36				15												
Five	26		26				15												
Six	34		34				15												
Seven	32		32				15												
Eight	37		37				12												
Subtotal	300		300				136												
SpEd Elementary	43		43				24						1		1				1
SpEd Middle School	23		23				15						1		1				1
SpEd High School													4		4				1
Subtotal	66		66				39						6		6				3
Totals	366		366				175						6		6				3

Percentage

BOROUGH OF GARWOOD SCHOOL DISTRICT
 SCHEDULE OF AUDITED ENROLLMENTS
 APPLICATION FOR STATE SCHOOL AID SUMMARY
 ENROLLMENT AS OF OCTOBER 13, 2017

	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 Application and Register	Sample Errors
Full Day Kindergarten	2	2	0	1	1	0						
One	9	9	0	5	5	0						
Two	4	4	0	2	2	0						
Three	7	7	0	3	3	0						
Four	4	4	0	2	2	0						
Five	4	4	0	1	1	0						
Six	2	2	0	1	1	0						
Seven	2	2	0	1	1	0						
Eight	6	6	0	3	3	0						
Nine	2	2	0	1	1	0						0
Ten	2	2	0	1	1	0						0
Eleven	3	3	0	2	2	0						0
Twelve	2	2	0	2	2	0						0
Subtotal	49	49	0	25	25	0	0	0	0	0	0	0
SpEd Elementary	16	16	0	8	8	0						0
SpEd Middle School	10	10	0	4	4	0						0
SpEd High School	4.5	4.5	0	1	1	0						0
Subtotal	30.5	30.5	0	13	13	0	0	0	0	0	0	0
Totals	79.5	79.5	0	38	38	0	0	0	0	0	0	0
Percentage Error			0.00%			0.00%						0.00%

Transportation

	Transportation		
	Reported on DRTS by DOE	Reported on DRTS by District	Errors
Reg Public Schools, col.1	141	141	0
Transported - Non-Public, col.3	6	6	0
Special Ed Spec, col.6	23	23	0
Totals	170	170	0
Percentage Error			0.00%

BOROUGH OF GARWOOD SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENTS
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 13, 2017

	<u>Resident LEP NOT Low Income</u>			<u>Sample for Verification</u>		
	<u>Reported on A.S.S.A. as NOT Low Income</u>	<u>Reported on Workpapers as NOT Low Income</u>	<u>Errors</u>	<u>Sample Selected from Workpapers</u>	<u>Verified to Application and Register</u>	<u>Sample Errors</u>
Full Day Kindergarten	0	0	0	0	0	0
One	0	0	0	0	0	0
Two	0	0	0	0	0	0
Three	0	0	0	0	0	0
Four	0	0	0	0	0	0
Five	0	0	0	0	0	0
Six	0	0	0	0	0	0
Seven	0	0	0	0	0	0
Eight	0	0	0	0	0	0
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
SpEd Elementary	0	0	0	0	0	0
SpEd Middle School	0	0	0	0	0	0
SpEd High School	0	0	0	0	0	0
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

BOROUGH OF GARWOOD SCHOOL DISTRICT
SCHEDULE OF CALCULATION OF EXCESS SURPLUS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SECTION 1

2% Calculation of Excess Surplus (2017-18 expenditures of \$100 million or less)

2017 - 2018 Total General Fund Expenditures	\$ 9,091,582.42	
Decreased by:		
On-Behalf TPAF Pension & Social Security	<u>758,251.60</u>	
Adjusted 2017 - 2018 General Fund Expenditures		\$ <u>8,333,330.82</u>
2% of Adjusted 2017 - 2018 General Fund Expenditures		<u>166,666.62</u>
Greater of Line Above or \$250,000.00		<u>250,000.00</u>
Increased by: Allowable Adjustment		<u>37,426.00</u>
Maximum Unreserved/Undesignated Fund Balance		\$ <u><u>287,426.00</u></u>

SECTION 2

Total General Fund Balances at June 30, 2018	\$ <u>2,035,064.57</u>	
Decreased by:		
Year End Encumbrances	<u>25,284.57</u>	
Legally Restricted-Excess Surplus-Designated For Subsequent Year's Expenditures	150,000.00	
Other Restricted Fund Balances (Capital Reserve, Maintenance Reserve, Tuition Reserve)	<u>1,397,354.00</u>	
Total Unreserved/Undesignated Fund Balance for Excess Surplus Calculation		<u>462,426.00</u>

SECTION 3

Reserved Fund Balance-Excess Surplus	\$ <u><u>175,000.00</u></u>
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Recapitulation of Excess Surplus as of June 30, 2018

Reserved Excess Surplus - Designated for Subsequent Year's Expenditures	<u>150,000.00</u>
Reserved Excess Surplus	<u>175,000.00</u>
Total	\$ <u><u>325,000.00</u></u>

Detail of Allowable Adjustments

Additional/Unbudgeted Extraordinary Aid	\$ 35,686.00
Additional/Unbudgeted Non-Public School Transportation Aid	<u>1,740.00</u>
	\$ <u><u>37,426.00</u></u>

