

*TOWNSHIP OF CRANFORD  
SCHOOL DISTRICT  
COUNTY OF UNION, NEW JERSEY*

*AUDITORS MANAGEMENT REPORT ON  
ADMINISTRATIVE FINDINGS –  
FINANCIAL, COMPLIANCE AND PERFORMANCE  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2015*

***HODULIK & MORRISON, P.A.***  
*CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS  
PUBLIC SCHOOL ACCOUNTANTS  
HIGHLAND PARK, N.J.*

**CRANFORD SCHOOL DISTRICT  
UNION COUNTY, NEW JERSEY**

**AUDITORS MANAGEMENT REPORT ON ADMINISTRATIVE FINDINGS -  
FINANCIAL, COMPLIANCE AND PERFORMANCE**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
Independent Auditor's Report	1
Scope of Audit	2
Administrative Practices and Procedures	
Insurance	2
Official Bonds	2
Tuition Charges	2
Financial Planning, Accounting and Reporting	
Examination of Claims	2
Payroll Account	3
T.P.A.F. Reimbursement to the State for Federal Salary Expenditures	3
Reserve for Encumbrances and Accounts Payable	3
Classification of Expenditures	3
Unemployment Compensation Insurance Trust Fund	3
Investment of Idle Funds	4
Board Secretary's Records	4
General Fixed Assets	4
Elementary and Secondary Education Act of 1965 (E.S.E.A.), as amended by the Improving America's Schools Act of 1994	4
Other Special Federal and/or State Projects	4
T.P.A.F. Reimbursement	4
School Purchasing Programs	
Contracts and Agreements Requiring Advertisement for Bids	5 - 6
School Food Service Fund	6
Student Activity Funds	6
Application for State School Aid	7
Pupil Transportation	7
Internal Control Documentation	7
Review of Prior Year Findings	7
Summary of Recommendations	8
Acknowledgment	8
Schedule of Meal Count Activity	N/A
Net Cash Reserve Schedule	N/A
Cost of Education per Pupil	9
Schedule of Audited Enrollments	10 - 12
Excess Surplus Calculation	13 - 14

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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members  
of the Board of Education  
Township of Cranford School District  
County of Union, New Jersey

We have audited, in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Board of Education of the Township of Cranford School District, County of Union, New Jersey, as of and for the year ended June 30, 2015, and have issued our report thereon dated December 9, 2015.

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 report is intended for the information of the Township of Cranford Board of Education's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.



HODULIK & MORRISON, P.A.  
Certified Public Accountants  
Public School Accountants



Robert S. Morrison  
Certified Public Accountant  
Public School Accountant #841

Highland Park, New Jersey  
December 9, 2015

ADMINISTRATIVE FINDINGS  
FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING

SCOPE OF AUDIT

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

The audit did not and could not determine the character of services rendered for which payment had been made nor could it determine the character, proper price or quantity of materials supplied for which claims had been passed. These details were necessarily covered by the approval of such claims. Revenues and receipts were established and verified as to sources and amount only insofar as the records permitted.

ADMINISTRATIVE PRACTICES AND PROCEDURES

Insurance

Fire insurance coverage was carried in the amounts as detailed on Exhibit J-20 of the District's CAFR. The details of the various additional insurance coverages by the Board are also presented on this Exhibit. No attempt was made to determine the adequacy of coverage as part of this report. Adequacy of coverage is the responsibility of the Board of Education.

Official Bonds

The following positions were covered by Surety Bonds:

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Robert J. Carfagno	Business Administrator/ Board Secretary	\$ 300,000.00

The surety bond coverage for the Board Secretary/Business Administrator exceeded the minimum requirement as promulgated by the Department of Education.

Tuition Charges

A comparison of tentative tuition charges and actual certified tuition charges was made. Differences in actual costs, as certified by the Department of Education pursuant to the provisions of N.J.A.C. 6A: 23-3.1(f) 3, from estimated costs billed by the Board during the period were adjusted as required.

FINANCIAL PLANNING, ACCOUNTING AND REPORTING

Examination of Claims

Claims were examined for the period under review and were found to be in good order. No discrepancies were noted with respect to signatures, certifications or supporting documentation.

## FINANCIAL PLANNING, ACCOUNTING AND REPORTING (Cont'd):

### Payroll Account

The net salaries of all 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.

All payrolls were approved by the Superintendent and were certified by the President of the Board and the Board Secretary/School Business Administrator. Tests were made of these records with no exceptions noted.

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

During the year under examination, the Board Secretary continued to perform procedures to allow for the formal proof of payroll account transactional activity on a monthly basis. This record was found to be suitable to allow for the identification of funds on hand.

### TPAF Reimbursement to the State for Federal Salary Expenditures

The reimbursement to the State for the amount of the expenditure charged to the current year's Final Report for all federal awards for the District to reimburse the State for the TPAF Pension and Social Security 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 and no exceptions were noted

### Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of June 30, for goods not yet received or services not yet rendered. Unpaid purchase orders included in the balance of accounts payable were reviewed for propriety and to determine that goods were received and services rendered as of June 30.

### 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: 23-8.2. As a result of the procedures performed we found no discrepancies in the classification of expenditures and no additional procedures were deemed necessary to test the propriety of the expenditure classification.

### Unemployment Compensation Insurance Trust Fund

The Board has adopted the direct reimbursement method and has established an Unemployment Compensation Insurance Trust Fund. Exhibit "H-2" sets forth the activity of this fund for the period under review. Total revenues from all sources amounted to \$78,273.51 and expenditures, which consist of reimbursements to the State of New Jersey Unemployment Insurance Fund, amounted to \$94,649.18. Funds available at June 30, 2015 to pay future claims amounted to \$59,205.96.

## FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONT'D.)

### Investment of Idle Funds

During the year ended June 30, 2015, the Board had all of the idle funds in its governmental fund types invested in interest bearing accounts. Additional funds were held in the New Jersey Cash Management Fund and TD Bank Cash Management Fund. The existing practices allow the Board to maximize investment income without exposing Board funds to market related risks to investment principal.

### Board Secretary's Records

The minutes maintained by the Board Secretary were in good condition.

The financial and accounting records maintained by the Board Secretary were found to be in good condition.

### General Fixed Assets

During the period under review the general fixed asset accounting and reporting system was maintained satisfactorily to provide for all the required financial information for the preparation of the statement of changes in general fixed assets.

### 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 (NCLB)

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, II, III and IV 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 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 forms filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

## SCHOOL PURCHASING PROGRAMS

### Contracts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-3 states"

"a. Any purchase, contract or agreement for the performance of any work or the furnishing or hiring of materials or supplies, the cost or price of which, together with any other sums expended or foreseeably to be expended for the performance of any work or services in connection with the same project or the furnishing of similar materials or supplies during the same fiscal year paid with or out of school funds, does not exceed the total sum of \$18,300 or the amount determined pursuant to subsection b. of this section, in the fiscal year or, in the case of purchases

that are not annually recurring, in a period of one year may be made negotiated and awarded by a contracting agent when so authorized by resolution of the board of education without public advertising for bids and bidding therefore.

"b. Commencing January 1, 1983 and every two years thereafter, the Governor, in consultation with the Department of Treasury, shall adjust the threshold amount set forth in subsection a. of this section in direct proportion to the rise or fall of the consumer price index for all urban consumers in the New York City and the Philadelphia area as reported by the United States Department of Labor. The Governor shall notify all local school districts of the adjustment. The adjustment shall become effective on July 1, of the year in which it is reported."

N.J.S.A. 18A:18A-4 states, "Every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of school funds, not included within the terms of N.J.S.A. 18A:18A-3, shall be made and awarded only by the board of education after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate the amount set forth in, or calculated by the Governor pursuant to N.J.S.A. 18A:18A-3 except by contract or agreement."

Effective July 1, 2010 and thereafter the bid thresholds in accordance with N.J.S.A. 18A:18A-3 (as amended) and 18A:39-3(a) are \$36,000.00 (with a Qualified Purchasing Agent) and \$26,000.00 (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 \$18,300.

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 the 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.

## SCHOOL PURCHASING PROGRAMS (Cont'd.)

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

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.

Any interpretation as to possible violation of statute(s) would be in the province of the Board's solicitor.

### 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.

Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed 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 price meal and free milk policy is uniformly administered throughout the School System. The required verification policy procedures for free and reduced price applications were completed and available for review.

Expenses consist of billings from a contractor engaged by the Board to administer the District's cafeteria operations. All billings were fully itemized, and audit tests revealed no exceptions to the terms of the contract. District records of expenses incurred did not reflect the itemization contained in the contractor billings.

The cash disbursements records reflected expenditures for program related goods and services. The District is depositing and expending program moneys 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. Net cash resources did not exceed three months average expenditures.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Section G. Total realized revenues, including both operating and non-operating, amounted to \$651,535.79 and total expenditures amounted to \$699,127.20 resulting in net loss of \$(17,591.41). During the current period, the Board did not make operating transfers to the Food Service fund.

### Student Activity Funds

The recordkeeping of the various student activities funds were reviewed for the 2014-2015 school year. The records were maintained in generally good condition.

## SCHOOL PURCHASING PROGRAMS (Cont'd.)

### Application for State School Aid

Our audit procedures included tests 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, 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 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 has adequate written procedures for the recording of student enrollment data.

### Pupil Transportation

Our procedures included a test of on-roll status reported in the 2014-15 District Report of Resident Transported Students (DRTRS). The information 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. No exceptions were noted in our review of transportation related purchases of goods and services.

### Internal Control Documentation

The School District is continuing the process of documenting its internal controls. This course of action is commendable and will also serve the purpose of meeting certain requirements as set forth by the Statement on Auditing Standards 112. We suggest the School District continue its process and also consider utilizing the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for its documentation, which includes the five components of internal controls, as follows: Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. In addition, we suggest the documentation should also include the internal controls that exist over grant compliance.

### Follow-Up on Prior Years' Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year recommendations and corrective action had been taken on all prior year findings.

RECOMMENDATIONS

None

\*\*\*\*\*

ACKNOWLEDGMENT

During the course of our audit, we received the complete cooperation of all the officials of the school district, and we greatly appreciate the courtesies extended to us.

Respectfully submitted,



HODULIK & MORRISON, P.A.  
Certified Public Accountants  
Public School Accountants



Robert S. Morrison  
Certified Public Accountant  
Public School Accountant #871

SCHEDULE OF COSTS OF EDUCATION PER PUPIL

CRANFORD SCHOOL DISTRICT  
COSTS OF EDUCATION PER PUPIL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(MEMORANDUM ONLY)

Costs of Education:	
Instruction:	
Regular Programs	\$ 17,852,650.75
Special Education	7,020,006.64
Other Instructional Programs	<u>1,765,105.17</u>
Total Instruction	26,637,762.56
Total Undistributed Expenditures*	<u>35,572,654.55</u>
Total Costs of Education	62,210,417.11
Average Daily Enrollment	<u>3,864.00</u>
Costs of Education Per Pupil	<u>\$ 16,100.00</u>

Note: The above calculation excludes capital outlay expenditures, including the costs of instructional equipment.

\* Includes \$2,011,543.64 of "on-behalf" payments by State of New Jersey for T.P.A.F social security and \$3,851,898.00 for T.P.A.F. for pension.

**SCHEDULE OF AUDITED ENROLLMENTS**

**CRANFORD BOARD OF EDUCATION  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2014**

	2014-2015 Application for State School Aid						Sample for Verification				Private Schools for Disabled					
	Reported on A.S.S.A. On Roll		Reported on Workpapers On Roll		Errors		Sample Selected From Workpapers		Verified per Registers On Roll		Errors per Register On Roll		Reported on A.S.S.A. Private Schools	Sample for Verifi- cation	Sample Verified	Sample Errors
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared				
Half Day Preschool - 3 Years Old	12		12					1		1						
Half Day Preschool - 4 Years Old	12		12					1		1						
Half Day Kindergarten	220		220					17		17						
Full Day Kindergarten																
One	236		236					18		18						
Two	231		231					18		18						
Three	236		236					18		18						
Four	250		250					19		19						
Five	249		249					19		19						
Six	279		279					22		22						
Seven	242		242					19		19						
Eight	298		298					23		23						
Nine	211		211					16		16						
Ten	256		256					20		20						
Eleven	232	2	232	2				18		18						
Twelve	245	2	245	2				19		19						
Adult High School (15+ credits)																
Adult High School (1-14 credits)																
Subtotals	3,209	4	3,209	4				248		248						
Special Ed - Elementary	264		264					20		20			7	7	7	
Special Ed - Middle School	176		176					14		14			3	3	3	
Special Ed - High School Sent to CSSD	215	11	215	11				17		17			10	10	10	
Subtotals	655	11	655	11				51		51			20	20	20	
Totals	3,864	15	3,864	15				299		299			20	20	20	
Percentage Error																



**SCHEDULE OF AUDITED ENROLLMENTS**

**CRANFORD BOARD OF EDUCATION  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2014**

	<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 per Test Score and Register</u>	<u>Sample Errors</u>
Half Day Preschool						
Half Day Kindergarten						
Full Day Kindergarten						
One						
Two						
Three	1	1		1	1	
Four						
Five						
Six	1	1		1	1	
Seven						
Eight	1	1		1	1	
Nine						
Ten	1	1		1	1	
Eleven						
Twelve	1	1		1	1	
Adult High School (15+ credits)						
Adult High School (1-14 credits)						
Subtotals	5	5		5	5	
Special Ed-Elementary						
Special Ed - Middle School						
Special Ed - High School						
Subtotals						
C. Voc. - Regular						
C. Voc. Ft. Post Sec.						
Totals	5	5		5	5	
Percentage Error						

**EXCESS SURPLUS CALCULATION**

**SECTION 1 - REGULAR DISTRICT**

**A. 2% Calculation of Excess Surplus**

2014-2015 Total General Fund Expenditures per the CAFR	\$ <u>62,668,992.61</u> (B)
Increased by:	
Transfer from Capital Outlay to Capital Projects Fund	\$ _____ (B1a)
Transfer from Capital Reserve to Capital Projects Fund	\$ _____ (B1c)
Transfer from General Fund to SRF for PreK-Regular	\$ _____ (B1b)
Transfer from General Fund to SRF for PreK-Inclusion	\$ _____ (B1c)
Decreased by:	
On-Behalf TPAF Pension & Social Security	\$ <u>5,863,441.64</u> (B2a)
Assets Acquired Under Capital Leases	\$ <u>244,390.00</u> (B2b)
Adjusted 14-15 General Fund Expenditures ((B)+(B1s)-(B2s))	\$ <u><u>56,561,160.97</u></u> (B3)
2% of Adjusted 2014-15 General Fund Expenditures ((B3) times .02)	\$ <u>1,131,223.22</u> (B4)
Enter Greater of (B4) or \$250,000	\$ <u>1,131,223.22</u> (B5)
Increased by: Allowable Adjustment*	\$ <u>43,737.00</u> (K)
Maximum Unreserved/Undesignated Fund Balance ((B5)+(K))	\$ <u><u>1,174,960.22</u></u> (M)

**SECTION 2**

Total General Fund - Fund Balances @ 6/30/15 (Per CAFR Budgetary Comparison schedule/statement)	\$ <u>1,065,019.10</u> (C)
Decreased by:	
Reserve for Encumbrances	\$ <u>82,402.88</u> (C1)
Legally Restricted -Designated for Subsequent Year's Expenditures	\$ _____ (C2)
Excess Surplus - Designated for Subsequent Year's Expenditures **	\$ _____ (C3)
Other Reserved Fund Balances****	\$ <u>1.00</u> (C4)
Unreserved - Designated for Subsequent Year's Expenditures	\$ <u>743,317.00</u> (C5)
Total Unreserved/Undesignated Fund Balance ((C)-(C1)-(C2)-(C3)-(C4)-(C5))	\$ <u>239,298.22</u> (U1)
Increased by:	
Adjustment for Disallowed Transfers per S1701	\$ _____ (C6)
Total Unreserved/Undesignated Fund Balance for Excess Surplus Calculations (U1+C6)	\$ <u>239,298.22</u> (U2)

**SECTION 3**

Reserved Fund Balance-Excess Surplus \*\*\*((U2-(M)) If negative enter -0- \$ 0.00 (E)  
**Recapitulation of Excess Surplus as of June 30, 2015**

Reserved Excess Surplus-Designated for Subsequent Year's  
 Expenditures\*\* \$ 0.00 (C3)  
 Reserved Excess Surplus\*\*\* (E) \$ \_\_\_\_\_ (E)  
 Total ((C3) +(E) + (F)) \$ 0.00 (D)

**Footnotes:**

\* This adjustment line(as detailed below) is to be utilized for Impact Aid, (when applicable) Sale and Leaseback (Refer to audit Program Section 10), Extraordinary Aid, and Additional Nonpublic School Transportation Aid, if applicable (Refer to the Audit Program Section II, Chapter 10 for restrictions on the inclusion of Extraordinary Aid and Additional Nonpublic School Transportation Aid.)

**Detail of Allowable Adjustments**

Impact Aid	\$		(H)
Sale & Lease-back	\$		(I)
Extraordinary Aid	\$	26,808.00	(J1)
Additional Nonpublic School Transportation Aid	\$	16,929.00	(J2)
Higher Educations for Learning and Proficiency Aid	\$		(J3)
 Total Adjustments ((H)+(I)+(J1)+(J2)+(J3))	 \$	 43,737.00	 (K)

\*\* This amount represents the June 30, 2015 Excess Surplus (C3 above) and must be included in the Audit Summary Worksheet Line 10025.

\*\*\* Amount must agree to the June 30, 2015 CAFR and the sum of the two lines must agree to Audit Summary Worksheet Line 10024.

\*\*\*\* Amount for Other Reserved Fund Balances must be detailed for each source. Use in the excess surplus calculation of any legal reserve that is not state mandated or that is not legally imposed by any other type of government, such as the judicial branch of government, must have Departmental approval. District requests should be submitted to the Division of Finance prior to September 30.

**Detail of Other Reserved Fund Balance**

**Statutory restrictions:**

Approved unspent separate proposal	\$		
Sale/lease-back reserve	\$		
Capital reserve	\$		
Maintenance reserve	\$	1.00	
Emergency reserve	\$		
Tuition reserve	\$		
School Bus Advertising 50% Fuel Offset Reserve - current year	\$		
School Bus Advertising 50% Fuel Offset Reserve - prior year	\$		
Other state/government mandated reserve	\$		
[Other Restricted Fund Balance not noted above]****	\$		
 Total Other Reserved Fund Balance	 \$	 1.00	 (C4)