

MENDHAM BOROUGH SCHOOL DISTRICT  
COUNTY OF MORRIS  
AUDITORS' MANAGEMENT REPORT ON  
ADMINISTRATIVE FINDINGS - FINANCIAL,  
COMPLIANCE AND PERFORMANCE  
YEAR ENDED JUNE 30, 2015

MENDHAM BOROUGH SCHOOL DISTRICT  
COUNTY OF MORRIS  
AUDITORS' MANAGEMENT REPORT ON ADMINISTRATIVE  
FINDINGS - FINANCIAL,  
COMPLIANCE AND PERFORMANCE  
YEAR ENDED JUNE 30, 2015  
TABLE OF CONTENTS

	Page
Cover Letter	1
General Comments:	2
Scope of Audit	2
Administrative Practices and Procedures:	2
Insurance	2
Officials in Office and Surety Bonds	2
Financial Planning, Accounting and Reporting:	2
Examination of Claims	2
Payroll Account and Position Control Roster	2
Reserve for Encumbrances and Accounts Payable	2
Classification of Expenditures	3
Board Secretary's Records	3
Treasurer's Records	3
No Child Left Behind (N.C.L.B.)	3
Other Special Federal and/or State Projects	4
T.P.A.F. Reimbursement	4
School Purchasing Programs:	4
Contracts and Agreements Requiring Advertisement for Bids	4
School Food Service Fund	5
Student Body Activities	6
Application for State School Aid	6
Pupil Transportation	6
Facilities and Capital Assets	6
Travel	6
Management Suggestions	7
Status of Prior Year's Findings/Recommendations	7
Schedule of Meal Count Activity (Not Applicable)	
Schedule of Net Cash Resources (Not Applicable)	
Schedule of Audited Enrollments	8
Excess Surplus Calculation	12
Summary of Recommendations	14



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November 13, 2015

The Honorable President and Members  
of the Board of Education  
Mendham 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 Mendham Borough School District in the County of Morris for the fiscal year ended June 30, 2015, and have issued our report thereon dated November 13, 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 letter does not affect our report dated November 13, 2015, on the financial statements of the Board.

We will review the status of the comments during our next audit engagement. We have already discussed these comments 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 solely for the information and use of the Mendham 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

A handwritten signature in black ink, appearing to read "William F. Schroeder", is written over a horizontal line.

William F. Schroeder  
Licensed Public School Accountant #2112  
Certified Public Accountant

MENDHAM BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
YEAR ENDED JUNE 30, 2015

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator, 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>
James Rollo	Business Administrator/Board Secretary	\$ 190,000
Judy Favino	Treasurer of School Monies	\$ 190,000

The District also has Employee Dishonesty and Faithful Performance coverage through the New Jersey School Insurance Group as detailed on Exhibit J-20 of the CAFR

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.

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

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

The required certification (E-CERT 1) of compliance with all documentation prepared for income tax related purposes of administrators (superintendent, assistant superintendents and business administrator) complying with the requirements of federal and state laws and regulations, was completed and submitted to the NJ Department of Treasury by due March 15.

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.

MENDHAM BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
YEAR ENDED JUNE 30, 2015  
(Continued)

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with *N.J.A.C.* 6:23A-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, we reviewed 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 below.

*Finding:*

It was found that there were over-expenditures in the Capital Outlay Construction Services budget appropriation line item in the General Fund. This over-expenditures resulted from improvements which originally were to be charged to the Capital Reserve Account, but were instead charged to Capital Outlay and the appropriate transfers were not made.

*Recommendation:*

It is recommended that greater care be taken in monitoring budget appropriation lines, and that transfers of budget appropriations be made in a timely manner in order to avoid over-expenditures.

*Management Response:*

The District will take greater care in monitoring budget appropriation line items, and make transfers of budget appropriations as necessary in a timely manner going forward.

Treasurer's Records

In planning and performing our audit of the financial statement 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 upon 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 II of the No Child Left Behind Consolidated Grant.

MENDHAM BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
YEAR ENDED JUNE 30, 2015  
 (Continued)

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. No exceptions were noted.

T.P.A.F. Reimbursement to the State for Federal Salary Expenditures

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, 2015. The reimbursement form was reviewed and no exceptions were noted.

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, 2010 and thereafter the bid thresholds in accordance with N.J.S.A. 18A:18A-2 and 18A:18A-3(a) are \$36,000 (with a Qualified Purchasing Agent) and \$26,000 (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 \$18,300.

MENDHAM BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
YEAR ENDED JUNE 30, 2015  
(Continued)

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

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.

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, amended.

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.

School Food Service

The financial transactions and statistical records of the School Food Service Fund were reviewed. The financial accounts were reviewed. Food Service accounting records maintained by the District's central administration office were reconciled with the records maintained by the food service contractor.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified on a test basis. Inventory records on food 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 appropriate revenue and expenditure records were maintained in order to substantiate the nonprofit status of the School Food Service Fund. Net cash resources did not exceed three months average expenditures.

Cash receipts and bank records were reviewed for timely deposit.

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. The FSMC contract includes an operating results provision which guarantees that the food service program will break even. The operating results provision has been met.

Timesheets were reviewed and labor costs verified on a test basis. Payroll records were maintained on all School Food Services Employees authorized by the Board of Education. No exceptions were noted.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled "Proprietary Funds", Section G of the CAFR.

MENDHAM BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
YEAR ENDED JUNE 30, 2015  
(Continued)

School Food Service (Cont'd)

The District has a Type 2 SOC 1 service audit of the food service management company on file as required by state requirements.

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. Based on these procedures, we have no comments except as noted herein.

Application for State School Aid

Our audit procedures included a test of enrollments and related services 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 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 without exception. The information that was included on the workpapers was verified on a test basis 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's written procedures for the recording of student enrollment data appear to be adequate.

Pupil Transportation:

Our audit procedures included a test of on-roll status reported in the 2014-2015 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. 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. Based on these procedures, we have no comments.

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 a maximum travel amount for the year and to account 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.

MENDHAM BOROUGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE  
AND PERFORMANCE  
YEAR ENDED JUNE 30, 2015  
(Continued)

Management Suggestions:

Single Audit

Effective for the fiscal year ended June 30, 2016, there will be significant changes to the Single Audit. These changes include the following:

- An increase in the single audit threshold
- Low risk auditee criteria
- Type A and B threshold
- Coverage requirements for major programs tested for both low risk and non-low risk auditees.

Additionally, the cost principles and administrative requirements such as A-87 have been consolidated under the *OMB Uniform Guidance: Cost Principles, Audit and Administrative Requirements for Federal Awards*. This guidance was effective December 26, 2014 for all new federal awards and for any additional funding for existing awards made after December 26, 2014.

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 prior year recommendations regarding expenditures being charged to the correct budget lines, appropriate supporting documentation being maintained and available for all expenditures, and Food Service Fund operations resulting in a deficit were resolved in the current year and are not included in the current year.

MENDHAM BOROUGH SCHOOL DISTRICT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
SCHEDULE OF AUDITED ENROLLMENTS  
ENROLLMENT AS OF OCTOBER 15, 2014

	2015-2016 Application for State School Aid						Sample for Verification					
	Reported on		Reported on		Errors		Sample		Verified per		Errors per	
	A.S.S.A.		Workpapers				Selected from		Registers		Registers	
	On Roll		On Roll		Workpapers		On Roll		On Roll			
Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	
Half Day Preschool 3 Yrs	6		6				6		6			
Half Day Preschool 4 Yrs	2		2				2		2			
Full Day Kindergarten	51		51				51		51			
Grade One	52		52				52		52			
Grade Two	51		51				51		51			
Grade Three	47		47				47		47			
Grade Four	67		67				67		67			
Grade Five	51		51				51		51			
Grade Six	61		61				61		61			
Grade Seven	74		74				74		74			
Grade Eight	70		70				70		70			
Subtotal	532	0	532	0	0	0	532	0	532	0	0	0
Special Ed - Elementary	31		31				8		8			
Special Ed - Middle School	36		36				8		8			
Subtotal	67	0	67	0	0	0	16	0	16	0	0	0
Totals	599	0	599	0	0	0	548	0	548	0	0	0
Percentage Error					0.00%	0.00%				0.00%	0.00%	

MENDHAM BOROUGH SCHOOL DISTRICT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
SCHEDULE OF AUDITED ENROLLMENTS  
ENROLLMENT AS OF OCTOBER 15, 2014

	Private Schools for Disabled				Resident Low Income					
	Reported on A.S.S.A. as Private Schools	Sample for Verification	Sample Verified	Sample Errors	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
Grade One					1	1				
Grade Two					1	1		1	1	
Grade Three					2	2		1	1	
Grade Four					2	2		1	1	
Grade Five					1	1				
Grade Six					1	1		1	1	
Grade Seven					1	1				
Grade Eight					2	2		1	1	
Subtotal					11	11		5	5	
Special Ed - Elementary	5	1	1							
Special Ed - Middle School	3									
Subtotal	8	1	1		0	0		0	0	
Totals	<u>8</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>11</u>	<u>11</u>	<u>0</u>	<u>5</u>	<u>5</u>	<u>0</u>
Percentage Error			<u>0.00%</u>							<u>0.00%</u>

MENDHAM BOROUGH SCHOOL DISTRICT  
SCHEDULE OF AUDITED ENROLLMENT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2014

	Transportation					
	Reported on DRTRS by DOE	Reported on DRTRS by District	Errors	Tested	Verified	Errors
Regular - Public Schools	37	37		7	7	
Regular - Special Education	3	3		1	1	
Transported - Non Public	26	26		5	5	
AIL - Non Public	23	23		5	5	
Special Needs - Public	2	2		1	1	
Special Needs - Private	4	4		1	1	
Totals	<u>95</u>	<u>95</u>		<u>20</u>	<u>20</u>	
Percentage Error			<u>0.00%</u>			<u>0.00%</u>
				Reported	Re- calculated	
Average Mileage - Regular Including Grade PK Students				5.6	5.6	
Average Mileage - Regular Excluding Grade PK Students				5.6	5.6	
Average Mileage - Special Education with Special Needs				19.2	19.2	

MENDHAM BOROUGH SCHOOL DISTRICT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
SCHEDULE OF AUDITED ENROLLMENTS  
ENROLLMENT AS OF OCTOBER 15, 2014

	Resident LEP Not Low Income					
	Reported on A.S.S.A. 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
Special Ed - Elementary	1	1		1	1	
Subtotal	1	1		1	1	
Totals	1	1		1	1	
Percentage Error			0.00%			0.00%

MENDHAM BOROUGH SCHOOL DISTRICT  
EXCESS SURPLUS CALCULATION  
YEAR ENDED JUNE 30, 2015

**EXCESS SURPLUS CALCULATION****Section 1 - REGULAR DISTRICT****2% Calculation of Excess Surplus:**

2014-15 Total General Fund Expenditures per the CAFR	<u>\$ 10,770,659</u> (B)	
Increased by:		
Transfer to Food Service Fund	<u>\$ 5,531</u> (B1a)	
Transfer from Capital Reserve to Capital Projects Fund	<u>\$ 274,199</u> (B1b)	
Decreased by:		
On-Behalf TPAF Pension and Social Security	<u>\$ 918,372</u> (B2a)	
Assets Acquired Under Capital Leases	<u>\$ -0-</u> (B2b)	
Adjustment for Disallowed Expenditures per S1701	<u>\$ -0-</u> (B2c)	
Adjusted 2014-15 General Fund Expenditures [(B)+(B1's)-(B2's)]	<u>\$ 10,132,017</u> (B3)	
2% of Adjusted 2014-15 General Fund Expenditures [(B5) times .03]	<u>\$ 202,640</u> (B4)	
Enter Greater of (B4) or \$250,000	<u>\$ 250,000</u> (B5)	
Increased by: Allowable Adjustment	<u>\$ 72,285</u> (K)	
Maximum Unassigned Fund Balance [(B5)+(K)]		<u>\$ 322,285</u> (M)

**Section 2**

Total General Fund - Fund Balances @ 6/30/15 (Per CAFR Budgetary Comparison Schedule C-1)	<u>\$ 1,340,527</u> (C)	
Decreased by:		
Year-End Encumbrances	<u>\$ 31,115</u> (C1)	
Legally Restricted:		
Designated for Subsequent Year's Expenditures	<u>\$ -0-</u> (C2)	
Excess Surplus - Designated for Subsequent Year's Expenditures	<u>\$ 156,263</u> (C3)	
Other Restricted Fund Balances	<u>\$ 830,864</u> (C4)	
Assigned Fund Balance:		
Designated for Subsequent Year's Expenditures	<u>\$ -0-</u> (C5)	
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]		<u>\$ 322,285</u> (U1)
Increased by:		
Adjustment for Disallowed Expenditures per S1701		<u>\$ -0-</u> (C6)
Total Unassigned Fund Balance [(U1) + (C6)]		<u>\$ 322,285</u> (U2)

MENDHAM BOROUGH SCHOOL DISTRICT  
EXCESS SURPLUS CALCULATION  
YEAR ENDED JUNE 30, 2015

**Section 3**

Restricted Fund Balance-Excess Surplus [(U2)-(M)] IF NEGATIVE, ENTER -0- \$ -0- (E)

***Recapitulation of Excess Surplus as of June 30, 2015***

Restricted Excess Surplus - Designated for Subsequent Year's Expenditures \$ 156,263 (C3)

Restricted Excess Surplus [(E)] \$ -0- (E)

Total [(C3)+(E)+(F)] \$ 156,263 (D)

***Detail of Allowable Adjustments***

Impact Aid \$ -0- (H)

Sale and Lease Back \$ -0- (I)

Extraordinary Aid \$ 64,498 (J1)

Additional Nonpublic School Transportation Aid \$ 7,787 (J2)

Total Adjustments [(H)+(I)+(J1)+(J2)] \$ 72,285 (K)

***Detail of Other Restricted Fund Balance***

Statutory Restrictions: \$ -0-

Approved Unspent Separate Proposal \$ -0-

Sale/Lease-Back Reserve \$ -0-

Capital Reserve \$ 785,266

Maintenance Reserve \$ 45,598

Tuition Reserve \$ -0-

Other State/Governmental Mandated Reserve \$ -0-

Other Reserved Fund Balance not Noted Above \$ -0-

Total Other Restricted Fund Balance \$ 830,864

MENDHAM BOROUGH SCHOOL DISTRICT  
SUMMARY OF RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2015

It is recommended that:

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

Greater care be taken in monitoring budget appropriation lines, and that transfers of budget appropriations be made in a timely manner in order to avoid over-expenditures.

3. School Purchasing Program

None

4. School Food Service

None

5. Student Body Activities

None

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 prior year recommendations regarding expenditures being charged to the correct budget lines, appropriate supporting documentation being maintained and available for all expenditures, and Food Service Fund operations resulting in a deficit were resolved in the current year and are not included in the current year.