



ENTERED SPARTON CORPORATION
 425 NORTH MARTINGALE ROAD, SUITE 1000
 SCHAUMBURG, IL 60173
 800.772.7866 847.762.5800
 FAX 847.762.5820
 WWW.SPARTON.COM

September 25, 2015

Mr. Ronald Curry
 Regional Administrator
 Environmental Protection Agency
 Region 6
 1445 Ross Avenue
 Dallas, Texas 75202

Mr. Ryan Flynn
 Secretary of New Mexico Environment Department
 Harold S. Runnels Building
 1190 St. Francis Drive
 Suite N4050
 Santa Fe, New Mexico 87505

INDUSTRIES
 MEDICAL & BIOTECHNOLOGY
 MILITARY & AEROSPACE
 INDUSTRIAL & COMMERCIAL



Dear Mr. Curry and Mr. Flynn:

I am the chief financial officer of Sparton Corporation, 425 N. Martingale Road, Suite 1000, Schaumburg, Illinois, 60173 and I write in connection with the requirements of section XXIV of the 2000 consent decree between Sparton Technology, Inc. and EPA and NMED.

1. Sparton Corporation is the owner or operator of the following facilities for which financial assurance for closure, post-closure care, or corrective action is demonstrated through the financial test specified in subpart H of 40 C.F.R. parts 264 and 265. The current closure, post-closure care, and/or corrective action cost estimates covered by the test are shown for each facility: None.
2. Sparton Corporation is the direct parent corporation of Sparton Technology, Inc.
3. In States, other than New Mexico, where EPA is not administering the financial requirements of subpart H of 40 C.F.R. part 264 or 265, Sparton Corporation, as guarantor, is demonstrating financial assurance for the closure, post-closure care, or corrective action of the following facilities through the use of test equivalent or substantially equivalent to the financial test specified in subpart H of 40 C.F.R. parts 264 and 265. The current closure, post-closure care, and corrective action cost estimates covered by such a test are shown for each facility: None.



4. Sparton Corporation is the owner or operator of the following hazardous waste management facilities for which financial assurance for closure, post-closure care, or corrective action is not demonstrated either to EPA or a State through the financial test of any other financial assurance mechanism specified in subpart H of 40 C.F.R. parts 264 and 265 or equivalent or substantially equivalent State mechanisms. The current closure, post-closure care, and corrective action cost estimates not covered by such financial assurance are shown for each facility: None.

5. Sparton Corporation is the owner or operator of the following UIC facilities for which financial assurance for plugging and abandonment is required under part 144. The current closure cost estimates as required by 40 C.F.R. 144.62 are shown for each facility: None.

Sparton Corporation is required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

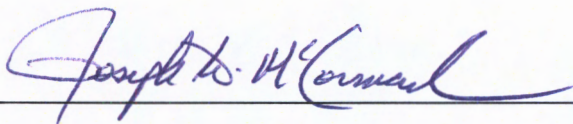
The fiscal year of Sparton Corporation ends on June 30. The amounts for the following items marked with an asterisk are derived from this firm's independently audited, year-end financial statements for the latest completed fiscal year, ended June 30, 2014.

ALTERNATIVE I

1. Sum of current corrective action and post-closure care cost estimates:
\$3,380,750
- *2. Total liabilities: \$220,672,000
- *3. Tangible net worth: \$42,704,000
- *4. Net worth: \$116,879,000
- *5. Current assets: \$175,593,000
- *6. Current liabilities: \$58,631,000
- *7. Working capital: \$116,962,000
- *8. The sum of net income plus depreciation, depletion, and amortization:
\$22,225,000

- *9. Total assets in U.S. (required only if less than 90% of firm's assets are located in the U.S.: \$320,978,000 (95.1% of Total Assets))
10. Is line 3 at least \$10 million? (Yes/No) Yes
11. Is line 3 at least 6 times line 1? (Yes/No) Yes
12. Is line 7 at least 6 times line 1? (Yes/No) Yes
- *13. Are at least 90% of firm's assets located in the U.S.? If not, complete line 14 (Yes/No) Yes
14. Is line 9 at least 6 times line 1? (Yes/No) N/A, see line 13
15. Is line 2 divided by line 4 less than 2.0? (Yes/No) Yes
16. Is line 8 divided by line 2 greater than 0.1? (Yes/No) Yes
17. Is line 5 divided by line 6 greater than 1.5? (Yes/No) Yes

The corporate guarantee of Sparton Corporation is enclosed with this letter.



Joseph G. McCormack
Senior Vice President, Chief Financial Officer
September 25, 2015

Attachments:

Sparton's 2015 Form 10-K

Financial Assurance Test

Coors Rd Financial Assurance Estimate-MWC Legal & Environmental Consulting,
July 22, 2015



Report of Independent Accountants on Applying Agreed Upon Procedures-BDO
USA, LLP, September 25, 2015

Corporate Guarantee

Copies to:

United States Environmental Protection Agency – Region VI
Technical Section (6EN-HX)
Compliance Assurance and Enforcement Division
1445 Ross Avenue
Dallas, Texas 75202
Attn: Sparton Technology, Inc., Project Coordinator (3)

Director
Water and Waste Management Division
New Mexico Environment Department
Harold L. Runnels Building, 4th Floor
1190 St. Francis Drive
Santa Fe, NM 87505

Chief
Hazardous Waste Bureau
New Mexico Environmental Department
2905 Rodeo Park Drive East, Building 1
Santa Fe, NM 87505-6313

Chief
Groundwater Quality Bureau
New Mexico Environment Department
Harold L. Runnels Building, 4th Floor
1190 St. Francis Drive
Santa Fe, NM 87505

Tony Hurst
Hurst Engineering Services
1022 Monaco Pkwy
Denver, CO 80220



SPARTON CORPORATION

425 NORTH MARTINGALE ROAD, SUITE 1000

SCHAUMBURG, IL 60173

800.772.7866 847.762.5800

FAX 847.762.5820

WWW.SPARTON.COM

September 25, 2015

Mr. Ronald Curry
Regional Administrator
Environmental Protection Agency
Region 6
1445 Ross Avenue
Dallas, Texas 75202

Mr. Ryan Flynn
Secretary of New Mexico Environment Department
Harold S. Runnels Building
1190 St. Francis Drive
Suite N4050
Santa Fe, New Mexico 87505

INDUSTRIES

MEDICAL & BIOTECHNOLOGY

MILITARY & AEROSPACE

INDUSTRIAL & COMMERCIAL

RE: Sparton Corporation, as Guarantor for
Sparton Technology, Inc.
EPA ID NO. NMD083212332
Post-Closure Care Guarantee
Fiscal Year End June 30, 2013 Financial Assurance
As specified in 40 CFR 264.151(h)

Dear Mr. Curry and Mr. Flynn:

This is the Corporate Guarantee for Post-Closure Care for fiscal year 2015 by Sparton Corporation, located at 425 N. Martingale, Road, Suite 1000, Schaumburg, Illinois, 60173, a business corporation organized under the laws of the State of Ohio, herein referred to as Guarantor. This guarantee is made on behalf of Sparton Technology, Inc., located at 9621 Coors Rd, N.E., Albuquerque, New Mexico 87114, a wholly-owned subsidiary of the Guarantor.

RECITALS:

1. Guarantor meets or exceeds the financial test criteria and agrees to comply with the reporting requirements for guarantors as specified in 40 CFR 264.143(f), 264.145(f), 265.143(e), and 265.145(e).
2. Sparton Technology, Inc. owns and operates the following closed hazardous waste management facility covered by this guarantee: EPA ID NO. NMD083212332, Sparton Technology, Inc., 9621 Coors Rd. N.E., Albuquerque, New Mexico 87114, for Post-Closure Care.
3. "Post-closure plans" as used below refer to the plans maintained as required by subpart G of 40 CFR parts 264 and 265 for the post-closure care of facilities as identified above.
4. For value received from Sparton Technology, Inc, Guarantor guarantees to EPA that in the event that Sparton Technology, Inc. fails to perform post-closure care of the above facility in accordance with the post-closure plan whenever required to do so, the Guarantor shall do so or establish a trust fund as specified in subpart H of 40 CFR part 264 or 265, as applicable, in the name of Sparton



Technology, Inc. in the amount of the current post-closure cost estimates as specified in subpart H of 40 CFR parts 264 and 265.

5. Guarantor agrees that if, at the end of any fiscal year before termination of this guarantee, the Guarantor fails to meet the financial test criteria, Guarantor shall send within 90 days, by certified mail, notice to the EPA Regional Administrator for Region 6 where the facility is located and to Sparton Technology, Inc. that it intends to provide alternate financial assurance as specified in subpart H of 40 CFR part 264 or 265, as applicable, in the name of Sparton Technology, Inc. Within 120 days after the end of such fiscal year, the Guarantor shall establish such financial assurance unless Sparton Technology, Inc. has done so.

6. The Guarantor agrees to notify the EPA Regional Administrator by certified mail, of a voluntary or involuntary proceeding under Title 11 (Bankruptcy), U.S. Code, naming Guarantor as debtor, within 10 days after commencement of the proceeding.

7. Guarantor agrees that within 30 days after being notified by an EPA Regional Administrator of a determination that Guarantor no longer meets the financial test criteria or that it is disallowed from continuing as a Guarantor of post-closure care, it shall establish alternate financial assurance as specified in subpart H of 40 CFR part 264 or 265, as applicable, in the name of Sparton Technology, Inc. unless Sparton Technology, Inc. has done so.

8. Guarantor agrees to remain bound under this guarantee notwithstanding any or all of the following: amendment or modification of the post-closure plan, amendment or modification of the permit, the extension or reduction of the time of performance of post-closure, or any other modification or alteration of an obligation of the owner or operator pursuant to 40 CFR part 264 or 265.

9. Guarantor agrees to remain bound under this guarantee for as long as Sparton Technology, Inc. must comply with the applicable financial assurance requirements of subpart H of 40 CFR parts 264 and 265 for the above-listed facility, except as provided in paragraph 10 of this agreement.

10. Guarantor may terminate this guarantee by sending notice by certified mail to the EPA Regional Administrator for the Region in which the facility is located and to Sparton Technology, Inc., provided that this guarantee may not be terminated unless and until Sparton Technology, Inc. obtains, and the EPA Regional Administrator approves, alternate post-closure care coverage complying with 40 CFR 264.143, 264.145, 265.143, and/or 265.145.

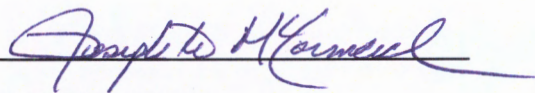
11. Guarantor agrees that if Sparton Technology, Inc. fails to provide alternate financial assurance as specified in subpart H of 40 CFR part 264 or 265, as applicable, and obtain written approval of such assurance from the EPA Regional Administrator within 90 days after a notice of cancellation by the Guarantor is received by an EPA Regional Administrator from Guarantor, Guarantor shall provide such alternate financial assurance in the name of Sparton Technology, Inc.

12. Guarantor expressly waives notice of acceptance of this guarantee by the EPA or by Sparton Technology, Inc.. Guarantor also expressly waives notice of amendments or modifications of the post-closure plan and of amendments or modifications of the facility permit(s).

I hereby certify that the wording of this guarantee is identical to the wording specified in 40 CFR 264.151(h) as such regulations were constituted on the date first above written.

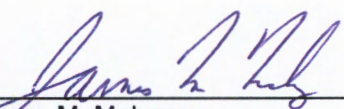
Effective date: July 1, 2015 through June 30, 2016

Guarantor: Sparton Corporation

Signature: 

Name: Joseph G. McCormack

Title: Senior Vice President, Chief Financial Officer

Witness: 

Name: James M. Mahoney

Title: Director of Corporate Finance

MWC Legal & Environmental Consulting
7413 Lake Windermere Dr.
Corpus Christi, Texas 78413
Phone: 361-850-9604

July 22, 2015

Mr. Ernesto Martinez
Corporate EHS Manager
30167 Power Line Road
Brooksville, FL 34602

Re: Sparton Technology, Inc.
Albuquerque, New Mexico
Coors Road Facility Financial Assurance Estimate

Dear Mr. Martinez:

MWC Legal & Environmental Consulting is pleased to provide the attached estimate of financial assurance to be included in the submission by Sparton Technology, Inc. (Sparton) to the Environmental Protection Agency (EPA) and New Mexico Environmental Department (NMED) per Section XXIV, Paragraph 90, of the March 3, 2000 Consent Decree and meets the requirements for cost estimates for closure found under 40 CFR §264.142. The attached estimate of \$3,380,750 is based on an effective value date on June 30, 2015, which is consistent with Sparton's fiscal year-end and also the RCRA regulatory requirements. This estimate is \$130,850 higher than the previous estimate provided to Sparton on July 26, 2014. There were three main items increasing the estimate; an increase in the cost of electricity, much higher than expected cost of operation of the chromium treatment system (discussed in greater detail below and in the attached) while also adding another year of most probable operation of the chromium treatment system, and an overall increase in modeling update costs for a total amount of \$407,320. The one item reducing the estimate is completion of another year, for a total of 16 of the 30 years of projected time for closure operations. The estimated contribution for the most recently completed fiscal year was \$276,470 for expenses. The modifications made as part of the update of the financial assurance estimate, are described both below and in the attached estimate as notes of the changes made. (See Attachment 1 – 14 Year Summary) As in past years, electricity costs were adjusted based on the previous year's actual costs; in this case FY2015.

The starting point for this update was the estimate provided to Sparton on July 26, 2014 with adjustments made to reflect an estimated effective value as of the end of FY2015, June 30, 2015, covering the project through the estimated remaining life of 14 years. Mr. Tony Hurst was again contacted as part of this update and he provided information, including monthly reports and the 2014 Annual Report, on operations of the systems at the Coors Road Facility. The NMED Corrective Action Fund contractor fee schedule, found under 20.5.17.32.A NMAC, was most recently increased in November, 2011 and was used for last year's estimate. No changes were made in labor and equipment rates in this year's estimate. The update process and changes made to the estimate included the following:

- The average cost of electricity incurred during FY2015 was used to estimate future expenditures. These changes increased total electricity costs for the Off-Site Containment and Source Containment Systems the remaining 14 years of the project by \$103,700.
- Chromium levels in the on-site air stripper treatment system exceeded acceptable levels, as noted in the discharge permit, during the second half of 2013. Sparton, working with NMED and EPA installed a chromium treatment system (ion exchange) on a slip stream of the source containment. This estimate expects operation of this treatment system for a total of 3 years, 1 year more than estimated in last year's update. In addition the frequency of ion exchange tank change-out is much greater than originally estimated and the number of samples has also more than tripled. Therefore the total cost associated with chromium treatment is estimated to increase \$276,120.
- An agreement was reached with EPA to update groundwater monitoring every three years with the next update being 2018 with a total of 4 updates by project completion. Overall time to complete the modelling update was increased resulting in an increase in estimated cost of \$27,500.

Based on the information obtained, original assumptions are still valid, except as noted above, with respect to the end date (FY2029), expected operations and maintenance of various containment systems, project management, closure costs, and other costs associated with evaluation and recommendations.

It has been my pleasure assisting Sparton Corporation with this matter. If you should have questions, please feel free to contact me at 361-850-9604 or 361-929-6029.



Mark W. Cheesman, J.D.
Principal

cc: Mr. Tony Hurst – Hurst Engineering Services

Sparton Technology, Inc.
Coors Rd. Facility
Albuquerque, New Mexico
Fiscal Year 2016
14 Year Summary

| Changes | | | | | | | | | | TOTAL | 2016 | 2017 | 2018 | 2019 | 2020-2024 | 2025-2029 | Totals |
|---------|---|---------------------------------------|-----|--------|-------|------------------------|-----|--------|---------|---------------------|------------------|------------------|------------------|------------------|--------------------|------------------|------------------------|
| Notes | O&M Expenditures | Material and Service Expenditures (t) | | | | Labor Expenditures (s) | | | | TYPICAL ANNUAL COST | | | | | | | |
| | Offsite Containment II Permits / Licenses | | | | | | | | | | \$263,920 | \$263,920 | \$66,480 | \$66,480 | \$432,300 | \$0 | \$1,113,060 |
| | Pipeline Easement | LS | 1 | 500 | 0% | | | | 500 | | 500 | 500 | 500 | 500 | 2500 | 0 | |
| | Arroyos Easement | LS | 1 | 3,000 | 0% | | | | 3000 | | 3000 | 3000 | 3000 | 3000 | 15000 | 0 | |
| 1 | Operate System - Power (45hp) & Utilities | Month | 12 | 3,817 | 4600 | 11% | | | 48000 | | 48000 | 48000 | 48000 | 48000 | 240000 | 0 | |
| | Influent/Effluent Sampling | Sample | 24 | 150 | 360 | 10% | | | 3960 | | 3960 | 3960 | 3960 | 3960 | 19800 | 0 | |
| | O&M - Equipment (a) | Month | 12 | 1,100 | 1800 | 14% | | | 15000 | | 15000 | 15000 | 15000 | 15000 | 75000 | 0 | |
| | O&M - Labor (b) | | | | | | 196 | 74.00 | 1466.00 | 10% | 18000 | 18000 | 18000 | 18000 | 80000 | 0 | |
| | Ground water monitoring -see below | | | | | | | | | | | | | | | | |
| 3 | O&M - Chromium Treatment (u) | Periodic | 16 | 8,500 | 14000 | 10% | | | 96 | 74.00 | 706.00 | 10% | 157810 | 157810 | 0 | 0 | |
| 4 | Sampling & Analysis for Chromium Treatment (v) | Sample | 180 | 20 | 300 | 10% | | | 78 | 74.00 | 578.00 | 10% | 9650 | 9650 | 0 | 0 | |
| | Source Containment | | | | | | | | | | \$89,010 | \$49,010 | \$49,010 | \$49,010 | 295,050 | 295,050 | \$836,140 |
| 2 | Operate System - Power | Month | 12 | 1,725 | 2100 | 10% | | | 22800 | | 22800 | 22800 | 22800 | 114000 | 114000 | 0 | |
| | Influent/Effluent Sampling | Sample | 24 | 150 | 360 | 10% | | | 3960 | | 3960 | 3960 | 3960 | 3960 | 19800 | 19800 | |
| | O&M - Equipment (a) | Month | 12 | 775 | 900 | 10% | | | 10200 | | 10200 | 10200 | 10200 | 10200 | 51000 | 51000 | |
| | O&M - Labor (b) | | | | | | 137 | 74.00 | 1062.00 | 10% | 11200 | 11200 | 11200 | 11200 | 56000 | 56000 | |
| | Lease of water rights | LS | 1 | 850 | 0% | | | | 850 | | 850 | 850 | 850 | 850 | 4250 | 4250 | |
| | Well Replacement/Deepening (l) | Periodic | 1 | 45,000 | 5000 | 11% | | | 60000 | | 60000 | 60000 | 60000 | 50000 | 50000 | 0 | |
| | Deep Flow Zone (DFZ) Monitoring Well MW-79 (r) Complete | | | | | | | | | | | | | | | | |
| | Evaluation, Analysis & Recommendation | | | | | | | | | | \$59,550 | \$59,550 | \$76,050 | \$59,550 | \$330,750 | \$314,250 | \$899,700 |
| | Quality Check (c) | | | | | | 20 | 80.00 | 200.00 | 13% | 1800 | 1800 | 1800 | 1800 | 9000 | 9000 | |
| 5 | Aquifer Model (Estimate) (d) | | | | | | 150 | 100.00 | 1500.00 | 10% | 18500 | 18500 | 18500 | 18500 | 33000 | 18500 | |
| | Annual Reports (e) | | | | | | 50 | 80.00 | 400.00 | 10% | 4400 | 4400 | 4400 | 4400 | 22000 | 22000 | |
| | Ground Water Monitoring and Sampling Data Collection and Sampling (f) | | | | | | 320 | 74.00 | 2420.00 | 10% | 28100 | 28100 | 28100 | 28100 | 130500 | 130500 | |
| | Sampling Equipment (g) | Sample | 100 | 44.00 | 450 | 10% | | | 4850 | | 4850 | 4850 | 4850 | 4850 | 24250 | 24250 | |
| | Analysis (Lab Costs) (h) | Sample | 100 | 175 | 2000 | 11% | | | 19500 | | 19500 | 19500 | 19500 | 19500 | 97500 | 97500 | |
| | QA/QC and Data Analysis (i) | | | | | | 26 | 100.00 | 300.00 | 12% | 2900 | 2900 | 2900 | 2900 | 14500 | 14500 | |
| | Analysis of Additional Modeling Information - Complete | | | | | | 180 | 100.00 | 1800.00 | 10% | 19800 | | | | 0 | 0 | |
| | Closure | | | | | | | | | | \$6,800 | \$0 | \$0 | \$0 | \$0 | \$109,480 | \$116,050 |
| | Plug and Abandon 64 wells | Well | 64 | 1,500 | 9600 | 10% | | | 105800 | | 6800 | | | | 0 | 99000 | |
| | Remove Piping (LS) | | | 1,650 | 550 | 33% | | | 2200 | | | | | | 0 | 2200 | |
| | Closure Certification Report (k) | | | | | | 60 | 125.00 | 750.00 | 10% | 8250 | | | | 0 | 8250 | |
| | Soil Sampling at Infiltration Galleries (l) | | | | | | | | | | | | | | | | |
| | Project Management | | | | | | | | | | \$29,700 | \$29,700 | \$29,700 | \$29,700 | \$148,500 | \$148,500 | \$415,800 |
| | Management (m) | | | | | | 170 | 100.00 | 1700.00 | 10% | 18700 | 18700 | 18700 | 18700 | 93500 | 93500 | |
| | Data Tabulation (n) | | | | | | 25 | 100.00 | 250.00 | 10% | 2750 | 2750 | 2750 | 2750 | 13750 | 13750 | |
| | Monthly Reporting (o) | | | | | | 25 | 100.00 | 250.00 | 10% | 2750 | 2750 | 2750 | 2750 | 13750 | 13750 | |
| | Annual Reporting (p) | | | | | | 50 | 100.00 | 500.00 | 10% | 5500 | 5500 | 5500 | 5500 | 27500 | 27500 | |
| | Total O&M Expenditure | | | | | | | | | | \$448,780 | \$392,180 | \$241,220 | \$224,720 | \$1,206,600 | \$867,250 | \$3,380,750 |
| | Summary | | | | | | | | | | | | | | | | |
| | Total O&M Expenditure | | | | | | | | | | \$448,780 | \$392,180 | \$241,220 | \$224,720 | \$1,206,600 | \$867,250 | \$3,380,750 (a) |

Changes made from FY2015 Estimate:

1. Offsite Containment O&M Expenditures to operate system - Power & Utilities has increased from \$3,125/unit to \$3,617/unit with an annual contingency of \$4,600
This was based on using the average monthly actual electricity cost in FY2015 adjusted for operating 100% of the time.
2. O&M Expenditures to Operate System - Power has increased from \$1,492/unit to \$1,725/unit with contingency at \$2,100 based on average FY2015 monthly actual electricity costs, adjusted for operating 100% of the time.
3. Added one year more of operation of source containment chromium treatment based on most probable operating scenario of 16 resin tank replacements per year.
4. Increased sampling to 150 samples per year from 48 and decreased analysis cost from \$25 per sample to \$20 per sample.
5. Aquifer Modeling will be done every 3 years with next update in 2018 at 150 hours per update. Modeling will be executed by a Project Scientist (\$100/hr) plus 10% contingency, Change is per agreement with EPA and also reflects an increase in most probably hours to complete the triennial update.

Notes

- (a) The equipment cost of \$15,000 per year each for offsite systems and \$10,200 per year for the onsite system no longer includes money to replace wells. Replacement of wells is now a separate line item (see (j) below).
- (b) Labor cost for operation and maintenance of the containment systems (off-site and source) assumes \$74/hour plus a minimum contingency of 10%. The labor requirement assumes performing routine inspection on each of the two systems an average of 3 hours per week for the offsite and 2.25 hours per week for the onsite, not including 15 minute inspections each week included in sampling labor. This is consistent with past experience and the experience of Sparton. The inspection and monitoring program will entail checking and recording information related to the status of the system. The parameters that will be monitored are listed in Appendix K of the System O&M Manual. Included 40 hours of labor for off-site containment equipment and 20 hours for source containment equipment due to age.
- (c) Quality Check entails additional evaluation of previously collected analytical data, resulting in 20 hours of work annually for a staff scientist (\$80/hour) plus a minimum of 10% contingency.
- (d) Aquifer Modeling will be done every 3 years with next update in 2018 at 150 hours per update. Modeling will be executed by a Project Scientist (\$100/hr) plus 10% contingency.
- (e) The preparation of annual reports includes performance evaluation. Due to the data generated throughout the process, with costs contained in other sections of the budget (i.e. modeling, data analysis, etc.), 50 hours annually are allocated to prepare the Annual Report for a Staff Engineer (\$80/hour). A minimum of 10% contingency and additional review by a Senior Engineer are included in a total contingency not to exceed \$700.00.
- (f) Data collection for 55 wells and sampling for the 55 wells (100 total samples) located both on and off-site require 320 hours annually for a field technician (\$74/hour), plus a minimum of 10% contingency.
- (g) Assumes 40 days for rental of pH/specific conductance/temperature meter (\$70/day), water level indicator (\$30/day), disposable bailers (\$4/day), miscellaneous equipment (gloves, tape, replacement drums, etc., \$6/day), which averages about \$44.00/sample.
- (h) Number of samples based on 55 wells, some sample annually, other semi-annually and others quarterly for a total of 100 samples.
- (i) Quality Assurance and Control of data analysis results consists of 1 hour every other week for a Project Engineer (\$100/hour) plus a minimum of 10% contingency.
- (j) Includes a line item for new or replacement wells. Estimated cost of \$50,000 with first being MW-80 in FY2011 and 1 every 5 years thereafter.
- (k) Closure Certification Report entails compiling historical data and a written analysis of 30 years of progress, as a result of the remedial actions, by a Senior Engineer (\$125/hour) plus a minimum of 10% contingency.
- (l) Task to be completed only if significant exceedances of discharge limits occur, thus no expenditure is anticipated. If this expenditure is required, the contingency for closure is ample to cover the anticipated sampling cost (\$1000).
- (m) "Management" consists of meetings with agency representatives, consultants and individuals from Sparton Technologies, in addition to handling routine administrative tasks. the total estimate for these tasks is 170 hours per year.
- (n) "Data Tabulation" is assumed to be on a quarterly basis for about 6 hours per quarter.
- (o) "Monthly Reporting" is assumed to be about 2 hours per month.
- (p) "Annual Reporting" is assumed to be 50 hours annually.
- (q) Total includes contingency.
- (r) New deep flow zone well was installed and tested in FY2006 with data analysis completed in 2008. Sampling and O&M costs included above.
- (s) Labor rates per August, 2011 (most current version) update of 20.5.17.32 NMAC Contractor Fee Schedule for maximum hourly rates for professional services.
- (t) Field equipment rates per August 2011 (most current version) update of 20.5.17.32 NMAC for field equipment.
- (u) Chromium treatment ion exchange resin replacement/regeneration 16 times per year at a cost of \$8,500 each. 96 hours of field technician time for system O&M. Total includes 10% contingency
- (v) 150 additional samples at a cost of \$20 per sample. Field technician time of 78 hours per year. Total includes 10% contingency.

Financial Assurance Test

(Amounts as of 6/30/15, Form 10K, 090815)
Amounts are in \$000

j1091215

Criteria

**Met
Criteria?**

* **Liabilities to Net worth less than 2**

| | | |
|--------------|------------------|------|
| Liabilities | Net Worth | |
| \$220,672 to | \$116,879 equals | 1.89 |

yes

* **Current Assets to Current Liabilities greater than 1.5**

| | | |
|--------------|-----------------|------|
| Curr. Asset | Curr. Liability | |
| \$175,593 to | \$58,631 equals | 2.99 |

yes

Working Capital and Net worth greater than 6 times remediation liability (6 x \$3,380,750 = \$20,284,500, or \$20,285K)

| | | |
|----------------|-----------------|-----------------|
| Curr. Asset | Curr. Liability | Working Capital |
| \$175,593 less | \$58,631 equals | \$116,962 |

yes

Net Worth
\$116,879

yes

Tangible Net Worth

| | | |
|----------------|-----------------|--------------------|
| Net Worth | Intangibles | Tangible Net Worth |
| \$116,879 less | \$74,175 equals | \$42,704 |

Net Worth and Tangible Net Worth greater than \$10,000,000, or \$10,000K

yes

U.S. Assets greater than 90% of total assets or greater than 6 time remediation liability (\$20,285K)

| | | | |
|--------------|----------|---------|--------|
| Total Assets | Canada | Vietnam | US % |
| \$337,551 | \$14,140 | \$2,433 | 95.09% |

yes

U.S. Assets
\$320,978

yes

* **Net Income plus depreciation plus depletion plus amortization / Total Liabilities greater than 0.1**

| | | |
|-------------------|-------------------|-------------------|
| Net income (loss) | \$10,989 | |
| D + D + A | \$11,236 | Total Liabilities |
| Total | <u>\$22,225</u> / | <u>\$220,672</u> |
| | | 0.101 |

yes

* Only two of the three criteria must be met - Are two met? ALL THREE ARE MET

yes



Report of Independent Accountants on Applying Agreed-Upon Procedures

Board of Directors and Management
Sparton Corporation
Schaumburg, Illinois

Environmental Protection Agency
Dallas, Texas

New Mexico Environmental Department
Santa Fe, New Mexico

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sparton Corporation and subsidiaries as of June 30, 2015, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for the year then ended, and have issued our report thereon dated September 8, 2015. Our opinion on the financial statements referred to above is presented in Sparton Corporation's 2015 Annual Report (Form 10-K) which is referred to in the letter dated September 25, 2015 and signed by Joseph G. McCormack, Chief Financial Officer of Sparton Corporation, to the Environmental Protection Agency and the New Mexico Environment Department (Financial Assurance Letter).

We have performed the procedures described below, which were specified by the Environmental Protection Agency and agreed to by Sparton Corporation, to the Financial Assurance Letter, solely to assist you in complying with the requirements of the State of New Mexico and the United States Environmental Protection Agency. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

We have compared the following data included in the Financial Assurance Letter to amounts included in or derived from the audited consolidated balance sheet of Sparton Corporation and subsidiaries as of June 30, 2015, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for the year then ended, which we have audited and issued our report thereon as described above, and found them to be in agreement.

| <i>Description</i> | <i>Balance</i> |
|---|----------------|
| Total liabilities | \$ 220,672,000 |
| Tangible net worth * | 42,704,000 |
| Net worth | 116,879,000 |
| Current assets | 175,593,000 |
| Current liabilities | 58,631,000 |
| Net working capital | 116,962,000 |
| Sum of net income plus depreciation, depletion and amortization | 22,225,000 |
| Total assets in U.S. | 320,978,000 |

** Represents shareholders' equity (net worth) less goodwill and rights to patents or royalties, net as reported in Form 10-K.*

We were not engaged to, and did not, conduct an audit, examination or review, the objectives of which would be the expression of an opinion or limited assurance on the Financial Assurance Letter. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management of Sparton Corporation, the State of New Mexico and the United States Environmental Protection Agency, and is not intended to and should not be used by anyone other than these specified parties.

BDO USA, LLP

Certified Public Accountants
September 25, 2015