

MONTVILLE TOWNSHIP PUBLIC LIBRARY

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2017 and 2016

MONTVILLE TOWNSHIP PUBLIC LIBRARY
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MONTVILLE TOWNSHIP PUBLIC LIBRARY

PART I

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

YEAR ENDED DECEMBER 31, 2017



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Independent Auditors' Report

The Honorable President and Members
of the Board of Trustees
Montville Township Public Library
Montville, New Jersey

Report on the Financial Statements

We have audited the financial statements – *regulatory basis* - of the various funds of the Montville Township Public Library, in the County of Morris (the "Library"), a component unit of the Township of Montville, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division") to demonstrate compliance with the Division's regulatory basis of accounting, and the budget laws of New Jersey; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Library's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The Honorable President and Members
of the Board of Trustees
Montville Township Public Library
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the Library on the basis of accounting practices prescribed or permitted by the Division to demonstrate compliance with the Division's regulatory basis of accounting and the budget laws of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for the Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly in accordance with accounting principles generally accepted in the United States of America the financial position of each fund and account group of the Library as of December 31, 2017 and 2016, or the changes in financial position thereof for the year ended December 31, 2017.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the various funds and account group of the Library as of December 31, 2017 and 2016, and the results of operations and changes in fund balance, where applicable, of such funds, thereof for the year ended December 31, 2017 on the basis of accounting practices prescribed or permitted by the Division to demonstrate compliance with the Division's regulatory basis of accounting and the budget laws of New Jersey, as described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the various funds that collectively comprise the Library's financial statements. The supplementary data schedules listed in the table of contents and the schedules of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary data schedules and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the various fund financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the various fund financial statements or to the various fund financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary data schedules and the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

The Honorable President and Members
of the Board of Trustees
Montville Township Public Library
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2018 on our consideration of the Montville Township Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montville Township Public Library's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
July 18, 2018

NISIVOCCIA LLP



William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant No. 452

MONTVILLE TOWNSHIP PUBLIC LIBRARY
COMPARATIVE BALANCE SHEET - REGULATORY BASIS

	December 31,	
	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Operating Fund:		
Cash and Cash Equivalents	\$ 429,596.52	\$ 625,310.87
Total Current Assets	<u>429,596.52</u>	<u>625,310.87</u>
Plant Fund (Unaudited):		
Fixed Assets:		
Furniture & Fixtures	301,823.32	249,358.32
Buildings & Building Improvements	215,998.51	189,503.85
Computer Equipment & Related Assets	136,765.07	80,297.67
Total Fixed Assets	<u>654,586.90</u>	<u>519,159.84</u>
<u>TOTAL ASSETS</u>	<u>\$1,084,183.42</u>	<u>\$ 1,144,470.71</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Operating Fund:		
Liabilities:		
Encumbrances Payable	\$ 168,040.79	\$ 208,285.69
Accounts Payable		27,432.28
Other Liabilities	32,989.16	16,510.97
Accumulated Sick Pay	26,453.00	25,365.00
Total Liabilities	<u>227,482.95</u>	<u>277,593.94</u>
Fund Balances:		
Unrestricted - Undesignated	102,162.68	156,589.14
Designated:		
Donations	35,450.89	31,682.79
Capital Improvements	64,500.00	159,445.00
Total Fund Balances	<u>202,113.57</u>	<u>347,716.93</u>
Total Operating Fund Liabilities and Fund Balance	<u>429,596.52</u>	<u>625,310.87</u>
Plant Fund (Unaudited):		
Investment in Fixed Assets	<u>654,586.90</u>	<u>519,159.84</u>
<u>TOTAL LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>\$1,084,183.42</u>	<u>\$ 1,144,470.71</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

MONTVILLE TOWNSHIP PUBLIC LIBRARY
STATEMENT OF SUPPORT, REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - REGULATORY BASIS

	Unrestricted			Totals (Memo Only)	
	Undesignated	Designated		2017	2016
	Operating	Capital Improvements	Donations		
Support:					
Municipal Appropriations	\$ 1,676,822.00			\$ 1,676,822.00	\$ 1,610,255.00
State Library Aid	9,333.00			9,333.00	9,366.00
Total Support	1,686,155.00			1,686,155.00	1,619,621.00
Revenue:					
Fines	12,986.40			12,986.40	14,638.16
Copier Fees	932.35			932.35	1,097.40
Computer Printout Fees	3,504.24			3,504.24	3,965.51
Lost Item Fees	2,127.52			2,127.52	1,513.19
Disk/Fax Fees	617.00			617.00	871.80
Interest Income	1,906.95			1,906.95	1,662.84
Miscellaneous Income - Lost Cards	310.00			310.00	422.40
Refund of Prior Year Accounts Payable					4,738.39
Cancellation of Prior Year Encumbrances	29,858.87			29,858.87	
Donations			\$ 3,768.10	3,768.10	5,406.20
Total Revenue	52,243.33		3,768.10	56,011.43	34,315.89
Total Support and Revenue	1,738,398.33		3,768.10	1,742,166.43	1,653,936.89
Expenditures:					
Operating Expenditures	1,489,259.73			1,489,259.73	1,395,416.46
Capital Expenditures		\$ 135,427.06		135,427.06	227,158.62
Total Expenditures	1,489,259.73	135,427.06		1,624,686.79	1,622,575.08
Excess/(Deficit) of Revenue and Support Over/(Under) Expenditures	249,138.60	(135,427.06)	3,768.10	117,479.64	31,361.81
Transfers	(40,482.06)	40,482.06			
Excess/(Deficit) of Support and Revenue Over/(Under) Expenditures and Transfers	208,656.54	(94,945.00)	3,768.10	117,479.64	31,361.81
Fund Balance January 1	156,589.14	159,445.00	31,682.79	347,716.93	406,938.12
Prior Year Excess Funds Paid To Township of Montville	(263,083.00)			(263,083.00)	(90,583.00)
Fund Balance December 31	\$ 102,162.68	\$ 64,500.00	\$ 35,450.89	\$ 202,113.57	\$ 347,716.93

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Montville Township Public Library (the "Library") conform to the accounting practices applicable to enterprise funds of municipalities as prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Such practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. The more significant policies follow:

Reporting Entity

Governmental Accounting Standards Board ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. As the financial reporting entity was established in accordance with New Jersey statutes, the requirements of GASB Codification Section 2100 were not followed and, accordingly, the reporting entity could be different from accounting principles generally accepted in the United States of America. The Library is a component unit of the Township of Montville under the provisions of GASB Codification Section 2100.

Cash and Cash Equivalents – Amounts include petty cash, change funds, amounts on deposit, and short-term investments with original maturities of three months or less.

Investments – Investments are stated at cost,

Revenue and Expenditures - Revenue and support is recorded when received in cash except for certain amounts which may be due from the State of New Jersey or from municipal budget appropriations, which are recognized on the accrual basis. Expenditures are charged to operations generally on the accrual basis. Obligations for accumulated unused sick pay are recorded in the financial statements. The cost of supplies and other items, which would otherwise be considered inventory and recorded as assets, are treated as expenditures and charged to operations when paid.

Fixed Assets – In accordance with New Jersey Administrative Code accounting requirements prescribed by the Division, the Library has developed a fixed assets accounting and reporting system based on the following:

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 1: Summary of Significant Accounting Policies (Cont'd)

Fixed Assets (Cont'd)

General fixed assets are recorded at historical cost. Major renewals and betterments are charged to the asset accounts; maintenance and minor repairs and replacements, which do not improve or extend the lives of the respective assets, are expensed currently. Donated fixed assets are valued at their fair market value on the date donated. No depreciation has been provided on general fixed assets. The total value recorded for general fixed assets is offset by a reserve titled "Investment in Fixed Assets." When properties are retired or otherwise disposed of, the asset and the reserve are adjusted accordingly. Fixed assets were reviewed for impairment.

Per Capita State Library Aid - Decisions on the use and expenditure of per capita State Library Aid rests with the Board of Trustees of the Montville Township Public Library. This aid is received on an annual basis, usually in November. It is the Board's policy to use the current year's State Aid as part of the supporting funds for the succeeding year's operation. The only restriction placed on the use of State Library Aid is that it must be expended within two years of receipt.

Net Pension Liability

Had the Library's financial statements been prepared under accounting principles generally accepted in the United States of America, the Library's net pension liability and related deferred inflows and outflows would be recorded.

Management Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenditures/expenses during the period reported. Actual results could differ from those estimates.

Summarized Financial Information for 2016 - The total column on the statement of support and revenue, expenditures and changes in fund balances for the year ended December 31, 2016, is presented for comparative purposes, and is not intended to be a complete financial statement presentation.

Contributed Facilities - The Library occupies, without charge, premises located in government-owned buildings. The estimated fair rental value of the premises is not reported as support and an expenditure in the period in which the premises were used.

Collections and Books - Collections and books, which are held for display and/or study and are available for general public use, are recorded as operating expenditures at the time of purchase. Donated collections and books are not recorded at their fair market value when donated.

Fund Balance - Designated for Capital Improvements - The Board of Trustees of the Library has designated this fund to be used for future improvements of the Library facility.

Fund Balance - Designated for Donations - The Board of Trustees of the Library has designated these funds, which were generated from donations, to finance children's arts and crafts programs and other programs that are not within the normal operations of the Library.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 1: Summary of Significant Accounting Policies (Cont'd)

Fund Accounting - To ensure observance of limitations and restrictions placed on the use of resources available to the library, the accounts of the library are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to nature and purpose. Accordingly, all financial transactions have been recorded and reported by fund group.

Note 2: Pension Plan

Library employees are enrolled through the Township and participate in a contributory, defined benefit public employee retirement system: the State of New Jersey Public Employee's Retirement System (PERS) or the Defined Contribution Retirement Program (DCRP), a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(a).

A. Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/financial-reports.shtml.

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a members retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 50 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension Plan (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing members. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability.

The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. Township contributions to PERS amounted to \$667,978 for 2017.

The employee contribution rate was 7.20% effective July 1, 2016 and increased to 7.34% effective July 1, 2017. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

At June 30, 2017, the Township's liability was \$16,784,946 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. The Township's proportion of the net pension liability was based on a projection of the Township's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2017, the Township's proportion was 0.072%, which was an increase of 0.0011% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Township recognized actual pension expense in the amount of \$667,978.

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension Plan (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Actuarial Assumptions (Cont'd)

Inflation Rate	2.25%
Salary Increases:	
Through 2026	1.65 – 4.15% based on age
Thereafter	2.65 – 5.15% based on age
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2017 are summarized in the following table:

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension Plan (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Long Term Expected Rate of Return (Cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Market Equit	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based upon the contribution rate in the most recent fiscal year. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension Plan (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Sensitivity of the Township's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Township's proportionate share of the collective net pension liability as of June 30, 2017 calculated using the discount rate as disclosed below, as well as what the Township's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2017		
	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Township's proportionate share of the Net Pension Liability	\$ 20,822,865	\$ 16,784,946	\$ 13,420,860

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

B. Defined Contribution Retirement Program (DCRP)

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS or PFRS, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the DCRP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

For DCRP, the Authority recognized pension expense of \$3,718.02 for the year ended December 31, 2017. Employee contributions to DCRP amounted to \$2,377.47 for the year ended December 31, 2017.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 3: Economic Dependency

The Library receives a substantial amount of its support from state and local governments. A significant reduction in the level of the support, if this were to occur, may have an effect on the Library's programs and activities.

Note 4: Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds, amounts in deposits, money market accounts, and short-term investments with original maturities of three months or less.

Investments are stated at cost. The Library classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB, requires disclosure of the level of custodial credit risk assumed by the Library in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the Library ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk – The Library limits its investments to those authorized in its cash management plan which are permitted under state statutes as detailed below and on the following page.

Custodial Credit Risk - The Township's policy with respect to custodial credit risk requires that the Township ensures that Township funds are only deposited in financial institutions in which NJ municipalities are permitted to invest their funds.

Deposits:

New Jersey statutes require that municipalities deposit public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Libraries are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5% of the average daily balance of public funds on deposit, and

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 4: Cash and Cash Equivalents and Investments (Cont'd)

Deposits:

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments:

New Jersey statutes permit the Library to purchase the following types of securities:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the day of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law" P.L. 1983, c. 313 (C.40A:5A-1 et seq.) Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Local Government Services in the Department of Community Affairs investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or
- (8) Agreements for the repurchase of fully collateralized securities if;
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a. or are bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties and entities subject to the "Local Authorities Fiscal Control Law", P.L. 1983 c.313 (C.40A:5A-1 et seq.);

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 4: Cash and Cash Equivalents and Investments (Cont'd)

Investments: (Cont'd)

- (b) the custody of collateral is transferred to a third party;
- (c) the maturity of the agreement is not more than 30 days;
- (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41); and
- (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2017, cash and cash equivalents of the Montville Township Public Library consisted of the following:

	<u>Certificate of Deposit</u>	<u>Checking Accounts</u>	<u>Total</u>
Operating	\$255,645.01	\$ 173,951.51	\$ 429,596.52
	<u>\$255,645.01</u>	<u>\$ 173,951.51</u>	<u>\$ 429,596.52</u>

During the year ended December 31, 2017, the Library did not hold any investments other than certificates of deposit. The carrying amount of the Library's cash and cash equivalents at December 31, 2017 was \$429,596.52, and the bank balance was \$471,373.89.

Note 5: Accrued Compensated Absences

The Library has permitted certain full-time employees to accrue unused sick pay, which may be taken as time off or paid at a later date at an agreed-upon rate, up to a maximum of \$15,000 per individual. It is estimated that the current cost of such unpaid compensation would approximate \$26,453.

Note 6: Risk Management

The Township of Montville maintains insurance policies which cover the Montville Township Public Library as well. The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township obtains their health benefit coverage through Aetna and United Healthcare.

Property, Liability and Workers' Compensation

Montville Township is a member of the Morris County Municipal Joint Insurance Fund. This fund is both an insured and self-administered group of municipalities established for the purpose of providing certain low-cost insurance coverage for member municipalities in order to keep local property taxes at a minimum.

The following coverages are offered by these funds to its members:

- a.) Workers' Compensation and Employers' Liability

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 6: Risk Management (Cont'd)

- b.) Liability Other Than Motor Vehicles
- c.) Property Damage Other Than Motor Vehicles
- d.) Motor Vehicle
- e.) Public Officials' Liability Coverage
- f.) Environmental Coverage

As a member of the Fund, the Township could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities.

The Fund can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body. The members may either receive payment or offset their subsequent year assessments with their respective share of the distribution.

Selected, summarized financial information for the Morris County Municipal Joint Insurance Fund as of December 31, 2017 is as follows:

	<u>Morris County Municipal Joint Insurance Fund</u>
Total Assets	<u>\$ 31,142,868</u>
Net Position	<u>\$ 15,160,449</u>
Total Revenue	<u>\$ 18,917,254</u>
Total Expenses	<u>\$ 15,934,840</u>
Change in Net Position for the Year Ended December 31	<u>\$ 2,982,414</u>
Member Dividends	<u>\$ -0-</u>

Financial statements for the Fund is available at the office of the Fund's Executive Director:

Morris County Municipal Joint Insurance Fund
PERMA Risk Management Services
9 Campus Drive, Suite 216
Parsippany, NJ 07504-4412
(201)-881-7632

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 7: Accounts Payable

Payables as of December 31, 2017 and 2016 were as follows:

	Operating Fund	
	2017	2016
Vendors	\$ -0-	\$ 27,432.28
	\$ -0-	\$ 27,432.28

Note 8: Contingencies

The Library is periodically involved in various lawsuits arising in the normal course of the Library's operations including claims for property damage, personal injury and various contract disputes. The Library is unaware of any such litigation or claims as of the date of these financial statements relating to the year ended December 31, 2017.

Amounts received or receivable from grantors, principally the federal and state governments are subject to regulatory requirements and adjustments by the agencies. Any disallowed claims, including amounts previously recognized by the Library as revenue would constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although Library officials expect such amounts, if any, to be immaterial.

Note 9: Potential Transfer of Excess Surplus

Pursuant to N.J.S.A. 40:54-15(A), municipal free public libraries are required to submit to their respective municipalities an annual report which identifies any excess funds that the Library Board will approve for transfer to said municipality as miscellaneous revenue, pending approval by the State Librarian. The law stipulates that any remaining undesignated or unrestricted fund balance which is greater than twenty per cent of the prior year's actual library's expenditures is considered to be excess surplus. The designation/restriction of fund balance is done most commonly for A) future capital needs as identified in the library's strategic and technology plans, B) current year fund balance anticipated as a revenue in the library's subsequent year's budget and C) externally restricted gifts or endowments.

The Library Board of Trustees forwards to the State Librarian for their approval, a resolution of intent, a proposed transfer sheet, the most recent available audit and a 3, 4 or 5 year plan of library service charting the library's direction for the future. Since all of these steps will be performed subsequent to the issuance of the annual audit, no determination of excess surplus has been included in the year ended December 31, 2017 financial statements. A \$263,083 liability for prior year excess was approved by the State Librarian and was transferred to the Township during 2017.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 10: Aid from District Taxes

State of New Jersey statute 40:54-8 states that: "The governing body or appropriate board of every municipality governed by this article shall annually appropriate and raise by taxation a sum equal to one-third of a mill on every dollar of assessable property within such municipality based on the equalized valuation of such property as certified by the Director of the Division of Taxation in the Department of the Treasury." Based on this statute, the Library received \$1,676,822 during 2017.

Note 11: Deferred Compensation Plan

The Library offers its employees one deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is administered by Vanguard, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

Note 12: Fixed Assets

The following is a summarization of the fixed assets activity for the year ended December 31, 2017:

	<u>Balance</u> <u>12/31/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2017</u>
Furniture and Fixtures	\$249,358.32	\$ 52,465.00		\$301,823.32
Buildings & Buildings Improvements	189,503.85	26,494.66		215,998.51
Computer Equipment & Related Assets	<u>80,297.67</u>	<u>56,467.40</u>		<u>136,765.07</u>
	<u>\$519,159.84</u>	<u>\$135,427.06</u>	<u>-</u>	<u>\$654,586.90</u>

SUPPLEMENTARY DATA

MONTVILLE TOWNSHIP PUBLIC LIBRARY
STATEMENT OF SUPPORT AND REVENUE -
UNRESTRICTED
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Budget</u>	<u>Budget After Modification</u>	<u>Realized</u>	<u>Excess/(Deficit)</u>
Municipal Appropriations	\$1,676,820.00	\$1,676,820.00	\$1,676,822.00	\$ 2.00
State Library Aid (Per Capita)	9,400.00	9,400.00	9,333.00	(67.00)
Local Grant	7,500.00	7,500.00		(7,500.00)
Miscellaneous Revenue	26,400.00	26,400.00	56,011.43	29,611.43
	<u>\$1,720,120.00</u>	<u>\$1,720,120.00</u>	<u>\$1,742,166.43</u>	<u>\$ 22,046.43</u>

Analysis of Miscellaneous Revenue:

Fines	\$ 12,986.40
Copier Fees	932.35
Computer Printout Fees	3,504.24
Lost Item Fees	2,127.52
Lost Cards	310.00
Interest Income	1,906.95
Disk/Fax Fees	617.00
Donations	3,768.10
Prior Year Encumbrances Canceled	<u>29,858.87</u>
	<u>\$ 56,011.43</u>

MONTVILLE TOWNSHIP PUBLIC LIBRARY
STATEMENT OF EXPENDITURES - UNRESTRICTED
FOR THE YEAR ENDED DECEMBER 31, 2017

	Adopted Budget	Revised Budget	Paid or Charged	Unexpended Balance
Operating:				
Salaries and Wages:				
General Salaries and Wages	\$ 661,800.00	\$ 661,800.00	\$ 661,071.74	\$ 728.26
Employer Taxes and Fringe Benefits	142,000.00	142,000.00	151,752.84	(9,752.84)
Public Employee Retirement System	73,700.00	73,700.00	57,497.00	16,203.00
Deferred Compensation Retirement Plan	1,200.00	1,200.00	2,377.47	(1,177.47)
Other Expenses:				
Collection	120,000.00	120,000.00	119,698.46	301.54
Programs	36,300.00	36,300.00	36,601.52	(301.52)
Supplies	18,800.00	18,800.00	18,573.63	226.37
Public Relations	6,000.00	6,000.00	6,000.00	
Staff Development	14,500.00	14,500.00	14,497.49	2.51
Utilities	109,500.00	109,500.00	89,185.96	20,314.04
Physical Plant	93,000.00	93,000.00	97,136.92	(4,136.92)
Equipment/Maintenance	17,500.00	17,500.00	16,019.74	1,480.26
Expensed Equipment	5,000.00	5,000.00	4,892.47	107.53
Professional Services	96,880.00	96,880.00	130,978.61	(34,098.61)
Other Expenses	88,400.00	88,400.00	74,642.68	13,757.32
Local Grant	7,500.00	7,500.00	8,333.20	(833.20)
Total Operating Expenditures	<u>1,492,080.00</u>	<u>1,492,080.00</u>	<u>1,489,259.73</u>	<u>2,820.27</u>
Capital Improvements:				
Furniture & Fixtures	53,000.00	53,000.00	52,465.00	535.00
Computer Equipment	57,500.00	57,500.00	56,467.40	1,032.60
Main Library Renovation Project	31,940.00	31,940.00	24,131.96	7,808.04
Other Expense	5,000.00	5,000.00	2,362.70	2,637.30
Total Capital Improvements	<u>147,440.00</u>	<u>147,440.00</u>	<u>135,427.06</u>	<u>12,012.94</u>
Reserve for Fund Balance:				
Surplus Reserve for Fund Balance	80,600.00	80,600.00		80,600.00
Total Reserve for Fund Balance	<u>80,600.00</u>	<u>80,600.00</u>		<u>80,600.00</u>
	<u>\$ 1,720,120.00</u>	<u>\$ 1,720,120.00</u>	<u>\$ 1,624,686.79</u>	<u>\$ 95,433.21</u>

MONTVILLE TOWNSHIP PUBLIC LIBRARY
OFFICIALS IN OFFICE
YEAR ENDED DECEMBER 31, 2017

The following officials were in office during the period under audit:

<u>Name</u>	<u>Title</u>
Thomas E. Mazzaccaro	President
Robert Lefkowitz	Vice President
Jane Hines	Secretary
Carmen L. Allora	Treasurer
Robert J. Donohue	Assistant Treasurer
Linda Peskin	Board Member
Charles Grau	Board Member
James Sandham, Jr.	Mayor
Frank Cooney	Mayor's Alternate
Allan M. Kleiman	Director
Dr. Rene Rovtar	Superintendent of Schools
Dr. Casey Shorter	Superintendent's Alternate
David Tubbs	Superintendent's Alternate

MONTVILLE TOWNSHIP PUBLIC LIBRARY

PART II

SINGLE AUDIT

YEAR ENDED DECEMBER 31, 2017

MONTVILLE TOWNSHIP PUBLIC LIBRARY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2017

State Agency or Department	State Program	State Account Number	Grant Period		Grant Award	Grant Receipts	Amount of Expenditures	Cumulative Expenditures
			From	To				
NJ State Library	State Library Aid (PER CAPITA)	2541-100-074-2541 006-SSSS-6010	01/01/17	12/31/17	\$ 9,333.00	\$ 9,333.00	\$ 9,333.00	\$ 9,333.00
					\$ 9,333.00	\$ 9,333.00	\$ 9,333.00	\$ 9,333.00

MONTVILLE TOWNSHIP PUBLIC LIBRARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

NOT APPLICABLE

MONTVILLE TOWNSHIP PUBLIC LIBRARY
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2017

Note 1: BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards (the "Schedules") includes the federal and state grant activity of the Library under programs of the federal and state governments for the year ended December 31, 2017. The information in these schedules is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because the schedules present only a selected portion of the operations of the Library, they are not intended to and do not present the financial position, changes in fund balance or cash flows of the Library.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying schedules of expenditures of federal and state awards are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through identifying numbers are presented where available. The Library has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3: RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

The Honorable President and Members
of the Board of Trustees
Montville Township Public Library
Montville, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey ("the Division"), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements - *regulatory basis* - of the various funds of the Montville Township Public Library, in the County of Morris (the "Library") as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated July 18, 2018. These financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Division to demonstrate compliance with the Division's regulatory basis of accounting, and the budget laws of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America. That qualified report also indicated that we did not audit the Plant Fund.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses

The Honorable President and Members
of the Board of Trustees
Montville Township Public Library
Page 2

or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

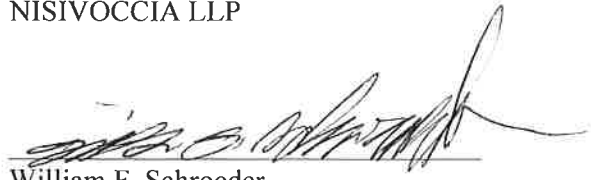
As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

July 18, 2018
Mount Arlington, New Jersey

NISIVOCCIA LLP



William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant No. 452

MONTVILLE TOWNSHIP PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion on the Library's financial statements, prepared in accordance with accounting practices prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey to demonstrate compliance with the Division's regulatory basis of accounting and the budget laws of New Jersey.
- There were no material weaknesses or significant deficiencies disclosed during the audit of the financial statements as reported in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
- No instances of noncompliance material to the financial statements of the Library which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- The Library was not subject to the single audit provisions of the Uniform Guidance and New Jersey's OMB Circular 15-08 for the year ended December 31, 2017 as both state and federal grant expenditures were less than the single audit thresholds of \$750,000 identified in the Uniform Guidance and NJOMB 15-08.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any audit findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Questioned Costs for Federal Awards:

- Not applicable since federal expenditures were below the single audit threshold.

Findings and Questioned Costs for State Awards:

- Not applicable since state expenditures were below the single audit threshold.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

There were no prior year findings during the audit for the year ended December 31, 2016.

MONTVILLE TOWNSHIP PUBLIC LIBRARY

PART III

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2017

MONTVILLE TOWNSHIP PUBLIC LIBRARY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised for N.J.S.A. 40A:11-4

N.J.S. 40A:11-3 states:

a. "When the cost or price of any contract awarded by the contracting 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 ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1971, c.198 (C.40A:11-9), the governing body of the contracting unit 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. 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 subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A: 11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body 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 section 2 of P.L.1971, c.198 (N.J.S.A. 40A: 11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S. 40A: 11-4 states: "Every contract awarded by the contracting agent 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 governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body 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 governing body finds that it has had prior negative experience with the bidder."

Effective July 1, 2015 and thereafter, the bid thresholds in accordance with N.J.S.A. 40A: 11-3 and 40A: 11-4 (as amended) are \$17,500 for a contracting unit without a qualified purchasing agent and \$40,000 for a contracting unit with a qualified purchasing agent.

The governing body of the Montville Township Public Library has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year and where question arises as to whether any contract or agreement might result in violation of the statute, the Library Attorney's opinion should be sought before a commitment is made.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
COMMENTS AND RECOMMENDATIONS
(Continued)

Contracts and Agreements Required to be Advertised for N.J.S.A. 40A:11-4 (Cont'd)

The minutes indicated that bids were requested by public advertising per N.J.S.40A:11-4. The minutes also indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per N.J.S.40A:11-5.

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. None were noted.

Expenditures:

During the course of the audit, it was noted that the Library overexpended several line items in their budget. It is recommended that the Library obtain Board approved transfers to ensure that overexpenditures do not occur.

Management's Response:

The Library will make every effort to ensure that overexpenditures do not occur.

Management Suggestions

Deferred Compensation Plan

The Library has a fiduciary responsibility to its employees related to the deferred compensation plan offered by the Library. The Library should consider a periodic review of the benefits, features, costs, and performance of its deferred compensation plans and make that information available to employees to assist employees in making suitable choices for investing their retirement funds while fulfilling the Library's fiduciary responsibilities.

Cyber Security

Cybercrime has become much more prevalent in the last few years. Websites and internal networks, including personally identifiable information ("PII"), have been hacked and resulted in significant losses to organizations, both financial and reputational. We suggest that the Library consider options to test and protect the Library from cybercrime.

Independent Contractors

The Library should consider reviewing the status of "Independent Contractors" utilized by the Library with Internal Revenue Service guidelines for determination of employment status. The IRS has been reviewing employers, including governments, to determine compliance. A proactive approach may help to minimize or eliminate potential penalties related to incorrect employment status determination.

Status of Prior Year's Recommendations

The prior year recommendation related to budgetary over expenditures was not resolved during 2017.

MONTVILLE TOWNSHIP PUBLIC LIBRARY
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. The Library obtain Board approved transfers to ensure that overexpenditures do not occur.

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