

**WEST MILFORD TOWNSHIP LIBRARY**  
**(A COMPONENT UNIT OF THE TOWNSHIP OF WEST MILFORD)**

**REPORT OF AUDIT ON**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

**WEST MILFORD TOWNSHIP LIBRARY  
(A COMPONENT UNIT OF THE TOWNSHIP OF WEST MILFORD)**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable President and  
Members of the Board of Trustees  
West Milford Township Library  
County of Passaic, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying balance sheet - regulatory basis of the West Milford Township Library (A Component Unit of the Township of West Milford) for the years ended December 31, 2018 and 2017, the related statement of revenues, expenditures and changes in fund balance - regulatory basis for the years then ended, and the related notes to the financial statements, which collectively comprise the Library's basic 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 the basis of accounting prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the audit requirements prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



The Honorable President and  
Members of the Board of Trustees  
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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 entity'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 entity'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.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the financial statements are prepared by the West Milford Township Library on the basis of the financial reporting provisions prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of New Jersey.

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 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 of the West Milford Township Library as of December 31, 2018 and 2017, or changes in financial position for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis balance sheet as of December 31, 2018 and 2017, and the regulatory basis statement of revenues, expenditures and changes in fund balance - regulatory basis for the years then ended, in accordance with the basis of financial reporting prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.



The Honorable President and  
Members of the Board of Trustees  
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*Other Matters*

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Milford Township Library's basic financial statements. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Ferraioli, Wielkatz, Cerullo & Cura, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

August 9, 2019



**WEST MILFORD TOWNSHIP LIBRARY**  
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**COMPARATIVE BALANCE SHEET - REGULATORY BASIS**

<u>ASSETS</u>	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Regular Funds:		
Cash:		
Operating	22,133.82	(24,016.23)
Bequests and Donations	137,626.04	135,717.08
Petty Cash	100.00	100.00
Change Fund	110.05	110.05
Due from Township of West Milford	43,685.57	76,807.78
Restricted Funds:		
Cash:		
New Library Fund	809,781.54	841,696.45
Due from Township of West Milford		<u>38,652.98</u>
<b>TOTAL ASSETS</b>	<b><u>1,013,437.02</u></b>	<b><u>1,069,068.11</u></b>

**LIABILITIES AND FUND BALANCES**

Liabilities:		
Due to Township of West Milford - New Building Ordinance Down Payment		
Accounts Payable	17,978.54	13,034.40
Fund Balances:		
Restricted		
New Building	809,781.54	880,349.43
Unrestricted:		
Undesignated - Operating Fund	<u>185,676.94</u>	<u>175,684.28</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>1,013,437.02</u></b>	<b><u>1,069,068.11</u></b>

The accompanying "Notes to Financial Statements" are an Integral part of these Financial Statements.

**WEST MILFORD TOWNSHIP LIBRARY  
(A COMPONENT UNIT OF THE TOWNSHIP OF WEST MILFORD)  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCE - REGULATORY BASIS**

	Total December 31, 2018			Total December 31, 2017		
	Unrestricted	Library Restricted	Unrestricted	Library Restricted	Unrestricted	Library Restricted
<u>Revenue and Other Income Realized</u>						
Township Support	995,972.00		1,003,057.00		1,003,057.00	
State Aid	11,314.00		11,220.00		11,220.00	
Donations	79.13		925.00		925.00	
Fines/Copier	17,366.40		17,641.49		17,641.49	
Fax	471.70		483.90		483.90	
Interest on Investments	4,941.11	7,756.07	2,289.60	4,196.74	6,486.34	
Transfer from Operating		91,909.00		159,523.00	159,523.00	
Miscellaneous	141.42		250.00		250.00	
<b>Total Revenues</b>	<b>1,030,285.76</b>	<b>99,665.07</b>	<b>1,129,950.83</b>	<b>163,719.74</b>	<b>1,199,586.73</b>	
<u>Expenditures</u>						
Payroll and Payroll Tax	499,594.47		482,193.52		482,193.52	
Other Expenditures	428,789.63	170,232.96	396,226.27	205,972.89	602,199.16	
Transfer to Restricted - New Building	91,909.00		159,523.00		159,523.00	
<b>Total Expenditures</b>	<b>1,020,293.10</b>	<b>170,232.96</b>	<b>1,037,942.79</b>	<b>205,972.89</b>	<b>1,243,915.68</b>	
<b>Excess or (Deficit) in Revenue</b>	<b>9,992.66</b>	<b>(70,567.89)</b>	<b>(60,575.23)</b>	<b>(42,253.15)</b>	<b>(44,328.95)</b>	
<b>Fund Balance January 1</b>	<b>175,684.28</b>	<b>880,349.43</b>	<b>1,056,033.71</b>	<b>922,602.58</b>	<b>1,100,362.66</b>	
<b>Fund Balance December 31</b>	<b>185,676.94</b>	<b>809,781.54</b>	<b>995,458.48</b>	<b>880,349.43</b>	<b>1,056,033.71</b>	

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

**NOTES TO FINANCIAL STATEMENTS**



**WEST MILFORD TOWNSHIP LIBRARY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of the Board of Trustees of the West Milford Township Library have been prepared in conformity with accounting principles and practices prescribed by the Division of the State Library, Archives and History, Department of Education, State of New Jersey. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

**B. Reporting Entity**

The West Milford Township Library was incorporated under R.S. 40:54-1 and operates under a Board of Trustees appointed by the Mayor of the Township of West Milford. The financial statements of the West Milford Township Library include every board, body, officer or commission supported and maintained wholly or in part by funds appropriated by the West Milford Township Library.

**C. Component Unit**

The Governmental Accounting Standards Board Statement 14 requires that disclosure be made in the financial statements regarding the financial reporting entity of governmental units.

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

**WEST MILFORD TOWNSHIP LIBRARY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

(continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Component Unit (continued)**

The West Milford Township Library is a component unit of the primary government of the Township of West Milford. The members of the West Milford Township Library are appointed by the Mayor of the Township of West Milford and the Township would be obligated to guarantee the Library's Debt Service, to the extent not met by other sources.

**D. Description of Funds**

GASB Codification establishes seven fund types and two account groups to be used by general purpose governmental units when reporting financial position and results of operations in accordance with generally accepted accounting principles.

The accounting policies of the West Milford Township Library conform to the accounting principles and practices prescribed by the Division of the State Library, Archives and History, Department of Education, State of New Jersey (the Division). Such principles and 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. Under this method of accounting, the West Milford Township Library accounts for its financial transactions through the following separate funds which differ from the fund structure required by generally accepted accounting principles.

**Regular Fund:**

Unrestricted Funds - resources and expenditures for operations of a general nature, including Federal and State grants for operation.

Restricted Funds - The Board of Library Trustees has accepted restricted funds in the form of grants and donations to be used for library purchases.

**E. Basis of Accounting**

The accounting principles and practices prescribed for libraries by the Division differ in certain respects from generally accepted accounting principles (GAAP) applicable to local government units. The more significant differences are as follows:

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**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

(continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Basis of Accounting (continued)**

Revenues - revenues are recognized on a cash basis. Receivables for the Township of West Milford budget appropriations are recognized on the accrual basis. GAAP requires such revenue to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

Expenditures - expenses are recognized when the obligation is incurred. GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

Compensated Absences - expenditures relating to obligations for unused vested accumulated vacation and sick pay are not recorded until paid. GAAP requires that the amount that would normally be liquidated with expendable available financial resources be recorded as an expenditure in the operating funds and the remaining obligations be recorded as a long-term obligation.

Inventories of Supplies - The costs of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The costs of inventories are not included on the balance sheet as required by GAAP.

Basic Financial Statements - The GASB Codification also defines the financial statements of a governmental unit that are required to be presented in the general purpose financial statements be in accordance with GAAP. The West Milford Township Library presents the financial statements listed in the table of contents which are required by the Division and which differ from the financial statements required by GAAP. In addition, the Division requires the financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from GAAP.

**WEST MILFORD TOWNSHIP LIBRARY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

(continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets and Liabilities**

1. Deposits and Investments

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

Investments are stated at fair value, which approximates cost. The West Milford Township 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.

2. Fixed Assets

The Township of West Milford has developed a fixed assets accounting and reporting system, as promulgated by the Division of Local Government Services, which differs in certain respects from generally accepted accounting principles accepted in the United States of America.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

The cost of the new library will be accounted for in the Township of West Milford's General Fixed Asset Account Group.

Equipment purchased by the Library is recorded as expenditures at the time of purchase and is not capitalized.

3. Use of Estimates

The preparation of financial statements in conformity with the accounting practices prescribed by the Division of the State Library, Archives and History, Department of Education, State of New Jersey requires management to make estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates.

**WEST MILFORD TOWNSHIP LIBRARY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

(continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets and Liabilities (continued)**

4. Comparative Data

Comparative total data for the prior year has been presented in the accompanying Balance Sheets and Statements of Operations in order to provide an understanding of changes in the West Milford Township Library's financial position. However, comparative data have not been presented in each of the supplemental schedules since their inclusion would make statements unduly complex and difficult to read.

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

**Cash**

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2018, \$0- of the Library's bank balance of \$973,815.41 was exposed to custodial credit risk.

**Investments**

**Investment Rate Risk**

The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statute 40A:5-15.1(a) limits the length of time for most investments to 397 days.

**Credit Risk**

New Jersey Statute 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The type of allowance investments are Bonds of the United States of America, bonds or other obligations of the towns or bonds or other obligations of the local unit or units within which the town is located; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

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**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

(continued)

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS, (continued)**

**Concentration of Credit Risk**

The Library places no limit on the amount the Library may invest in any one issuer.

**NOTE 3 - PENSION PLANS**

Substantially all of the Library's employees participate in the Public Employees' Retirement System (PERS), which is a defined benefit pension plan. This system is sponsored and administered by the State of New Jersey. The Public Employees' Retirement System (PERS) is considered a cost sharing multiple-employer plan. According to the State of New Jersey Administrative Code, all obligations of the system will be assumed by the State of New Jersey should the system terminate.

The Library does not directly contribute to the plan; their employees are reported with all the other Township employees.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

The Library realized \$995,972.00 as support from the Township of West Milford for 2018. At December 31, 2018, the Library has a receivable of \$43,685.57 due from the Township.

**NOTE 5 - TRANSFER OF EXCESS LIBRARY FUNDS (N.J.S.A. 40:54-15)**

"Excess funds" are the funds that will be transferred by the library trustees, with State Librarian approval, to the municipality (N.J.S.A. 40:54-15a, b(1) and (d) to be used solely and exclusively by the municipality for the purpose of reducing the amount the municipality is required to raise by local property tax levy for municipal purposes (N.J.S.A. 40A:4-25.1(2)). Excess funds are those funds not intended for use in the operating budget, or in restricted accounts for capital and grants, or the temporarily restricted account (equal to 20% of the last audited operating budget). The trustees must allocate at least 100% of the "audited operating expenditures of the library for the most recent available year" in the operating budget of the year in which the money is to be returned plus 20% in the temporarily restricted account for a total of 120%. Anything remaining, unless determined to be restricted by other laws (such as gifts or encumbered funds for future benefits) must be returned to the municipality.

**WEST MILFORD TOWNSHIP LIBRARY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

(continued)

**NOTE 6 - RESTRICTED FUND BALANCE**

The restriction of fund balance consists of \$809,781.54 for the construction and debt service of the new library.

**NOTE 7 - UNDESIGNATED FUND BALANCE**

The undesignated fund balance of \$185,676.94 represents up to 20% of audited operating expenditures.

**NOTE 8 - CONSTRUCTION OF NEW LIBRARY**

On January 15, 2017, the Township of West Milford issued bonds for the construction of the new library and other various improvements. The Library's share of the bonds for the new library, which is to be reimbursed to the Township of West Milford, is \$2,415,000.00 with the remaining debt service as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$90,000.00	\$44,100.00	\$134,100.00
2020	100,000.00	42,200.00	142,200.00
2021	100,000.00	40,200.00	140,200.00
2022	105,000.00	38,150.00	143,150.00
2023	110,000.00	36,000.00	146,000.00
2024-2028	605,000.00	144,750.00	749,750.00
2029-2033	690,000.00	113,162.50	803,162.50
2034-2036	<u>450,000.00</u>	<u>20,250.00</u>	<u>470,250.00</u>
	<u>\$2,250,000.00</u>	<u>\$478,812.50</u>	<u>\$2,728,812.50</u>

**NOTE 9 - SUBSEQUENT EVENTS**

The Library has evaluated subsequent events through August 9, 2019, the date which the financial statements were available to be issued and no other items were noted for disclosure.

**WEST MILFORD TOWNSHIP LIBRARY**  
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**GENERAL COMMENTS**

**Contracts and Agreements**

Effective July 1, 2005 and thereafter the bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$17,500 and \$25,000 with a qualified purchasing agent. On July 1, 2010, the bid threshold was increased to \$36,000 with a qualified purchasing agent and on July 1, 2015, this amount was increased to \$40,000.00.

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors; formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, or the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months."

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

The minutes indicate that bids were requested by public advertising for the following items: none.

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 material or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violation existed.



#### **40:54-12.1 PURCHASES NOT REQUIRING ADVERTISEMENTS FOR BIDS**

The Board of Trustees of the Free Public Library of any municipality or of a Joint Free Public Library may, within the limits of funds appropriated or otherwise made available to the Board, purchase the following without advertising for bids therefore: (1) library materials including books, periodicals, newspapers, documents, pamphlets, photographs, reproductions, microfilms, pictorial or graphic works, musical scores, maps, charts, globes, sound recordings, slides, films, filmstrips, video and magnetic tapes, other printed or published matter, and audiovisual and other materials of a similar nature; (2) necessary binding or rebinding of library materials; and (3) specialized library services.

#### **EXPENDITURES**

Vouchers, payrolls and other documents supporting claims paid in 2018 were examined on a test basis.

#### **APPRECIATION**

We wish to express our appreciation of the assistance and courtesies rendered by the Library officials during the course of the audit.

Should any questions arise as to the audit comments please do not hesitate to call us.

*Ferraioli, Wielkatz, Cerullo & Cova, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey