

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
(A Component Unit of the Township of Montclair)

REPORT OF AUDIT

FOR THE YEARS ENDED

DECEMBER 31, 2021 AND 2020

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY

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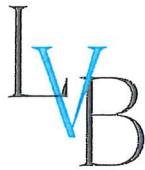
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TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
COUNTY OF ESSEX
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020



LERCH, VINCI & BLISS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable President and
Members of the Board of Trustees
Township of Montclair Free Public Library
Montclair, New Jersey

Report on the Audit of Financial Statements

Opinions

We have audited the accompanying balance sheet - regulatory basis of the Township of Montclair Free Public Library, a component unit of the Township of Montclair, as of December 31, 2021 and 2020, and the related statements of revenues, expenditures and changes in fund balance - regulatory basis for the years then ended and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements - regulatory basis referred to above present fairly, in all material respects, the financial position - regulatory basis of the Township of Montclair Free Public Library as of December 31, 2021 and 2020, and the results of operations and changes in fund balance - regulatory basis of such funds for the years then ended in accordance with the financial accounting and reporting provisions and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

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 section of our report, 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 Township of Montclair Free Public Library as of December 31, 2021 and 2020, or changes in financial position, for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Township of Montclair Free Public Library and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Township of Montclair Free Public Library on the basis of the financial accounting and reporting provisions and practices that demonstrate compliance with the regulatory basis of accounting and budget laws prescribed 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 financial reporting requirements of the State of New Jersey for municipal government entities.

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 and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial accounting and reporting provisions and practices that demonstrate compliance with the regulatory basis of accounting and budget laws prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1. 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township of Montclair Free Public Library's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Township of Montclair Free Public Library's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township of Montclair Free Public Library's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Township of Montclair Free Public Library as a whole. The supplementary schedules listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the Township of Montclair Free Public Library. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 schedules listed in the table of contents, are fairly stated, in all material respects, in relation to the financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 27, 2022 on our consideration of the Township of Montclair Free 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 solely 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 the effectiveness of the Township of Montclair Free Public Library's 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 Township of Montclair Free Public Library's internal control over financial reporting and compliance.


LERCH, VINCI & BLISS, LLP
Certified Public Accountants
Registered Municipal Accountants


Dieter P. Lerch
Registered Municipal Accountant
RMA Number CR00398

Fair Lawn, New Jersey
July 27, 2022

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
AS OF DECEMBER 31, 2021 AND 2020**

	Balance, December 31, <u>2021</u>	Balance, December 31, <u>2020</u>
ASSETS		
Cash	\$ 988,785	\$ 792,939
Due from the Township	-	31,920
Prepaid Expense	<u>695</u>	<u>695</u>
 Total Assets	 <u>\$ 989,480</u>	 <u>\$ 825,554</u>
 LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts Payable	\$ 23,444	\$ 51,343
Payroll Deductions Payable	18,202	30,208
Reserve for Unrestricted State Aid	20,672	16,323
Reserve for Unemployment	<u>13,460</u>	<u>24,063</u>
 Total Current Liabilities	 <u>75,778</u>	 <u>121,937</u>
Fund Balance		
Restricted		
Grant	60,457	62,684
Endowment	408,744	318,465
Capital Improvement	76,593	76,593
Unrestricted	<u>367,908</u>	<u>245,875</u>
 Total Fund Balance	 <u>913,702</u>	 <u>703,617</u>
 Total Liabilities and Fund Balance	 <u>\$ 989,480</u>	 <u>\$ 825,554</u>

The Notes to the Financial Statements are an Integral Part of this Statement

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - REGULATORY BASIS
AS OF DECEMBER 31, 2021 AND 2020
OPERATING FUND**

	<u>Year 2021</u>	<u>Year 2020</u>
REVENUES		
Township Appropriation	\$ 3,068,080	\$ 3,015,910
State Aid	16,323	16,504
Fines, Fees and Miscellaneous	16,157	13,968
Adult School Tuition	60,321	93,238
Adult School Other	10,014	5,305
Interest	<u>172</u>	<u>468</u>
Total Revenues	<u>3,171,067</u>	<u>3,145,393</u>
EXPENDITURES		
Salary & Wages	1,641,772	1,817,919
Pension/Insurance	660,309	691,921
Other Expenses	<u>746,953</u>	<u>779,522</u>
Total Expenditures	<u>3,049,034</u>	<u>3,289,362</u>
Deficiency of Revenues Under Expenditures	122,033	(143,969)
Fund Balance, January 1	<u>322,468</u>	<u>466,437</u>
Fund Balance, December 31	<u>\$ 444,501</u>	<u>\$ 322,468</u>
Analysis of Fund Balance		
Restricted	\$ 76,593	\$ 76,593
Unrestricted	<u>367,908</u>	<u>245,875</u>
	<u>\$ 444,501</u>	<u>\$ 322,468</u>

The Notes to the Financial Statements are an Integral Part of this Statement

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - REGULATORY BASIS
AS OF DECEMBER 31, 2021 AND 2020
GRANT FUND**

	<u>Year 2021</u>	<u>Year 2020</u>
REVENUES		
Donations	\$ 15,200	\$ 8,945
Interest	<u>-</u>	<u>4</u>
Total Revenues	<u>15,200</u>	<u>8,949</u>
EXPENDITURES		
Other - Non-Budgetary	<u>17,427</u>	<u>11,477</u>
Total Expenditures	<u>17,427</u>	<u>11,477</u>
Deficiency of Revenues Under Expenditures	(2,227)	(2,528)
Restricted Fund Balance, January 1	<u>62,684</u>	<u>65,212</u>
Restricted Fund Balance, December 31	<u>\$ 60,457</u>	<u>\$ 62,684</u>

The Notes to the Financial Statements are an Integral Part of this Statement

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - REGULATORY BASIS
AS OF DECEMBER 31, 2021 AND 2020
ENDOWMENT FUND**

	<u>Year 2021</u>	<u>Year 2020</u>
REVENUES		
Donations	\$ 222,979	\$ 157,220
Interest	<u>174</u>	<u>432</u>
Total Revenues	<u>223,153</u>	<u>157,652</u>
EXPENDITURES		
Other - Non-Budgetary	<u>132,874</u>	<u>109,621</u>
Total Expenditures	<u>132,874</u>	<u>109,621</u>
Excess of Revenues over Expenditures	90,279	48,031
Restricted Fund Balance, January 1	<u>318,465</u>	<u>270,434</u>
Restricted Fund Balance, December 31	<u>\$ 408,744</u>	<u>\$ 318,465</u>

The Notes to the Financial Statements are an Integral Part of this Statement

NOTES TO FINANCIAL STATEMENTS

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

GASB requires the financial reporting entity to include both the primary government and those component units. Component units are legally separate organizations for which the Library is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Library is financially accountable to the Township of Montclair (the "Township") since the Township appoints a voting majority of the Library's board, and (1) the Township is able to significantly influence the programs and services performed or provided by the Library; or (2) the Township is legally entitled to or can otherwise access the Library's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the Library; or the Township is obligated for the debt of the Library. Component units may also include organizations that are fiscally dependent on the Township in that the Township approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Library is a component unit of the Township.

B. Description of Regulatory Basis of Accounting

The financial statements of the Township of Montclair Free Public Library (the "Library") have been prepared in conformity with accounting principles and practices prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division") which is a regulatory basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such principles and practices are designed primarily for determining compliance with legal provisions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the Library accounts for its financial transactions through separate funds, which differ from the fund structure required by GAAP.

The regulatory basis of accounting is the standard method of accounting practiced by public libraries throughout the State of New Jersey.

The Governmental Accounting Standards Board (GASB) is the recognized standard setting body for establishing governmental generally accepted accounting and financial reporting principles. GASB has adopted accounting statements to be used by governmental units when reporting financial position and results of operations in accordance with accounting principles generally accepted in the United States of America (GAAP). The library does not prepare financial statements in accordance with GAAP and thus does not comply with all the GASB pronouncements.

C. Basis of Presentation – Financial Statements

The Library uses funds, as required by the Division, to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial administration by segregating transactions related to certain Library functions or activities.

The Library has the following funds:

Unrestricted Funds:

Operating Fund – Resources and expenditures for library operations of a general nature, including Federal and State grants for operation. This fund also includes the Adult School, which is an expansion of the Library's lifelong learning program and is maintained in a separate account to record the revenues (Tuition and Grants) and expenditures for the various run programs.

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Restricted Funds:

Grant Fund – is to be used for various grantor restricted purposes to aid and benefit the Library.

Endowment Fund – is to be used for donor restricted purposes for the acquisition of books, periodicals and other media.

Comparative Data - Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Library's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

Reclassifications – Certain reclassifications may have been made to the December 31, 2020 balances to conform to the December 31, 2021 presentation.

Financial Statements – Regulatory Basis

The GASB Codification also requires the financial statements of a governmental unit to be presented in the basic financial statements to be in accordance with GAAP. The Library presents the regulatory basis financial statements listed in the table of contents which are required by the Division and which differ from the basic financial statements required by GAAP. In addition, the Division requires the regulatory basis financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from reporting requirements under GAAP.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the accounting principles and practices prescribed by the Division in accordance with the regulatory basis of accounting. Measurement focus indicates the type of resources being measured. The basis of accounting indicates the timing of transaction or events for recognition in the financial statements.

A modified accrual basis of accounting is followed by the Township of Montclair Free Public Library. Under this method of accounting revenues, except for the Township contribution and State/Federal Aid, are recognized when received and expenditures are recorded, when incurred. The accounting principles and practices prescribed for libraries by the Division differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. The more significant differences are as follows:

Cash and Investments - Cash includes cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the library. Investments are stated at cost and are limited by N.J.S.A. 40A:5-15.1 et seq. GAAP requires investments be reported at fair value.

Prepaid Items – Certain payments to vendors or other governments reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories of Supplies and Books - The costs of inventories of supplies and books are recorded as expenditures at the time individual items are purchased. The costs of inventories are not included on the balance sheet at year end.

General Fixed Assets – Property and equipment purchased by the Library are recorded as expenditures at the time of purchase and are not capitalized. A general fixed assets account group has not been established to account for property and equipment purchased by the Library.

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Compensated Absences – Obligations for unused vested accumulated sick pay and salary related payments have been accrued through the establishment of a liability subject to NJSA 40A:4-39 for the future payment of compensated absences. 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 are recorded as long-term obligation in the government-wide financial statements.

Fund Balance – Restricted fund balances are created to identify the portion of fund balance that is available for future or restricted expenditures.

Operating Fund

Restricted for Capital Improvements – This restriction was created to fund future capital expenditures.

Revenues – Revenues, except for the Township contribution, State/Federal Aid and certain quasi-governmental revenues, are recognized on a cash basis. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

State Library Revenue Aid – Decisions on the use and expenditure of per capita State Library Aid rests with the Board of Trustees of the Library. The aid is received on an annual basis, usually in November. It is the Board's policy to hold the current year's State Aid as a reserve in the liability section of the balance sheet until the succeeding year where it is included as part of the support for that 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.

Expenditures – Expenditures are recorded on the "budgetary" basis of accounting. Generally, expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order. Outstanding encumbrances at December 31, are reported as a cash liability (accounts payable) in the financial statements. GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable.

Contributed Services - At various times during the year, volunteers perform services for the Library without remuneration. The fair value of these costs is not reported on the financial statements. GAAP requires the fair value of these costs to be reported as a revenue and expenditure on the financial statements.

Use of Estimates – The preparation of financial statements requires management of the Library to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of accrued revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 CASH DEPOSITS AND INVESTMENTS

The Library considers petty cash, change funds, cash in banks and certificates of deposit as cash.

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued)

Deposits

The Library's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Library is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. NCUSIF insures credit union accounts up to \$250,000 in the aggregate for each financial institution. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2021 and 2020, the book value of the Library's deposits were \$988,785 and \$792,939 and bank balances of the Library's cash and deposits amounted to and \$1,004,158 and \$813,783. The Library's deposits which are displayed on the balance sheets as "cash" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2021</u>	<u>2020</u>
Insured	<u>\$1,004,158</u>	<u>\$813,783</u>

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 does not have a formal policy for custodial credit risk. As of December 31, 2021 and 2020, the Library's bank balances were not exposed to custodial credit risk.

Investments

The Library is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 40A:5-15.1. Investments include bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, 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 date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor; bonds or other obligations of the Borough or bonds or other obligations of the school districts which are a part of the Borough or school districts located within the Borough, Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, issued by New Jersey school district, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law, " (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 Investments in the Department of the Treasury for investment by local units; Local Government investment pools, 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); and agreements or the repurchase of fully collateralized securities, if transacted in accordance with NJSA 40A:5-15.1 (8a-8e).

As of December 31, 2021 and 2020, the Library had no investments

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 3 ACCUMULATED SICK AND VACATION PAY

The Library permits employees to accrue a limited amount of unused sick pay, which may be paid upon retirement or death (within certain limitations).

It is estimated that the current cost of such unpaid compensation and salary related payments would approximate \$72,664 and \$61,899 at December 31, 2021 and 2020. This amount, which is considered material to the financial statements, is not reported either as an expenditure or liability.

NOTE 4 EMPLOYEE RETIREMENT SYSTEM

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems) covering substantially all state and local government employees which includes those Library employees who are eligible for pension coverage.

Public Employees' Retirement System (PERS) – established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees. PERS is a cost-sharing multi-employer defined benefit pension plan. For additional information about PERS, please refer to the State Division of Pension and Benefits (Division's) Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions.

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, if applicable, vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

Tier	Definition
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 tier 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 tier 5 members upon reaching age 65. Early retirement benefits are available to tier 1 and 2 members before reaching age 60, tier 3 and 4 members with 25 or more years of service credit before age 62, and tier 5 members 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 member retires prior to the age at which member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have a least 25 years of service. Deferred retirement is available to members who have at least ten years of service credit and have not reached the service retirement age for the respective tier.

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)

The State of New Jersey sponsors and administers the following defined contribution public employee retirement program covering certain state and local government employees which include those Library employees who are eligible for pension coverage.

Defined Contribution Retirement Program (DCRP) – established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007 and employees enrolled in PERS on or after July 1, 2007 who earn in excess of established annual maximum compensation limits (equivalent to annual maximum wage for social security deductions). This provision was extended by Chapter 1, P.L. 2010, effective May 21, 2010, to new employees who would otherwise be eligible to participate in PERS and do not earn the minimum salary required or do not work the minimum required hours but earn a base salary of at least \$5,000 are eligible for participation in the DCRP. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership. DCRP is a defined contribution pension plan.

Other Pension Funds

The state established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local governmental employers do not appropriate funds to SACT.

The cost of living increase for PERS are funded directly by each of the respective systems, but are currently suspended as a result of reform legislation.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

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 each of the above systems, funds, and trust. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

Measurement Focus and Basis of Accounting

The financial statements of the retirement systems are prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the pension trust funds. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

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NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Investment Valuation

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of the retirement systems. Prudential retirement is the third-party administrator for the DCRP and provides record keeping, administrative services and investment options. Investment transactions are accounted for on a trade or investment date basis. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date. The net increase or decrease in the fair value of investments includes the net realized and unrealized gains or losses on investments.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial report may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290, or at www.state.nj/treasury/doinvest.

Collective Net Pension Liability

The collective net pension liability of the participating employers for local PERS at June 30, 2021 was not available and for June 30, 2020 \$16.4 billion and the plan fiduciary net position as a percentage of the total pension liability is 58.32% at June 30, 2020.

The total pension liabilities were determined based on actuarial valuations as of July 1, 2019 which were rolled forward to June 30, 2020.

Actuarial Methods and Assumptions

In the July 1, 2019 PERS actuarial valuations, the actuarial assumptions and methods used in these valuations were described in the Actuarial Assumptions and Methods section of the Actuary's report and are included here in this note to the financial statements. The pension system selected economic and demographic assumptions and prescribed them for use for purposes of compliance with GASB Statement No. 68. The Actuary provided guidance with respect to these assumptions, and it is their belief that the assumptions represent reasonable expectations of anticipated plan experience.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions for 2021 and 2020 based on 7.50% for PERS and 5.50% for DCRP of employee's annual compensation.

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Employer and Employee Pension Contributions (Continued)

For PERS, which is a cost sharing multi-employer defined benefit pension plans, employers' contributions are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution. All contributions made by the Library for 2021, 2020 and 2019 were equal to the required contributions.

	<u>PERS</u>
2021	\$ 226,031
2020	204,393
2019	204,188

In addition for the years ended December 31, 2021, 2020 and 2019 the Library contributed for long-term disability insurance premiums (LTDI) \$0, \$1,147 and \$1,281, respectively for PERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The regulatory basis of accounting requires participating employers in PERS to disclose in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, (GASB No.68) their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions.

Under GASB Statement No. 68 local governmental employers are required to provide certain financial information based on a measurement date no earlier than the end of the employer's prior fiscal year. The GASB No. 68 financial information from the State's Division of Pensions and Benefits to be reported for the year ended December 31, 2021 for the measurement date of June 30, 2021 was not available as of the date of audit. Accordingly, the State's Division of Local Government Services issued Local Finance Notice 2022-12 which authorized and permits New Jersey local governmental entities to present the most recent available audited GASB No. 68 financial information to be incorporated into the audit and remain in compliance with the regulatory basis of accounting disclosure requirements for notes to the financial statements. As such the GASB No. 68 financial information for the year ended December 31, 2021 is not presented in the notes to the financial statements.

The employer allocation percentages presented are based on the ratio of the contributions made as an individual employer toward the actuarially determined contribution amount to total contributions to the plan during the fiscal years ended June 30, 2020 and 2019. Employer allocation percentages have been rounded for presentation purposes.

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Public Employees Retirement System (PERS)

At December 31, 2020, the Library reported a liability of \$3,369,419, for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The Library's proportionate share of the net pension liability was based on the ratio of the Library's contributions to the pension plan relative to the total contributions of all participating governmental entities during the measurement period. As of the measurement date of June 30, 2020, the Library's proportionate share was 0.02066 percent, which was a decrease of 0.00035 percent from its proportionate share measured as of June 30, 2019 of 0.02101 percent.

For the years ended December 31, 2020, the pension system has determined the Library's pension expense to be \$167,996, for PERS based on the actuarial valuations which is less than the actual contribution reported in the Library's financial statements of \$204,393. At December 31, 2020, the Library's deferred outflows of resources and deferred inflows of resources related to PERS pension which are not reported on the Library's financial statements are from the following sources:

	2020	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 61,352	\$ 11,916
Changes of Assumptions	109,308	1,410,808
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	115,169	
Changes in Proportion and Differences Between Library Contributions and Proportionate Share of Contributions	<u>422,402</u>	<u>317,663</u>
Total	<u>\$ 708,231</u>	<u>\$ 1,740,387</u>

At December 31, 2020 the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized in pension expense (benefit) as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2021	\$ (298,052)
2022	(298,053)
2023	(264,628)
2024	(144,948)
2025	(26,475)
Thereafter	<u>-</u>
	<u>\$ (1,032,156)</u>

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The Library's total pension liability reported for the year ended December 31, 2020 was based on the June 30, 2020 measurement date as determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

<u>PERS</u>	<u>2020</u>
Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through 2026	2.00-6.00%
	Based on Years of Service
Thereafter	3.00%-7.00%
	Based on Years of Service
Investment Rate of Return	7.00%
Mortality Rate Table	Pub-2010

Assumptions for mortality improvements are based on Society of Actuaries Scale MP for 2020.

The actuarial assumptions used in the July 1, 2019 valuations were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
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NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans 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 the pension plans' target asset allocation as of June 30, 2020, as reported for the years ended December 31, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>2020</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	3.00%	3.40%
Cash Equivalents	4.00%	0.50%
U.S. Treasuries	5.00%	1.94%
Investment Grade Credit	8.00%	2.67%
US Equity	27.00%	7.71%
Non-US Developed Markets Equity	13.50%	8.57%
Emerging Markets Equity	5.50%	10.23%
High Yield	2.00%	5.95%
Real Assets	3.00%	9.73%
Private Credit	8.00%	7.59%
Real Estate	8.00%	9.56%
Private Equity	13.00%	11.42%

Discount Rate

The discount rate used to measure the total pension liabilities of the PERS plan was as follows:

<u>Calendar Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2020	June 30, 2020	7.00%

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NOTE 4 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Discount Rate (Continued)

The following table represents the crossover period, if applicable, for the PERS defined benefit plan:

	<u>2020</u>
Period of Projected Benefit	
Payments for which the Following	
Rates were Applied:	
Long-Term Expected Rate of Return	All Periods

Sensitivity of Net Pension Liability

The following presents the Library's proportionate share of the PERS net pension liability as of December 31, 2020 calculated using the discount rate of 7.000%, as well as what the Library's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower 6.00% or 1-percentage-point higher 8.00% than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<u>2020</u>			
Library's Proportionate Share of the PERS Net Pension Liability	\$ 4,241,536	\$ 3,369,419	\$ 2,629,404

The sensitivity analysis was based on the proportionate share of the Library's net pension liability at December 31, 2020. A sensitivity analysis specific to the Library's net pension liability was not provided by the pension system.

Pension Plan Fiduciary Net Position

Detailed information about the PERS pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial report may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

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NOTE 5 POST-RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plan for participating libraries.

Plan Description and Benefits Provided

The State of New Jersey sponsors and administers the following post-retirement health benefit program covering substantially all eligible local government employees from local participating employers.

State Health Benefit Program Fund – Local Government Retired (the Plan) (including Prescription Drug Program Fund) – The Plan is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

The Plan provides medical and prescription drug to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retires with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retires and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level coverage.

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 above Fund. The financial reports may be assessed via, the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
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NOTE 5 POST-RETIREMENT MEDICAL BENEFITS (Continued)

Measurement Focus and Basis of Accounting

The financial statements of the OPEB plan are prepared in accordance with U.S. generally accepted accounting principles as applicable to government organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the other postemployment benefit plan. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

Investment Valuation

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

Collective Net OPEB Liability

The collective net OPEB liability of the participating employers and the State, as the non-employer contributing entity, of the Plan at June 30, 2021 was not available and for 2020 is \$17.9 billion, and the plan fiduciary net position as a percentage of the total OPEB liability is 0.91% at June 30, 2020.

The total OPEB liabilities were determined based on actuarial valuations as of July 1, 2019 which was rolled forward to June 30, 2020.

Actuarial Methods and Assumptions

In the July 1, 2019 OPEB actuarial valuation, the actuarial assumptions and methods used in this valuation were described in the Actuarial Assumptions and Methods section of the Actuary's report and are included here in this note to the financial statements. The Plan selected economic and demographic assumptions and prescribed them for use for purposes of compliance with GASB Statement No. 75. The Actuary provided guidance with respect to these assumptions, and it is their belief that the assumptions represent reasonable expectations of anticipated plan experience.

Post-Retirement Medical Benefits Contribution

The funding policy for the OPEB plan is pay-as-you-go; therefore, there is no prefunding of the liability. However, due to premium rates being set prior to each calendar year, there is a minimal amount of net position available to cover benefits in future years. Contributions to pay for the health benefit premiums of participating employees in the OPEB plan are collected from the State of New Jersey, participating local employers, and retired members. The State of New Jersey makes contributions to cover those employees eligible under Chapter 330, P.L. 1967, as disclosed previously. Local employers remit employer contributions on a monthly basis. Retired member contributions are generally received on a monthly basis.

The employers participating in the OPEB plan made contributions of \$292.4 million and the State of New Jersey, as the non-employer contributing entity, contributed \$35.0 million for fiscal year 2020.

The State sets the employer contribution rate based on a pay-as-you-go basis rather than the actuarial determined contribution an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The actuarial determined contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any unfunded actuarial liabilities (or funding excess) of the plan using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the Plan. The Library was not required to make contributions to the State Health Benefits Program Fund-Local Government Retired Plan for post-retirement benefits for the years ended December 31, 2021, 2020 and 2019.

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The regulatory basis of accounting requires participating employers in the State Health Benefit Program Fund – Local Government Retired Plan to disclose in accordance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pension (GASB No. 75) their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense excluding that attributable to retiree-paid member contributions.

Under GASB Statement No. 75 local governmental employers are required to provide certain financial information based on a measurement date no earlier than the end of the employer's prior fiscal year. The GASB No. 75 financial information from the State's Division of Pensions and Benefits to be reported for the year ended December 31, 2021 for the measurement date of June 30, 2021 was not available as of the date of audit. Accordingly, the State's Division of Local Government Services issued Local Finance Notice 2022-12 which authorizes and permits New Jersey local governmental entities to present the most recent available audited GASB No. 75 financial information to be incorporated into the audit and remain in compliance with the regulatory basis of accounting disclosure requirements for notes to the financial statements. As such the GASB No. 75 financial information for the year ended December 31, 2021 is not presented in the notes to the financial statements.

The employer allocation percentages presented are based on the ratio of the contributions made as an individual employer toward the actuarially determined contribution amount to total contributions to the plan during the fiscal years ended June 30, 2020 and 2019. Employer allocation percentages have been rounded for presentation purposes.

At December 31, 2020, the Library reported a liability of \$4,133,643 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2019. The Library's proportionate share of the net OPEB liability was based on the ratio of the Library's proportionate share of the OPEB liability attributable to the Library at June 30, 2020 to the total OPEB liability for the State Health Benefit Program Fund – Local Government Retired Plan at June 30, 2020. As of the measurement date of June 30, 2020 the Library's proportionate share was .02303 percent, which was an increase of .00425 percent from its proportionate share measured as of June 30, 2019 of .01878 percent.

For the year ended December 31, 2020, the Plan has determined the Library's OPEB expense to be \$685,412, based on the actuarial valuation which is more than the actual contributions reported in the Library's financial statements. At December 31, 2020, the Library's deferred outflows of resources and deferred inflows of resources related to the OPEB plan which are not reported on the Library's financial statements are from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 108,877	\$ 769,762
Changes of Assumptions	618,263	919,258
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	2,625	
Changes in Proportion and Differences Between Library Contributions and Proportionate Share of Contributions	4,047,735	-
Contributions made Subsequent to the Measurement Date	<u>-</u>	<u>-</u>
Total	<u>\$ 4,777,500</u>	<u>\$ 1,689,020</u>

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
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NOTE 5 POST-RETIREMENT MEDICAL BENEFITS (Continued)

**OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to OPEB (Continued)**

At December 31, 2020 the amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense (benefit) as follows:

Year Ending <u>December 31,</u>	<u>Total</u>
2021	\$ 449,834
2022	449,834
2023	449,834
2024	449,835
2025	449,178
Thereafter	<u>839,965</u>
	<u>\$ 3,088,480</u>

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NOTE 5 POST-RETIREMENT MEDICAL BENEFITS (Continued)

**OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to OPEB (Continued)**

Actuarial Assumptions

The Library's total OPEB liability reported for the year ended December 31, 2020 was based on the June 30, 2020 measurement date as determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

	<u>2020</u>
Inflation Rate	2.50%
Salary Increases*	
PERS:	
Initial Fiscal Year Applied Through	2026
Rate	2.00% to 6.00%
Rate Thereafter	3.00% to 7.00%
Mortality	
PERS	Pub-2010 General Classification Headcount- Weighted Mortality Table with fully generational mortality improvement projections from the central year using Scale MP-2020.

*Salary increases are based on the defined benefit pension plan that the member is enrolled in and the members years of service.

For the June 30, 2020 measurement date healthcare cost trend rates for pre-Medicare medical benefits, the trend is initially 5.6% and decreases to a 4.5% long-term trend rate after seven years. For post-65 medical benefits, the actual fully-insured Medicare Advantage trend rates for fiscal year 2021 through 2022 are reflected. The rates used for 2023 and 2024 are 21.83% and 18.53%, respectively, trending to 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.0% and decreases to a 4.5% long-term trend rate after seven years.

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NOTE 5 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of the PFRS and PERS experience studies prepared for July 1, 2013 to June 30, 2018 and July 1, 2014 to June 30, 2018, respectively.

100% of active members are considered to participate in the plan upon retirement.

Discount Rate

The discount rate used to measure the total OPEB liabilities of the plan was as follows:

Calendar Year	Measurement Date	Discount Rate
2020	June 30, 2020	2.21%

The discount rate represents the municipal bond return rate as chosen by the State. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of Net OPEB Liability to Changes in the Discounts Rate

The following presents the Library's proportionate share of the net OPEB liability as of December 31, 2020 calculated using the discount rate of 2.21%, as well as what the Library's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower 1.21% or 1-percentage-point higher 3.21% than the current rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
<u>2020</u>			
Library's Proportionate Share of the Net OPEB Liability	<u>\$ 4,886,839</u>	<u>\$ 4,133,643</u>	<u>\$ 3,537,420</u>

The sensitivity analysis was based on the proportionate share of the Library's net OPEB liability at December 31, 2020. A sensitivity analysis specific to the Library's net OPEB liability was not provided by the Plan.

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NOTE 5 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the Library's proportionate share of the net OPEB liability as of December 31, 2020 calculated using the healthcare trend rates as disclosed above as well as what the Library's proportionate share of the net OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>2020</u>	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Library's Proportionate Share of the Net OPEB Liability	\$ 3,420,594	\$ 4,133,643	\$ 5,067,391

The sensitivity analysis was based on the proportionate share of the Library's net OPEB liability at December 31, 2020. A sensitivity analysis specific to the Library's net OPEB liability was not provided by the pension system.

NOTE 6 RISK MANAGEMENT

The Township of Montclair maintains insurance policies which cover the 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 omission, injuries to employees; and natural disasters. Health benefits are provided to employees through the State of New Jersey Health Benefits Plan.

NOTE 7 INFECTIOUS DISEASE OUTBREAK – COVID-19 PANDEMIC

The World Health Organization declared a pandemic following the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 13, 2020, the President of the United States declared a national emergency to unlock federal funds and assistance to help states and local governments fight the pandemic. Governor Phil Murphy, of the State of New Jersey, also declared a public health emergency on March 9, 2020 and instituted mandatory measures via various executive orders to contain the spread of the virus, including closing schools and nonessential businesses and limiting social gatherings. These measures, which altered the behaviors of businesses and people, had negative impacts on regional, state and local economies. The Governor, pursuant to various executive orders, then implemented a multi-stage approach to restarting New Jersey's economy. The declaration of the state of emergency and of a public health emergency was terminated by the Governor, by executive order, on June 4, 2021. Also, on June 4, 2021, the Governor signed into law Assembly Bill No. 5820 which terminates most of the Governor's pandemic-related executive orders in early July. The remaining executive orders (dealing with coronavirus testing and vaccinations, moratoriums on evictions and utility shutoffs and various other matters) will terminate on January 1, 2022. On January 11, 2022, the Governor reinstated, via Executive Order No. 280, the state of emergency and declared a new public health emergency in response to a surge in cases tied to new variants of COVID-19, in particular the Omicron variant. Such public health emergency was set to expire 30 days from January 11, 2022, but was later extended, via Executive Order No. 288, for an additional 30 days on February 10, 2022. In the event of substantial increases in COVID-19 hospitalizations, spot positivity or rates of transmission, the Governor is empowered to impose more restrictive measures than currently in place.

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 7 INFECTIOUS DISEASE OUTBREAK (Continued)

The Township of Montclair Free Public Library's finances and operations may be materially and adversely affected as a result of the continued spread of COVID-19 through reduced or delayed revenue streams, which include the collection of property taxes, which are the Township of Montclair Free Public Library's primary revenue source for supporting its budget. The Township of Montclair Free Public Library cannot predict costs associated with a potential infectious disease outbreak like COVID-19 such as operational costs to clean, sanitize and maintain its facilities, or costs to operate remotely and support Library functions and critical government actions during an outbreak or any resulting impact such costs could have on the operations of the Library. However, as of the date of audit, even though the Library finances and operations had certain reduced revenue streams due to the COVID-19 outbreak, the overall finances and operations of the Library have not been materially and adversely affected due to the COVID-19 outbreak.

The degree of any such impact on the operations and finances of the Library cannot be predicted due to the dynamic nature of the COVID-19 outbreak, including uncertainties relating to its (i) duration, and (ii) severity, as well as with regard to what actions may be taken by governmental and other health care authorities to contain or mitigate its impact. The continued spread of the outbreak could have a material adverse effect on the Library and its economy. The Library is monitoring the situation and will take such proactive measures as may be required to maintain its functionality and meet its obligations.

The American Rescue Plan Act of 2021, H.R. 1319 (the "Plan"), signed into law by President Biden on March 11, 2021, comprises \$1.9 trillion in relief designed to provide funding to address the COVID-19 pandemic and alleviate the economic and health effects of the COVID-19 pandemic.

The Plan includes various forms of financial relief including up to a \$1,400 increase in direct stimulus payment to individuals and various other forms of economic relief, including extended unemployment benefits, continued eviction and foreclosure moratoriums, an increase in the child tax credit, an increase in food and housing aid, assistance grants to restaurants and bars, and other small business grants and loans. The Plan provides funding for state and local governments to offset costs to safely reopen schools during the COVID-19 pandemic and to subsidize COVID-19 testing and vaccination programs. In addition, the Plan includes \$350 billion in relief funds to public entities.

SUPPLEMENTARY SCHEDULES

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

Balance, January 1, 2021		\$ 792,939
Increased by Receipts:		
Municipal Appropriation	\$ 3,100,000	
State Aid - Reserve for Unrestricted State Aid	20,672	
Fines, Fees and Miscellaneous	16,157	
Donations		
Grant Fund	15,200	
Endowment Fund	222,979	
Adult School - Tuition	60,321	
Adult School - Other	10,014	
Interest		
Operating Fund	172	
Endowment Fund	174	
		<u>3,445,689</u>
		4,238,628
Decreased by Disbursements:		
2021 Operating Budget	723,510	
Payroll Deductions Payable	2,314,087	
Other - Non-Budgetary		
Grant Fund	17,427	
Endowment Fund	132,874	
Reserve for Unemployment	10,603	
Accounts Payable	51,342	
		<u>3,249,843</u>
Balance, December 31, 2021		<u>\$ 988,785</u>

Analysis of Balance, December 31, 2021

Operating Account, TD Bank	\$ 403,850
Payroll Agency Account, TD Bank	18,202
Grant Fund Account, TD Bank	56,247
Unemployment Account, TD Bank	13,460
Endowments, Memorials and Gifts Account, TD Bank	404,346
Adult School Bank Account, TD Bank	92,380
Petty Cash	<u>300</u>
Balance, December 31, 2021	<u>\$ 988,785</u>

SCHEDULE B

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
STATEMENT OF 2021 BUDGET REVENUES - OPERATING**

	<u>Budget (Memo)</u>	<u>Realized</u>	<u>Excess or (Unrealized)</u>
REVENUES			
Municipal Appropriation	\$ 3,100,000	\$ 3,068,080	\$ (31,920)
State Aid	16,000	16,323	323
Fines, Fees and Miscellaneous	12,000	16,157	4,157
Donations	45,000	-	(45,000)
Adult School - Tuition	100,000	60,321	(39,679)
Adult School - Other	54,000	10,014	(43,986)
Interest	<u>-</u>	<u>172</u>	<u>172</u>
Total Revenues	<u>\$ 3,327,000</u>	<u>\$ 3,171,067</u>	<u>\$ (155,933)</u>
Municipal Appropriation	\$ 3,068,080		
Cash Receipts	86,664		
Reserve for State Aid	<u>16,323</u>		
		<u>\$ 3,171,067</u>	

SCHEDULE C

STATEMENT OF 2021 BUDGET EXPENDITURES - OPERATING

	<u>Budget (Memo)</u>	<u>Paid or Charged</u>	<u>(Deficit) or Unexpended Balance</u>
EXPENDITURES			
Salary & Wages	\$ 1,747,256	\$ 1,641,772	\$ 105,484
Pension & Benefits	683,244	660,309	22,935
Library Materials			
Books/Electronic Materials	58,000	47,052	10,948
Audiovisual	6,000	28,337	(22,337)
Subscriptions	17,000	9,074	7,926
Databases	16,000	52,307	(36,307)
Programs			
Youth Programs	3,000	2,998	2
Adult Programs	-	-	-
Adult School	100,000	57,364	42,636
Professional Contracted Services	104,500	39,234	65,266
Library Services/Technology	141,000	120,021	20,979
Other Operating Expenses	36,000	35,889	111
Facilities			
Maintenance	153,000	121,390	31,610
Furnishings and Equipment	37,000	33,592	3,408
Insurance	20,000	18,422	1,578
Public Internet and WiFi	5,000		5,000
Utilities	183,000	164,555	18,445
Telecommunications	17,000	16,718	282
Capital Improvements	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 3,327,000</u>	<u>\$ 3,049,034</u>	<u>\$ 277,966</u>
Cash Disbursements	\$ 723,510		
Payroll Deductions Payable	2,302,081		
Accounts Payable	<u>23,443</u>		
		<u>\$ 3,049,034</u>	

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
DUE FROM THE TOWNSHIP**

SCHEDULE D

Balance, January 1, 2021		\$ 31,920
Increased by:		
2021 Municipal Appropriations		<u>3,100,000</u>
		3,131,920
Decreased by:		
Cash Receipts	\$ 3,100,000	
Cancelled	<u>31,920</u>	
		<u>\$ 3,131,920</u>

STATEMENT OF PREPAID EXPENSES

SCHEDULE E

Balance, January 1, 2021	\$ 695
Balance, December 31, 2021	<u>\$ 695</u>

STATEMENT OF ACCOUNTS PAYABLE

SCHEDULE F

Balance, January 1, 2021	\$ 51,343
Increased by:	
Charges to 2021 Appropriations	<u>23,443</u>
	74,786
Decreased by:	
Cash Disbursements	<u>51,342</u>
Balance, December 31, 2021	<u>\$ 23,444</u>

**TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY
STATEMENT OF PAYROLL DEDUCTIONS PAYABLE**

SCHEDULE G

Balance, January 1, 2021	\$ 30,208
Increased by:	
Charges to 2021 Appropriations	<u>2,302,081</u>
	2,332,289
Decreased by:	
Cash Disbursements	<u>2,314,087</u>
Balance, December 31, 2021	<u>\$ 18,202</u>

STATEMENT OF RESERVE FOR UNRESTRICTED STATE AID

SCHEDULE H

Balance, January 1, 2021	\$ 16,323
Increased by:	
Cash Receipts	<u>20,672</u>
	36,995
Decreased by:	
2021 Anticipated Revenue	<u>16,323</u>
Balance, December 31, 2021	<u>\$ 20,672</u>

STATEMENT OF RESERVE FOR UNEMPLOYMENT

SCHEDULE I

Balance, January 1, 2021	\$ 24,063
Decreased by:	
Cash Disbursements	<u>10,603</u>
Balance, December 31, 2021	<u>\$ 13,460</u>



LERCH, VINCI & BLISS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

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MARK SACO, CPA
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CHRISTINA CUIFFO, CPA

**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 AUDITOR'S REPORT

Honorable President and Members
of the Board of Trustees
Township of Montclair Free Public Library
Montclair, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements – regulatory basis of the Township of Montclair Free Public Library as of and for the year ended December 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated July 27, 2022. Our report on the financial statements – regulatory basis was modified to indicate that the financial statements were not prepared in accordance with accounting principles generally accepted in the United States of America but rather prepared in accordance with the regulatory basis of accounting prescribed 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, to meet the financial reporting requirements of the State of New Jersey for municipal government entities as described in Note 1.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township of Montclair Free Public Library's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Township of Montclair Free Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township of Montclair Free Public 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 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 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Montclair Free Public Library's financial statements are free from 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 financial statements. 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 and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

However, we noted certain matters that are not required to be reported under Government Auditing Standards that we reported to management of the Township of Montclair Free Public Library in the section of this report of audit entitled, "General Comments".

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 results of that testing, and not to provide an opinion on the effectiveness of the Township of Montclair Free Public 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 Township of Montclair Free Public Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LERCH, VINCI & BLISS, LLP
Certified Public Accountants
Registered Municipal Accountants



Dieter P. Lerch
Registered Municipal Accountant
RMA Number CR00398

Fair Lawn, New Jersey
July 27, 2022

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY

**GOVERNMENT AUDITING STANDARDS AND
COMMENTS AND RECOMMENDATIONS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY

GENERAL COMMENTS

Finding – Our audit indicated that a policy related to the approval of employee salaries and salary increases as included in the annual budget has not been established.

Recommendation – Policy be considered whereby all employee salaries as budgeted and recommended by the Executive Director are considered approved.

Finding – We noted certain employees appear eligible for enrollment in the Defined Contribution Retirement Program (“DCRP”) that were not enrolled as of the date of our audit.

Recommendation – A review be made of all employees to determine their eligibility for enrollment in the Defined Contribution Retirement System (“DCRP”).

Finding – Our audit revealed that a professional service contract award in excess of the bid threshold was not approved in the minutes and publicly advertised.

Recommendation – Professional service contract awards exceeding the bid threshold be approved in the minutes and publicly advertised.

TOWNSHIP OF MONTCLAIR FREE PUBLIC LIBRARY

RECOMMENDATIONS

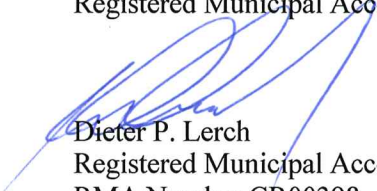
- * 1. Policy be considered whereby all employee salaries as budgeted and recommended by the Executive Director are considered approved.
- * 2. A review be made of all employees to determine their eligibility for enrollment in the Defined Contribution Retirement System ("DCRP").
- 3. Professional service contract awards exceeding the bid threshold be approved in the minutes and publicly advertised.

A review was performed on all prior year's recommendations. The Library has taken corrective action on all prior year recommendations except those denoted by an asterisk (*).

This report is intended solely for the use of the Board of Trustees and should not be used for any other purpose.

Should any question arise as to our comments and recommendations, or should you desire assistance in implementing our recommendations, please do not hesitate to call us.


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