

REPORT OF AUDIT
TOWNSHIP OF WALPACK
COUNTY OF SUSSEX
DECEMBER 31, 2018

TOWNSHIP OF WALPACK
YEAR ENDED DECEMBER 31, 2018

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TOWNSHIP OF WALPACK



PART I

REPORT OF AUDIT ON FINANCIAL STATEMENTS

AND SUPPLEMENTARY DATA

YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the Township Committee
Township of Walpack
Walpack Center, NJ 07881

Report on the Financial Statements

We have audited the accompanying balance sheets - regulatory basis of the various funds and account group of the Township of Walpack in the County of Sussex, as of December 31, 2018 and 2017, the related statement of operations and changes in fund balance - regulatory basis for the years then ended, and the related statement of revenues - regulatory basis and statement of expenditures - regulatory basis of the various funds for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Township'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 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, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Township of Walpack on the basis of the financial reporting provisions 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 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 Township of Walpack 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 balances sheets as of December 31, 2018 and 2017, the regulatory basis statements of operations for the years then ended and the regulatory basis statements of revenues and expenditures for the year ended December 31, 2018 in accordance with the basis of financial reporting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Walpack's basic financial statements. The supplementary information listed in the table of contents and the letter of comments and recommendations section 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.

The letter of comments and recommendations section has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2019 on our consideration of the Township of Walpack's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township of Walpack's internal control over financial reporting and compliance.



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant
No. 497

Ferraioli, Wielkotz, Cerullo & Cuva, PA
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Newton, New Jersey
July 29, 2019



Township of Walpack, N.J.

Comparative Balance Sheet - Regulatory Basis

Current Fund

December 31,

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Current Fund:			
Cash	A-4	321,910.50	356,793.75
Receivables and Other Assets with Full Reserves:			
Delinquent Taxes Receivable	A-7	157.85	
Interfund Receivables:			
Animal Control Trust Fund	A-9	3.00	
		160.85	
		322,071.35	356,793.75
Federal and State Grant Fund:			
Due from Current Fund	A-20	114.00	243.49
		322,185.35	357,037.24

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

Township of Walpack, N.J.

Comparative Balance Sheet - Regulatory Basis

Current Fund

December 31,

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Liabilities, Reserves and Fund Balance</u>			
Current Fund:			
Appropriation Reserves			
Unencumbered	A-3;A-10	17,841.41	18,200.11
Encumbered	A-3;A-10	150.00	110.06
Due to State of N.J., Per Ch. 73, P.L. 1976	A-6	3,039.15	3,289.15
Interfunds Payable:			
Due to Federal and State Grants	A-9	114.00	243.49
Accounts Payable	A-11		4.14
Prepaid Taxes	A-12	1,063.22	1,269.97
Tax Overpayments	A-15	450.53	
Due to State of New Jersey:			
Marriage Surcharge	A-16		25.00
Reserve for:			
Revision of Tax Map	A-16	4,188.00	4,188.00
		<u>26,846.31</u>	<u>27,329.92</u>
Reserve for Receivables			
Fund Balance	Contra A-1	160.85 295,064.19	329,463.83
		<u>322,071.35</u>	<u>356,793.75</u>
Federal and State Grant Fund:			
Appropriated Reserve for Grants	A-18	114.00	143.00
Unappropriated Reserve for Grants	A-19		100.49
		<u>114.00</u>	<u>243.49</u>
		<u>322,185.35</u>	<u>357,037.24</u>

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

Township of Walpack, N.J.

Comparative Statement of Operations and Changes in Fund Balance - Regulatory Basis

Current Fund

Years Ended December 31,

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
Revenues and Other Income:			
Fund Balance Utilized	A-2	79,759.00	126,359.00
Miscellaneous Revenue Anticipated	A-2	37,038.00	37,074.00
Receipts from Current Taxes	A-2	15,265.22	22,178.13
Non-Budget Revenue	A-2	36,622.31	35,483.41
Other Credits to Income:			
Statutory Excess in Animal Control Trust Fund	A-9	3.00	
Unappropriated Reserves for Grants Cancelled	A-9	0.49	0.21
Unexpended Balance of Appropriation Reserve	A-10	6,039.28	5,313.10
Accounts Payable Cancelled	A-11	4.14	
Tax Overpayments Cancelled			177.40
Total Revenues and Other Income		<u>174,731.44</u>	<u>226,585.25</u>
Expenditures:			
Budget and Emergency Appropriations:			
Operations - Within Caps:			
Salaries and Wages	A-3	34,300.00	34,850.00
Other Expenses	A-3	43,026.00	41,555.00
Deferred Charges and Statutory Expenditures -			
Municipal	A-3	6,517.00	6,017.00
Operations - Excluded From Caps:			
Other Expenses Excluded from "CAPS"	A-3	2,954.00	2,937.00
Capital Improvements			3,500.00
Transfer to Board of Education for Use of			
Local Schools (N.J.S. 40:48-17.1 & 17.3)	A-3	24,929.00	47,503.00
Prior Year Added County Taxes	A-4	1,781.14	
Interfund Advanced	A-9	3.00	
County Taxes included Added Taxes	A-14	15,411.78	16,538.82
Prior Year Overpayments	A-15	450.16	
Total Expenditures		<u>129,372.08</u>	<u>152,900.82</u>
Statutory Excess to Fund Balance		45,359.36	73,684.43
Fund Balance, January 1,	A	<u>329,463.83</u>	<u>382,138.40</u>
		374,823.19	455,822.83
Decreased by:			
Fund Balance Utilized as Budget Revenue	A-2	<u>79,759.00</u>	<u>126,359.00</u>
Fund Balance, December 31,	A	<u><u>295,064.19</u></u>	<u><u>329,463.83</u></u>

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

Statement of Revenues - Regulatory Basis

Current Fund

Year Ended December 31, 2018

	<u>Ref.</u>	<u>Budget</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Fund Balance Anticipated	A-1	<u>79,759.00</u>	<u>79,759.00</u>	<u> </u>
Miscellaneous Revenues:				
Energy Receipts Taxes	A-8	36,938.00	36,938.00	
Public and Private Revenues:				
Recycling Tonnage	A-17	<u>100.00</u>	<u>100.00</u>	<u> </u>
Total Miscellaneous Revenues	A-1	<u>37,038.00</u>	<u>37,038.00</u>	<u> </u>
Subtotal General Revenues		<u>116,797.00</u>	<u>116,797.00</u>	<u> </u>
Amount to be Raised by Taxes for Support of Municipal Budget - Local Tax for Municipal Purposes Including Reserve for Uncollected Taxes	A-2	<u> </u>	<u>(146.56)</u>	<u>(146.56)</u>
Budget Totals		116,797.00	116,650.44	(146.56)
Non-Budget Revenue	A-2	<u> </u>	<u>36,622.31</u>	<u>36,622.31</u>
		<u>116,797.00</u>	<u>153,272.75</u>	<u>36,475.75</u>
	A-3			

The accompanying "Notes to Financial Statement" are an integral part of these financial statements.

Statement of Revenues - Regulatory Basis

Current Fund

Year Ended December 31, 2018

Analysis of Realized Revenues

	<u>Ref.</u>	
Revenue From Collections	A-1;A-7	15,265.22
Allocated to School and County Taxes	A-7	<u>15,411.78</u>
Balance for Support of Municipal Budget Appropriations	A-2	<u>(146.56)</u>

Analysis of Non-Budget Revenues

	<u>Ref.</u>	
Miscellaneous Revenues Not Anticipated:		
Interest on Investments		2,584.24
Payment in Lieu of Taxes		33,137.51
Clerk		48.00
Miscellaneous		286.57
ABC Licenses		200.00
Uniform Construction Code Fees		293.00
Senior Citizens and Veterans Admin. Fees		<u>15.00</u>
	A-4	36,564.32
Collector:		
Interest and Costs on Taxes	A-5	<u>57.99</u>
Total Non Budget Revenue	A-1;A-2	<u>36,622.31</u>

The accompanying "Notes to Financial Statement" are an integral part of these financial statements.

Township of Walpack, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2018

<u>General Appropriations</u>	<u>Ref.</u>	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Unexpended Balance Canceled</u>
Operations						
General Government:						
Mayor and Council						
Salaries and Wages		10,100.00	10,100.00	10,100.00		
Municipal Clerk/Registrar of Vital Statistics						
Salaries and Wages		7,000.00	7,000.00	6,500.00	500.00	
Other Expenses		2,500.00	2,500.00	1,855.23	644.77	
Financial Administration						
Salaries and Wages		10,500.00	10,500.00	10,500.00		
Other Expenses		500.00	500.00	365.38	134.62	
Audit		12,332.00	12,332.00		12,332.00	
Computer Services		1,450.00	1,450.00	1,450.00		
Collection of Taxes						
Salaries and Wages		2,700.00	2,700.00	2,700.00		
Other Expenses		400.00	400.00		400.00	
Assessment of Taxes						
Salaries and Wages		3,200.00	3,200.00	3,200.00		
Other Expenses		300.00	300.00	90.70	209.30	
Legal Services and Costs						
Other Expenses		6,000.00	6,000.00	6,000.00		
Insurance:						
General Liability		3,977.00	3,977.00	3,977.00		
Workers Compensation		557.00	557.00	557.00		
Surety Bond Premiums		750.00	750.00	750.00		
Emergency Management Coordinator:						
Salaries and Wages		400.00				
Other Expenses		200.00				

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

Township of Walpack, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2018

<u>General Appropriations</u>	<u>Ref.</u>	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Unexpended Balance Canceled</u>
Public Safety						
Aid to Volunteer Fire Companies (1)		2,500.00	4,000.00	4,000.00		
Aid to Rescue Squad		4,000.00	4,000.00	4,000.00		
Public Buildings and Grounds						
Salaries and Wages		500.00				
Other Expenses		1,100.00	850.00	756.25	93.75	
Animal Regulation						
Salaries and Wages		150.00				
Other Expenses		350.00	350.00		350.00	
Electricity		360.00	360.00	140.17	219.83	
Fuel Oil		3,000.00	3,000.00	1,921.11	1,078.89	
Telephone		900.00	900.00	392.84	507.16	
Subtotal - Operations		<u>75,726.00</u>	<u>75,726.00</u>	<u>59,255.68</u>	<u>16,470.32</u>	
Uniform Construction Code - Appropriations						
Offset By Dedicated Revenues (N.J.A.C. 5:23-4.17)						
Construction Code Official						
Salaries and Wages		800.00	800.00	800.00		
Other Expenses		100.00	100.00		100.00	
Sub-Code Officials:						
Fire Protection Officials						
Other Expenses		500.00	500.00	335.95	164.05	
Plumbing Officials						
Other Expenses		200.00	200.00		200.00	
Total Uniform Construction Code Appropriations		<u>1,600.00</u>	<u>1,600.00</u>	<u>1,135.95</u>	<u>464.05</u>	
Total Operations Including Contingent - Within "CAPS"		<u>77,326.00</u>	<u>77,326.00</u>	<u>60,391.63</u>	<u>16,934.37</u>	
Detail:						
Salaries and Wages	A-1	<u>35,350.00</u>	<u>34,300.00</u>	<u>33,800.00</u>	<u>500.00</u>	
Other Expenses	A-1	<u>41,976.00</u>	<u>43,026.00</u>	<u>26,591.63</u>	<u>16,434.37</u>	

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

Township of Walpack, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2018

	<u>Ref.</u>	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Unexpended Balance Canceled</u>
<u>General Appropriations</u>						
Deferred Charges and Statutory Expenditures						
Statutory Expenditures						
Contribution to:						
Public Employees' Retirement System Annual		2,390.00	2,351.76	1,806.00	545.76	
Public Employees' Retirement System Employee		1,016.00	1,054.24	1,054.24		
Social Security System (O.A.S.I.)		3,086.00	3,086.00	2,585.72	500.28	
Unemployment Compensation Insurance		25.00	25.00	15.00	10.00	
Total Deferred Charges and Statutory Expenditures						
Municipal - Within "CAPS"	A-1	6,517.00	6,517.00	5,460.96	1,056.04	-
Operations - Excluded From "CAPS"						
Due to County for Taxes		200.00	200.00	200.00		
Interlocal Municipal Service Agreements						
"911" Dispatching Communication						
Other Expenses		2,654.00	2,654.00	2,653.00	1.00	
Total Interlocal Municipal Service Agreement		2,654.00	2,854.00	2,853.00	1.00	
Public and Private Programs Offset by Revenues						
Recycling Tonnage		100.00	100.00	100.00		
Total Public and Private Program Offset by Revenues		100.00	100.00	100.00		
Total Operation - Excluded from "CAPS"	A-1	2,954.00	2,954.00	2,953.00	1.00	
Detail:						
Other Expenses	A-1	2,954.00	2,954.00	2,953.00	1.00	
Transfer to Board of Education for Use of						
Local Schools (N.J.S. 40:48-17.1 & 17.3)	A-1	30,000.00	30,000.00	24,929.00		5,071.00
Total Transfer to Board of Education		30,000.00	30,000.00	24,929.00		5,071.00
Total General Appropriations for Municipal						
Purposes Excluded from "CAPS"		32,954.00	32,954.00	27,882.00	1.00	5,071.00
Subtotal General Appropriations		116,797.00	116,797.00	93,734.59	17,991.41	5,071.00
Total General Appropriations		116,797.00	116,797.00	93,734.59	17,991.41	5,071.00

A-2

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

Township of Walpack, N.J.
Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2018

<u>General Appropriations</u>	<u>Ref.</u>	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Unexpended Balance Canceled</u>
<u>Analysis of Paid or Charged</u>						
Cash Disbursed	A-4			68,705.59		
Local Regional School Tax Payable	A-13			24,929.00		
Reserve for Federal and State Grants	A-18			100.00		
				<u>93,734.59</u>		
<u>Analysis of Appropriation Reserves</u>						
Unencumbered	A				17,841.41	
Encumbered	A				<u>150.00</u>	
					<u>17,991.41</u>	

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

Township of Walpack, N.J.

Comparative Balance Sheet - Regulatory Basis

Trust Funds

December 31,

<u>Assets</u>	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
Animal Control Fund:			
Cash	B-1	6.00	6.00
Other Trust Funds:			
Cash	B-1		1.00
		6.00	7.00
 <u>Liabilities, Reserves & Fund Balance</u> 			
Animal Control Fund:			
Reserve for Animal Control			
Fund Expenditures	B-2	3.00	6.00
Interfund - Current Fund	B-4	3.00	
		6.00	6.00
Other Trust Fund:			
Reserve for:			
Payroll Deductions Payable	B-3		1.00
		6.00	7.00

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

Township of Walpack, N.J.
Comparative Balance Sheet - Regulatory Basis
General Capital Fund
December 31,

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Cash	C-1	<u>55,426.47</u>	<u>57,076.47</u>
 <u>Liabilities, Reserves and Fund Balance</u>			
Capital Improvement Fund	C-2	14,000.00	14,000.00
Reserve for Municipal Building	C-4	31,426.47	33,076.47
Improvement Authorizations			
Funded	C-5	<u>10,000.00</u>	<u>10,000.00</u>
		<u>55,426.47</u>	<u>57,076.47</u>

Footnote: There were no Bonds and Notes Authorized But not Issued on December 31, 2017 and 2016.

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

Township of Walpack, N.J.

Comparative Balance Sheet - Regulatory Basis

Public Assistance Fund

December 31,

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Cash	D-1	<u>10,000.00</u>	<u>10,000.00</u>
<u>Liabilities</u>			
Reserve for Public Assistance	D-2	<u>10,000.00</u>	<u>10,000.00</u>

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

Township of Walpack, N.J.

Comparative Statement of General Fixed Assets - Regulatory Basis

December 31,

	<u>2018</u>	<u>2017</u>
<u>General Fixed Assets:</u>		
Land	16,000.00	16,000.00
Buildings	212,402.77	212,402.77
Machinery and Equipment	<u>43,085.00</u>	<u>43,085.00</u>
	<u><u>271,487.77</u></u>	<u><u>271,487.77</u></u>
 Investment in Fixed Assets	 <u><u>271,487.77</u></u>	 <u><u>271,487.77</u></u>

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

TOWNSHIP OF WALPACK, N. J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB Codification establishes seven fund types and two account groups 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 financial statements of the Township of Walpack have been prepared in conformity with accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division") which is an other comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 Township accounts for its financial transactions through the following separate funds which differ from the fund structure required by GAAP.

A. Reporting Entity

The Township of Walpack (the "Township") operates under a Township Committee form of government. The Township's major operations include public safety, road repair and maintenance, sanitation, fire protection, recreation and parks, health services, and general administrative services.

GASB has issued Statement No. 14 which requires the financial reporting entity to include both the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will be by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

However, the municipalities in the State of New Jersey do not prepare financial statements in accordance with GAAP and thus do not comply with all of the GASB pronouncements. The financial statements contained herein include only those boards, bodies, officers or commissions as required by NJS 40A:5-5. Accordingly, the financial statements of the Township do not include the volunteer fire department which is considered a component unit under GAAP. Complete financial statements of the above components can be obtained by contacting the Treasurer of the respective entity.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The Township 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 Township functions or activities. An account group, on the other hand, is designed to provide accountability for certain assets and liabilities that are not recorded in those Funds.

The Township has the following funds and account groups:

Current Fund - This fund accounts for resources and expenditures for governmental operations of a general nature, including Federal and State grants.

Trust Funds - Trust Funds are used to account for assets held by the government in a trustee capacity. Funds held by the Township as an agent for individual, private organizations, or other governments are recorded in the Trust Funds.

Other Trust Fund - This fund is established to account for the assets and resources which are also held by the Township as a trustee or agent for individuals, private organizations, other governments and/or other funds.

Animal Control Fund - This fund is used to account for fees collected from dog licenses and expenditures which are regulated by NJS 4:19-15.11.

General Capital Fund - This fund is used to account for the receipt and disbursement of funds used for acquisition or improvement of general capital facilities, other than those acquired in the Current Fund.

Public Assistance Fund - This fund is used to account for the receipt and disbursement of funds that provide assistance to certain residents of the Township pursuant to Title 44 of New Jersey Statutes. Effective January 1, 1998, the Township transferred administration of the general assistance program to the Sussex County Board of Social Services. The funds remaining in the Public Assistance Fund are used to assist certain residents who do not qualify for the General Assistance Program.

General Fixed Assets Account Group - To account for all fixed assets of the Township. The Township's infrastructure is not reported in the group.

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

TOWNSHIP OF WALPACK

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2018 AND 2017 (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Property Tax Revenues - Real property taxes are assessed locally, based upon the assessed value of the property. The tax bill includes a levy for Municipal, County and School purposes. The bills are mailed annually in June for that calendar year's levy. Taxes are payable in four quarterly installments on February 1, May 1, August 1, and November 1. The amounts of the first and second installments are determined as one quarter of the total tax levied against the property for the preceding year. The installment due the third and fourth quarters is determined by taking the current year levy less the amount previously charged for the first and second installments, with the remainder being divided equally. If unpaid on these dates, the amount due becomes delinquent and subject to interest at 8% per annum, or 18% on any delinquency amount in excess of \$1,500. The school levy is turned over to the Board of Education as expenditures are incurred, and the balance, if any, must be transferred as of June 30, of each fiscal year. County taxes are paid quarterly on February 15, May 15, August 15 and November 15, to the County by the Township. When unpaid taxes or any municipal lien, or part thereof, on real property, remain in arrears on the 11th day of the 11th month of the fiscal year levied, the collector in the municipality shall subject to the provisions of the New Jersey Statutes enforce the lien by placing the property on a tax sale. Annual in rem tax foreclosure proceedings are instituted to enforce the tax collection or acquisition of title to the property by the Township. In accordance with the accounting principles prescribed by the State of New Jersey, current and delinquent taxes are realized as revenue when collected. Since delinquent taxes and liens are fully reserved, no provision has been made to estimate that portion of the taxes receivable and tax title liens that are uncollectible. GAAP requires tax revenues to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

Miscellaneous Revenues - Miscellaneous revenues are recognized on a cash basis. Receivables for the miscellaneous items that are susceptible to accrual are recorded with offsetting reserves on the balance sheet of the Township's Current Fund. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

Grant Revenues - Federal and State grants, entitlements or shared revenues received for purposes normally financed through the Current Fund are recognized when anticipated in the Township's budget. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

Budgets and Budgetary Accounting

An annual budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures. Budget amounts presented in the accompanying financial statements represent amounts adopted by the Township and approved by the State Division of Local Government Services per N.J.S.A. 40-A:4 et seq.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Budgets and Budgetary Accounting (Continued)

The Township is not required to adopt budgets for the following funds:

Animal Control Trust Fund
General Capital Fund

Public Assistance Fund
Trust Fund

The governing body shall introduce and approve the annual budget not later than February 10, of the fiscal year. The budget shall be adopted not later than March 20, and prior to adoption must be certified by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The Director of the Division of Local Government Services, with the approval of the Local Finance Board may extend the introduction and approval and adoption dates of the municipal budget. The budget is prepared by fund, function, activity and line item (salary or other expense) and includes information on the previous year. The legal level of control for appropriations is exercised at the individual line item level for all operating budgets adopted. Emergency appropriations, those made after the adoption of the budget and determination of the tax rate, may be authorized by the governing body of the municipality. During the last two months of the fiscal year, the governing body may, by a 2/3 vote, amend the budget through line item transfers. Management has no authority to amend the budget without the approval of the Governing Body. Expenditures may not legally exceed budgeted appropriations at the line item level. During 2018, the Governing Body did not increase the original Current Fund budget, however, several budget transfers were approved by the Governing Body.

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 in conjunction with an encumbrance accounting system. Outstanding encumbrances at December 31, are reported as a cash liability in the financial statements. Unexpended or uncommitted appropriations, at December 31, are reported as expenditures through the establishment of appropriations reserves unless canceled by the governing body. 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.

Encumbrances - Contractual orders outstanding at December 31, are reported as expenditures through the establishment of an encumbrance payable. Encumbrances do not constitute expenditures under GAAP.

Appropriation Reserves - Are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding year. Lapsed appropriation reserves are recorded as additions to income. Appropriation reserves do not exist under GAAP.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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.

Property Acquired for Taxes - Is recorded in the Current Fund at the assessed valuation when such property was acquired and fully reserved. GAAP requires such property to be recorded in the General Fixed Assets Account Group at market value on the date of acquisition.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves. GAAP does not require the establishment of an offsetting reserve.

Inventories - 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 various balance sheets.

Cash and Investments - Cash includes amounts in demand deposits as well as short-term investments with a maturity date within one year of the date acquired by the government. Investments are stated at fair value and are limited by NJSA 40A:5-5.1(a).

Deferred Charges to Future Taxation Funded and Unfunded - Upon the authorization of capital projects, the Township establishes deferred charges for the costs of the capital projects to be raised by future taxation. Funded deferred charges relate to permanent debt issued, whereas unfunded deferred charges relate to temporary or non-funding of the authorized cost of capital projects. According to N.J.S.A. 40A:2-4, the Township may levy taxes on all taxable property within the local unit to repay the debt. Annually, the Township raises the debt requirements for that particular year in the current budget. As the funds are raised by taxation, the deferred charges are reduced.

Fixed Assets - The Township of Walpack has developed a fixed asset accounting and reporting system, as promulgated by the Division of Local Government Services, which differs from generally accepted accounting principles.

Fixed assets used in Governmental operations (general fixed assets) are accounted for in the General Fixed Assets Account Group. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as road, bridges, curbs and gutters, streets, sidewalks and drainage systems are not capitalized.

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

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are recorded in the Capital Funds until such time as the construction is completed and put into operation.

Fixed assets acquired through grants in aid or contributed capital have not been accounted for separately. GAAP requires that all fixed assets be capitalized at historical cost or estimated historical cost if actual historical cost is not available.

Comparative Data - Comparative 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 Township'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.

Use of Estimates - The preparation of financial statements requires management of the Township 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

For the year ended December 31, 2018, the Township adopted Government Accounting Standards Board GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for periods beginning after June 15, 2017. As a result of adopting this Statement, the Township was required to measure and disclose liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to their post-employment benefits other than pensions. As a result of the regulatory basis of accounting previously described in note 1, the implementation of this Statement only required financial statement disclosure. There exists no impact on the financial statements of the Township.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statements

The GASB Codification also defines the financial statements of a governmental unit to be presented in the general purpose financial statements to be in accordance with GAAP. The Township 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.

NOTE 2: BUDGETARY INFORMATION

Under New Jersey State Statutes, the annual budget is required to be a balanced cash basis document. To balance the budget, the municipality is required to show a budgeted fund balance. The amount of fund balance budgeted to balance the 2018 statutory budget was \$79,759.00.

Inter department budget transfers are not permitted prior to November 1. After November 1, budget transfers can be made in the form of a resolution and approved by the Township Committee.

N.J.S.A. 40A:4-87 permits special items of revenue and appropriations to be inserted into the annual budget when the item has been made available by any public or private funding source and the item was not determined at the time of budget adoption. During 2018, there were no special items of revenue and appropriations.

The municipality may make emergency appropriations, after the adoption of the budget, for a purpose which was not foreseen at the time the budget was adopted or for which adequate provision was not made therein. This type of appropriation shall be made to meet a pressing need for public expenditure to protect or promote the public health, safety, morals or welfare or to provide temporary housing or public assistance prior to the next succeeding fiscal year. Emergency appropriations, except those classified as a special emergency, must be raised in the budgets of the succeeding year. Special emergency appropriations are permitted to be raised in the budgets of the succeeding three or five years. During 2018, there were no emergency authorizations.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 3: GENERAL FIXED ASSETS

The following schedule is a summarization of the changes in general fixed assets for the calendar year ended December 31, 2018.

	Balance as of <u>Dec. 31, 2017</u>	Balance as of <u>Dec. 31, 2018</u>
Land	\$ 16,000.00	\$ 16,000.00
Buildings	212,402.77	212,402.77
Equipment (Including Vehicles)	<u>43,085.00</u>	<u>43,085.00</u>
	<u>\$271,487.77</u>	<u>\$ 271,487.77</u>

NOTE 4: LONG TERM DEBT

SUMMARY OF STATUTORY DEBT CONDITION - ANNUAL DEBT STATEMENT

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statement net debt of 0.00%.

BORROWING POWER UNDER N.J.S. 40A:2-6 AS AMENDED

3 1/2% of Equalized Valuation Basis (Municipal)	94,322.45
Net Debt	<u>-</u>
Remaining Borrowing Power	<u>94,322.45</u>

ANALYSIS OF AVERAGE EQUALIZED VALUATION

2018	2,694,927.00	
2017	2,728,211.00	
2016		2,779,775.33

The forgoing debt information is in agreement with the Annual Debt Statement filed by the Chief Financial Officer.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 5: DUE TO/FROM OTHER FUNDS

Balances due to/from other funds at December 31, 2018 consist of the following:

\$114.00	Due to Federal and State Grant Fund from Current Fund for cash receipts and cash disbursements in the Current Fund.
<u>3.00</u>	Due to Current Fund from Animal Control Fund for statutory excess.
<u>\$117.00</u>	

It is anticipated that all interfunds, with the exception of Federal and State Grant Funds, will be liquidated during the calendar year.

NOTE 6: PENSION PLAN

Description of Plans:

Township employees participate in one of the two contributory, defined benefit public employee retirement systems: the State of New Jersey Public Employees' Retirement System (PERS) or the State of New Jersey Police; or the Defined Contribution Retirement Program (DCRP), a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(a).

Public Employees' Retirement System (PERS)

Plan Description

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

Benefits Provided

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

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 6: PENSION PLAN (CONTINUED)

Public Employees' Retirement System (PERS), (continued)

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

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

Defined Contribution Retirement Program

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

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

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

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 6: PENSION PLAN (CONTINUED)

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS. This amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning 2012 and 8.5% for PFRS, which increased to 10% in October 2011, of the employee's annual compensation, as defined by law. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS and PFRS. In the PERS and PFRS, the employer contribution includes funding for post-retirement medical premiums.

The Township's contribution to the various plans, equal to the required contributions for each year, were as follows:

<u>Year</u>	<u>PERS</u>	<u>DCRP</u>
2018	\$2,860.24	-0-
2017	3,406.00	-0-
2016	3,414.58	-0-

Statement No's 68 and 71 require a state or local government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. However, since the financial statements are prepared on another comprehensive basis of accounting, the net pension liability of the various pension systems is not recorded in the financial statements and is only required to be disclosed in the notes to the financial statements.

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

Public Employees Retirement System (PERS)

At December 31, 2018, the Township had a liability of \$37,848.00 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Township's proportion of the net pension liability was based on a projection of the Township's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2018, the Township's proportion was 0.0001922243 percent, which was a decrease of 0.0000027253 percent from its proportion measured as of June 30, 2017.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 6: PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS), (continued)

For the year ended December 31, 2018, the Township recognized pension expense of \$2,860.24. At December 31, 2018, deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$722.00	\$195.00
Changes of assumptions	6,237.00	12,102.00
Net difference between projected and actual earnings on pension plan investments	-	355.00
Changes in proportion and differences between the Township's contributions and proportionate share of contributions	<u>119.00</u>	<u>11,848.00</u>
Total	<u>\$7,078.00</u>	<u>\$24,500.00</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2018) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$263.00
2020	(364.00)
2021	(2,608.00)
2022	(2,261.00)
2023	(724.00)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.63, 5.48, 5.57, 5.72 and 6.44 years for 2018, 2017, 2016, 2015 and 2014 amounts respectively.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 6: PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS), (continued)

Additional Information

Local Group Collective balances at June 30, 2018 and June 30, 2017 are as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Collective deferred outflows of resources	\$4,684,852,302	\$6,424,455,842
Collective deferred inflows of resources	7,646,736,226	5,700,625,981
Collective net pension liability	19,689,501,539	23,278,401,588
Township's Proportion	0.0001922243%	0.0001949496%

Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which rolled forward to June 30, 2018. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	2.25 Percent
Salary Increases:	
Through 2026	1.65-4.15 Percent (based on age)
Thereafter	2.65-5.15 Percent (based on age)
Investment Rate of Return	7.00 Percent

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality Rates

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the Conduent modified 2014 projection scale. Post-retirement mortality

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 6: PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS), (continued)

rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using projection scale AA and using a generational approach based on Conduent 2014 projection scale thereafter. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Mitigation Strategies	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U. S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
High yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real estate	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U. S. Equity	30.00%	8.19%
Non-U. S. Developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 6: PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS), (continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.87% as of June 30, 2018 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2018 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 - percentage point lower or 1-percentage-point higher than the current rate:

	<u>June 30, 2018</u>		
	<u>1%</u>	<u>At Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount Rate</u>	<u>Increase</u>
	<u>4.66%</u>	<u>5.66%</u>	<u>6.66%</u>
Township's proportionate share of the pension liability	47,590	37,848	29,676

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS). The financial report may be accessed at www.state.nj.us/treasury/pensions.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 7: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2018 and 2017 which were appropriated and included as anticipated revenue in their own respective funds for the years ending December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Current Fund	<u>\$81,403.00</u>	<u>\$ 79,759.00</u>

NOTE 8: REGIONAL AND REGIONAL HIGH SCHOOL DISTRICT SCHOOL TAXES

Regulations provide for the deferral of not more than 50% of the annual levy when school taxes are raised for a school year and have not been requisitioned by the School District. The Township of Walpack has not elected to defer school taxes.

NOTE 9: ACCRUED SICK AND VACATION BENEFITS

The Township of Walpack has a policy for employees to accrue unused vacation and sick pay, which may be taken as time off or paid at a later date at an agreed upon amount as determined by the Township Committee. At the time of the audit there was not any cost of such unpaid compensation. Such compensation would be included in the Townships budget operating expenditures in the year it is used.

NOTE 10: 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 Township'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 Township's bank balance of \$387,609.68 was exposed to custodial credit risk.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 10: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments

Investment Rate Risk

The Township 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 Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk

New Jersey Statutes 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 Townships or bonds or other obligations of the local unit or units within which the Township 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.

Concentration of Credit Risk

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

NOTE 11: RISK MANAGEMENT

The Township is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained insurance coverage to guard against these events which will provide minimum exposure to the Township should they occur. During the 2018 calendar year, the Township did not incur claims in excess of their coverage and the amount of coverage did not significantly decrease.

NOTE 12: PUBLIC ASSISTANCE

The Township of Walpack has elected to have the County of Sussex process all public assistance granted to the residents. Therefore, the Township of Walpack no longer has a public assistance director.

TOWNSHIP OF WALPACK

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(CONTINUED)**

NOTE 13: HEALTH INSPECTIONS

The Township of Walpack has elected to have the County of Sussex, Department of Health perform all inspections. Therefore, the Township does not have a health inspector.

NOTE 14: TAXES COLLECTED IN ADVANCE

Taxes collected in advance are recorded as cash liabilities in the financial statements. Following is a comparison of the liability for the previous two years:

	<u>Balance Dec 31, 2018</u>	<u>Balance Dec 31, 2017</u>
Prepaid Taxes	<u>\$1,063.22</u>	<u>\$1,269.97</u>
Cash Liability for Taxes Collected in Advance	<u>\$1,063.22</u>	<u>\$1,269.97</u>

NOTE 15: CONTINGENT LIABILITIES

We are advised by Township Counsel, that the Township is not involved in any suits that would have a material impact on the Financial Statements.

NOTE 16: SUBSEQUENT EVENT

The Township has evaluated subsequent events through July 29, 2019, the date which the financial statements were available to be issued and no other items were noted for disclosure.

SUPPLEMENTARY DATA

TOWNSHIP OF WALPACK, N.J.

OFFICIALS IN OFFICE AND SURETY BONDS

YEAR ENDED DECEMBER 31, 2018

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

<u>Name</u>	<u>Title</u>	<u>Amount of Bond</u>	<u>Name of Corporate Surety</u>
Victor Maglio	Mayor		
James Heigis	Deputy Mayor		
Janina Wycalek	Committeeperson		
Christine Von Oesen	Municipal Clerk; Secretary Board of Health		
Maria Maglio	Deputy Clerk; Assessment Search Officer		
Michelle LaStarza	Chief Finance Officer; Treasurer	25,000.00	Selective Ins. Co.
Terry Beshada	Collector and Tax Search Officer	11,000.00	Selective Ins. Co.
Amy Lobban	Registrar		
Greg Chontow	Construction Official; Uniform Fire Code Official		
Maureen Kaman	Assessor		
Glenn Kienz	Township Attorney		
N.J. Division of Code & Standards	Fire Inspection Office		
Thomas M. Ferry, C.P.A., R.M.A.	Township Auditor		

All of the bonds were examined and were properly executed.
All employees are covered by a \$3,000 Blanket Bond.

Township of Walpack
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Not Applicable

Township of Walpack
 Schedule of Expenditures of State Financial Assistance
 For the Year Ended December 31, 2018

<u>State Grantor/Program Title</u>	<u>Grant or State Project Number</u>	<u>Program or Award Amount</u>	<u>Grant Period From/To</u>	<u>12/31/2017 Reserve Balance</u>	<u>Expended</u>	<u>Cancelled</u>	<u>12/31/2018 Reserve Balance</u>	<u>MEMO Cumulative Total Expenditures</u>	
<u>FEDERAL AND STATE GRANT FUND</u>									
NJ Department of Environmental Protection									
Recycling Tonnage	4910-100-042-4910-224	490.75	1/1/15-12/31/15	7.00	(7.00)			490.75	
Recycling Tonnage	4910-100-042-4910-224	136.21	1/1/16-12/31/16	136.00	(122.00)		14.00	122.21	
Recycling Tonnage	4910-100-042-4910-224	100.49	1/1/17-12/31/17	100.49		(0.49)	100.00	0.49	
				243.49	(129.00)	(0.49)	114.00	613.45	
				243.49	(129.00)	(0.49)	114.00	613.45	
				<u>TOTAL STATE AID</u>	243.49	(129.00)	(0.49)	114.00	613.45

Note: This schedule was not subject to an audit in accordance with N.J. OMB Circular 15-08.

COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE

CURRENT FUND

	<u>Year 2018</u>		<u>Year 2017</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Revenue and Other Income Realized</u>				
Fund Balance Utilized	79,759.00	45.65%	126,359.00	55.77%
Miscellaneous - From Other Than				
Local Property Tax Levies	37,038.00	21.20%	37,074.00	16.36%
Collection of Current				
Tax Levy	15,265.22	8.74%	22,178.13	9.79%
Other Credits to Income	42,669.22	24.42%	40,974.12	18.08%
	<u>174,731.44</u>	<u>100.00%</u>	<u>226,585.25</u>	<u>100.00%</u>
<u>Expenditures</u>				
Budget Expenditures:				
Municipal Purposes	111,726.00	86.36%	136,362.00	89.18%
County Taxes	17,192.92	13.29%	16,538.82	10.82%
Other Expenditures	453.16	0.350%		0.000%
	<u>129,372.08</u>	<u>100.00%</u>	<u>152,900.82</u>	<u>100.00%</u>
Statutory Excess to Fund Balance	45,359.36		73,684.43	
Fund Balance, January 1,	<u>329,463.83</u>		<u>382,138.40</u>	
	374,823.19		455,822.83	
Less:				
Utilized as Anticipated Revenue	<u>79,759.00</u>		<u>126,359.00</u>	
Fund Balance, December 31,	<u><u>295,064.19</u></u>		<u><u>329,463.83</u></u>	

COMPARATIVE SCHEDULE OF TAX RATE INFORMATION

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Tax Rate:</u>	<u>.658</u>	<u>1.503</u>	<u>2.365</u>

Apportionment of Tax Rate:

County	.658	.650	.612
Regional High School	-0-	.853	1.753

Net Valuation Taxable:

2018	2,344,098		
2017		2,611,390	
2016			2,608,454

COMPARISON OF TAX LEVIES AND COLLECTION CURRENTLY

A study of this tabulation could indicate a possible trend in future levies. A decrease in the percentage of current collection could be an indication of a probable increase in future tax levies.

<u>Year</u>	<u>Tax Levy</u>	<u>Cash Collections</u>	<u>Percentage of Collection</u>
2018	15,424.14	15,265.22	98.97%
2017	22,178.13	22,178.13	100.00%
2016	61,665.09	38,661.55	62.69%

Also, increases in future tax levies can also be warranted if revenue sources outside of those directly generated by the municipality, such as Federal or State Aid, should decline without corresponding decreases in budgeted expenditures.

DELINQUENT TAXES AND TAX TITLE LIENS

<u>Dec. 31, Year</u>	<u>Tax Title Liens</u>	<u>Amount of Delinquent Taxes</u>	<u>Amount of Total Delinquent</u>	<u>Percentage of Tax Levy</u>
2018	-0-	157.85	157.85	1.02%
2017	-0-	-0-	-0-	-0-%
2016	-0-	716.54	716.54	1.16%

PROPERTY ACQUIRED BY TAX TITLE LIEN LIQUIDATION

The value of property acquired by liquidation of tax title liens on December 31, on the basis of the last assessed valuation of such properties, was as follows:

<u>Year</u>	<u>Amount</u>
2018	-0-
2017	-0-
2016	-0-

COMPARATIVE SCHEDULE OF FUND BALANCES

	<u>Year</u>	<u>Balance December 31,</u>	<u>Utilized In Budget of Succeeding Year</u>
Current Fund:	2018	295,064.19	81,403.00
	2017	329,463.83	79,759.00
	2016	382,138.40	126,359.00
	2015	437,440.36	81,563.00
	2014	500,744.81	147,057.00

Township of Walpack, N.J.
Schedule of Cash - Treasurer
Current Fund
Year Ended December 31, 2018

	<u>Ref.</u>		<u>Current Fund</u>
Balance - December 31, 2017	A		356,793.75
Increased by Receipts:			
Miscellaneous Revenue Not Anticipated	A-2	36,564.32	
Collector	A-5	14,366.46	
Due From State - Senior Citizen and Veteran Deductions	A-6	500.00	
Revenue Accounts Receivable	A-8	36,938.00	
Interfunds	A-9	100.00	
Overpayments	A-15	0.37	
Various Cash Liabilities and Reserves	A-16	30.00	
			88,499.15
			445,292.90
Decreased by Disbursements:			
Prior Year Added County Taxes	A-1	1,781.14	
Current Year Budget Appropriations	A-3	68,705.59	
Interfunds	A-9	229.00	
Appropriation Reserves	A-10	12,270.89	
Regional District School Taxes	A-13	24,929.00	
County Taxes Payable	A-14	15,411.78	
Various Cash Liabilities and Reserves	A-16	55.00	
			123,382.40
Balance - December 31, 2018	A		321,910.50

Township of Walpack, N.J.
Schedule of Cash - Collector
Current Fund
Year Ended December 31, 2018

	<u>Ref.</u>		
Increased By:			
Interests and Costs	A-2	57.99	
2018 Taxes Receivable	A-7	13,245.25	
Prepaid Taxes	A-12	<u>1,063.22</u>	
			<u><u>14,366.46</u></u>
Decreased By:			
Paid to Treasurer	A-4		<u><u>14,366.46</u></u>

Township of Walpack, N.J.

Schedule of Amount Due To State of New Jersey
for Senior Citizens' and Veterans' Deductions - CH. 73 P.L. 1976

Current Fund

Year Ended December 31, 2018

	<u>Ref.</u>	
Balance - December 31, 2017	A	3,289.15
Increased by:		
Received in Cash from State of New Jersey	A-4	<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;">500.00</div> <hr style="width: 50px;"/> </div>
		3,789.15
Decreased by:		
Senior Citizen Deductions per Billings		250.00
Veterans' Deduction per Billings		500.00
	A-7	<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;">750.00</div> <hr style="width: 50px;"/> </div>
Balance - December 31, 2018	A	<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;">3,039.15</div> <hr style="width: 50px; border-top: 3px double black;"/> </div>

Township of Walpack, N.J.
Schedule of Taxes Receivable and Analysis of Property Tax Levy
Current Fund
Year Ended December 31, 2018

<u>Year</u>	<u>Levy</u>	<u>Collected</u>		<u>Senior Citizen and Veteran Deductions</u>	<u>Cancelled</u>	<u>Balance, Dec. 31, 2018</u>
		<u>2017</u>	<u>2018</u>			
2018	15,424.14	1,269.97	13,245.25	750.00	1.07	157.85
	<u>15,424.14</u>	<u>1,269.97</u>	<u>13,245.25</u>	<u>750.00</u>	<u>1.07</u>	<u>157.85</u>
		A-2; A-12	A-2; A-5	A-2; A-6		A

Analysis of Tax Levy

Tax yield:		<u>Ref.</u>	
General Purpose Tax			<u>15,424.14</u>
Tax Levy:			
County Tax	A-14		15,611.78
Less: Chapter 63, Laws of 1991	A-14		<u>200.00</u>
	A-2		15,411.78
Levy Adjustment			<u>12.36</u>
			<u>15,424.14</u>

Township of Walpack, N.J.

Schedule of Revenue Accounts Receivable

Current Fund

Year Ended December 31, 2018

	<u>Ref.</u>	<u>Accrued</u>	<u>Collected</u>
Energy Receipts Taxes	A-2	<u>36,938.00</u>	<u>36,938.00</u> A-4

Township of Walpack, N.J.
Schedule of Interfunds Receivables/(Payables)

Current Fund

Year Ended December 31, 2018

<u>Fund</u>	<u>Ref.</u>	Due From/(To) Balance <u>Dec. 31, 2017</u>	<u>Increased</u>	<u>Decreased</u>	Due From/(To) Balance <u>Dec. 31, 2018</u>
Federal and State Grants	A	(243.49)	229.49	100.00	(114.00)
Animal Control Trust Fund	A		3.00		3.00
		<u>(243.49)</u>	<u>232.49</u>	<u>100.00</u>	<u>(111.00)</u>
 <u>Analysis</u>					
Due to Current Fund	A-1				3.00
Due from Current Fund		<u>(243.49)</u>			<u>(114.00)</u>
		<u>(243.49)</u>			<u>(111.00)</u>
 <u>Ref.</u>					
Grants Cancelled	A-1		0.49		
Statutory Excess	A-1		3.00		
Cash Receipts	A-4			100.00	
Cash Disbursements	A-4		<u>229.00</u>		
			<u>232.49</u>	<u>100.00</u>	

Township of Walpack, N.J.

Schedule of Appropriation Reserves

Current Fund

Year Ended December 31, 2018

	Balance, Dec. 31, 2017	Balance after Transfers	Paid or Charged	Balance Lapsed
Salaries and Wages:				
Public Buildings and Grounds	500.00	500.00		500.00
Emergency Management Coordinator	400.00	400.00		400.00
Animal Regulation	150.00	150.00		150.00
Total Salaries and Wages:	<u>1,050.00</u>	<u>1,050.00</u>		<u>1,050.00</u>
Other Expenses:				
Municipal Clerk	359.49	359.49	10.00	349.49
Financial Administration	420.60	420.60	35.46	385.14
Audit	12,090.00	12,090.00	12,090.00	
Assessment of Taxes	184.44	184.44	25.80	158.64
Collection of Taxes	400.00	400.00		400.00
Public Buildings and Grounds	472.72	472.72		472.72
Emergency Management Coordinator	200.00	200.00		200.00
Electricity	239.36	239.36		239.36
Fuel Oil	1,371.26	1,371.26		1,371.26
Telephone	511.44	511.44	35.63	475.81
Animal Regulation	350.00	350.00	74.00	276.00
Construction Official	100.00	100.00		100.00
Fire Protection Officials	352.00	352.00		352.00
Plumbing Official	200.00	200.00		200.00
Total Other Expenses:	<u>17,251.31</u>	<u>17,251.31</u>	<u>12,270.89</u>	<u>4,980.42</u>
Deferred Charges and Statutory Expenditures				
Statutory Expenditures:				
Contribution To:				
Social Security (O.A.S.I.)	0.30	0.30		0.30
Unemployment Compensation Insurance	8.50	8.50		8.50
Total Deferred Charges and Statutory Expenditures - Municipal	<u>8.80</u>	<u>8.80</u>	<u>-</u>	<u>8.80</u>
Transfer to Board of Education for Use of Local Schools (N.J.S. 40:48-17.1 & 17.3)				
	0.06	0.06		0.06
Total Transfer to Board of Education	<u>0.06</u>	<u>0.06</u>	<u>-</u>	<u>0.06</u>
Total General Appropriation Reserves	<u>18,310.17</u>	<u>18,310.17</u>	<u>12,270.89</u>	<u>6,039.28</u>
			A-4	A-1
<u>Ref.</u>				
<u>Analysis of Appropriation Reserves</u>				
Unencumbered	A	18,200.11		
Encumbered	A	110.06		
		<u>18,310.17</u>		

Township of Walpack, N.J.
Schedule of Accounts Payable
Current Fund
Year Ended December 31, 2018

	<u>Ref.</u>	
Balance - December 31, 2017	A	<u>4.14</u>
Decreased by:		
Accounts Payable Cancelled	A-1	<u><u>4.14</u></u>

Township of Walpack, N.J.

Schedule of Prepaid Taxes

Current Fund

Year Ended December 31, 2018

	<u>Ref.</u>	
Balance - December 31, 2017	A	1,269.97
Increased by:		
Cash Receipts	A-5	<u>1,063.22</u>
		2,333.19
Decreased by:		
Applied to 2018 Taxes	A-7	<u>1,269.97</u>
Balance - December 31, 2018	A	<u><u>1,063.22</u></u>

Township of Walpack, N.J.

Schedule of Local Regional District School Tax Payable

Current Fund

Year Ended December 31, 2018

	<u>Ref.</u>	
Increased by:		
Levy - Calender Year 2018	A-3	<u>24,929.00</u>
Decreased by:		
Payments	A-4	<u>24,929.00</u>

Township of Walpack, N.J.
Schedule of County Taxes Payable
Current Fund
Year Ended December 31, 2018

	<u>Ref.</u>		
Increased by:			
Levy	A-7	15,611.78	
Less: Chapter 63, Laws of 1991	A-7	<u>200.00</u>	
	A-1		<u><u>15,411.78</u></u>
Decreased by:			
Cash Disbursements	A-4		<u><u>15,411.78</u></u>

Township of Walpack, N.J.
Schedule of Tax Overpayments
Current Fund
Year Ended December 31, 2018

	<u>Ref.</u>		
Increased by:			
Prior Year Overpayments	A-1	450.16	
Overpayments	A-4	0.37	
			450.53
Balance - December 31, 2018	A		450.53

Township of Walpack, N.J.

Schedule of Various Cash Liabilities and Reserves

Current Fund

Year Ended December 31, 2018

<u>Liabilities and Reserves</u>	<u>Ref</u>	<u>Balance Dec. 31, 2017</u>	<u>Increased</u>	<u>Decreased</u>	<u>Balance Dec. 31, 2018</u>
<u>Liabilities</u>					
Due State of NJ Marriage License Fees	A	25.00	25.00	50.00	
Due State of NJ DCA Fees			5.00	5.00	
<u>Reserves for:</u>					
Revision of Tax Map	A	4,188.00			4,188.00
		<u>4,213.00</u>	<u>30.00</u>	<u>55.00</u>	<u>4,188.00</u>
	Cash Receipts	A-4	30.00		
	Cash Disbursements	A-4		55.00	
			<u>30.00</u>	<u>55.00</u>	

Township of Walpack, N.J.
Schedule of Grants Receivable
Federal and State Grant Fund
Year Ended December 31, 2018

<u>Grant</u>	<u>Budget Revenue</u>	<u>Received</u>
Recycling Tonnage	<u>100.00</u> A-2	<u>100.00</u> A-20

Township of Walpack, N.J.

Schedule of Appropriated Reserves for Grants

Federal and State Grant Fund

Year Ended December 31, 2018

<u>Grant</u>	<u>Balance</u> <u>Dec. 31, 2017</u>	Transfer From 2018 <u>Budget</u>	<u>Expended</u>	<u>Balance</u> <u>Dec. 31, 2018</u>
Recycling Tonnage	<u>143.00</u>	<u>100.00</u>	<u>129.00</u>	<u>114.00</u>
	A	A-3	A-20	A

Township of Walpack, N.J.

Schedule of Unappropriated Reserves for Grants

Federal and State Grant Fund

Year Ended December 31, 2018

<u>Grant</u>	<u>Balance Dec. 31, 2017</u>	<u>Transfer to Appropriated Reserves</u>	<u>Canceled</u>
Recycling Tonnage Grant	<u>100.49</u>	<u>100.00</u>	<u>0.49</u>
	A	A-20	A-20

Township of Walpack, N.J.

Schedule of Interfunds Receivables/(Payables)

Federal and State Grant Fund

Year Ended December 31, 2018

<u>Fund</u>	Due From/(To) Balance <u>Dec. 31, 2017</u>	<u>Increased</u>	<u>Decreased</u>	Due From/(To) Balance <u>Dec. 31, 2018</u>
Current Fund	243.49	100.00	229.49	114.00
	A			A
	<u>Ref.</u>			
Grants Receivable	A-17	100.00		
Appropriated Grants	A-18		129.00	
Grants Cancelled	A-19		0.49	
Unappropriated Grants	A-19		100.00	
		<u>100.00</u>	<u>229.49</u>	

Township of Walpack, N.J.

Schedule of Cash

Trust Funds

Year Ended December 31, 2018

	<u>Ref.</u>	<u>Animal Control Fund</u>	<u>Other Trust Funds</u>
Balance - December 31, 2017	B	6.00	1.00
Increase by Receipts:			
Other Trust Funds	B-3	6.00	6,568.72
			6,569.72
Decreased by Disbursements:			
Other Trust Funds	B-3		6,569.72
Balance - December 31, 2018	B	6.00	

Township of Walpack, N.J.
Reserve for Animal Control Fund Expenditures

Trust Funds

Year Ended December 31, 2018

	<u>Ref.</u>	
Balance - December 31, 2017	B	6.00
Decreased by:		
Statutory Excess	B-4	3.00
Balance - December 31, 2018	B	3.00

License Fees Collected

<u>Year</u>		
2017		-
2016		3.00
		3.00

Township of Walpack, N.J.
Schedule of Other Trust Funds
Trust Funds
Year Ended December 31, 2018

	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Increased</u>	<u>Decreased</u>
Reserve for Payroll Deductions Payable	<u>1.00</u>	<u>6,568.72</u>	<u>6,569.72</u>
	B	B-1	B-1

Township of Walpack, N.J.
Schedule of Interfund - Current Fund
Trust Funds
Year Ended December 31, 2018

	<u>Increased</u>	Due to/(from) Balance <u>Dec. 31, 2018</u>
Animal Control Trust	<u>3.00</u> B-2	<u>3.00</u> B

Township of Walpack, N.J.

Schedule of Cash

General Capital Fund

Year Ended December 31, 2018

	<u>Ref.</u>	
Balance - December 31, 2017	C	57,076.47
Increased by Receipts:		
Interfund Current Fund	C-3	50,039.64
		<u>107,116.11</u>
Decreased by Disbursements:		
Interfund Current Fund	C-3	51,689.64
		<u>51,689.64</u>
Balance - December 31, 2018	C	<u><u>55,426.47</u></u>

Schedule of Capital Improvement Fund

General Capital Fund

Year Ended December 31, 2018

	<u>Ref.</u>	
Balance - December 31, 2017	C	<u><u>14,000.00</u></u>
Balance - December 31, 2018	C	<u><u>14,000.00</u></u>

C-3

Township of Walpack, N.J.
Schedule of Due To/(From) Current Fund
General Capital Fund
Year Ended December 31, 2018

	<u>Ref.</u>		
Increased by:			
Cash Disbursements	C-1		<u>51,689.64</u>
Decreased by:			
Cash Receipts	C-1	50,039.64	
Reserve for Municipal Building	C-4	<u>1,650.00</u>	
			<u>51,689.64</u>

C-4

Schedule of Reserve for Municipal Building
General Capital Fund
Year Ended December 31, 2018

	<u>Ref.</u>	
Balance - December 31, 2017	C	33,076.47
Decreased by:		
Interfund Current Fund	C-3	<u>1,650.00</u>
Balance - December 31, 2018	C	<u>31,426.47</u>

Township of Walpack, N.J.
Schedule of Improvement Authorizations
General Capital Fund
Year Ended December 31, 2018

<u>Improvement Description</u>	<u>Ordinance</u>		<u>Balance</u>	<u>Balance</u>
	<u>Date</u>	<u>Amount</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>
			<u>Funded</u>	<u>Funded</u>
Demolition of Municipal Garage	09/27/11	10,000.00	<u>10,000.00</u>	<u>10,000.00</u>
			C	C

Township of Walpack, N.J.
Schedule of Cash-Treasurer
Public Assistance Fund
Year Ended December 31, 2018

	<u>Ref.</u>	
Balance - December 31, 2017	D	10,000.00
Increased by Receipts:		
Interest Earned	D-2	<u>9.04</u>
		10,009.04
Decreased by Disbursements:		
Paid to Current	D-2	<u>9.04</u>
Balance - December 31, 2018	D	<u><u>10,000.00</u></u>

Township of Walpack, N.J.

Schedule of Reserve for Public Assistance

Public Assistance Fund

Year Ended December 31, 2018

Balance - December 31, 2017	<u>Ref.</u> D	10,000.00
Increased by:		
Interest Earned	D-1	<u>9.04</u>
		10,009.04
Decreased by:		
Paid to Current	D-1	<u>9.04</u>
Balance - December 31, 2018	D	<u><u>10,000.00</u></u>

TOWNSHIP OF WALPACK

PART II

**LETTER ON INTERNAL CONTROL, COMPLIANCE AND
OTHER MATTERS**

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2018

Ferraioli, Wielkottz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkottz, CPA, RMA
James J. Cerullo, CPA, RMA
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INDEPENDENT AUDITOR'S 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

Honorable Mayor and
Members of the Township Committee
Township of Walpack
Walpack Center, N.J. 07881

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements-regulatory basis of the Township of Walpack in the County of Warren as of and for the year ended December 31, 2018 and the related notes to the financial statements, and have issued our report thereon dated July 29, 2019, which was adverse due to being presented in accordance with New Jersey regulatory basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements-regulatory basis, we considered the Township of Walpack's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements-regulatory basis, but not for the purpose of expressing an opinion on the effectiveness of the Township of Walpack's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township of Walpack'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as 2018-01, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Township of Walpack 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 Walpack internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant
No. 497

Ferraioli, Wielkottz, Cerullo & Cava, PA
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

Newton, New Jersey
July 29, 2019



TOWNSHIP OF WALPACK, N.J.

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Summary of Auditor's Results:

A qualified opinion was issued on the Township's financial statements prepared on an other comprehensive basis of accounting.

The audit did disclose a significant deficiency in the internal control of the Township.

The Township was not subject to the single audit provisions of Uniform Guidance and State Circular 15-08 OMB for 2018 as grant expenditures were less than the single audit thresholds identified in the Circulars.

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

The audit did disclose findings required to be reported under Generally Accepted Government Auditing Standards, as follows:

Finding 2018-01:

Segregation of Duties

The Township does not maintain an adequate segregation of duties within the Treasury Department, Payroll Department and Tax Collection Office. Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to misappropriate funds and prevent detection within a reasonable period of time. The Chief Financial Officer controls disbursements of funds, has control of checks, and reconciles bank statements. Inadequate segregation of duties was also found within the Tax Collection Office. Within the payroll department, preparation of payroll, signing of checks and bank reconciliation is also performed by one employee. These situations occur because of the limited number of employees qualified to perform other accounting functions. The Township was made aware of this lack on internal control and will consider strengthening Internal Control within reason of the costs and benefits derived.

Recommendation:

That adequate segregation of duties within the Treasury Department, Payroll Department and Tax Collection Department be maintained.

Management Response:

The Township will consider strengthening internal control within reason of costs, benefits derived and budget constraints.

Findings and Questioned Costs for Federal Awards:

Not applicable

Findings and Questioned Costs for State Awards:

Not applicable

TOWNSHIP OF WALPACK, N.J.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

The Township's prior year audit finding, 2017-01, regarding segregation of duties has not been corrected and is included in the audit for the year ended December 31, 2018.

Finding 2017-01:

Condition:

Segregation of Duties

The Township does not maintain an adequate segregation of duties within the Treasury Department, Payroll Department and Tax Collection Office. Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to misappropriate funds and prevent detection within a reasonable period of time. The Chief Financial Officer controls disbursements of funds, has control of checks, and reconciles bank statements. Inadequate segregation of duties was also found within the Tax Collection Office. Within the payroll department, preparation of payroll, signing of checks and bank reconciliation is also performed by one employee. These situations occur because of the limited number of employees qualified to perform other accounting functions. The Township was made aware of this lack on internal control and will consider strengthening Internal Control within reason of the costs and benefits derived.

Current Status:

Corrective action has not been taken. The Township was made aware of this lack of internal control and will consider strengthening internal control within reason of the costs and benefits derived.

COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS

Cash Balance

Cash balances in all funds were verified by independent certificates obtained from the depositories as of December 31, 2018, and July 29, 2019, in connection with the supplemental reconciliations made for all officials. Cash on hand was counted on that date.

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

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

a. “When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1971, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contracts made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A:11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit’s fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L. 1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, c.198 (C.40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. That adjustment shall become effective on July 1 of the year in which it is made.”

N.J.S.A. 40A:11-4 states: “Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsection b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder.”

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

Effective July 1, 2015, the bid threshold in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) is \$17,500.00 and with a qualified purchasing agent the threshold may be up to \$40,000.00.

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

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

Inasmuch as the system of records did not provide for the 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. None were noted.

Our review of the Township's minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

Our examination of expenditures did not reveal any individual payments, contracts or agreements in excess of the statutory threshold "for the performance of any work or the furnishing or hiring of any materials or supplies," other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provisions of N.J.S.A. 40A:11-6.

COLLECTION OF INTEREST ON DELINQUENT TAXES AND ASSESSMENTS

The Statute R.S. 54:4-67 provides the method for authorizing interest and the maximum rates to be charged for the nonpayment of taxes or assessments on or before the date they would become delinquent.

The governing body on January 2, 2018 adopted the following resolution authorizing interest to be charged on delinquent taxes.

BE IT RESOLVED by the Mayor and Committee of the Township of Walpack that the charge of interest on all delinquent taxes be 8% per annum up to \$1,500 and 18% per annum over \$1,500.

It was determined from a test of the Collector's record that interest was collected in accordance with the forgoing resolution.

DELINQUENT TAXES AND TAX TITLE LIENS

During 2018, there was no tax sale held.

The following comparison is made of the number of tax title liens receivable on December 31 of the last three years:

<u>Year</u>	<u>Number of Liens</u>
2018	-0-
2017	-0-
2016	-0-

VERIFICATION OF DELINQUENT TAXES AND OTHER CHARGES

A test verification of delinquent charges and current payments was made in accordance with the regulations of the Division of Local Government Services.

The result of the test which was made as of December 31, 2018 is not yet known, but a separate report will be rendered if any irregularities are developed.

In addition, analytical review procedures were utilized to ascertain the validity of the receivables.

OTHER COMMENTS

Segregation of Duties

The Township does not maintain an adequate segregation of duties within the Treasury Department, Payroll Department and Tax Collection Office. Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to misappropriate funds and prevent detection within a reasonable period of time. The Chief Financial Officer controls disbursements of funds, has control of checks, and reconciles bank statements. Inadequate segregation of duties was also found within the Tax Collection Office. Within the payroll department, preparation of payroll, signing of checks and bank reconciliation is also performed by one employee. These situations occur because of the limited number of employees qualified to perform other accounting functions. The Township was made aware of this lack on internal control and will consider strengthening Internal Control within reason of the costs and benefits derived.

Management Response:

The Township will consider strengthening internal control within reason of costs, benefits derived and budget constraints.

Finance

1. The Township does not have a detailed listing of fixed assets for 2018, in accordance with Technical Directive 85-2.

Management Response:

The Township will have a Fixed Asset Company perform a valuation of the Township's fixed assets.

RECOMMENDATIONS

1. That adequate segregation of duties within the Treasury Department, Payroll Department and Tax Collection Department be maintained.
2. That the Township maintain a detailed fixed asset listing in accordance with Technical Directive 85-2.

Status of Prior Year's Audit Findings/Recommendations

A review was performed on all prior year's recommendations and corrective action was taken on all, with the exception of the following:

1. That adequate segregation of duties within the Treasury Department, Payroll Department and Tax Collection Department be maintained.
2. That the Township maintain a detailed fixed asset listing in accordance with Technical Directive 85-2.

The problems and weaknesses noted in this review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

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



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant
No. 497

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