

MADISON-CHATHAM JOINT MEETING

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2019

MADISON-CHATHAM JOINT MEETING
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YEAR ENDED DECEMBER 31, 2019

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Independent Auditors' Report

The Board of Trustees of the
Madison-Chatham Joint Meeting
Chatham, New Jersey

Report on the Financial Statements

We have audited the financial statements – *regulatory basis* - of the various funds of the Madison-Chatham Joint Meeting (the "Joint Meeting"), in the County of Morris, a component unit of the Boroughs of Madison and Chatham, as of and for the year ended December 31, 2019, and the related notes to the financial statements, as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Joint Meeting'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 Joint Meeting'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, the financial statements are prepared by the Joint Meeting on the basis of accounting practices prescribed or permitted by the Division to demonstrate compliance with the Division's regulatory basis of accounting and the budget laws of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for the Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly in accordance with accounting principles generally accepted in the United States of America the financial position of each fund of the Joint Meeting as of December 31, 2019, or the changes in financial position where applicable, thereof for the year then ended.

Basis for Qualified Opinion

The Joint Meeting's general fixed assets account group is stated at historical cost in the accompanying financial statements. We were unable to obtain sufficient evidence to support the cost of the fixed assets of the Plant Fund. As more fully described in Note 1, due to the length of time over which these fixed assets were acquired, it is not practical to determine their actual costs. Therefore, based upon the underlying accounting records, we have not audited the Plant Fund.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects on the December 31, 2019 financial statements of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Madison-Chatham Joint Meeting as of December 31, 2019, and the results of operations and changes in fund balance, where applicable, of such funds, thereof for the year then ended on the basis of the accounting practices prescribed or permitted by the Division to demonstrate compliance with the Division's regulatory basis of accounting and the budget laws of New Jersey, as described in Note 1.

Other Matters

Supplementary Information

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

Board of Trustees of the
Madison-Chatham Joint Meeting
Page 3

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2020 on our consideration of the Madison-Chatham Joint Meeting's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Joint Meeting's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Madison-Chatham Joint Meeting's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
June 19, 2020

NISIVOCCIA LLP

Man C Lee

Man C. Lee
Registered Municipal Accountant No. 562
Certified Public Accountant

MADISON-CHATHAM JOINT MEETING
OPERATING AND PLANT FUNDS
BALANCE SHEET - REGULATORY BASIS
YEAR ENDED DECEMBER 31, 2019

ASSETS:

Operating Fund:

Cash and Cash Equivalents	\$ 1,204,570.55
NJ Environmental Infrastructure Trust Fund Receivable	7,053,570.00
Total Operating Fund	8,258,140.55

Plant Fund - Fixed Assets (Unaudited):

Fixed Assets	5,294,600.00
Total Plant Fund - Fixed Assets	5,294,600.00

TOTAL ASSETS	\$ 13,552,740.55
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LIABILITIES

Accounts Payable - Vendors - Operating	\$ 193,030.16
Accounts Payable - Vendors - Capital	252.00
TOTAL LIABILITIES	193,282.16

FUND BALANCE:

Operating Fund:

Fund Balances:	
Designated for Capital Projects	7,529,162.67
Designated for Expansion, Operation, and Maintenance	66,663.00
Undesignated	469,032.72
Total Operating Fund - Fund Balances	8,064,858.39

Total Operating Fund Liabilities and Fund Balances	8,258,140.55
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Plant Fund - Fixed Assets (Unaudited):

Reserve:	
Investment in Fixed Assets	5,294,600.00
Total Plant Fund - Fixed Assets	5,294,600.00

TOTAL FUND BALANCES	13,359,458.39
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TOTAL LIABILITIES, RESERVES AND FUND BALANCES	\$ 13,552,740.55
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THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT.

MADISON-CHATHAM JOINT MEETING
OPERATING FUND
STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCE -
REGULATORY BASIS
YEAR ENDED DECEMBER 31, 2019

	<u>Undesignated</u>	<u>Designated</u>	<u>Total</u>
Revenues:			
Public Support and Revenues:			
Borough of Madison	\$ 1,000,711.20		\$ 1,000,711.20
Borough of Chatham	618,562.65		618,562.65
Township of Chatham - Sewer Service Fees	15,351.22		15,351.22
Center Court	7,136.61		7,136.61
New Jersey Environmental			
Infrastructure Trust		\$ 7,500,000.00	7,500,000.00
Interest on Investments	19,421.16		19,421.16
Total Revenues	<u>1,661,182.84</u>	<u>7,500,000.00</u>	<u>9,161,182.84</u>
Expenditures:			
Plant Operations	1,496,452.50		1,496,452.50
Capital Outlay		546,730.27	546,730.27
Employee Health Benefits	91,809.41		91,809.41
Total Expenditures	<u>1,588,261.91</u>	<u>546,730.27</u>	<u>2,134,992.18</u>
Change in Fund Balance	72,920.93	6,953,269.73	7,026,190.66
Balance January 1	<u>396,111.79</u>	<u>642,555.94</u>	<u>1,038,667.73</u>
Balance December 31	<u>\$ 469,032.72</u>	<u>\$ 7,595,825.67</u>	<u>\$ 8,064,858.39</u>

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

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Note 1: Summary of Significant Accounting Policies

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

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

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

Plant Fund (Unaudited) - In accordance with New Jersey Administrative Code account requirements the Joint Meeting has developed a fixed assets accounting and reporting system based on the following:

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

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

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

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

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

Investments – Investments are stated at cost.

Designated Fund Balance – The Board of Joint Meeting Trustees has designated funds to be used for specific capital projects and for expansion, operation, and maintenance.

Note 2: Pension Plan

Joint Meeting employees participate in the State of New Jersey Public Employee's Retirement System (PERS).

A. Public Employees' Retirement System (PERS)

Plan Description

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

Benefits Provided

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

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

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 2: Pension Plan (Cont'd)

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

Benefits Provided (Cont'd)

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 with 25 or more years of service credit before age 62 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.

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing members. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. Joint Meeting contributions to PERS amounted to \$56,894 for 2019.

The employee contribution rate was 7.50% effective July 1, 2018.

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

At June 30, 2019, the Joint Meeting's liability was \$1,146,085 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018 which was rolled forward to June 30, 2019. The Joint Meeting's proportion of the net pension liability was based on a projection of the Joint Meeting's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2019, the Joint Meeting's proportion was 0.0063%, which was an increase of 0.0001% from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the Joint Meeting recognized actual pension expense in the amount of \$56,894.

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 2: Pension Plan (Cont'd)

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

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018 which was rolled forward to June 30, 2019. This actuarial valuation used the following actuarial assumptions:

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through 2026	2.00 – 6.00% based on years of service
Thereafter	3.00 – 7.00% based on years of service
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee Mortality Table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and a 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

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

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2019) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2019 are summarized in the following table.

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 2: Pension Plan (Cont'd)

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

Long Term Expected Rate of Return (Cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Management Strategies	3.00%	4.67%
Cash Equivalents	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment Grade Credit	10.00%	4.25%
High Yield	2.00%	5.37%
Private Credit	6.00%	7.92%
Real Assets	2.50%	9.31%
Real Estate	7.50%	8.33%
U.S. Equity	28.00%	8.26%
Non-U.S. Developed Market Equit	12.50%	9.00%
Emerging Markets Equity	6.50%	11.37%
Private Equity	12.00%	10.85%

Discount Rate

The discount rate used to measure the total pension liability was 6.28% as of June 30, 2019. 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 3.50% as of June 30, 2019 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based upon the contribution rate in the most recent fiscal year. 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 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the Borough's proportionate share of the collective net pension liability as of June 30, 2019 calculated using the discount rate as disclosed below, as well as what the Borough's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
 (Continued)

Note 2: Pension Plan (Cont'd)

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

Sensitivity of the Borough's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Cont'd)

	June 30, 2019		
	1% Decrease (5.28%)	Current Discount Rate (6.28%)	1% Increase (7.28%)
Joint Meeting's proportionate share of the Net Pension Liability	\$ 1,449,790	\$ 1,146,085	\$ 890,171

Pension Plan Fiduciary Net Position

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

Note 3: Contingencies

The Joint Meeting is periodically involved in various lawsuits arising in the normal course of business, including claims for property damage, personal injury, and various contract disputes. The Joint Meeting vigorously contests these lawsuits and believes the ultimate resolution will not have a material adverse effect on their financial position.

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

Note 4: Cash and Cash Equivalents and Investments

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

Investments are stated at cost. The Joint Meeting did not hold any investments during the year.

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

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

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

(Continued)

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

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

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

Deposits:

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation (FDIC), or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

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

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

If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

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

Investments:

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

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the school district or bonds or other obligations of the local unit or units within which the school district is located.
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the “Local Authorities Fiscal Control Law”, P.L. 1983, c.313 (C.40A:5A-1 et seq.). Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Investment in the Department of the Treasury for investment by local units;

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

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

Investments: (Cont'd)

- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a. or are bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the requirements of the "Local Authorities Fiscal Control Law," P.L. 1983, c. 313 (C.40A:5A-1 et seq.); ;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41); and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2019, cash and cash equivalents of the Madison-Chatham Joint Meeting consisted of the following:

	Cash On Hand	Checking Account	N. J. Cash Management Fund	Balance Dec. 31, 2019
Cash & Cash Equivalents	\$ 300.00	\$ 503,353.31	\$ 700,917.24	\$ 1,204,570.55

As of December 31, 2019, the carrying value of the cash and cash equivalents of the Joint Meeting was \$1,204,570.55 and the bank balance was \$1,269,246.44. The \$700,917.24 in the New Jersey Cash Management Fund is uninsured and unregistered.

Note 5: Risk Management

The Borough of Madison maintains insurance policies which cover the Joint Meeting as well. The Joint Meeting is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Joint Meeting obtains their health benefit coverage through the State of New Jersey Health Benefits Plan.

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 5: Risk Management (Cont'd)

The Borough of Madison is currently a member of the Morris County Municipal Joint Insurance Fund (the "Fund"). The Fund provides its members with Auto, Liability, Property Insurance, Workers' Compensation and Employee Liability Insurance. The Fund is a risk-sharing public entity risk pool that is both an insured and self-administered group of governmental entities established for the purpose of providing low-cost insurance coverage for its members in order to keep local property taxes at a minimum.

Each member appoints an official to represent their respective entity for the purpose of creating a governing body from which officers for the Fund are elected.

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

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

Summarized financial information for the Fund as of December 31, 2019 is as follows:

Total Assets	<u>\$ 35,348,941.00</u>
Total Liabilities	<u>\$ 22,555,039.00</u>
Total Revenue	<u>\$ 21,031,442.00</u>
Total Expenses	<u>\$ 21,821,417.00</u>
Change In Net Position	<u>\$ (789,975.00)</u>
Members Dividend	<u>\$ -0-</u>

Financial statements for the Fund are available at the offices of the Fund's Executive Director:

PERMA Risk Management Services
9 Campus Drive, Suite 16
Parsippany, New Jersey 07054-4412
(201) 881-7632

New Jersey Unemployment Compensation Insurance

The Joint Meeting has elected to fund its New Jersey Unemployment Compensation Insurance under the "Contributory Method". Under this plan, the Joint Meeting is required to remit employee withholdings to the State on a quarterly basis. All the Joint Meeting's claims are paid by the State.

MADISON-CHATHAM JOINT MEETING
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 6: Economic Dependency

The Joint Meeting receives a substantial amount of its support from Borough of Madison and Borough of Chatham. A significant reduction in the level of support, if this were to occur, would have a significant effect on the Joint Meeting's programs and activities.

Note 7: Compensated Absences

The Joint Meeting permits employees to accrue a certain number of days for unused sick time which would be paid only upon retirement and only upon meeting certain criteria. It is estimated that the current cost of such unpaid compensation at December 31, 2019 would approximate \$47,660.44. This amount is not reported either as an expenditure or liability. It is expected that the cost of such unpaid compensation would be included in the Joint Meeting's budget operating expenditures in the year in which it is used.

Note 8: Related Party Transactions

The members of the Joint Meeting are also members of the Borough Councils of the Borough of Madison and Borough of Chatham.

In 2019, the Joint Meeting received \$1,000,711.20 from the Borough of Madison and \$618,562.65 from the Borough of Chatham.

Note 9: Deferred Compensation Plan

The Joint Meeting offers its employees a deferred compensation plan (the "Plan") created in accordance with Section 457 of the Internal Revenue Code. The Plan, which is administered by Lincoln Financial Group, is available to all Joint Meeting employees and permits participants to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, unforeseeable emergency, or upon death to their beneficiaries.

Note 10: Subsequent Event

The COVID-19 outbreak in the United States and specifically in New Jersey has caused disruption of the Township's normal financial operations with the municipal office closed to the public and minimal staff working on site. Though the impact on the Joint Meeting's operations cannot be reasonably estimated at this date, it is likely that there will be an impact on collections of contributions from Madison Borough and Chatham Borough as well as other revenue in the Operating Fund.

SUPPLEMENTARY DATA

MADISON-CHATHAM JOINT MEETING
OFFICIALS IN OFFICE
YEAR ENDED DECEMBER 31, 2019

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

<u>Name</u>	<u>Title</u>	<u>Expiration of Term</u>
<u>Borough of Madison</u>		
Robert H. Conley	Mayor, Chairman	12/31/2019
Astri Baillie	Member	12/31/2021
John Hoover	Member	12/31/2020
Patrick Rowe	Finance and Personnel	12/31/2019
Carmela Vitale	Finance and Personnel, Vice Chairwoman	12/31/2020
Maureen Byrne	Member	12/31/2019
Debra Coen	Member	12/31/2021
<u>Borough of Chatham</u>		
Bruce Harris	Mayor, Vice Chairman	12/31/2019
Carolyn Dempsey	Member	12/31/2020
James Collander	Finance and Personnel	12/31/2019
Victoria Fife	Member	12/31/2019
Robert A. Weber, Sr.	Finance and Personnel, Chairman	12/31/2020
Thaddeus J. Kobylarz	Member	12/31/2020
Jocelyn Mathiasen	Member	12/31/2020

MADISON-CHATHAM JOINT MEETING
UNDESIGNATED OPERATING FUND
SCHEDULE OF 2019 BUDGET REVENUES

<u>Public Support and Revenues:</u>	<u>Budget after Modification</u>	<u>Realized</u>	<u>Excess/ (Deficit)</u>
Anticipated Fund Balance	\$ 461,093.81	\$ 461,093.81	
Borough of Madison	1,000,711.30	1,000,711.20	\$ (0.10)
Borough of Chatham	618,562.65	618,562.65	
Township of Chatham - Sewer Service Fees	15,139.00	15,351.22	212.22
Center Court Revenue	5,021.00	7,136.61	2,115.61
Interest on Investments	1,840.00	19,421.16	17,581.16
	<u>\$ 2,102,367.76</u>	<u>\$ 2,122,276.65</u>	<u>\$ 19,908.89</u>

MADISON-CHATHAM JOINT MEETING
UNDESIGNATED OPERATING FUND
SCHEDULE OF 2019 BUDGET EXPENDITURES

<u>Operating Expenditures</u>	<u>Revised Budget</u>	<u>Paid or Charged</u>	<u>Unexpended</u>
Salaries and Wages	\$ 508,829.30	\$ 452,090.81	\$ 56,738.49
Administration	20,311.17	16,095.86	4,215.31
Employee Benefits	217,202.91	165,760.08	51,442.83
Materials and Supplies	227,463.96	86,676.08	140,787.88
Utilities	390,299.55	267,805.33	122,494.22
Insurance	100,679.00	100,679.00	
Professional Services	151,492.59	81,520.34	69,972.25
Plant and Equipment	167,343.58	115,828.17	51,515.41
State License Fees	59,000.00	42,806.24	16,193.76
Sludge and Grit Removal	259,745.70	259,000.00	745.70
	<u>\$ 2,102,367.76</u>	<u>\$ 1,588,261.91</u>	<u>\$ 514,105.85</u>

MADISON-CHATHAM JOINT MEETING
OPERATING FUND
SCHEDULE OF DESIGNATED FUND BALANCE ACTIVITY

	Balance Dec. 31, 2018	NJEIT Loan	Paid or Charged	Balance Dec. 31, 2019
<u>2018 Capital Projects:</u>				
Facility Improvements - Building Costs		\$ 6,977,231.00		6,977,231.00
Facility Improvements - P&D Allowance		448,511.00	\$ 446,428.88	2,082.12
Facility Improvements - DEP Fee		74,258.00		74,258.00
		7,500,000.00	446,428.88	7,053,571.12
<u>2015 Capital Projects:</u>				
Facility Improvements - Engineering	\$ 927.89			\$ 927.89
Facility Improvements - Contingencies	3,853.28			3,853.28
Facility Improvements - P&D Allowance	155,266.30		96,741.39	58,524.91
	160,047.47		96,741.39	63,306.08
<u>2014 Capital Projects:</u>				
Pump Replacement	17,996.11		3,560.00	14,436.11
Control Panel Upgrades	4,144.63			4,144.63
	22,140.74		3,560.00	18,580.74
<u>2009 Capital Projects:</u>				
Energy Upgrade	1,546.27			1,546.27
	1,546.27			1,546.27
<u>2007 Capital Projects:</u>				
Stabilization Pond Closure	82,910.17			82,910.17
	82,910.17			82,910.17
<u>2000 Capital Projects:</u>				
DEP Mandates	65,248.29			65,248.29
	65,248.29			65,248.29
<u>Prior Years:</u>				
Sludge Removal	244,000.00			244,000.00
	244,000.00			244,000.00
<u>Reserve:</u>				
Expansion, Operation, and Maintenance	66,663.00			66,663.00
	66,663.00			66,663.00
	\$ 642,555.94	\$ 7,500,000.00	\$ 546,730.27	\$ 7,595,825.67

MADISON-CHATHAM JOINT MEETING

PART II

SINGLE AUDIT

YEAR ENDED DECEMBER 31, 2019

MADISON-CHATHAM JOINT MEETING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

NOT APPLICABLE

MADISON-CHATHAM JOINT MEETING
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2019

New Jersey Agency or Department	Program Account No.	Name of Program	Grant Period		Grant Award Amount	Received	Total Program Expenditures	Total Cumulative Expenditures
			From	To				
New Jersey Environmental Infrastructure Trust Fund	S340715-07A	Facility Improvements - Chatham Borough	1/1/2019	12/31/20	\$ 2,730,000.00	\$ 162,501.00	\$ 162,501.00	\$ 162,501.00
	S340715-07B	Facility Improvements - Madison Borough	1/1/2019	12/31/20	4,770,000.00	283,929.00	283,929.00	283,929.00
						<u>446,430.00</u>	<u>446,430.00</u>	<u>446,430.00</u>

MADISON-CHATHAM JOINT MEETING
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2019

Note 1. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards (the “Schedules”) includes the federal and state grant activity of the Madison-Chatham Joint Meeting under programs of the federal and state governments for the year ended December 31, 2019. The information in these schedules is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”) and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because the schedules present only a selected portion of the operations of the Joint Meeting, they are not intended to and do not present the financial position, changes in fund balance or cash flows of the Joint Meeting.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Note 3. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying federal schedule agrees with the amounts reported in the related federal and state financial reports.

Note 4. N.J. ENVIRONMENTAL INFRASTRUCTURE PROJECT

In 2019, the Borough of Madison and the Borough of Chatham entered into loan agreements with the N.J. Environmental Infrastructure Trust to finance the cost of improvements to the Madison-Chatham Joint Meeting's Molitor Water Pollution Control Facility. Even though the Boroughs are responsible for the repayment of the loans, the Joint Meeting receive and expand the loan funds.

At December 31, 2019, the Joint Meeting has received and expended \$446,430 of the \$7,500,000 Loans funds for the improvements to the Madison-Chatham Joint Meeting's Molitor Water Pollution Control Facility. The project which relates to the loans are in progress as of December 31, 2019.



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BKR International

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

Independent Auditor's Report

The Board of Trustees of the
Madison-Chatham Joint Meeting
Chatham, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements – *regulatory basis* - of the various funds of the Madison-Chatham Joint Meeting (the "Joint Meeting"), in the County of Morris, a component unit of the Boroughs of Madison and Chatham, as of and for the year ended December 31, 2019, and the related notes to the financial statements and have issued our report thereon dated June 19, 2020. These financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Division to demonstrate compliance with the Division's regulatory basis of accounting, and the budget laws of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America. That qualified report also indicated that we did not audit the general fixed assets account group.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2019-001 and 2019-002, that we consider to be significant deficiencies.

The Board of Trustees of the
Madison-Chatham Joint Meeting
Chatham, New Jersey
Page 2

Compliance and Other Matters

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

The Joint Meeting's Responses to the Findings

The Joint Meeting's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Joint Meeting's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Mount Arlington, New Jersey
June 19, 2020

NISIVOC CIA LLP

Man C Lee

Man C. Lee
Certified Public Accountant
Registered Municipal Accountant No. 562

MADISON-CHATHAM JOINT MEETING
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2019

Summary of Auditors' Results:

- The Independent Auditors' Report expresses a qualified opinion on the financial statements prepared in accordance with accounting practices prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey to demonstrate compliance with the Division's regulatory basis of accounting and the budget laws of New Jersey, as the general fixed assets account group was not audited.
- Significant deficiencies were disclosed during the audit of the financial statements as reported in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. No material weaknesses are reported.
- No instances of noncompliance material to the financial statements of the Joint Meeting which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- The Joint Meeting was not subject to the single audit provisions of the Uniform Guidance and New Jersey OMB's Circular 15-08 for the year ended December 31, 2019 as both state and federal grant expenditures were less than the single audit thresholds of \$750,000 identified in the Uniform Guidance and NJOMB 15-08.

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

- The audit disclosed the following significant deficiencies required to be reported under Generally Accepted Government Auditing Standards:

Finding 2019-001

Segregation of Duties

Criteria

Concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Condition

The preparation of the bank reconciliations, maintenance of cash receipts and cash disbursements records and cash collection/disbursement and payroll functions are performed by one individual. This is not unusual in operations the size of the Joint Meeting, but management should constantly be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Cause

This is due, in part, to the limited number of personnel of the Joint Meeting and the decentralized nature of governmental collection procedures. Due to change in personnel at the Borough, the preparation of the bank reconciliation was not performed by a different individual during 2019.

MADISON-CHATHAM JOINT MEETING
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2019
(Continued)

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

Finding 2019-001 (Cont'd)

Effect or Potential Effect

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 perpetuate errors and prevent detection within a reasonable period of time.

Recommendation

It is recommended that adequate segregation of duties where possible be maintained with respect to the recording and treasury functions.

Management's Response

The Boroughs plan to implement new procedures where the preparation of the bank statements and the purchasing functions will be performed by designated individuals at the Boroughs.

Finding 2019-002

General Ledger

Criteria

A general ledger accounting and reporting system is required to be in compliance with the New Jersey Administrative Code Accounting Requirements.

Condition

The Joint Meeting does not maintain a general ledger accounting and reporting system. A general ledger accounting and reporting system would be useful to identify liabilities of the Joint Meeting.

Cause

Sufficient Joint Meeting personnel and/or financial resources are not available to implement a general ledger accounting and reporting system.

Effect or Potential Effect

The Joint Meeting is not in compliance with the New Jersey Administrative Code Accounting Requirements.

Recommendation

It is recommended that consideration be given to implement a general ledger accounting and reporting system, as prescribed in the New Jersey Administrative Code.

MADISON-CHATHAM JOINT MEETING
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2019
(Continued)

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

Finding 2019-001 (Cont'd)

Management's Response

The finding was evaluated, however, due to budgetary constraints, no resolution can be made at this time.

Findings and Questioned Costs for Federal Awards:

- Not Applicable – Federal grant expenditures were below the single audit threshold.

Findings and Questioned Costs for State Awards:

- Not Applicable – State grant expenditures were below the single audit threshold.

MADISON-CHATHAM JOINT MEETING
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019

Status of Prior Year Findings:

The prior year finding 2018-001 regarding the segregation of duties was not resolved due to budgetary constraints and is included as current year finding 2019-001.

MADISON-CHATHAM JOINT MEETING

PART III

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2019

MADISON-CHATHAM JOINT MEETING
COMMENTS AND RECOMMENDATIONS

New Jersey Administrative Code Accounting Requirements

The Division has established three (3) accounting requirements which are prescribed in the New Jersey Administrative Code. They are as follows:

1. Maintenance of an Encumbrance System
2. General Ledger Accounting System
3. Fixed Assets Accounting System

The Joint Meeting maintains an encumbrance accounting system. The Joint Meeting is currently not in compliance with requirement number two and three. It is recommended that consideration be given to implement a general ledger accounting and reporting system, as prescribed in the New Jersey Administrative Code.

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

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

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

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

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999 c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L.1971, c.198 (C.40A11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

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

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

MADISON-CHATHAM JOINT MEETING
COMMENTS AND RECOMMENDATIONS
(Continued)

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

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

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

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. None were noted.

Status of Prior Year Recommendations

Prior year recommendation regarding segregation of duties has not been resolved and is included as a current year recommendation.

MADISON-CHATHAM JOINT MEETING
SUMMARY OF RECOMMENDATIONS

It is recommended that:

- 1) An adequate segregation of duties where possible be maintained with respect to the recording and treasury functions.
- 2) Consideration be given to implement a general ledger accounting and reporting system, as prescribed in the New Jersey Administrative Code.

* * * * *