

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
YEARS ENDED DECEMBER 31, 2017 AND 2016**

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees of the
Joint Free Public Library of the Chathams
Borough of Chatham
Chatham, NJ 07928

Report on the Financial Statements

We have audited the accompanying balance sheet - regulatory basis of the Joint Free Public Library of the Chathams for the years ended December 31, 2017 and 2016, the related statement of revenues, expenditures and changes in fund balance - regulatory basis for the years then ended, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting prescribed 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 Joint Free Public Library of the Chathams 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 Joint Free Public Library of the Chathams as of December 31, 2017 and 2016, 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 sheet as of December 31, 2017 and 2016, the regulatory basis statements of operations for the years then ended and the regulatory basis statements of revenues and expenditures and changes in fund balance for the year ended December 31, 2017 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 Joint Free Public Library of the Chathams' basic financial statements. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2018 on our consideration of the Joint Free Public Library of the Chathams' 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 Joint Free Public Library of the Chathams' internal control over financial reporting and compliance.

Charles J. Ferraioli, Jr.

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Registered Municipal Accountant
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Certified Public Accountants
Pompton Lakes, New Jersey

May 16, 2018



JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AT DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Assets:		
Cash and Cash Equivalents	\$ 2,263,269.50	\$ 2,209,777.37
Petty Cash	300.00	300.00
Change Fund	<u>200.00</u>	<u>200.00</u>
TOTAL ASSETS	<u>\$ 2,263,769.50</u>	<u>\$ 2,210,277.37</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts Payable and Other Liabilities	\$ <u>16,155.74</u>	\$ <u>22,723.92</u>
 Fund Balance:		
Restricted:		
Capital Projects (formerly the <i>Reserve for Depreciation</i>)	1,583,050.47	529,049.74
Unemployment Compensation	46,616.76	44,394.57
Unrestricted:		
Designated for:		
Gifts and Endowments	195,634.83	1,174,340.83
Undesignated	<u>422,311.70</u>	<u>439,768.31</u>
Total Fund Balance	<u>2,247,613.76</u>	<u>2,187,553.45</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,263,769.50</u>	<u>\$ 2,210,277.37</u>

The accompanying "Notes to the Financial Statements" are an integral part of this financial statement.

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - REGULATORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Revenues:		
Allocation of Reserve	\$ 48,503.25	\$ 20,000.00
Municipal Appropriations:		
Borough of Chatham	906,891.28	886,800.00
Township of Chatham	1,064,612.00	1,041,459.47
State Aid	8,426.00	8,446.00
Donations / Gifts (Net)	25,992.03	11,344.68
Fines and Fees	21,360.00	11,433.84
Interest	10,040.94	5,577.39
Miscellaneous	4,908.74	8,515.96
	<u>2,090,734.24</u>	<u>1,993,577.34</u>
Expenditures:		
Budget Expenditures:		
Salaries and Benefits	1,401,778.94	1,333,298.70
Operations	176,761.15	163,346.77
Programs & Services	102,292.57	89,701.76
Library Materials	183,836.28	195,100.08
Administration	60,843.63	56,973.16
Non-Budget Expenditures:		
Reserve for Capital Projects, Net Transfers	58,881.30	(135,562.63)
Reserve for Unemployment, Net	(2,222.19)	(4,237.51)
Undesignated - Special Activities	48,502.25	24,409.71
	<u>2,030,673.93</u>	<u>1,723,030.04</u>
Excess (Deficit) of Revenues Over Expenditures	60,060.31	270,547.30
FUND BALANCE - JANUARY 1	<u>2,187,553.45</u>	<u>1,917,006.15</u>
FUND BALANCE - DECEMBER 31,	<u><u>2,247,613.76</u></u>	<u><u>\$ 2,187,553.45</u></u>

The accompanying "Notes to the Financial Statements" are an integral part of this financial statement.

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Funds

The Governmental Accounting Standards Board (GASB) is the recognized standard setting body for establishing governmental generally accepted accounting and financial reporting principles. GASB Codification establishes seven fund types and two account groups to be used by general purpose governmental units when reporting financial position and results of operations in accordance with generally accepted accounting principles (GAAP).

The accounting policies of the Library conform to the accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the Library has accounted for its fund balance using the following categories:

Reserved for Capital Projects - Funds appropriated to Reserve for Capital Projects (formerly the Reserve for Depreciation Fund) are required for furnishings, equipment, and initial collections for new building, building additions or building renovations; periodic major projects, replacement of roof and heating, ventilation and air conditioning systems; and site acquisition, new buildings, and additions to or renovations of library buildings. Amounts included in this fund are established by a 3, 4 or 5 year strategic plan or have been adopted by resolution.

Reserve for Unemployment Compensation - Employee and employer contributions are transferred to this fund for payment of unemployment claims paid by the State Department of Labor and billed to the Library.

Designated for Gifts and Endowments Fund - Funds classified to the Designated for Gifts and Endowments Fund originate from donor-restricted contributions for future construction and the purchase of duplicate copies of books or special book requests. The Library Board of Trustees has directed that interest earned on these deposits accrue as revenue to this fund.

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(continued)

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

Description of Funds, (continued)

Undesignated - Funds classified as Undesignated are available to fund the Library's governmental operations in a general nature.

Basis of Accounting

A modified accrual basis of accounting is followed, with minor exceptions. Modifications from the accrual basis are as follows:

Revenues are recorded as received or determinable.

Expenditures are recorded as incurred.

Inventories of Supplies - The cost of inventories of supplies is recorded as expenditures at the time individual items are purchased. The cost of inventories is not included on the Balance Sheet.

Fixed Assets - Property and equipment purchased by the General Fund are recorded as expenditures at the time of purchase and are not capitalized. In 2017, The Library performed an inventory of fixed assets and established the following General Fixed Assets Account Group to account for library property and equipment purchased either by the Library, the Borough or the Township.

	Balance
	<u>Dec. 31, 2017</u>
General Fixed Assets Account Group:	
Tools, Machinery, HVAC	\$14,840
Public Safety Equipment	34,400
Office Equipment	1,029
Furnishings, Fixtures	417,065
Computer Equipment	59,652
Laboratory, Medical	1,799
Audio/Visual, Communication	14,128
	<u>\$542,913</u>

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(continued)

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

Contributed Services - The Library is located on property owned by the Borough of Chatham. At various times during the year, volunteers performed services for the Library without remuneration. The fair value of these costs is not reported in the financial statements.

Investments - Investments are stated at cost. Investments are limited to bonds or obligations of guarantee by the Federal government and bonds or other obligations of Federal or local units.

NOTE 2 - FINANCIAL REPORTING ENTITY

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

NOTE 3 - CASH AND CASH EQUIVALENTS

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

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 insures 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 five percent of the average daily balance of public funds; or

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

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(continued)

NOTE 3 - CASH AND CASH EQUIVALENTS, (continued)

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.

At December 31, 2017 the book value of the Library's deposit was \$2,263,269.50 and the bank balances were \$2,356,049.15. The insured and collateral status of the year end bank balances were as follows:

Covered by New Jersey Governmental Depository Protection Act	\$250,000.00
Covered by Federal Depository Insurance	<u>2,106,049.15</u>
	<u>\$2,356,049.15</u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Library's policy is based on New Jersey Statutes requiring cash to be deposited only in New Jersey based banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in a qualified investment established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2017, \$0- of the Library's bank balance of \$2,356,049.15 was exposed to custodial credit risk.

Interest Rate Risk

The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15(a) limit the length of time for most investments to 365 days.

Credit Risk

New Jersey Statutes 40A:5-15(a) limit municipal investment maturities to those specified in the Statutes. The type of allowance investments are: bonds of the United States of America or the local unit or school districts of which the local unit is part of; obligations of federal agencies not exceeding 397 days; government money market funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
 (continued)

NOTE 3 - CASH AND CASH EQUIVALENTS, (continued)

Concentration of Credit Risk

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

NOTE 4 - CAPITAL PROJECTS

On March 28, 2017, the Library updated their strategic capital improvement plan that, among other things, includes planned renovations and improvements over the next four years. At December 31, 2017 and 2016, the Library had a reserve for capital projects balance of \$1,583,050.47 and \$529,049.74, respectively.

NOTE 5 - GIFTS AND ENDOWMENTS

The Library has designated the funds from gifts and donations received over the years to be used for various non-operating expenditures. The following details the gifts and endowment balances at December 31, 2017 and 2016 and shows the activity applied to each fund during the years.

	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Transfers Out</u>	<u>Balance</u> <u>Dec. 31, 2017</u>
Nicolais Endowment Fund	\$93,491.88	\$	\$	\$83,508.43	\$9,983.45
Leffingwell Grant Fund	16,488.19		640.01		15,848.18
Clark Estates Grant Fund	5,418.40			5,403.84	14.56
MacGregor Grant Fund	5,033.22				5,033.22
Lundt Grant Fund	4,655.37	475.00			5,130.37
Read Foundation Funds	7,231.37	1,000.00		6,231.37	2,000.00
Misc. Memorial Funds	28,984.26	30,038.20	23,812.27		35,210.19
Gifts and Donated Funds	32,527.98	78,908.18	57,662.34	10,000.00	43,773.82
Gifts and Donated Fund - Pre 2013	549,808.05	1,612.67	2,678.06	548,429.20	313.46
Kruse Endowment Fund	353,064.31		124.08	351,125.19	1,815.04
Teen Room Fund	75,217.87				75,217.87
Eigan Grant Fund	1,749.93		1,670.26		79.67
Frahn Grant Fund	<u>670.00</u>	<u>2,100.00</u>	<u>1,555.00</u>		<u>1,215.00</u>
	<u>\$1,174,340.83</u>	<u>\$114,134.05</u>	<u>\$88,142.02</u>	<u>\$1,004,698.03</u>	<u>\$195,634.83</u>

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(continued)

NOTE 6 - UNDESIGNATED FUND BALANCE

Undesignated fund balance represents the remaining funds available to fund the Library's governmental operations in a general nature. The Library of the Chathams separates undesignated fund balance into two categories - budgetary and special activity. The following schedule details the change in undesignated fund balance during the 2017 fiscal years:

	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>Dec. 31, 2017</u>
Municipal Appropriations	\$297,676.44	\$1,971,503.28	\$2,033,695.60	\$235,484.12
State Aid	34,658.00	8,426.00		43,084.00
Fines and Fees:				
Book Fines	31,752.52	19,395.50		51,148.02
Lost/Paid Fees	2,124.00			2,124.00
AV Fees	21,437.20	1,964.50		23,401.70
ILL Fees	1,567.48			1,567.48
Interest	13,651.27	10,040.94		23,692.21
Miscellaneous:				
Printing and Copying	9,155.40	3,150.32		12,305.72
Room Rentals	6,218.06	225.00		6,443.06
Mini-Courses	2,501.32			2,501.32
Committed Funds	7,407.11	296.33		7,703.44
MUF Materials	1,787.50	1,237.09		3,024.59
Juvenile Programs	182.48			182.48
Staff	118.43			118.43
Sale of Vehicle	7,863.43			7,863.43
Bid Fee	1,667.70			1,667.70
	<u>\$439,768.34</u>	<u>\$2,016,238.96</u>	<u>\$2,033,695.60</u>	<u>\$422,311.70</u>
			Budgeted Expenditures	\$1,925,512.57
			Special Activity Expenditures	<u>\$108,183.03</u>
				<u>\$2,033,695.60</u>

NOTE 7 - ACCUMULATED VACATION AND SICK PAY

Under the existing policies of the Library, employees are allowed to accumulate (with certain restrictions) unused sick and vacation pay over the life of their working careers and to redeem such unused leave time in cash upon death, retirement or by extended absence immediately preceding retirement.

The Library has not designated any amount for unpaid compensation from its fund balance.

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(continued)

NOTE 8 - PENSION PLAN

Description of Plan - All required employees of the Library are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate.

Public Employees' Retirement System (PERS) - Established in January 1955, under provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full time employees of the state or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

Defined Contribution Retirement Program (DCRP) - Established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership.

Other Pension Funds

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system.

The cost of living increase for PERS is funded directly by the respective system and are considered in the annual actuarial calculation of the required State contribution for the system.

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

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasurey/pensions.

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

(continued)

NOTE 8 - PENSION PLAN, (continued)

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained in writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

Funding Status and Funding Progress

The funded status and funding progress of the retirement system is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(continued)

NOTE 8 - PENSION PLAN, (continued)

Actuarial Methods and Assumptions

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate or return for the retirement systems and (2) 5.45 percent for projected salary increased for the PERS.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey legislation with the amount of contributions by the State of New Jersey contingent upon the Annual Appropriations Act. As defined, the retirement systems require employee contributions based on 6.92% (January to July 2015) and 7.06% (July to December 2015) for PERS and 5.50% for DCRP of the employee's annual compensation.

Annual Pension Costs (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2012 for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. PERS employer contributions are made annually by the Authority to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

Three Year Trend Information for PERS

<u>Year</u>	<u>Annual</u>	<u>Percentage</u>	<u>Net</u>
<u>Funding</u>	<u>Pension</u>	<u>of APC</u>	<u>Pension</u>
	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
12/31/17	\$101,753.67	100%	\$ 0
12/31/16	102,536.00	100	0
12/31/15	85,440.05	100	0

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
 (continued)

NOTE 8 - PENSION PLAN, (continued)

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, 2017, the Library had a liability of \$2,740,860.92 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Library's proportion of the net pension liability was based on a projection of the Library'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, 2017, the Library's proportion was 0.0117742660 percent, which was an increase/(decrease) of 0.0004640887 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Library recognized pension expense of \$208,199. At December 31, 2017, 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>
Changes of assumptions	\$552,189	\$550,165
Net difference between projected and actual earnings on pension plan investments	83,201	
Changes in proportion and differences between Library contributions and proportionate share of contributions	239,383	185,513
Library contributions subsequent to the measurement date	<u>109,076</u>	<u> </u>
Total	<u>\$983,849</u>	<u>\$735,678</u>

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(continued)

NOTE 8 - PENSION PLAN, (continued)

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

Public Employees Retirement System (PERS), (continued)

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2017) 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 will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$64,522.52
2019	97,366.05
2020	58,998.85
2021	(78,468.62)
	(57,193.15)

Additional Information

Local Group Collective balance at June 30, 2017 and 2016 are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Collective deferred outflows of resources	\$6,424,455,842	\$8,685,338,380
Collective deferred inflows of resources	5,700,625,981	870,133,595
Collective net pension liability	23,278,401,588	29,617,131,759
Library's Proportion	0.0117742660%	0.0113101773%

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(continued)

NOTE 8 - PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

Actuarial Assumptions

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

Mortality Rates

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback one year for females) with adjustments for mortality improvements from the base year of 2013 based on Projection Scale MP-2014.

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

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
 (continued)

NOTE 8 - PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
 (continued)

NOTE 8 - PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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, 2017, 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:

	June 30, 2017		
	1% Decrease <u>4.00%</u>	At Current Discount Rate <u>5.00%</u>	1% Increase <u>6.00%</u>
Library's proportionate share of the pension liability	\$3,400,223.99	\$2,740,860.92	\$2,191,529.77

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.

NOTE 9 - CONTINGENT LIABILITIES

Legal Counsel advises us there are no pending lawsuits against the Library which would have a material effect on the financial statements.

NOTE 10 - SUBSEQUENT EVENTS

The Library has evaluated subsequent events through May 16, 2018, the date which the financial statements were available to be issued and no other items were noted for disclosure.

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
STATEMENT OF BUDGET REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Memorandum</u>		<u>Realized</u>	<u>Excess or (Unrealized)</u>
	<u>Adopted Budget</u>	<u>Budget After Modification</u>		
Allocation of Reserve	\$ 48,503.25	\$ 48,503.25	\$ 48,503.25	\$ -
Municipal Appropriations:				
Borough of Chatham	906,890.79	906,890.79	906,891.28	0.49
Township of Chatham	1,064,612.00	1,064,612.00	1,064,612.00	-
State Aid	8,200.00	8,200.00	8,426.00	226.00
Donations / Gifts (Net)	-	-	25,992.03	25,992.03
Fines and Fees:				
Book Fines	-	-	19,395.50	19,395.50
AV Fees	-	-	1,964.50	1,964.50
Interest	3,800.00	3,800.00	10,040.94	6,240.94
Miscellaneous:				
Printing and Copying	-	-	3,150.32	3,150.32
Room Rentals	-	-	225.00	225.00
Miscellaneous	-	-	1,533.42	1,533.42
	<u>\$ 2,032,006.04</u>	<u>\$ 2,032,006.04</u>	<u>\$ 2,090,734.24</u>	<u>\$ 58,728.20</u>

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
STATEMENT OF BUDGETED EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Memorandum		Realized	(Deficit) or Unexpended Balance
	Adopted Budget	Budget After Modification		
Budgeted Expenditures:				
Salaries and Benefits:				
Salaries and Wages	969,775.60	969,775.60	941,011.90	28,763.70
Longevity	32,000.00	32,000.00	31,999.92	0.08
Payroll Taxes	72,000.00	72,000.00	71,358.93	641.07
Health Benefits	254,000.00	254,000.00	251,035.25	2,964.75
Pension / DCRP	102,300.00	102,300.00	101,753.67	546.33
Other Benefits	4,860.00	4,860.00	4,619.27	240.73
Operations:				
Professional Consulting Service	4,590.00	4,590.00	2,820.00	1,770.00
Maintenance / Contracts	54,500.00	54,500.00	36,540.25	17,959.75
Utilities	69,360.00	69,360.00	61,594.94	7,765.06
Insurance	40,800.00	40,800.00	41,446.00	(646.00)
Auditor	6,000.00	6,000.00	4,750.00	1,250.00
Automation	38,000.00	38,000.00	29,609.96	8,390.04
Programs & Services:				
Programs / Services	13,752.40	13,752.40	9,917.69	3,834.71
Shared Services	95,335.04	95,335.04	92,374.88	2,960.16
Library Materials:				
Adult/YA Books	66,170.00	66,170.00	61,321.17	4,848.83
Reference Books	23,800.00	23,800.00	19,622.69	4,177.31
Juvenile Books	24,480.00	24,480.00	23,444.84	1,035.16
Adult AV	12,200.00	12,200.00	12,765.92	(565.92)
YA AV	3,525.00	3,525.00	1,588.60	1,936.40
E-Books	15,500.00	15,500.00	12,652.10	2,847.90
Microfilms	2,500.00	2,500.00	858.16	1,641.84
Juvenile AV	6,125.00	6,125.00	6,798.73	(673.73)
Periodicals	13,900.00	13,900.00	10,982.71	2,917.29
Non-print Books	41,000.00	41,000.00	33,246.36	7,753.64
Miscellaneous Materials	2,793.00	2,793.00	555.00	2,238.00
Administration:				
Supplies	27,640.00	27,640.00	25,915.93	1,724.07
Postage / Printing	15,240.00	15,240.00	19,699.17	(4,459.17)
Staff Education / Conferences	4,600.00	4,600.00	5,661.29	(1,061.29)
Transportation	2,560.00	2,560.00	1,028.55	1,531.45
Payroll Processing Expense	5,600.00	5,600.00	5,949.50	(349.50)
MUF / MAIN Membership	3,060.00	3,060.00	2,010.00	1,050.00
Miscellaneous	2,040.00	2,040.00	579.19	1,460.81
Non-budgeted Expenditures:				
Paid From Restricted Fund Balance				
Capital Projects, Net Transfers	-	-	58,881.30	(58,881.30)
Unemployment, Net	-	-	(2,222.19)	2,222.19
Total Expenditures	\$ 2,030,006.04	2,030,006.04	\$ 1,982,171.68	\$ 47,834.36
(Increase) / (Decrease in Accounts Payable and Other Liabilities)			6,568.18	
Cash Disbursements			\$ 1,988,739.86	

**JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Operating Accounts</u>	<u>Payroll Account</u>	<u>Unemployment Account</u>	<u>Money Market Account</u>	<u>Money Market II Account</u>	<u>Total</u>	<u>Petty Cash Fund</u>	<u>Change Fund</u>
BALANCE - DECEMBER 31, 2016	\$ 1,428,787.45	10,701.67	44,394.57	257,831.98	468,061.70	2,209,777.37	300.00	200.00
Increased by:								
Budget Appropriation	1,971,503.28					1,971,503.28		
State Aid	8,426.00					8,426.00		
Donations / Gifts (Net)	25,992.03					25,992.03		
Fines and Fees	21,360.00					21,360.00		
Interest	6,397.09	20.42		1,287.02	2,336.41	10,040.94		
Miscellaneous	4,977.46					4,977.46		
Transfers	1,396,894.06		2,222.19		-	1,399,116.25	-	
Total Receipts	2,038,655.86	1,396,914.48	2,222.19	1,287.02	2,336.41	3,441,415.96	-	-
Decreased by:								
Disbursements	612,886.68	1,375,920.90				1,988,807.58	-	
Transfers	1,399,116.25					1,399,116.25		
Total Disbursements	2,012,002.93	1,375,920.90	-	-	-	3,387,923.83	-	-
BALANCE - DECEMBER 31, 2017	\$ 1,455,440.38	31,695.25	46,616.76	259,119.00	470,398.11	2,263,269.50	300.00	200.00

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
STATEMENT OF ACCOUNTS PAYABLE AND OTHER LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

BALANCE - DECEMBER 31, 2016	\$	22,723.92
Increased by:		
Current Year Expenditures		1,982,239.40
Decreased by:		
Cash Disbursements		<u>1,988,807.58</u>
BALANCE - DECEMBER 31, 2017	\$	<u><u>16,155.74</u></u>

**JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Restricted		Unrestricted		Total
	Capital Projects	Unemployment Compensation	Designated for: Gifts and Endowments	Undesignated	
Increased by:					
Municipal Appropriations: Borough of Chatham				906,891.28	906,891.28
Township of Chatham				1,064,612.00	1,064,612.00
State Aid			25,992.03	8,426.00	8,426.00
Donations / Gifts (Net)				25,992.03	25,992.03
Fines and Fees				21,360.00	21,360.00
Interest				10,040.94	10,040.94
Miscellaneous				4,976.46	4,976.46
Unemployment (Net)		2,154.47			2,154.47
Total Receipts	-	2,154.47	25,992.03	2,016,306.68	2,044,453.18
Decreased by:					
Expenditures	58,881.30		-	1,925,512.57	1,984,393.87
Total Disbursements	58,881.30	-	-	1,925,512.57	1,984,393.87
Transfers	1,112,882.03		(1,004,698.03)	(108,184.00)	-
Change in Fund Balances	1,054,000.73	2,154.47	(978,706.00)	(17,389.89)	60,059.31
BALANCE - JANUARY 1, 2017	\$ 529,049.74	44,394.57	1,174,340.83	439,769.31	2,187,554.45
BALANCE - DECEMBER 31, 2017	\$ 1,583,050.47	46,549.04	195,634.83	422,379.42	2,247,613.76

Schedule F

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS

List of Officials for December 31, 2017

<u>Name</u>	<u>Title</u>
Andrew Hollander	President
Peggy Nelson	Vice President
Barb Montague	Treasurer
Susan Allen	Secretary
Fredric Pocci	Emeritus
Emery Westfall	Emeritus
Mary T. Benton	Emeritus
Bruce Harris	Borough Mayor
Kevin Sullivan	Township Representative
Danielle Dagounis	Superintendent of Schools Alternate
Karen Brodsky	Library Director

Employee dishonesty coverage in the amount of \$1,000,000.00 is provided through the Chubb Insurance (\$50,000) and (\$950,000) for all employees.

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
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973-835-7900
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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

Board of Trustees of the
Joint Free Public Library of the Chathams
Borough of Chatham
Chatham, NJ 07928

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 of the Joint Free Public Library of the Chathams, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated May 16, 2018, which was adverse due to being presented in accordance with the regulatory basis of accounting as described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements-regulatory basis, we considered the Joint Free Public Library of the Chathams' 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-regulatory basis, but not for the purpose of expressing an opinion on the effectiveness of the Joint Free Public Library of the Chathams' internal control. Accordingly, we do not express an opinion on the effectiveness of the Joint Free Public Library of the Chathams' 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Joint Free Public Library of the Chathams' 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 Joint Free Public Library of the Chathams' 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 Free Public Library of the Chathams' internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles J. Ferraioli, Jr.

Charles J. Ferraioli, Jr., C.P.A.
Registered Municipal Accountant
No. 388

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

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

May 16, 2018

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NONE

JOINT FREE PUBLIC LIBRARY OF THE CHATHAMS
STATUS OF PRIOR YEAR'S AUDIT FINDINGS/RECOMMENDATIONS

A review was performed on prior year's recommendations and corrective action was taken on all items with the exception of ones with an "*".

Problems and weaknesses noted in our 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 our comments and recommendations, or should you desire assistance in implementing our recommendations, do not hesitate to call us.

We wish to thank the Joint Free Public Library of the Chathams for their cooperation during the performance of our audit.

Respectfully submitted,

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

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