

TOWN OF PHILLIPSBURG
FREE PUBLIC LIBRARY

COUNTY OF WARREN

REPORT OF AUDIT

DECEMBER 31, 2016

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
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Independent Auditors' Report

The Board of Trustees of the
Town of Phillipsburg Free Public Library
Phillipsburg, New Jersey

Report on the Financial Statements

We have audited the financial statements – *regulatory basis* - of the various funds of the Town of Phillipsburg Free Public Library (the "Library") in the County of Warren, a component unit of the Town of Phillipsburg, as of and for the year ended December 31, 2016, 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 Library'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 Library'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.

The Board of Trustees of the
Town of Phillipsburg Free Public Library
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, these financial statements have been prepared by the Library 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 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 the Library as of December 31, 2016, or the changes in financial position where applicable of each fund thereof for the year ended December 31, 2016.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the various funds of the Library as of December 31, 2016, 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 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.

Emphasis of Matter

As discussed in Note 4 to the financial statements, the Library implemented Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application* during the year ended December 31, 2016. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's financial statements. The supplementary statement of expenditures for the unrestricted operating fund listed in the table of contents and the accompanying 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.

The supplementary statement of expenditures for the unrestricted operating fund 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

The Board of Trustees of the
Town of Phillipsburg Free Public Library
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Other Matters (Cont'd)

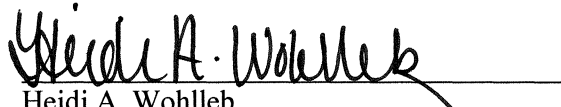
records used to prepare the various fund financial statements or to the various fund financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary statement of expenditures for the unrestricted operating fund 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 March 29, 2018 on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Library's internal control over financial reporting and compliance.

March 29, 2018
Mount Arlington, New Jersey

NISIVOCCIA LLP


Heidi A. Wohlleb
Registered Municipal Accountant No. 481
Certified Public Accountant

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
BALANCE SHEET - REGULATORY BASIS
DECEMBER 31, 2016

ASSETS

Operating Fund:	
Cash and Cash Equivalents	\$ 207,696
Petty Cash	75
Change Fund	158
	<hr/>
	207,929
Investments	129,687
Due from Town of Phillipsburg	385,640
Total Operating Fund	<hr/>
	723,256
 Plant Fund:	
Fixed Assets	<hr/>
	282,847
 TOTAL ASSETS	 <hr/> <hr/>
	\$ 1,006,103

RESERVES AND FUND BALANCE

Operating Fund:	
Liabilities:	
Accounts Payable	\$ 6,590
Total Liabilities	<hr/>
	6,590
 Fund Balances:	
Unrestricted:	
Operating Fund	537,039
Restricted:	
Maintenance of Free Public Library	27,253
Memorial Funds	152,374
Total Fund Balances/Total Operating Fund	<hr/>
	716,666
 Plant Fund:	
Investment in General Fixed Assets	<hr/>
	282,847
 TOTAL RESERVES AND FUND BALANCE	 <hr/> <hr/>
	\$ 1,006,103

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

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
STATEMENT OF SUPPORT AND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE - REGULATORY BASIS
YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Restricted		
	Operating Fund	Maintenance of Free Public Library	Memorial Funds	Total
Support:				
Town Aid	\$ 487,050			\$ 487,050
County Aid (Federation)	512,285			512,285
State Aid		\$ 7,805		7,805
Donations and Memorials	1,255			1,255
Memorials - Phillipsburg Library				
Bequest	1,806			1,806
Total Support	<u>1,002,396</u>	<u>7,805</u>		<u>1,010,201</u>
Revenue:				
Fines and Fees	9,000			9,000
Investment Income/Loss	623		\$ 1,014	1,637
Photocopy Fees	10,914			10,914
Miscellaneous	5,886			5,886
Total Revenue	<u>26,423</u>		<u>1,014</u>	<u>27,437</u>
Total Support and Revenue	<u>1,028,819</u>	<u>7,805</u>	<u>1,014</u>	<u>1,037,638</u>
Expenditures:				
Operating	972,380			972,380
Total Expenditures	<u>972,380</u>			<u>972,380</u>
Excess/(Deficit) of Support and Revenue				
Over/(Under) Expenditures	56,439	7,805	1,014	65,258
Fund Balance:				
January 1	480,600	19,448	151,360	651,408
December 31	<u>\$ 537,039</u>	<u>\$ 27,253</u>	<u>\$ 152,374</u>	<u>\$ 716,666</u>

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

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Town of Phillipsburg Free Public Library (the "Library") conform to accounting practices applicable to enterprise 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.

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 on the accrual basis. 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.

Per Capita State Library Aid - Decisions on the use and expenditure of per capita State Library Aid rest with the Board of Trustees of the Phillipsburg Free Public Library. This aid is received on an annual basis, usually in November. It is the Board's policy to use the current year's State Aid as part of the supporting funds for the subsequent year's operations. The only restriction placed on the use of State Library Aid is that it must be expended within two years of receipt.

Fixed Assets - General 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 and extend the lives of the respective assets, are expensed currently. Donated fixed assets are valued at fair market value on the date donated. No depreciation has been provided on general fixed assets. The total value recorded for general fixed assets is offset by a reserve titled "Investment in General Fixed Assets".

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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

When properties are retired or otherwise disposed off, the asset and the reserve are adjusted accordingly. Fixed assets are reviewed for impairment.

Contributed Facilities - The Library occupies, without charge, premises located in government-owned buildings. The estimated fair rental value of the premises is not reported as support and expense in the period in which the premises were used.

Collections and Books - Collections and books, which are held for display and/or study and are available for general public use, are recorded as operating expenditures at the time of purchase. Donated collections and books are not recorded at their fair market value when donated.

Fund Accounting - To ensure observance of limitations and restrictions placed on the use of resources available to the Library, the accounts of the Library 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.

Restricted Fund Balances

Fund Balance - Maintenance of Free Public Library - The Board of Library Trustees has accepted state funds restricted to be used for maintenance of the Library.

Fund Balance - Memorial Fund - The Board of Library Trustees has accepted funds restricted to be used for Library purchases as directed by the donor.

Had the Library's financial statements been prepared under accounting principles generally accepted in the United States of America, the Library's net pension liability and related deferred inflows and outflows would be recorded.

Note 2: Pension Plan

Library employees are enrolled in the State of New Jersey Public Employee's Retirement System (PERS) through the Town of Phillipsburg.

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

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 2: Pension Plan (Cont'd)

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

Plan Description (Cont'd)

Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

Benefits Provided

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

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

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to 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

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 2: Pension Plan (Cont'd)

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

Contributions (Cont'd)

June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. Town contributions to PERS amounted to \$415,273 for 2016.

The employee contribution rate was 7.06% effective July 1, 2015 and increased to 7.20% effective July 1, 2016. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

Pension Liabilities and Pension Expense

At June 30, 2016, the Town's liability was \$14,594,540 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2016, the Town's proportion was 0.049%, which was an increase of 0.001% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2016, the Town recognized actual pension expense in the amount of \$415,273.

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions:

Inflation Rate	3.08%
Salary Increases:	
2012-2021	1.65 – 4.15% based on age
Thereafter	2.65 – 5.15% based on age
Investment Rate of Return	7.65%

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 2: Pension Plan (Cont'd)

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

Actuarial Assumptions (Cont'd)

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.65% at June 30, 2016) 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, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex. U.S.	5.00%	-0.25%
REIT	5.25%	5.63%

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 2: Pension Plan (Cont'd)

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

Discount Rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016 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 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the Town's proportionate share of the collective net pension liability as of June 30, 2016 calculated using the discount rate as disclosed below, as well as what the Town'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:

	June 30, 2016		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Town's proportionate share of the Net Pension Liability	\$ 17,883,905	\$ 14,594,540	\$ 11,878,884

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/Commitments

The Library is periodically involved in various lawsuits arising in the normal course of the Library's operations including claims for property damage, personal injury and various contract disputes. The Library is unaware of any such litigation or claims as of the date of these financial statements relating to the year ended December 31, 2016.

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 3: Contingencies/Commitments (Cont'd)

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 Library 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 Library 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 Library classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments. GASB Statement No. 40, *Governmental Accounting Standards Board Deposit and Investment Risk Disclosures*, requires the disclosure of the level of custodial credit risk assumed by the Library 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 Library 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.

Credit Risk – The Library limits its investments to those authorized in its cash management plan which are permitted under state statute as detailed in the investment section of this note.

Custodial Credit Risk – The Library's policy with respect to custodial credit risk requires that the Library ensures that Library 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 in addition,

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%.

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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

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.

As of December 31, 2016, cash and cash equivalents of the Town of Phillipsburg Free Public Library consisted of the following:

	<u>Cash</u> <u>On Hand</u>	<u>Savings</u> <u>Accounts</u>	<u>Checking</u> <u>Accounts</u>	<u>Balance</u> <u>Dec. 31, 2016</u>
Cash & Cash Equivalents	<u>\$ 233</u>	<u>\$ 22,353</u>	<u>\$ 185,343</u>	<u>\$ 207,929</u>

As of December 31, 2016, the carrying value of the cash and cash equivalents of the Library was \$207,929 and the bank balance was \$199,996.

Investments:

New Jersey statutes permit the Library 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 local unit or bonds or other obligations of school districts of which the local unit is a part or 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, approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units
- (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) above;

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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

Investments: (Cont'd)

- (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.

The money market mutual funds and the mutual funds are insured through the Securities Investor Protection Corporation (SIPC). The money market mutual funds and the mutual funds are unregistered.

Investments at December 31, 2016 consisted of the following:

	<u>Money Market Mutual Funds</u>	<u>Mutual Funds</u>	<u>Balance Dec. 31, 2016</u>
Investments	<u>\$ 81,077</u>	<u>\$ 48,610</u>	<u>\$ 129,687</u>

Note 5: Accrued Compensated Absences

The Library has permitted employees to accrue unused sick pay which may be taken as time off or paid upon retirement at the employee's current rate upon such termination. It is estimated that the current cost of such unpaid compensation would approximate \$70,483. This amount is not reported either as an expenditure or a liability. Such compensation would be included in the Library's budget expenditures in the year it is paid.

Note 6: Fixed Assets

The following is a summarization of the activity of fixed assets for the year ended December 31, 2016:

	<u>Balance as Restated 12/31/2015</u>	<u>Balance 12/31/2016</u>
Furniture and Equipment	<u>\$ 282,847</u>	<u>\$ 282,847</u>

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 7: Risk Management

The Town of Phillipsburg maintains insurance policies which cover the Phillipsburg Free Public Library as well. The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town obtains their health benefit coverage through Horizon Blue Cross/Blue Shield of NJ.

The Town of Phillipsburg is currently a member of the Statewide 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 Town could be subject to supplemental assessments in the event of deficiencies. 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.

Selected, summarized financial information for the Fund as of December 31, 2016 is as follows:

	Statewide Insurance Fund Dec. 31, 2016
Total Assets	\$ 46,196,539
Net Position	\$ 9,047,661
Total Revenue	\$ 28,868,244
Total Expenditures	\$ 25,148,277
Change in Net Position	\$ 3,719,967
Member Dividends	\$ -0-

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 7: Risk Management (Cont'd)

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

Statewide Insurance Fund
One Sylvan Way
Parsippany, NJ 07054
(862) 260-2050

Note 8: Economic Dependency

The Library receives a substantial amount of its support from local, county and state governments. A significant reduction in the level of support, if this were to occur, may have an effect on the Library's programs and activities.

Note 9: Potential Transfer of Excess Funds

Pursuant to N.J.S.A. 40:54-15(A), municipal free public libraries are required to submit to their respective municipalities an annual report which identifies any excess funds that the Library Board will approve for transfer to said municipality as miscellaneous revenue, pending approval by the State Librarian. The law stipulates that any remaining undesignated or unrestricted fund balance which is greater than twenty per cent of the prior year's actual library's expenditures is considered to be excess funds. The designation/restriction of fund balance is done most commonly for A) future capital needs as identified in the library's strategic and technology plans, B) current year fund balance anticipated as a revenue in the library's subsequent years budget and C) externally restricted gifts or endowments.

The Library Board of Trustees forwards to the State Librarian for their approval, a resolution of intent, a proposed transfer sheet, the most recent available audit and a 3, 4 or 5 year plan of library service charting the library's direction for the future. Since all of these steps will be performed subsequent to the issuance of the annual audit, no determination of excess funds has been included in the year ended December 31, 2016 financial statements.

Note 10: Related Party Transactions

The Library realized \$487,050 as support from the Town of Phillipsburg for 2016. The Town expended \$487,050 for Library purposes during 2016, and was reimbursed by the Library for those expenditures. At December 31, 2016, the Town of Phillipsburg owed the Library \$385,640 for funds held by the Town representing maintenance of free public library and County Federation funds.

Note 11: Accounts Payable

Vendors	\$ 4,717
Salaries and Wages	1,873
	<hr/>
	\$ 6,590
	<hr/>

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
 (Continued)

Note 12: Prior Year Adjustment

The balance in the Plant Fund for Fixed Assets and Investment in Fixed Assets at December 31, 2015 was restated to correct the amount of fixed assets reported.

	Balance 12/31/15 as Previously Stated	Retroactive Adjustment	Balance 12/31/15 As Restated
Furniture and Equipment	\$ 233,357	\$ 49,490	\$ 282,847

SUPPLEMENTARY DATA

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
STATEMENT OF EXPENDITURES - UNRESTRICTED OPERATING FUND
YEAR ENDED DECEMBER 31, 2016

	<u>Paid or Charged</u>
<u>Expenditures Paid by Town:</u>	
Operating:	
Salaries and Wages	\$ 434,828
Other Expenses	<u>52,222</u>
Total Expenditures Paid by Town	<u>487,050</u>
<u>Expenditures Paid by Library:</u>	
Non Resident Fees	465
Books and Periodicals	964
Supplies	5,399
Contracted Services	10,444
Building Repair and Maintenance	692
Other Library Expenses	887
Gifts and Memorials	<u>2,313</u>
Total Expenditures Paid by Library	<u>21,164</u>
<u>Expenditures - County Federation Funds:</u>	
County Federation Aid	<u>464,166</u>
Total County Federation Fund Expenditures	<u>464,166</u>
Total Expenditures	<u><u>\$ 972,380</u></u>

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
OFFICIALS IN OFFICE
YEAR ENDED DECEMBER 31, 2016

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

<u>Name</u>	<u>Title</u>	<u>Expiration of Term</u>
Richard Buralli	President	12/31/2018
Edward Bullock	Vice President	12/31/2018
Marilynn A. Barone	Secretary	12/31/2020
Ralph A. Jiorle, Jr.	Treasurer	12/31/2016
Judith H. Butcher	Board Member at Large	12/31/2018
Virginia Rutledge	Board Member at Large	12/31/2020
Lori Ciesla	Board Member at Large	12/21/2019
Stephen Ellis	Mayor	12/31/2016
George M. Chando	Superintendent of Schools	Term of Office
Maureen Kehoe	Alternate to Superintendent of Schools	Term of Office
Deb Messling	Library Director	Term of Office

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY

PART II

SINGLE AUDIT

YEAR ENDED DECEMBER 31, 2016

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

NOT APPLICABLE

SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2015

<u>Name of State Agency or Department</u>	<u>Name of Program</u>	<u>State Grant Award Number</u>	<u>Grant Period</u>		<u>Grant Award</u>	<u>Amount Received</u>	<u>Amount of Expenditures</u>	<u>Cumulative Expenditures</u>
			<u>From</u>	<u>To</u>				
Department of Education	State Library Aid (Per Capita)	2541-100-074-2541- 066-SSSS-6010	1/1/14	12/31/17	\$ 7,798			
			1/1/15	12/31/17	7,860			
			1/1/16	12/31/18	7,805	\$ 7,805		
						<u>\$ 7,805</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

SEE ACCOMPANYING NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2016

Note 1. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards (the "Schedules") include the federal and state grant activity of the Town of Phillipsburg Free Public Library (the "Library") under programs of the federal and state governments for the year ended December 31, 2016. The information in these schedules is presented in accordance with the requirements of 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 Library, they are not intended to and do not present the financial position, changes in fund balance or cash flows of the Library.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying schedules of expenditures of federal and state awards are reported on the cash 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 Library has not elected 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 state schedule agree with the amounts reported in the related state financial reports.



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax
Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

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 Auditors' Report

The Board of Trustees of the
Town of Phillipsburg Free Public Library
Phillipsburg, 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 Town of Phillipsburg Free Public Library, in the County of Warren (the "Library") as of and for the year ended December 31, 2016, and the related notes to the financial statements and have issued our report thereon dated March 29, 2018. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library'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 Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

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

Our consideration of 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. However, material weaknesses may exist that have not been identified.

The Board of Trustees of the
Town of Phillipsburg Free Public Library
Page 2

Compliance and Other Matters

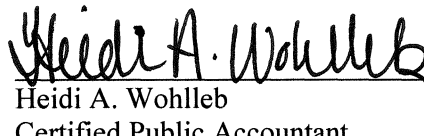
As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

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 Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 29, 2018
Mount Arlington, New Jersey

NISIVOCCIA LLP

A handwritten signature in black ink, reading "Heidi A. Wohlleb", is written over a horizontal line.

Heidi A. Wohlleb
Certified Public Accountant
Registered Municipal Accountant No. 481

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the Library 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.
- There were no material weaknesses or significant deficiencies 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 instances of noncompliance material to the financial statements of the Library which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- The Library was not subject to the single audit provisions of the Uniform Guidance and New Jersey's OMB Circular 15-08 for the year ended December 31, 2016 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 did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Questioned Costs for Federal Awards:

- Not applicable since federal expenditures were below the Single Audit threshold.

Findings and Questioned Costs for State Awards:

- Not applicable since state expenditures were below the Single Audit threshold.

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

There were no prior year findings.

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY

PART III

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2016

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
COMMENTS AND RECOMMENDATIONS

New Jersey Administrative Code Accounting Requirements

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

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

The Library is in compliance with these 3 accounting requirements.

Management Suggestions:

We suggest that the Library continue to review the type of investments that the Library's funds are invested in on a regular basis to ensure that these funds are protected from loss and all investments are allowable per state statute.

Purchase Order Process

During our review of the purchase orders processed during the year, we noted that since certain of the finance related duties are being performed by the Library Director and her Administrative Clerk, it is not always possible for purchase orders to be physically encumbered in the accounting software prior to orders being placed for certain goods or services. We confirmed that verbal approval is given by the Library Director for these orders. However, consideration should be given to maintaining an approval log for these purchase orders or other similar documentation.

Independent Contractors

The Library should consider reviewing the status of "Independent Contractors" utilized by the Library with Internal Revenue Service guidelines for determination of employment status. The IRS has been reviewing employers, including governments, to determine compliance. A proactive approach may help to minimize or eliminate potential penalties related to incorrect employment status determination.

Cyber Security

Cybercrime has become much more prevalent in the last few years. Websites and internal networks, including personally identifiable information ("PII"), have been hacked and resulted in significant losses to organizations, both financial and reputational. We suggest that the Library consider options to test and protect the Library from cybercrime.

Status of Prior Year Recommendations

There were no prior year recommendations.

TOWN OF PHILLIPSBURG FREE PUBLIC LIBRARY
SUMMARY OF RECOMMENDATIONS

It is recommended that:

NONE

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