

**CUMBERLAND-SALEM
CONSERVATION DISTRICT**
Deerfield, New Jersey

**REPORT OF AUDIT
FOR THE YEAR ENDED JUNE 30, 2016**

Report dated September 8, 2016

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CUMBERLAND-SALEM CONSERVATION DISTRICT

ROSTER OF OFFICIALS

JUNE 30, 2016

DISTRICT BOARD OF SUPERVISORS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ronald Thomas	Chairman	June 30, 2017
Ralph Sickler	Vice Chairman	June 30, 2018
Maurice Sheets	Supervisor	June 30, 2018
Henry Dubois	Supervisor	June 30, 2017

ADMINISTRATIVE OFFICIALS

Michael J. Bonham	District Manager
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NIGHTLINGER, COLAVITA & VOLPA

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Certified Public Accountants*

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September 8, 2016

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Cumberland/Salem Soil Conservation District
1516 Route 77, P.O. Box 68
Deerfield, New Jersey 08313

Gentlemen:

Report on Financial Statements

We have audited the accompanying financial statements of the Cumberland Salem Conservation District as of June 30, 2016 and the related statements of activities and changes in net position and of cash flows for the year then ended, which collectively comprise the Cumberland Salem Conservation District'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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States; and the audit requirements prescribed by the New Jersey Department of Agriculture's Financial Accounting Manual, as required by the New Jersey State Soil Conservation Committee. Those standards require that we plan and perform our 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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 District on the basis of the financial reporting provisions of the New Jersey Department of Agriculture's Financial Accounting Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America, as required by the New Jersey State Soil Conservation Committee.

The effects on the financial statements of the variances between the statutory 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 Cumberland Salem Soil Conservation District, as of June 30, 2016 and 2015, or the results of its operations and changes in net position for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cumberland Salem Soil Conservation District, as of June 30, 2016, and the changes in net position and its cash flows for the year then ended in accordance with the financial provisions of the New Jersey Department of Agriculture's Financial Accounting Manual.

Report on Summarized Comparative Information

We have previously audited Cumberland Salem Soil Conservation District's 2015 financial statements, and our report dated September 15, 2015, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cumberland Salem Conservation District's financial statements as a whole. The accompanying introductory section and other supplementary information such as the schedule of budget versus actual expenditures, schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary schedules of expenditures of budget versus actual expenditures and schedule of expenditures of federal awards and state assistance are presented for purposes of additional analysis as required by the State of New Jersey, Department of Agriculture, and State Soil Conservation Committee. These schedules were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is 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 a report dated September 8, 2016 on our consideration of the Cumberland Salem Conservation District's internal control over financial reporting and our test 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.

Raymond Colavita, C.P.A.
Registered Municipal Accountant

NIGHTLINGER, COLAVITA & VOLPA

A Professional Association

Certified Public Accountants

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September 8, 2016

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 Supervisors
Cumberland/Salem Soil Conservation District
1516 Route 77 P.O. Box 68
Deerfield, New Jersey 08313

Gentlemen:

We have audited the financial statements of the Cumberland Salem Soil Conservation District as of and for the year ended June 30, 2016, and have issued our report thereon dated September 8, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; audit requirements prescribed by the New Jersey Department of Agriculture's Financial Accounting Manual.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 such 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

This report is intended for the information of the Cumberland Salem Conservation District, the funding sources of the Cumberland Salem Conservation District, the New Jersey Department of Agriculture, and Federal and State audit agencies and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.

Raymond Colavita, C.P.A.
Registered Municipal Accountant

CUMBERLAND-SALEM CONSERVATION DISTRICT
COMBINED BALANCE SHEET
JUNE 30, 2016 and 2015

	Unrestricted Funds	Temporarily Restricted			Totals for the Year Ended June 30		
		Chapter 251	Equipment Fund	Building Fund	NJ Hydrologic Database	2016	2015
ASSETS							
Current Assets:							
Cash							
Operating Funds	\$	\$ 195,969	\$	\$	\$	\$ 195,969	\$ 162,300
Savings and Investments	275,060	147,507	36	73,562	7,583	503,748	494,461
Accounts Receivable							
Stormwater Fees Receivable	875					875	1,250
Cumberland County							15,000
Prepaid Insurance		996				996	972
Total Current Assets	275,935	344,472	36	73,562	7,583	701,588	673,983
Fixed Assets							
Office Furniture and Equipment			92,530			92,530	92,530
Land				52,290		52,290	52,290
Building				60,281		60,281	60,281
Improvements and Renovations				64,874		64,874	64,874
Total Fixed Assets			92,530	177,445		269,975	269,975
Less: Accumulated Depreciation			78,176	102,923		181,099	174,699
Total Fixed Assets - Net of Depreciation			14,354	74,522		88,876	95,276
Total Assets	\$ 275,935	\$ 344,472	\$ 14,390	\$ 148,084	\$ 7,583	\$ 790,464	\$ 769,259

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

CUMBERLAND-SALEM CONSERVATION DISTRICT
COMBINED BALANCE SHEET
JUNE 30, 2016 and 2015

	Unrestricted Funds	Temporarily Restricted			Totals for the Year Ended June 30	
		Chapter 251	Equipment Fund	Building Fund	NJ Hydrologic Database	2016
LIABILITIES, NET POSITION AND RESERVES						
Current Liabilities:						
Accounts Payable	\$	\$ 1,921	\$	\$	\$	\$ 3,570
Due State of NJ Application Fee		725			725	425
Due RFA Reimbursement Fee						375
Accruals:						
Payroll		1,225			1,225	1,127
Payroll taxes		371			371	341
Unearned Revenue				7,583	7,583	7,583
Total Current Liabilities		4,242			7,583	13,421
NET POSITION AND RESERVES						
Reserve for Future Soil Erosion and Sediment Control Act Expenditures (See Note 3)		340,230			340,230	74,080
Reserve for Future Legal Costs (See Note 4)	12,206				12,206	12,206
Reserve for Compensated Absences (See Note 7)	15,000				15,000	32,789
Net Position - Per Exhibit B	248,729		14,390	148,084	411,203	636,763
Total Net Position and Reserves	275,935	340,230	14,390	148,084	778,639	755,838
Total Liabilities, Net Position and Reserves	\$ 275,935	\$ 344,472	\$ 14,390	\$ 148,084	\$ 790,464	\$ 769,259

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

CUMBERLAND-SALEM CONSERVATION DISTRICT
STATEMENT OF SUPPORT, REVENUE AND EXPENDITURES AND CHANGES IN FUND BALANCE
JUNE 30, 2016 and 2015

	Unrestricted Funds	Temporarily Restricted			Totals for the Year Ended June 30	
		Chapter 251	Equipment Fund	Building Fund	2016	2015
Support and Revenue						
Soil Erosion and Sediment Control Act Fees	\$	\$ 116,925	\$	\$	116,925	\$ 90,125
State Stormwater Fees	5,660				5,660	5,635
Cumberland County	15,000				15,000	15,000
Interest on Investments	1,524	1,374		2,184	5,082	2,726
Non-Cash In-Kind - Included as Expenditures Below						
Federal		462,292			462,292	505,752
State		39,000			39,000	31,000
Total Support and Revenue	22,184	619,591		2,184	643,959	650,238
Expenditures						
Salaries and Wages		66,216			66,216	72,969
Health Benefits		3,596			3,596	4,552
Payroll Taxes		14,915			14,915	6,854
Pension Expense		6,019			6,019	13,487
Professional Services		3,440			3,440	6,972
Maintenance/Repairs		2,056			2,056	9,105
Office Supplies and Expenses		2,525			2,525	4,614
Insurance		6,486			6,486	6,724

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

CUMBERLAND-SALEM CONSERVATION DISTRICT
STATEMENT OF SUPPORT, REVENUE AND EXPENDITURES AND CHANGES IN FUND BALANCE
JUNE 30, 2016 and 2015

	Temporarily Restricted				Totals for the	
	Unrestricted Funds	Chapter 251	Equipment Fund	Building Fund	Year Ended June 30 2016	2015
Expenditures (continued)						
Professional/Training	\$	\$ 1,426	\$	\$	\$ 1,426	\$ 3,073
Utilities		4,986			4,986	3,039
Vehicle Expenses		1,802			1,802	2,138
In-Kind		501,292			501,292	536,752
Depreciation			3,529	2,870	6,399	6,399
Total Expenditures		614,759	3,529	2,870	621,158	676,678
Excess (Deficiency) of Support and Revenues Over Expenditures	22,184	4,832	(3,529)	(686)	22,801	(26,441)
Non-Operating Sources and Uses:						
(Increase) Decrease in Reserves:						
Future Soil Erosion and Sediment Control Act Expenditures		(268,060)			(268,060)	13,432
Compensated Absences	19,699				19,699	
Future Legal Costs						813
Net Position, July 1, 2015	206,846	263,228	17,919	148,770	636,763	648,959
Net Position, June 30, 2016 to Exhibit A	\$ 248,729	\$	\$ 14,390	\$ 148,084	\$ 411,203	\$ 636,763

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

CUMBERLAND-SALEM CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS
JUNE 30, 2016 and 2015

	Unrestricted Funds	Chapter 251	Equipment Fund	Building Fund	NJ Hydrologic Database	Totals for the Year Ended June 30	
						2016	2015
Cash Flow from Operating Activities							
Excess (deficiency) of Support and Revenues Over Expenditures	\$ 22,184	\$ 4,832	\$ (3,529)	\$ (686)	\$	\$ 22,801	\$ (26,441)
Adjustments to Reconcile Excess (deficiency) of Support and Revenue Over Expenditures to Net Cash Provided by Operating Activities:							
Non-cash Items Included in Income:							
Depreciation			3,529	2,870		6,399	6,399
Increase (decrease) in Reserve for Future Soil Erosion and Sediment Control Expenditures, Future Legal Costs and Compensated Absences	46,905	(46,905)					7,624
Changes in Assets and Liabilities:							
(Increase)/Decrease in Accounts Receivable	15,375					15,375	1,050
(Increase)/Decrease in Prepaid Insurance		(24)				(24)	(160)
(Decrease)/Increase in Accounts Payable	(375)	(1,649)				(2,024)	64
(Decrease)/Increase in Due State of NJ Application Fees		300				300	(600)
(Decrease)/Increase in Accrued Payroll		98				98	10
(Decrease)/Increase in Accrued Payroll Taxes		31				31	2
(Decrease)/Increase in Unearned Revenue							
Cash Provided From Operations	84,089	(43,317)		2,184		42,956	(12,052)
Cash Flow from Investing Activities							
Acquisition of Fixed Assets							
Net Increase (Decrease) in Cash	84,089	(43,317)		2,184		42,956	(12,052)
Cash and Cash Equivalents - 7/1/15	190,971	386,793	36	71,378	7,583	656,761	668,813
Cash and Cash Equivalents - 6/30/16	\$ 275,060	\$ 343,476	\$ 36	\$ 73,562	\$ 7,583	\$ 699,717	\$ 656,761
Analysis of Balance:							
Cash					\$ 195,969		
Savings and Investments					503,748		
						\$ 699,717	

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

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Financial Reporting Entity

The Cumberland-Salem Soil Conservation District is one of fifteen Districts in the state of New Jersey under the auspices of the New Jersey Department of Agriculture. Each District is governed by a Board of Supervisors, which sets policies and performance guidelines. The Districts work closely with the U.S. Soil Conservation Service to promote the wise use of soil and water resources. In 1976, the Districts in New Jersey were mandated to administer Chapter 251, The Soil Erosion and Sediment Control Act of 1976, the objective of which was to prevent erosion and sedimentation from development sites, mitigate impacts to soil resources and enhance soil quality.

Financial Statement Presentation

The District is required to report information regarding its financial position and activities according to three classes of assets, which are Unrestricted Net Position, Temporarily Restricted Net Position and Permanently Restricted Net Position. Unrestricted Net Position can be expended by the District for any aspect of its operations and at any time, as determined by management. Temporarily Restricted Net Position are either restricted as to a specific program, a specific time period or both, but will eventually be expended by the District. Permanently Restricted Net Position can never be expended, but benefit the District through investment earnings on such Assets. As of June 30, 2016, the District had only Unrestricted and Temporarily Restricted Net Position.

Basis of Accounting

The accounting policies of the Cumberland-Salem Conservation District conform to practices prescribed by the New Jersey Department of Agriculture's Financial Accounting Manual.

All of the District's funds are accounted for using the modified accrual basis of accounting. Support and revenues are recognized when they become both measurable and available as net current assets. Expenditures are recognized when the related fund liability is incurred. Chapter 251 revenue is recognized when received and Chapter 251 expenses are recognized when incurred.

The accounts of the District shall be organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, Net Position, support, revenues and expenditures. Fixed asset purchases are to be recorded in the fund of acquisition, with an appropriate transfer to the equipment fund. Accumulated depreciation is reported on the statement of financial position.

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fixed Asset Fund

Capital Assets acquired or constructed for Property Plant and Equipment are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets as listed below:

Equipment	5 Years
Building and Improvements	40 Years

Amortization of Financing Costs

Financing costs would be amortized using the straight-line method over the term of the loan. The District currently has no loans.

Use of Estimates

The preparation of financial statements in conformity with the New Jersey Department of Agriculture's Financial Accounting Manual requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be recovered. Although the District does not have a formal policy regarding custodial credit risk, NJSA 17:9-41 t seq. requires that the governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). GUDPA is a supplemental insurance program set forth by the New Jersey Legislature to protect the deposits of local government agencies. The program is administered by the Commissioner of the NJ Department of Banking and Insurance. Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by FDIC. Funds owned by the District in excess of FDIC insured amounts are protected by GUDPA. As of June 30, 2016, the District's bank balance of \$700,058 was exposed to custodial credit risk as follows:

Insured by FDIC	\$ 671,679
Collateralized by securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name	28,379
	<hr/>
	\$ 700,058
	<hr/> <hr/>

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

2. NON-CASH SUPPORT

Federal and state non-cash support consists of payroll, fringe benefits, travel, office supplies and administrative overhead provided by outside governmental sources to assist in the operations of the District, is as follows:

	<u>Federal</u>	<u>State</u>	<u>Total June 30, 2016</u>	<u>Total June 30, 2015</u>
Salaries & Wages	\$ 268,103	\$	\$ 268,103	\$ 300,470
Fringe Benefits	94,224		94,224	99,648
Administrative Overhead		39,000	39,000	31,000
Rent & Office Expense	99,965		99,965	105,634
	<u>462,292</u>	<u>39,000</u>	<u>501,292</u>	<u>536,752</u>
Totals	\$ 462,292	\$ 39,000	\$ 501,292	\$ 536,752

3. RESERVE FOR FUTURE SOIL EROSION AND SEDIMENT CONTROL EXPENDITURES

The Reserve for Future Soil Erosion and Sediment Control Act Expenditures is established to identify the funds available for the costs of future expenditures on projects currently received and in progress, for which fees under the act have been previously collected.

All fees collected from applicants are restricted to the Chapter 251 program and used only for implementing that program. The reserve balance includes the unexpended initial review/certification/inspection fees and supplemental fees received. At the option of the District Board and pursuant to formal action by the District Board, interest income from reserve balances may be utilized for the Chapter 251 program or for the District education program. Use of interest income is authorized by N.J.A.C. 2:90-1.12 and pursuant to policy approval by the State Soil Conservation Committee on September 13, 2007. The certification fees collected by the District are derived from an adopted fee schedule that was effective starting November 21, 1994. As a result of rising expenses incurred by the District to maintain their level of services, the Board has revised the fee schedule, effective August 1, 2010 to bring the fees charged in comparability to the expenses incurred.

Prior to the 2015-16 year, this reserve was limited to a calculation involving certification fees collected during the current and two preceding years, multiplied by certain percentages per year. However, in August 2015, the District adopted a revised Financial Accounting Manual, which no longer utilizes this calculation. As such, the June 30, 2016 Reserve for Future Soil Erosion and Sediment Control Act Expenditures was \$340,230, as compared to \$74,080 in the prior year.

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

4. **RESERVE FOR FUTURE LEGAL COSTS**

The Reserve for Future Legal Costs provides the District with funds necessary to pay for estimated future legal costs incurred as a result of current Chapter 251 operations. Management estimates that based on prior experience, the reserve balance for future legal costs should be \$12,206.

5. **CASH EQUIVALENTS**

For purposes of the Statement of Cash Flows, the Cumberland-Salem Conservation District considers highly liquid investments with an initial maturity of three months or less to be cash equivalents.

6. **CONTINGENT LIABILITIES**

Per confirmation by the Cumberland-Salem Soil Conservation District's legal counsel, there are no pending litigations, claims, assessments, unasserted claims, or contingent liabilities against the District, which are considered material.

7. **RESERVE FOR COMPENSATED ABSENCES**

The District has permitted qualifying employees to accrue unused sick pay. The Amount paid to the employee is computed using the respective employee's salary rate at the time the disbursement is made. The total accumulated sick pay obligation at June 30, 2016 is \$15,000, which is the maximum allowed in the State of New Jersey.

8. **LEASES**

The District had no leases as of June 30, 2016.

9. **SURETY BOND COVERAGE**

The Cumberland-Salem Conservation District has a public officials liability bond with coverage of \$70,000.

10. **REQUEST FOR AUTHORIZATION**

All storm water discharge associated with construction activity within the state of New Jersey incurs a fee payable to "Treasurer – State of New Jersey ". A portion of the fee is due to the New Jersey department of Environmental Protection, the remaining is split 70% and 30% to the district and State Soil Conservation committee, respectively.

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

11. HYDRAULIC AND HYDROLOGIC DATABASE

During 2012, the District entered into an agreement with the New Jersey Department of Agriculture, whereby the District shall provide data entry services of storm water basin design information, which has been collected on detention basin summary sheets since 1986. The NJDA allocated \$15,165 to fund the District's participation in this project. The District received the first half of these funds, totaling \$7,583, during the 2012-13 fiscal year and will receive the remaining portion upon completion of the project.

12. UNEARNED REVENUE

Unearned Revenue represents restricted revenue that has been received but not yet earned. As of June 30, 2016, the District has Unearned Revenue of \$7,583, which is comprised entirely of Hydraulic and Hydrologic Database project funds. Revenue for this project will be recognized as data entry services are fulfilled.

13. PENSION

Public Employees' Retirement System

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system.

GASB 68 - Accounting and Financial Reporting for Pensions

State and local governments participating in government pension plans are required to reflect liabilities, deferred outflows/inflows of resources and expenditures related to pension activity. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions and improve information provided by state and local governmental employers about financial support for pensions that are provided by other state entities.

The District does not and is not required to follow generally accepted accounting principles (GAAP) and, as such, does not follow GASB requirements with respect to the recording of pension liabilities and deferred outflows/inflows of resources on its balance sheets. However, the District is required to disclose GASB 68 information in the Notes to the Financial Statements.

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

13. **PENSION (CONTINUED)**

Public Employees' Retirement System – Continued

A. Funding Policy

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B. All benefits vest after ten years of service, except for medical benefits that vest after 25 years of service or under the disability provisions of PERS.

Tier	Definition
1	Members who are 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 tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service.

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to Chapter 126, P.L. 1992, which provides free health benefits to members of PERS who retired from a municipality with 25 years of service.

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

13. **PENSION (CONTINUED)**

Public Employees' Retirement System – Continued

A. Funding Policy – Continued

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contributions of 7.06% through June 30, 2016 and 7.20% thereafter of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS. The current PERS rate is 12.46% of covered payroll. The District's contributions to PERS for the years ended June 30, 2016, and 2015, were \$9,180 and \$8,830 respectively, equal to the required contributions for each year. The actuarially determined contribution includes funding for cost - of - living adjustments, noncontributory death benefits, and post-retirement medical premiums.

The total payroll for the years ended June 30, 2016 and 2015 was \$68,126 and \$72,969. Payroll covered by PERS was \$63,060 for 2015-16.

Information regarding contributions made by the State of New Jersey on behalf of the District is not available. Contributions to the system for the year ended June 30, 2016 is as follows:

	<u>PERS</u>
Employees	\$ 4,452
District	9,180
Total	<u>\$ 13,632</u>

B. Significant Legislation

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS operate and to the benefit provisions of those systems.

The legislation's provisions impacting employee pension and health benefits include:

- For new members of PERS hired on or after June 28, 2011 (Tier 5 members), the years of creditable service needed for early retirement benefits increased from 25 to 30 years and the early retirement age increased from 55 to 65.
- The eligibility age to qualify for a service retirement in the PERS increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members) decreased from 65 percent of final compensation to 60 percent of final compensation after 25 years of service and from 70 percent of final compensation to 65 percent of final compensation after 30 or more years.

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

13. **PENSION (CONTINUED)**

Public Employees' Retirement System – Continued

- It increased the PERS active member rates from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years for members hired or reappointed on or after June 28, 2011. For Fiscal Year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for PERS members takes place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law.
- It changed the method for amortizing the pension system's unfunded accrued liability (from a level percent of pay method to a level dollar of pay method).

P.L. 2010, c.3, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the States Defined Contribution Retirement Program.

Information regarding contributions made by the State of New Jersey on behalf of the Board is not available.

C. Components of Net Pension Liability

At June 30, 2016, the District's proportionate share of the PERS net pension liability was \$205,202. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015, was .000914% which was an increase of .000002% from its proportion measured as of June 30, 2014.

D. Pension Expense and Deferred Outflows/Inflows of Resources

The District's 2015-16 PERS pension expense, with respect to GASB 68, was \$7,859. The District's 2015-16 deferred outflows of resources and deferred inflows of resources were from the following sources:

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

13. **PENSION (CONTINUED)**

Public Employees' Retirement System – Continued

D. Pension Expense and Deferred Outflows/Inflows of Resources - Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,895	\$
Changes of assumptions	22,037	
Net difference between projected and actual earnings on pension plan investments		3,299
Changes in proportion and differences between District contributions and proportionate share of contributions	364	
District contributions subsequent to the measurement date	9,180	
Total	\$ 36,476	\$ 3,299

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	PERS
2016-17	\$ 4,281
2017-18	4,281
2018-19	4,281
2019-20	4,281
2020-21	4,281
Thereafter	2,592
	\$ 23,997

Collective Balances at June 30, 2014 and 2015 are as follows:

	Actuarial Valuation Date	
	6/30/2014	6/30/2015
Collective deferred outflows of resources	\$ 5,368	\$ 27,296
Collective deferred inflows of resources	\$ 10,550	\$ 3,299
Collective net pension liability	\$ 170,720	\$ 205,202
District's Proportion	0.000912%	0.000914%

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

13. **PENSION (CONTINUED)**

Public Employees' Retirement System – Continued

F. Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

	<u>PERS</u>
Interest Rate	7.90%
Salary Scale (Based on Age):	
2012-2021	2.15% - 4.40%
Thereafter	3.15% - 5.40%
Inflation	3.04%

Mortality rates were based on the RP-2000 Combined Healthy Male or Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements from base year of 2012 based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

G. Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments 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. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

13. **PENSION (CONTINUED)**

Public Employees' Retirement System – Continued

G. Long-Term Expected Rate of Return - Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
US Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad US Equities	27.25%	8.52%
Developed Foreign Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%
REIT	4.25%	5.12%
Total	<u>100%</u>	

H. Discount Rate

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current member contribution rates and that contributions from employers will be made on the average of the last five years of contributions made in relation to the last five years of recommended 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 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

CUMBERLAND-SALEM SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

13. **PENSION (CONTINUED)**

Public Employees' Retirement System – Continued

I. 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, 2015, calculated using the discount rate as disclosed above, as well as what the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.90%) or 1-percentage-point higher (5.90%) than the current rate:

	1% Decrease (3.90%)	Current Discount (4.90%)	1% Increase (5.90%)
District's proportionate share of the net pension liability	\$ 255,041	\$ 205,202	\$ 163,417

14. **SUBSEQUENT EVENTS**

There were no material events between June 30, 2016 and September 8, 2016 affecting the financial status of the Cumberland-Salem Soil Conservation District.

End of Notes to Financial Statements

CUMBERLAND-SALEM CONSERVATION DISTRICT
STATEMENT OF BUDGET VERSUS ACTUAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>General Actual</u>	<u>Variance</u>
<u>Revenues</u>			
Soil Erosion & Sediment Control Fees	\$ 110,000	\$ 116,925	\$ (6,925)
County Funding	15,000	15,000	
RFA Income	4,500	5,660	(1,160)
Interest	3,500	5,082	(1,582)
Vehicle Sales	6,000		6,000
Total Revenues	<u>139,000</u>	<u>142,667</u>	<u>(3,667)</u>
<u>Expenditures</u>			
Salaries and Wages	70,000	66,216	3,784
Health Benefits	10,000	3,596	6,404
Pension	9,000	14,915	(5,915)
Payroll Taxes	8,000	6,019	1,981
Professional Services	6,000	3,440	2,560
Maintenance and Repairs - Building	9,000	2,056	6,944
Office Expenses/Supplies	3,100	2,525	575
Insurance	7,250	6,486	764
Professional/Training	3,900	1,426	2,474
Utilities	5,600	4,986	614
Vehicle	3,150	1,802	1,348
	<u>\$ 135,000</u>	<u>113,467</u>	<u>\$ 21,533</u>
Adjustments:			
Depreciation		6,399	
In-Kind Support		501,292	
Total Expenditures - to Exhibit B		<u>\$ 621,158</u>	

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

SCHEDULES

CUMBERLAND-SALEM CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor Pass-Through Program Title	Federal CFDA Number	Grant Period		Balance June 30, 2015	Receipts or Revenue Realized	Cash Received (Memo Only)	Expenditures	Adjust	Repayment of Prior Year Balances	Balance June 30, 2016		
		From	To							(Accounts Receivable)	Unearned Revenue	Due Grantor
Department of Environmental Protection: US Department of Agriculture In-Kind Contribution	12-902	7/1/2015	6/30/2016	\$	\$ 462,292	\$	\$ (462,292)	\$	\$	\$	\$	\$
				\$	\$ 462,292	\$	\$ (462,292)	\$	\$	\$	\$	\$

The Cumberland Salem Soil Conservation District is not subject to federal or state single audit requirements.

The accompanying Notes to the Financial Statements are an integral part of this schedule.

**CUMBERLAND-SALEM CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2016**

State Funding Department	State Program	GMIS Number	Grant Award Amount	From	To	June 30, 2015		Receipts or Revenue Recognized	Expenditures	June 30, 2016	
						Accounts Receivable	Unearned Revenue			Accounts Receivable	Unearned Revenue
Department of Agriculture - State Soil Conservation Committee	In-Kind Contribution	N/A	\$ 39,000	7/1/15	6/30/16	\$	\$	\$ 39,000	\$ (39,000)	\$	\$
Department of Agriculture - State Soil Conservation Committee	Stormwater Discharge Permit Program - RFA Fees	3300-100-010- 3330-058- CCCC-6120	5,635 5,660	7/1/14 7/1/15	6/30/15 6/30/16	(1,250)		1,250 4,785	(5,660)	(875)	
Department of Agriculture - State Soil Conservation Committee	Hydraulic and Hydrologic Database for Stormwater Management Basins	SSCC-251-HDF1	15,165	7/24/14	6/30/16		7,583				7,583
Total						\$ (1,250)	\$ 7,583	\$ 45,035	\$ (44,660)	\$ (875)	\$ 7,583

Therefore, because the Cumberland-Salem Conservation District expended less than \$500,000.00 in federal and state assistance, it is not subject to federal or state single audit requirements.

CUMBERLAND-SALEM CONSERVATION DISTRICT
INTERNAL CONTROL COMMENTS
FOR THE YEAR ENDED JUNE 30, 2016

INTERNAL CONTROL COMMENTS

Good internal controls represent sound business practices and provide important safeguards for the Districts operations. While it is recognized that the Board of Supervisors has adopted various policies in the past, internal control could be enhanced with an ongoing review of changes in business operations and the business environment.

Use of District Credit Card

It is recognized that internet purchasing can be the most direct way to purchase an item and that off-line payment is not always an option offered by the vendor. To address this issue, the Board adopted a credit card policy and continues to be in compliance with its directives.

Independent Contractor versus Employee Status

The Internal Revenue Service has specific guidelines regarding independent contractor versus employee status. If an employee is classified or indirectly paid as a subcontractor and there is no reasonable basis for doing so, the District may be liable for employment taxes and other IRS assessments. If the District chooses to engage employees for additional subcontracting work, the specific compensation details (e.g. hourly rate, work to be performed, etc.) should be approved and outlined in the minutes.

Business Registration

Internal Revenue Service regulations required that Form 1099-Miscellaneous be filed for each unincorporated person to whom at least \$600 for services was paid. Our audit examination revealed compliance with these regulations.

New Jersey requires that all business organizations that do business with a local agency and that receive payment from the District equal to or more than the quote threshold be registered with the State of New Jersey and provide proof of that registration to the contracting agency. Therefore, the practice of obtaining such registrations should be part of the District's internal control policies.

Conflict of Interest Policy

Federal and state requirements regarding conflict of interest and ethics compliance are varied. The District has familiarized itself with these requirements and has taken appropriate measures to adhere to them.

Surety Bond Coverage

During fiscal year 2016, the District was covered by a \$70,000 public officials liability policy.

CUMBERLAND-SALEM CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

COMMENTS

Administrative Practices and Procedures

Purchases shall be in conformance with the State Public Contracts Law for securing formal bids on purchases in excess of \$17,500 and on quotations are required to be sought for purchases over \$2,625, where it is possible to solicit more than one quotation. If there is a reason why quotations are not solicited, a brief explanation regarding this should be documented and included in the District's minutes. For purchases, which are unusual or not routine in nature, a policy should be adopted, addressing such purchases. Any suggested policy should be reviewed with the Solicitor. In addition, when making purchases utilizing the state contract system, the award of such a contract shall be authorized by a resolution of the Board of Supervisors as required by N.J.A.C. 5:34-1.2. As a result of our audit, no exceptions were noted.

Chapter 251 fees appear to be collected substantially in accordance with the adopted fee schedule.

The District was in compliance with the **Financial Accounting Manual for New Jersey Soil Conservation Districts**, which states that all checks must have two signatures, at least one of which shall be the District Chairman or Treasurer.

The District's surety bond coverage appears to be in accordance with the minimum requirements noted in the **Financial Accounting Manual for New Jersey Soil Conservation Districts**.

Financial Planning, Accounting and Reporting

Revenues and receipts appear to be recorded properly and deposited on a timely basis.

Bank statements are reconciled monthly. Sources of revenues and receipts are able to be traced to files.

The District's payroll reports appear to be filed on a timely basis, and the amounts withheld as payroll deductions appear to be remitted properly.

Expenditures are to be evidenced by adequate supporting documentation, including notation of date of payment and check number. No exceptions were noted with regard to expenditure documentation.

CUMBERLAND-SALEM CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

RECOMMENDATIONS

None

Status of Prior Year Recommendations

There were no prior year recommendations.

APPRECIATION

We wish to express our appreciation for the assistance and courtesies rendered to us by the officials during the course of the audit.

Should any questions arise as to our comments, please do hesitate to call us.