

**HUDSON-ESSEX-PASSAIC
SOIL CONSERVATION DISTRICT
FINANCIAL STATEMENTS
WITH
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
AND
INDEPENDENT AUDITOR'S REPORT**

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

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**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
ROSTER OF OFFICIALS
JUNE 30, 2016**

Board of Supervisors

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Matthew Ward	District Chairman	June 30, 2019
Mario Tridente	District Vice Chairman	June 30, 2017
John Sarnas	District Secretary/Treasurer	June 30, 2018
Gray Russell	Supervisor	June 30, 2017
Jerry Flach	Supervisor	June 30, 2018

Administrative Officials

Glen Van Olden	District Manager
Fran Aguirre	District Secretary

DONOHUE, GIRONDA, DORIA & TOMKINS LLC

Certified Public Accountants

Matthew A. Donohue, CPA
Robert A. Gironda, CPA
Robert G. Doria, CPA (N.J. & N.Y.)
Frederick J. Tomkins, CPA, RMA

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Linda P. Kish, CPA, RMA
Mark W. Bednarz, CPA, RMA
Jason R. Gironda, CPA

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Supervisors of the
Hudson-Essex-Passaic Soil Conservation District
Bloomfield, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the Hudson-Essex-Passaic Soil Conservation District (the "District"), which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the New Jersey Department of Agriculture's Financial Accounting Manual. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audits. We conducted our audits 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 as prescribed by the Department of Agriculture's manual, as prescribed by the New Jersey State Soil Conservation Committee. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the district on the basis of 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.

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 various individual funds and account groups of the District as of June 30, 2016, or the results of its activities and changes in net position for the year 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 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information listed in the foregoing table of contents is presented for the purposes of additional analysis as required by the New Jersey Department of Agriculture's Financial Accounting Manual in accordance with those standards regarding the statement of budget versus actual expenditures – all funds combined and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected 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 and the audit requirements as prescribed by the New Jersey Department of

Agriculture's Financial Accounting Manual. 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 our report dated December 28, 2016 on our consideration of the District'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 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* in considering the District's internal control over financial reporting and compliance.

Bayonne, New Jersey
December 28, 2016

DONOHUE, GIRONDA,
DORIA & TOMKINS, LLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Board of Supervisors of the
Hudson-Essex-Passaic Soil Conservation District
Bloomfield, New Jersey

We have audited, 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 as prescribed by the Department of Agriculture's manual, as prescribed by the New Jersey State Soil Conservation Committee, the financial statements of the Hudson-Essex-Passaic Soil Conservation District, (the "District"), which comprise the statements of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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*.

However, we noted certain matters that we have reported to the management of the District in the accompanying comments and recommendations sections of this report.

Purpose of this Report

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

DONOHUE, GIRONDA,
DORIA & TOMKINS, LLC
Certified Public Accountants

Bayonne, New Jersey
December 28, 2016

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

	Unrestricted Funds	Temporarily Restricted			Totals June 30,	
		Chapter 251	Various Reserves	Equipment Fund	2016	2015
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 146,780	\$ 294,136	\$ 107,087	\$ -	\$ 548,003	\$ 300,649
State of NJ Cash Management Fund	-	176	-	-	176	176
Certificate of Deposits	-	-	431,115	-	431,115	254,732
Accounts Receivable	-	15,120	-	-	15,120	17,000
Total Current Assets	<u>146,780</u>	<u>309,432</u>	<u>538,202</u>	<u>-</u>	<u>994,414</u>	<u>572,557</u>
Property and Equipment						
Buildings and Land	-	-	-	781,534	781,534	217,172
Office Furniture and Equipment	-	-	-	76,613	76,613	67,647
Construction in Progress	-	-	-	-	-	738,955
Less: Accumulated Depreciation	-	-	-	(88,469)	(88,469)	(165,807)
Total Fixed assets, net of depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>769,678</u>	<u>769,678</u>	<u>857,967</u>
TOTAL ASSETS	<u>146,780</u>	<u>309,432</u>	<u>538,202</u>	<u>769,678</u>	<u>1,764,092</u>	<u>1,430,524</u>
LIABILITIES, NET POSITION AND RESERVES						
Current Liabilities						
Accounts Payable and Accrued Expenses	\$ -	\$ 7,282	\$ -	\$ -	\$ 7,282	\$ 6,711
Performance Deposits Payable	-	22,750	-	-	22,750	25,550
RFA Payable to State of New Jersey	-	4,530	-	-	4,530	5,100
NJDA Chapter 251 Fees Payable	-	4,775	-	-	4,775	3,125
Total Current Liabilities	<u>-</u>	<u>39,337</u>	<u>-</u>	<u>-</u>	<u>39,337</u>	<u>40,486</u>
Net Position and Reserves						
Unrestricted Net Position	146,780	-	-	-	146,780	47,314
Reserve for Future Legal Cost	-	-	29,500	-	29,500	23,816
Reserve for Post-Retirement Medical	-	-	508,702	-	508,702	50,765
Reserve for Chapter 251	-	270,095	-	-	270,095	410,176
Reserve for Equipment	-	-	-	769,678	769,678	857,967
Total Net Position and Reserves	<u>146,780</u>	<u>270,095</u>	<u>538,202</u>	<u>769,678</u>	<u>1,724,755</u>	<u>1,390,038</u>
TOTAL LIABILITIES, NET POSITION AND RESERVES	<u>\$ 146,780</u>	<u>\$ 309,432</u>	<u>\$ 538,202</u>	<u>\$ 769,678</u>	<u>\$ 1,764,092</u>	<u>\$ 1,430,524</u>

See accompanying notes to the financial statements

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	Unrestricted Funds	Temporarily Restricted			Totals June 30,	
		Chapter 251	Various Reserves	Equipment Fund	2016	2015
Support and Revenue						
Soil Erosion and Sediment Control Act Fees	\$ -	\$ 750,581	\$ -	\$ -	\$ 750,581	\$ 650,870
Stormwater permitting	-	42,825	-	-	42,825	40,005
Exemption income	-	18,900	-	-	18,900	15,300
Gain on sale of asset	99,466	-	-	-	99,466	-
Interest on investments	-	2,131	-	-	2,131	2,200
Bonding administrative fee	-	5,550	-	-	5,550	4,350
Miscellaneous income	-	13,733	-	-	13,733	327
Total Support and Revenue	99,466	833,720	-	-	933,186	713,052
Expenditures						
Salaries and wages	-	335,253	-	-	335,253	323,411
Employee benefits	-	77,266	7,226	-	84,492	72,936
Cash-in-lieu - medical benefits	-	4,828	-	-	4,828	4,716
Payroll taxes	-	26,058	-	-	26,058	26,552
Pension expense	-	38,532	-	-	38,532	35,590
Legal and professional fess	-	14,246	500	-	14,746	14,990
Repairs and maintenance	-	9,937	-	-	9,937	3,073
Meetings and conferences	-	2,047	-	-	2,047	3,339
Moving expense	-	469	-	-	469	-
Travel	-	17,390	-	-	17,390	15,318
Utilities	-	4,974	-	-	4,974	7,019
Telephone	-	6,618	-	-	6,618	6,588
Insurance	-	7,779	-	-	7,779	8,845
Dues, licenses and fees	-	2,073	-	-	2,073	2,109
Office, postage and miscellaneous	-	17,217	-	-	17,217	9,701
Charitable contributions	-	1,206	-	-	1,206	606
Rent and leasing	-	-	-	-	-	165
Advertising	-	506	-	-	506	-
Other expenses	-	103	-	-	103	71
Depreciation expense	-	-	-	24,241	24,241	9,338
Total Expenditures	-	566,502	7,726	24,241	598,469	544,367
Excess(deficiency) of support and Revenue over expenditures	99,466	267,218	(7,726)	(24,241)	334,717	168,685
Net Position, beginning of year	47,314	410,176	74,581	857,967	1,390,038	1,221,353
Transfer of Net Position						
Reserve for future legal costs	-	(6,184)	6,184	-	-	-
Reserve for post-retirement medical	-	(465,163)	465,163	-	-	-
Purchase of property and equipment	-	64,048	-	(64,048)	-	-
Net Position, end of year	\$ 146,780	\$ 270,095	\$ 538,202	\$ 769,678	\$ 1,724,755	\$ 1,390,038

See accompanying notes to the financial statements

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS - ALL FUNDS COMBINED
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	Totals June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Position	\$ 334,717	168,685
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation Expense	24,241	9,337
Decrease/(increase) in receivables	1,880	(2,350)
Increase in accounts payable	571	2,751
(Decrease)/increase in performance bond payable	(2,800)	17,150
(Decrease)/increase in RFA Payable to NJ	(570)	705
Increase/(decrease) in NJDA Chapter 251 fees payable	1,650	(150)
NET CASH PROVIDED BY OPERATING ACTIVITIES	359,689	196,128
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) in certificate of deposits	(175,000)	(1,452)
Sale of asset	99,466	-
(Increase) in fixed assets	(36,801)	(391,613)
NET CASH USED IN INVESTING ACTIVITIES	(112,335)	(393,065)
NET INCREASE IN CASH	247,354	(196,937)
CASH AT BEGINNING OF YEAR	300,649	497,586
CASH AT END OF YEAR	\$ 548,003	\$ 300,649

See accompanying notes to the financial statements

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hudson-Essex-Passaic Soil Conservation District, (the “District”), is one of fifteen Soil Conservation 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 USDA Natural Resources 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 NJ Soil Erosion and Sediment Control Act of 1975, the objective of which was to prevent soil 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 net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted net assets can be expended by the District for any aspect of its operations, at any time, as determined by management. Temporarily restricted net assets are either restricted to a specific program, a specific time period or both, but eventually, will be expended by the District. Permanently restricted net assets can never be expended, but benefit the District through investment earning on such assets. At June 30, 2016 the District had only unrestricted and temporarily restricted net assets.

Basis of Accounting

The accounting policies of the District conform to accounting principles generally accepted in the United States of America and practices prescribed by the Department of Agriculture, State Soil Conservation Committee, State of New Jersey.

District funds are accounted for using the accrual basis of accounting. Support and revenue 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 are 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 assets, support and revenue and expenditures. Equipment purchases are recorded in the fund of acquisition with an appropriate transfer to the equipment fund. Accumulated depreciation is reported on the statement of financial position.

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Temporary Investments

Operating funds and temporary investments consist of demand deposits and temporary investments in the form of certificates of deposit held at various financial institutions. At times, amounts on deposit exceed federally insured limits. Management reviews the soundness of its financial institutions and considers its risk negligible.

Budgets and Budgetary Accounting

An annual budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures. Budget amounts presented in the accompanying financial statements represent amounts adopted by the District and approved by the Board of Supervisors.

Budgets are adopted on the same basis of accounting utilized for the preparation of the District's financial statements.

For the year ended June 30, 2016, the District under-expended its budget by \$99,918.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The District is a special sub-division of the NJ Department of Agriculture; therefore, it is exempt from both federal and state income tax.

Support Revenue, and Expenses

Contributions and restricted grant revenues are measured at their fair values and are recorded as an increase in net assets. The District reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor or grantor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

2. INVESTMENTS

The District records investments at fair market value, when available. Certificates of deposit that have original maturities of greater than three months are considered investments.

Investments at fair value consisted of:

	<u>2016</u>
Certificate of Deposits	\$431,115

3. PENSION PLAN

Substantially all full-time District employees participate in the Public Employees Retirement System (PERS). The PERS system is cost-sharing multiple-employer contributory defined benefit retirement system sponsored and administered by the State of New Jersey, Department of Treasury, Division of Pensions and Benefits.

The PERS was established in January 1955 under provisions of N.J.S.A. 43:15A and provides coverage to substantially all full time employees of the District provided the employee is not a member of another State administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service.

The cost of living increase for PERS is funded directly by the respective system, but is currently suspended as a result of reform legislation.

According to state law, all obligations of PERS will be assumed by the State of New Jersey should the PERS be terminated. The State of New Jersey, Department of Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the PERS. The financial reports may be accessed via the New Jersey Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

3. PENSION PLAN (Continued)

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.

Chapter 78'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 from age 55 to 65 for Tier 5 members.
- The eligible age to qualify for a service retirement in the PERS increased from age 62 to 65 for Tier 5 members.
- It increases in active member contribution rates for PERS active members from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; For fiscal year 2012, the member contribution rates will increase in October 2011. The phase-in of the additional incremental member contribution rates for PERS members will take 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 is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

3. PENSION PLAN (Continued)

Contribution Requirements – PERS

The contribution policy is set by N.J.S.A. 43:15A for PERS and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.2% in fiscal year 2016. The phase-in of the additional incremental member contribution rate will take place in July of each subsequent fiscal year.

Employers' contribution amounts for PERS are based on an actuarially determined rate. The annual employer contributions for PERS include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to resume making actuarially recommended contributions for the pension plans on a phased-in basis over a seven-year period beginning in fiscal year 2012. For fiscal year 2013, the State's minimum required contribution was 2/7th of the full recommended amounts determined on the basis of the July 1, 2011 actuarial valuation.

The District's contributions for the past three years are as follows:

For the Year ending	Amount
June 30,	
2016	\$ 38,532
2015	35,590
2014	24,676

PERS Pension Liabilities and Pension Expense Related to Pensions:

At June 30, 2016 the District's net pension liability for PERS was \$1,006,088.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the District's PERS proportion was .0044818628%, which was an increase of .000164708% from its proportion measured as of June 30, 2014.

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

3. PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2013, which was rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of July 1, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	3.04%
Salary increases: 2012-2021	2.15 – 4.40%
Thereafter	3.15 5.40% Based on age
Investment rate of return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) for service retirement beneficiaries of former members with adjustments for mortality improvements from the base year of 201 based on Projections Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees.

The actual 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. 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 will be on future financial statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

3. PENSION PLAN (Continued)

PERS Pension Liabilities and Pension Expense Related to Pensions: (Continued)

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	1.04%
Core Bonds	1.75%	1.64%
Intermediate-Term Bonds	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%

Discount Rate

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. This single blend discount rate was based on the 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 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 employees will be made based 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.

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

3. PENSION PLAN (Continued)

PERS Pension Liabilities and Pension Expense Related to Pensions: (Continued)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.

The following presents the District's proportionate share of the net pension liability 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 was calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
District's proportionate share of PERS net pension liability	\$ 1,250,445	\$ 876,763	\$ 801,222

Pension Plan fiduciary net position

Detailed information about the pension plans' fiduciary net position are available in the separately issued financial reports. These reports may be accessed via the New Jersey Division of Pension and Benefits website at www.state.nj.us/treasury/pensions.

4. STORMWATER PERMITTING PROGRAM

The New Jersey Department of Environmental Protection, (the "NJDEP"), maintains an application process, including the collection of fees. The NJDEP retains \$100 per 5G3 permit. The remaining fees are apportioned to the soil conservation districts and disbursements via electronic transfers are made on a quarterly basis. The State Soil Conservation Committee (the "SSCC"), then invoices the soil conservation districts quarterly for its share of the Stormwater Permit Fees. The soil conservation districts retain 70% of remaining fees and the SSCC receives 30%.

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

5. RESERVE FOR FUTURE SOIL EROSION AND SEDIMENT CONTROL ACT (CH. 251) 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 received shall remain with the reserve balance total. 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 at N.J.A.C. 2:90-1.12 and pursuant to policy approval by the SSCC on September 13, 2007.

Reserve Balance on June 30, 2016 \$270,095

6. POST-RETIREMENT BENEFITS

In March of 2007 the District Board of Supervisors adopted chapter 88, P.L. 1974 of the PERS. Chapter 88 affords District paid lifetime single health coverage to retired employees with 25 years of service credited in the PERS system. It also provides for District reimbursement of Medicare Part B premiums for eligible pensioners. In 2012, the District passed a resolution to adopt the provisions of chapter 48 (N.J.S.A. 52:14.17.38) to pay premium charges and to reimburse Part B Medicare premiums for retired employees with 25 years or more service credited in the New Jersey State Pension Plan with fifteen years of service to the District.

During the 2015-2016 year, the District had an actual valuation performed in order to determine the value of post-retirement health benefits with a measurement date of April 1, 2016. The cost of retiree health benefits for current employees and retirees of the District was estimated to be \$509,929 as of April 1, 2016. The district made a transfer to their reserve for post-retirement medical account of \$465,163 in order for the reserve to have the estimated balance on April 1, 2016.

The District currently has one retired employee receiving health insurance benefits. The total benefits paid for the year ended June 30, 2016 was \$7,226.

7. SURETY BOND COVERAGE

The District Manager, Glen Van Olden, has coverage of \$75,000 and the District Secretary, Fran Aguirre, has coverage of \$50,000.

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

8. ACCRUED SICK BENEFITS

Employees of the District are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. The District's policy is to recognize the costs of compensated absences when actually paid to employees. The District's policy regarding compensated vacation absences and personal time is that all vacation and personal time must be used during the current fiscal year. There is no carryover of unused vacation and personal time. There is no carryover of unused vacation and personal time. Compensated sick time may be carried over to future years, however, upon termination of employment with the District, unused sick time is forfeited.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. In August 2015, the District sold its old building located in North Caldwell, New Jersey and moved into its new building located in Bloomfield, New Jersey. The new building was purchased in June of 2013 and has had renovations done to both the inside and outside of the building. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment	5 years
Vehicles	5 years
Furniture	7 years
Building and improvements	40 years

10. CONTINGENT LIABILITIES

The District's counsel is not aware of any litigation claims or assessments pending or threatened against the District that will have a material effect on the financial statements, or the complaints have been referred to the insurance carrier.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 28, 2016, the date on which the financial statements were available to be issued. None were noted.

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
SCHEDULE OF BUDGET VERSUS ACTUAL EXPENDITURES
YEAR ENDED JUNE 30, 2016**

	All Funds		
	Budget	Actual	Variance
Expenditures:			
Salaries and wages	\$ 392,500	\$ 335,253	\$ 57,247
Employee benefits	105,258	84,492	20,766
Cash-in-lieu - medical benefits	4,884	4,828	56
Payroll taxes	51,300	26,058	25,242
Pension expense	35,000	38,532	(3,532)
Legal and professional fess	18,200	14,746	3,454
Repairs and maintenance	7,600	9,937	(2,337)
Meetings and conferences	3,346	2,047	1,299
Moving expense	-	469	(469)
Travel	15,148	17,390	(2,242)
Utilities	5,520	4,974	546
Telephone	6,501	6,618	(117)
Insurance	8,990	7,779	1,211
Dues, licenses and fees	2,109	2,073	36
Office, postage and miscellaneous	16,622	17,217	(595)
Charitable contributions	606	1,206	(600)
Rent and leasing	180	-	180
Advertising	300	506	(206)
Other expenses	82	103	(21)
Depreciation expense	-	24,241	(24,241)
	<u>\$ 674,146</u>	<u>\$ 598,469</u>	<u>\$ 99,918</u>

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2016**

Finding 2016-001

SEGREGATION OF DUTIES

The Financial Accounting Manual for New Jersey Soil Conservation Districts provides several internal control recommendations with an overall premise of segregation of duties. The principal concept is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. The District Secretary controls disbursements of funds, has control of checks and reconciles bank statements. This situation occurred because of the small size of the District's office staff and because of the limited number of employees qualified to perform these services. While steps have been taken to address the effect on internal controls due to lack of segregation of duties, we recommend that management continually monitor the situation.

**HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT
PRIOR YEAR COMMENTS AND RECOMMENDATIONS
JUNE 30, 2016**

Finding 2015-001

SEGREGATION OF DUTIES

The Financial Accounting Manual for New Jersey Soil Conservation Districts provides several internal control recommendations with an overall premise of segregation of duties. The principal concept is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. The District Secretary controls disbursements of funds, has control of checks and reconciles bank statements. This situation occurred because of the small size of the District's office staff and because of the limited number of employees qualified to perform these services. While steps have been taken to address the effect on internal controls due to lack of segregation of duties, we recommend that management continually monitor the situation. This comment is repeated in 2016.