HUDSON-ESSEX-PASSAIC
SOIL CONSERVATION DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

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JUNE 30, 2017

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HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

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PART I

REPORT OF AUDIT ON FINANCIAL STATEMENTS

AND SUPPLEMENTARY DATA

YEAR ENDED JUNE 30, 2017

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

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Hudson-Essex-Passaic Soil Conservation District
Bloomfield, NJ 07003

Report on the Financial Statements

We have audited the accompanying financial statements of the Hudson-Essex-Passaic Soil Conservation District, in the County of Essex, which comprise the statement of financial position as of June 30, 2017, the related statement of activities and changes in net position and of cash flows for the year 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 basis of accounting prescribed by the New Jersey Department of Agriculture. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 audit requirements prescribed by the New Jersey Department of Agriculture, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hudson-Essex-Passaic Soil Conservation District, as of June 30, 2017, and the changes in its net position and its cash flows for the year then ended in conformity with the financial reporting provisions of the New Jersey Department of Agriculture Financial Accounting Manual.

Basis of Accounting

As described in Note 1 of the financial statements, the financial statements are prepared in conformity with 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. The effects on the financial statements of the variances between this statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The 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 Financial Accounting Manual in accordance with those standards regarding the statement of budget versus actual expenditures and is not a required part of the basic 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 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 Financial Accounting Manual. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The letter of comments and recommendations section has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017 on our consideration of the Hudson-Essex-Passaic Soil Conservation 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 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 Hudson-Essex-Passaic Soil Conservation District's internal control over financial reporting and compliance.

Thomas M. Ferry, C.P.A.
Registered Municipal Accountant
No. 497

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

Newton, New Jersey

November 1, 2017

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Exhibit A

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

		Reserves			
	Unrestricted Funds	Chapter 251 Reserves	Various Reserves	Equipment Fund	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	146,780	164,877			311,657
State of New Jersey Cash Management Fund		100,402			100,402
Certificate of Deposits		196,857.14	529,874		726,731
Total Current Assets	146,780	462,136	529,874		1,138,790
Property and Equipment:					
Buildings and Land				781,534	781,534
Office Furniture and Equipment				85,099	85,099
Total Property and Equipment				866,633	866,633
Less: Accumulated Depreciation				(114,202)	(114,202)
				752,431	752,431
Total Property and Equipment Net of Depreciation				752,431	752,431
TOTAL ASSETS	146,780	462,136	529,874	752,431	1,891,221
LIABILITIES, NET POSITION AND RESERVES					
Current Liabilities:					
Accounts Payable & Accrued Expenses		5,930			5,930
Performance Deposits Payable		28,600			28,600
RFA Payable To State of New Jersey		4,175			4,175
NJDA Chapter 251 Fees Payable		6,225			6,225
Total Current Liabilities		44,930			44,930
Net Position and Reserves:					
Unrestricted Net Position	146,780				146,780
Reserve for Future Legal Cost			25,920		25,920
Reserve for Post-Retirement Medical			503,954		503,954
Reserve for Chapter 251		417,205			417,205
Reserve for Equipment				752,431	752,431
Total Net Position and Reserves	146,780	417,205	529,874	752,431	1,846,291
Total Liabilities, Reserves and Net Position	146,780	462,136	529,874	752,431	1,891,221

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

Exhibit B

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted Funds	Reserves Chapter 251	Reserves Various Reserves	Reserves Equipment Fund	Total
Support and Revenue:					
Soil Erosion and Sediment Control Act Fees		741,979			741,979
Stormwater Permitting		36,340			36,340
Exemption Income		22,300			22,300
Bonding Administrative Fee		4,500			4,500
Standards, Soil Surveys & Other Income		302			302
NACD Grant Revenue		50,000			50,000
Total Support and Revenue		855,420			855,420
Expenditures:					
Salaries and Wages		381,562			381,562
Employee Benefits		95,712	4,747		100,459
Cash-In-Lieu - Medical Benefits		4,914			4,914
Payroll Taxes		29,687			29,687
Pension Expense		34,949			34,949
Legal & Professional Fees		17,146	4,080		21,226
Repairs & Maintenance		10,552			10,552
Meetings & Conferences		6,854			6,854
Travel		18,620			18,620
Utilities		5,302			5,302
Telephone Expenses		6,931			6,931
Insurance		8,092			8,092
Dues, Licenses & Fees		2,382			2,382
Office, Postage & Miscellaneous		17,521			17,521
Charitable Contributions		806			806
Refund of Prior Year Revenue		1,375			1,375
NACD Grant Expenditures		46,287			46,287
Other Expenses		44			44
Depreciation Expense				25,734	25,734
Total Expenditures		688,736	8,827	25,734	723,297
Excess (Deficiency) of Support and Revenue Over Expenditures		166,684	(8,827)	(25,734)	132,123
Non- Operating Revenue					
Interest on Investments		4,532			4,532
Net Income (Loss)		171,216	(8,827)	(25,734)	136,655
Net Position, Beginning of Year as previously reported	146,780	270,095	538,202	769,679	1,724,755
Prior Period Adjustment:					
Cancellation of RFA Fees Receivable		(15,120)			(15,120)
Net Position, Beginning of Year - as restated	146,780	254,975	538,202	769,679	1,709,635
Transfer of Net Position					
Reserve for Future Legal Costs		(500)	500		
Reserve for Post-Retirement Med Purchase of Property and Equipment		(8,486)		8,486	
Net Position, End of Year	146,780	417,205	529,874	752,431	1,846,291

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

Exhibit C

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Soil Erosion and Sediment Control Act Fees	741,979
Stormwater Permitting	36,340
Exemption Income	22,300
Bonding Administrative Fee	4,500
Standards, Soil Surveys & Other Income	302
NACD Grant Revenue	50,000
Payments to Employees	(381,562)
Payments to Suppliers	(310,409)
NET CASH FROM OPERATING ACTIVITIES	163,450
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Equipment	(8,486)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	4,532
NET INCREASE (DECREASE IN CASH	159,496
CASH AND CASH EQUIVALENTS - JULY 1	979,294
CASH AND CASH EQUIVALENTS - JUNE 30	1,138,790
Change in Net Position:	132,123
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:	
Depreciation Expense	25,734
Changes in Operating Assets and Liabilities:	
Increase/(Decrease) in Accounts Payable	(1,352)
Increase/(Decrease) in Performance Bond Payables	5,850
Increase/(Decrease) in RFA Payable to NJ	(355)
Increase/(Decrease) in NJDA Chapter 251 Fees Payable	1,450
NET CASH PROVIDED BY OPERATING ACTIVITIES	163,450

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

Note 1. Organization Background Information

The Hudson-Essex-Passaic Soil Conservation District (the "Organization") provides for the conservation of the soil and soil resources of Hudson County, Essex County and Passaic County, New Jersey. The Hudson-Essex-Passaic Soil Conservation District is 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.D.A. 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 Soil Erosion and Sediment Control Act of 1975, the objective of which was to prevent erosion and sedimentation from development sites, mitigate impacts to soil resources, and enhance soil quality.

Note 2. Summary of Significant Accounting Principles

Each Soil Conservation District shall maintain an adequate accounting system to facilitate budgetary control over District operations and to provide a basis for the preparation of accurate financial reports. An adequate accounting system is a tool by which a District can plan, control and monitor its operating performance and maintain accountability for its related assets and liabilities.

Accounting System

The accounting system of the Districts shall conform to generally accepted accounting principles, and practices prescribed by the State of New Jersey, Department of Agriculture, State Soil Conservation Committee.

Basis of Accounting

The financial statements of the District have been prepared in conformity with 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.

The records of each Soil Conservation District shall be kept on the modified accrual basis of accounting. Under the basis of accounting, revenues, other than Chapter 251, are recognized when earned and expenditures, other than Chapter 251 related costs, are recorded when incurred. Chapter 251 revenue is recorded when received; Chapter 251 costs are accrued when incurred.

Fund Accounting System

In accordance with the accounting policies by the State Soil Conservation Committee, Department of Agriculture, State of New Jersey, 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 accounting on the basis of funds is for internal record keeping purposes only.

Note 2. Summary of Significant Accounting Policies (continued)

Fund Accounting System (continued)

The funds are organized by various activities or program expenditures of the District. The District currently uses one account. The largest and most active fund of the District is the Soil Erosion and Sediment Control Act (Ch. 251) Expenditures Fund. Interest income derived from fee reserve balances (Ch. 251) may be utilized by the District for implementing district education programs for applicants, contractors, municipal officials and the public.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Statement of Cash Flows and Cash Equivalents

The statement of cash flows was prepared under the indirect method, which includes adjustments of net income for noncash items and changes during the period in operating current assets and liabilities. The Organization considers all short-term debt securities purchased with an original maturity of three months or less as cash equivalents.

Concentration of Credit Risk

The Organization did have cash deposits in excess of federally insured limits.

Accounts Receivable

Accounts receivable are reported on the statement of financial position without an allowance for doubtful accounts.

Note 2. Summary of Significant Accounting Policies (continued)

Depreciation

Depreciation is computed by using the straight-line and accelerated methods based on the estimated useful lives listed below. Additions and betterments, which extend the useful lives of the respective assets are charged to the asset accounts and are depreciated accordingly, while general repairs and maintenance are expensed as incurred.

	Year(s)
Office Furniture and Equipment	5 - 7
Building and Improvements	10 - 40

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Organization, but which will only be resolved when one or more future events occur or fail to occur. The Organization's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization, or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amounts or relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Organization's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed.

Note 3. Fixed Assets

Fixed assets are carried at the lower of cost or fair market value. Fixed assets consist of the following as of June 30, 2017.

Building, Improvements and Land	$781,534
Office Furniture and Equipment	85,099
	866,633
Less: Accumulated Depreciation	(114,202)
	$752,431

Depreciation charged to income for the year ended June 30, 2017 was $25,734.

Note 4. Investments

The current assets section of the Statement of Financial Position reflects investments in the State of New Jersey Cash Management Fund and various certificates of deposit. All of these investments are stated at cost.

Note 5. Pension

Description of Plans - All required employees of the District are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. The report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or reports can be accessed on the internet at: http://www.state.nj.us/treasury/pensions/annrpts_archive.htm.

Public Employees' Retirement System (PERS) - 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 or other state or local jurisdiction.

Note 5. Pension (continued)

Benefits Provided

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

The following represents the membership tiers for PERS:

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

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60a of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 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 50 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Defined Contribution Retirement Program

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the DCRP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

Note 5. Pension (continued)

Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

There were no employees eligible to be enrolled in the DCRP as of June 30, 2017.

Contributions Requirements Fund Based Statements

The District's contribution to PERS AND DCRP, equal to the required contributions for each year as reported in the fund based statements, were as follows:

Year ended June 30,	PERS
2017	$34,949
2016	38,532
2015	35,590

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE DISTRICT-WIDE STATEMENTS PER - GASB NO. 68

Public Employees Retirement System (PERS)

At June 30, 2017, the District had a liability of $1,165,137.00 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of 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 governmental entities, actuarially determined. At June 30, 2016, the District's proportion was 0.0039339894 percent, which was a decrease of 0.0005478734 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $34,949.00. At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

Note 5. Pension (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE DISTRICT-WIDE STATEMENTS PER - GASB NO. 68, (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$21,668	$
Changes of assumptions	241,354	
Net difference between projected and actual earnings on pension plan investments	44,428	
Changes in proportion and differences between the District's contributions and proportionate share of contributions	127,018	89,285
District contributions subsequent to the measurement date (estimated)	36,696	
Total	$471,164	$89,285

The $36,696 reported as deferred outflows of resources related to pensions resulting from the district contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended June 30:	
2017	$69,219
2018	69,219
2019	80,193
2020	67,374
2021	21,444

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.57, 5.72 and 6.44 years for 2016, 2015 and 2014 amounts, respectively.

Note 5. Pension (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE DISTRICT-WIDE STATEMENTS PER - GASB NO. 68, (continued)

Additional Information

Local Group Collective balances at June 30, 2016 and June 30, 2015 are as follows:

	June 30, 2016	June 30, 2015
Collective deferred outflows of resources	$8,685,338,380	$3,578,755,666
Collective deferred inflows of resources	870,133,595	993,410,455
Collective net pension liability	29,617,131,759	22,447,996,119
District s Proportion	0.0039339894%	0.0044818628%

Actuarial Assumptions

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

Inflation	3.08 Percent
Salary Increases:	
Through 2016	1.65-4.15 Percent (based on age)
Thereafter	2.65-5.15 Percent (based on age)
Investment Rate of Return	7.65 Percent

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

Note 5. Pension (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE DISTRICT-WIDE STATEMENTS PER - GASB NO. 68, (continued)

Mortality Rates

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plans actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

Note 5. Pension (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE DISTRICT-WIDE STATEMENTS PER - GASB NO. 68, (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Markets	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Returns	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Note 5. Pension (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE DISTRICT-WIDE STATEMENTS PER - GASB NO. 68, (continued)

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, 2016, respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 - percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2016		
	1% Decrease 2.98%	At Current Discount Rate 3.98%	1% Increase 4.98%
District's proportionate share of the pension liability	$1,427,737	$1,165,135	$948,334

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS). The financial report may be accessed at www.state.nj.us/treasury/pensions.

Note 6. Stormwater Permitting Program

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 SCDs and disbursements via electronic transfers are made on a quarterly basis. The SSCC then invoices the SCDs quarterly for its share of Stormwater Permit fees. The SCDs retain 70% of remaining fees and the SSCC receives 30%.

Note 7. 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 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 Ch. 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.

Reserve balance on June 30, 2017	$417,205.00

Note 8. GASB 45: Other Post-Retirement Benefits

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 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. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees. As of June 30, 2016, there were 110,512 retirees receiving post-retirement medical benefits, and the State contributed $1.37 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994 Chapter 62. Funding of post-retirement medical premiums changed from a prefunding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributable to P.L. 1992 Chapter 126, which provides employer paid health benefits to members of PERS. The State paid $231.2 million toward Chapter 126 benefits for 20,045 eligible retired members in Fiscal Year 2016.

Actuarial Valuation of Post-Retirement Benefits Other Than Pensions

An actuarial valuation has been prepared at the request of the Hudson-Essex-Passaic Soil Conservation District (HEPSCD) in order to determine the value of post-retirement health benefits with a measurement date of April 1, 2016.

The estimated cost of retiree health benefits for current employees and retirees of the HEPSCD to be $509,929 as calculated based on the following plan features and assumptions:

Note 8. GASB 45: Other Post-Retirement Benefits (continued)

Description of the Plan

The Hudson-Essex-Passaic Soil Conservation District (HEPSCD) is a special purpose subdivision of the New Jersey Department of Agriculture. Though mandated to be enrolled in the New Jersey Public Employee Retirement System (PERS) for retirement benefits because they are considered "local" government any additional benefits must be paid by the district proper.

Since the early 1980's the HEPSCD has had a bylaw that the district will pay lifetime medical benefits to those retired employees who have 25 years or more of service credited in the PERS System and retire directly from the HEPSCD. In March of 2007 the Board of Supervisors adopted chapter 88 of the PERS affording the same once an employee retired and the Board realized that they were responsible for such payment upon the retirement.

Several recent audits recommended that the HEPSCD account for that potential liability and not continue on a "pay-as-you-go basis". This report attempts to estimate the value of such liabilities for current and retired participants that are, or would be, eligible for such benefit.

Currently there are different plans available depending on Medicare eligibility with this study assuming monthly costs for NJ Direct10 upon retirement:

Single — No Medicare:	$1,283.63
Single — Medicare:	$ 540:45

HEPSCD is also paying the retiree's Medicare Part B premium, currently at $121.80.

Actuarial Assumptions

Mortality:	GAR94
Discount Rate:	5%
Medical Cost Inflation Rate:	5.5% per year
Probability of reaching 25 years of service:	Varies by age and service
Probability of retiring after 25 years:	Varies by age and service
Probability of rescinding benefit waiver (A. Graybush; F. Aguirre):	Part of Eligibility Probability

Note 9. 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 Organization'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 calendar year. 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.

Note 10. Surety Bond Coverage

The following District personnel have surety bond coverage:

Personnel	Title	Amount
Glen Van Olden	District Manager	$75,000
Fran Aguirre	District Secretary	50,000

Note 11. Contingent Liabilities

The Hudson-Essex-Passaic Soil Conservation's Counsel advises us he is not aware of any litigation claims or assessments pending or threatened against the Hudson-Essex-Passaic Soil Conservation that will have a material effect on the financial statements, or the complaints have been referred to the insurance carrier.

Note 12. Subsequent Event

The District has evaluated subsequent events through November 1, 2017, the date which the financial statements were available to be issued and no other items were noted for disclosure.

SUPPLEMENTARY DATA

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

ROSTER OF OFFICIALS
JUNE 30, 2017

DISTRICT GOVERNING BODY

Name	Title	Term Expires
Matthew Ward	District Chairman	6/30/2019
Mario Tridente	District Vice-Chairman	6/30/2017
John Sarnas	District Secretary - Treasurer	6/30/2018
Gray Russel	Supervisor	6/30/2017
Jerry Flach	Supervisor	6/30/2018

ADMINISTRATIVE OFFICIALS

Glen Van Olden	District Manager
Fran Aguirre	District Secretary

Exhibit D

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

STATEMENT OF BUDGET VERSUS ACTUAL EXPENDITURES
(CHAPTER 251 & EQUIPMENT FUND)

FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Actual	Variance
Expenditures:			
Salaries and Wages	$378,130.00	$381,562.18	$ (3,432.18)
Employee Benefits	102,120.00	100,459.00	1,661.00
Cash-In-Lieu - Medical Benefits	4,953.48	4,914.48	39.00
Payroll Taxes	48,261.00	29,686.75	18,574.25
Pension Expense	41,000.00	34,949.00	6,051.00
Legal & Professional Fees	14,388.00	21,226.02	(6,838.02)
Repairs & Maintenance	7,400.00	10,551.57	(3,151.57)
Meetings & Conferences	5,670.00	6,854.36	(1,184.36)
Travel	17,300.00	18,620.21	(1,320.21)
Utilities	5,130.00	5,302.25	(172.25)
Telephone Expenses	6,909.00	6,930.71	(21.71)
Insurance	8,088.00	8,092.00	(4.00)
Dues, Licenses & Fees	2,073.00	2,382.40	(309.40)
Office, Postage & Miscellaneous	11,237.80	17,521.27	(6,283.47)
Charitable Contributions	706.00	806.00	(100.00)
Refund of PY Revenues	2,775.00	1,375.00	1,400.00
NACD Grant Expenditures	-	46,286.50	(46,286.50)
Other Expenses	65.00	44.10	20.90
Reserve for Future Legal Costs	500.00	500.00	-
Depreciation Expense	-	25,733.58	(25,733.58)
	$656,706.28	$723,797.38	$ (67,091.10)

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

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PART II

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS

COMMENTS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2017

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Supervisors
Hudson-Essex-Passaic Soil Conservation District
Bloomfield, NJ 07003

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the New Jersey Department of Agriculture; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Hudson-Essex-Passaic Soil Conservation District in the County of Essex as of and for the year ended June 30, 2017 and the related notes to the financial statements, and have issued our report dated November 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hudson-Essex-Passaic Soil Conservation District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hudson-Essex-Passaic Soil Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hudson-Essex-Passaic Soil Conservation 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies

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may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, as 2017-01, that we consider to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hudson-Essex-Passaic Soil Conservation 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 Hudson-Essex-Passaic Soil Conservation District in the accompanying comments and recommendations section 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 Hudson-Essex-Passaic Soil Conservation 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 Hudson-Essex-Passaic Soil Conservation District's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas M. Ferry, C.P.A.
Registered Municipal Accountant
No. 497
Ferraioli, Wielkotz, Cerullo & Cuva, P.A.
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

Newton, New Jersey

November 1, 2017

FWCC

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

Summary of Auditor's Results:

An unqualified opinion was issued on the Hudson-Essex-Passaic Soil Conservation District's financial statements prepared in accordance with the basis of accounting prescribed by the New Jersey Department of Agriculture.

The audit did disclose significant deficiencies in the internal controls of the District.

The District was not subject to the single audit provisions of Uniform Guidance and State Circular 15-08 OMB for 2017 as grant expenditures were less than the single audit thresholds identified in the Circulars.

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

The audit did disclose findings required to be reported under Generally Accepted Government Auditing Standards, as follows:

Finding 2017-01:

Segregation of Duties

The District does not maintain an adequate segregation of duties within the Treasury Department. Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to misappropriate funds and prevent detection within a reasonable period of time. The District Secretary controls disbursements of funds, has control of checks, has control of the signature stamp and reconciles bank statements. This situation occurred because of the limited number of employees qualified to perform other accounting functions. The District was made aware of this lack on internal control and will consider strengthening Internal Control within reason of the costs and benefits derived.

Findings and Questioned Costs for Federal Awards:

Not applicable

Findings and Questioned Costs for State Awards:

Not applicable

HUDSON-ESSEX-PASSAIC SOIL CONSERVATION DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

The Hudson-Essex-Passaic Soil Conservation District's prior year finding regarding segregation of duties has not been corrected and is included in the audit for year ended June 30, 2017.

GENERAL COMMENTS

New Jersey Soil Conservation Districts Accounting Manual adopted September 12, 2007

The accounting manual applicable to NJ Soil Conservation Districts changed some of the reporting and accounting procedures to be used by the NJ Soil Conservation Districts. In addition, this manual outlines certain internal controls and other procedures to be implemented by the Districts. Items 2017-01 and 2017-02 listed below are procedures or requirements contained in the accounting manual with which the Hudson-Essex-Passaic Soil Conservation District is not complying.

Finding 2017-01

Segregation of Duties - The Hudson-Essex-Passaic Soil Conservation District does not maintain an adequate segregation of duties within the Treasury Department. Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to misappropriate funds and prevent detection within a reasonable period of time. The District Secretary controls disbursements of funds, has control of checks, has control of the signature stamp and reconciles bank statements. This situation occurred because of the limited number of employees qualified to perform other accounting functions. The District was made aware of this lack on internal control and will consider strengthening Internal Control within reason of the costs and benefits derived.

Finding 2017-02

The accounting manual indicates that detailed records must be maintained for compensated absences as compared to balances maintained

Finding 2017 -03

The District's operating checking account has many outstanding checks over 1 year old.

RECOMMENDATIONS:

1) That proper Segregation of Duties be maintained within the Treasury Department.

2) That detailed records be maintained for compensated absences (including comp time) and that an accrued liability for compensated absences be recorded in the general ledger.

3) That outstanding checks within the operating account be reviewed for cancellation.

STATUS OF PRIOR YEAR'S AUDIT FINDINGS/RECOMMENDATIONS

A review was performed on all prior year's recommendations and corrective action was taken on all, except for the following:

1) That proper Segregation of Duties be maintained within the Treasury Department.

* * * * * * * * * *

The problems and weaknesses noted in our audit were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Should any questions arise as to our comments or recommendations, or should you desire assistance in implementing the recommendations, please do not hesitate to call us.

Very truly yours,

Thomas M. Ferry, C.P.A.
Registered Municipal Accountant
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Ferraioli, Wielkotz, Cerullo & Cuva, P.A.
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