

MORRIS COUNTY SOIL CONSERVATION DISTRICT

MORRISTOWN, NEW JERSEY

REPORT OF AUDIT
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

MORRIS COUNTY SOIL CONSERVATION DISTRICT
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JUNE 30, 2010

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MORRIS COUNTY SOIL CONSERVATION DISTRICT
ROSTER OF OFFICIALS
JUNE 30, 2010

DISTRICT GOVERNING BODY

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Welch	Chairman	2010
Louise Davis	Vice Chairman	2011
Jeannette Bonin	Treasurer	2012
Larry Ashley	Assistant Treasurer	2010
Margaret Nordstrom	Secretary	2012

Management and Administrative Staff

Joseph P. Dunn	District Manager
Jackie Connelly	Bookkeeper

Independent Auditors' Report on Financial Statements and Supplementary Schedule

To the Board of Supervisors
Morris County Soil Conservation District
Morristown, NJ

We have audited the Statement of Financial Position of Morris County Soil Conservation District (the "District") as of June 30, 2010, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2009 financial statements and, in our report dated August 21, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Department of Agriculture's Financial Accounting Manual revised September 13, 2007, required 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements have been prepared in conformity with accounting principles and practices prescribed by the State Soil Conservation Committee, Department of Agriculture, State of New Jersey (the "Committee"), which is a comprehensive 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.

In our opinion, because the Morris County Soil Conservation District prepares its financial statements on the basis of accounting discussed in the third paragraph, the financial statements referred to in the first paragraph, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Morris County Soil Conservation District as of June 30, 2010, and the results of its operations for the year then ended.

However, in our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Morris County Soil Conservation District at June 30, 2010, and the results of its operations for the year then ended, in accordance with accounting principles prescribed by the Committee, as described in Note 1.

To the Board of Supervisors
Morris County Soil Conservation District
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Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedule of state financial assistance listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole, on the basis of accounting described in Note 1.

November 5, 2010
Mt. Arlington, New Jersey

Nisivoccia LLP

MORRIS COUNTY SOIL CONSERVATION DISTRICT
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

	Unrestricted Fund	Temporarily Restricted			Totals June 30,	
		Chapter 251	Equipment Fund	Special Projects	2010	2009
<u>ASSETS</u>						
Current assets:						
Cash		\$ 519,411			\$ 519,411	\$ 655,534
Certificates of deposit		395,662			395,662	278,903
Cash restricted for performance bonds		38,769			38,769	62,441
Accounts receivable	\$ 12,500				12,500	
Total current assets	12,500	953,842			966,342	996,878
Office furniture and equipment			\$ 97,056		97,056	97,056
Less: accumulated depreciation			(77,483)		(77,483)	(72,366)
Total office furniture and equipment			19,573		19,573	24,690
Total assets	\$ 12,500	\$ 953,842	\$ 19,573	\$	\$ 985,915	\$ 1,021,568
<u>LIABILITIES AND NET ASSETS</u>						
Current liabilities:						
Accounts payable and accrued expenses		\$ 61,800			\$ 61,800	\$ 66,470
Performance bonds		31,298			31,298	62,441
Deferred grant revenue				\$ 10,000	10,000	10,000
Due to (from) other funds	\$ (29,014)	257,120		(228,106)		
Total current liabilities	(29,014)	350,218		(218,106)	103,098	138,911
Reserve for future Soil Erosion and Sediment Control Act expenditures		284,857			284,857	261,634
Unrestricted net assets	41,514				41,514	39,688
Temporarily restricted net assets		318,767	\$ 19,573	218,106	556,446	581,335
Total net assets	41,514	603,624	19,573	218,106	882,817	882,657
Total liabilities and net assets	\$ 12,500	\$ 953,842	\$ 19,573	\$	\$ 985,915	\$ 1,021,568

MORRIS COUNTY SOIL CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

	Unrestricted Fund	Temporarily Restricted			Totals For the Year Ended June 30.	
		Chapter 251	Equipment Fund	Special Projects	2010	2009
Support and revenue:						
Soil Erosion and Sediment Control Act fees		\$ 452,821			\$ 452,821	\$ 307,193
Seedling sales	\$ 3,808				3,808	6,812
Forestry income	19,240				19,240	14,347
Nursery income	4,629				4,629	9,070
Morris County Board of Chosen Freeholders grant	25,000				25,000	25,000
Stormwater permit revenue				\$ 10,675	10,675	12,745
Interest income		5,727			5,727	16,625
Other income	923				923	3,127
County and State in-kind support		51,811			51,811	63,187
Total support and revenue	53,600	510,359		10,675	574,634	458,106
Expenses:						
Salaries and wages	34,328	307,675			342,003	387,450
Supplies		3,453			3,453	3,681
Seedling purchases	2,758				2,758	4,600
Nursery expenses	2,924				2,924	1,628
Dues and registrations		2,768			2,768	2,608
Professional fees		7,263			7,263	5,000
Repairs and maintenance		418			418	229
Payroll tax expense	2,696	24,160			26,856	31,339
Telephone		1,416			1,416	2,245
Office expense		7,266			7,266	8,017
Travel and meals		15,357			15,357	17,534
Employee benefits	9,068	81,275			90,343	96,197
Insurance		11,345			11,345	11,088
Conferences and seminars		2,398			2,398	13,079
Depreciation			\$ 5,117		5,117	8,366
Other		978			978	3,932
County and State in-kind expenses		51,811			51,811	63,187
Total expenses	51,774	517,583	5,117		574,474	660,180

MORRIS COUNTY SOIL CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)
 (CONTINUED)

	Unrestricted Fund	Temporarily Restricted		Totals For the Year Ended June 30,		
		Chapter 251	Equipment Fund	Special Projects	2010	2009
Excess (deficiency) of support and revenue over expenses	1,826	(7,224)	(5,117)	10,675	160	(202,074)
Fund balance, beginning of year	39,688	349,214	24,690	207,431	621,023	768,425
Reserve for future Soil Erosion and Sediment Control Act expenditures		(23,223)			(23,223)	54,672
Fund balance, end of year	<u>\$ 41,514</u>	<u>\$ 318,767</u>	<u>\$ 19,573</u>	<u>\$ 218,106</u>	<u>\$ 597,960</u>	<u>\$ 621,023</u>

MORRIS COUNTY SOIL CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS - ALL FUNDS COMBINED
YEAR ENDED JUNE 30, 2010

Cash flows from operating activities:	
Excess of support and revenue over expenses	\$ 160
Adjustments to reconcile excess of support and revenue over expenses to net cash used in operating activities:	
Depreciation	5,117
Reserve for Soil Erosion and Sediment Control Act Expenditures	23,223
Changes in assets and liabilities:	
(Increase) in accounts receivable	(12,500)
Decrease in accounts payable and accrued expenses	(4,670)
Decrease in compliance bonds payable	<u>(31,143)</u>
Net cash used in operating activities	<u>(19,813)</u>
Net decrease in cash and temporary investments	(19,813)
Cash and temporary investments	
Beginning of year	<u>996,878</u>
End of year	<u>\$ 977,065</u>

MORRIS COUNTY SOIL CONSERVATION DISTRICT
STATEMENT OF BUDGET VERSUS ACTUAL REVENUE AND EXPENDITURES - ALL FUNDS COMBINED
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

	Total Funds For the Year Ended June 30, 2010			Total Funds For the Year Ended June 30, 2009
	Budget (Unaudited)	Actual	Variance	Actual
Support and revenue:				
Soil Erosion and Sediment Control Act fees	\$ 269,000	\$ 452,821	\$ 183,821	\$ 307,193
Seedling sales	7,000	3,808	(3,192)	6,812
Forestry income	13,000	19,240	6,240	14,347
Nursery income	8,500	4,629	(3,871)	9,070
Morris County Board of Chosen Freeholders grant	25,000	25,000	-	25,000
Stormwater permit revenue	5,000	10,675	5,675	12,745
Interest income	15,000	5,727	(9,273)	16,625
Other income	5,250	923	(4,327)	3,127
County and State in-kind support		51,811	51,811	63,187
Total support and revenue	347,750	574,634	226,884	458,106
Expenses:				
Salaries and wages	351,900	342,003	(9,897)	387,450
Supplies	3,500	3,453	(47)	3,681
Seedling purchases	4,700	2,758	(1,942)	4,600
Nursery expenses	3,500	2,924	(576)	1,628
Dues and registrations	3,000	2,768	(232)	2,608
Professional fees	7,300	7,263	(37)	5,000
Repairs and maintenance	500	418	(82)	229
Payroll tax expense	30,000	26,856	(3,144)	31,339
Telephone	1,750	1,416	(334)	2,245
Office expense	8,430	7,266	(1,164)	8,017
Travel and meals	19,250	15,357	(3,893)	17,534
Employee benefits	100,500	90,343	(10,157)	96,197
Insurance	11,350	11,345	(5)	11,088
Conferences and seminars	6,000	2,398	(3,602)	13,079
Depreciation		5,117	5,117	8,366
Other	8,720	978	(7,742)	3,932
County and State in-kind expenses		51,811	51,811	63,187
Total expenses	560,400	574,474	14,074	660,180
Excess (deficiency) of support and revenue over expenses	\$ (212,650)	\$ 160	\$ 212,810	\$ (202,074)

MORRIS COUNTY SOIL CONSERVATION DISTRICT
SUPPLEMENTARY SCHEDULE OF STATE FINANCIAL ASSISTANCE
AND GRANT ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2010

<u>State Program</u>						
<u>State Grantor</u>	<u>State Grant/ Number</u>	<u>Award Amount</u>	<u>June 30, 2010 Revenue</u>	<u>Total Revenue</u>	<u>June 30, 2010 Expenditures</u>	<u>Total Expenditures</u>
Department of Environmental Protection Forestry Management Grant	04248703235234	\$ 10,000	\$	\$	\$	\$

MORRIS COUNTY SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies

Organization

The Morris County Soil Conservation District is one of fifteen Districts in the State of New Jersey under the auspices of the New Jersey Department of Agriculture. Each District is governed by a Board of Supervisors, which sets policies and performance guidelines. The Districts work closely with the U.S. Soil Conservation Service to promote the wise use of soil and water resources. In 1976 the Districts in New Jersey were mandated to administer Chapter 251, The Soil Erosion and Sediment Control Act of 1975, the objective of which was to prevent erosion and sedimentation from development sites, mitigate impacts to soil resources, and enhance soil quality.

Financial Statement Presentation

The District is required to report information regarding its financial position and activities according to three classes of 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 as 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 earnings on such assets. At June 30, 2010, the District had only unrestricted and temporarily restricted net assets.

Basis of Accounting

All District funds are accounted for using the modified accrual basis of accounting. Revenue is recorded when received in cash, except where it is susceptible to accrual as being both measurable and available. Expenses are recorded as liabilities are incurred. Recorded adjustments to the Reserve for Future Chapter 251 Expenditures Account and the Reserve for Future Legal Costs Account are limited to amounts required to bring their reserve account balances to their maximum limits. Generally, expenses benefiting more than one accounting period are not divided between years by recognizing prepaid expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles and practices prescribed by the State Soil Conservation Committee, Department of Agriculture, State of New Jersey requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

MORRIS COUNTY SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1 - Summary of Significant Accounting Policies (cont'd)

Property and Equipment

Property and equipment are recorded at cost. Major renewals and betterments are charged to the property accounts; maintenance and minor repairs and replacements, which do not improve or extend the lives of the respective assets, are expensed currently. Depreciation is provided for over the estimated useful lives of the related assets using the straight-line method. The principal estimated useful lives used in computing the depreciation provisions are as follows:

Equipment	3-5 years
Furniture and fixtures	5-7 years
Buildings and improvements	10 years

Total Columns

Total columns are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position.

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.

Performance Bonds

Performance bonds are received on projects where the work is not complete but the contractor requests a temporary certificate of occupancy. The bonds are deposited in an escrow cash account and interest earned is for the benefit of the contractor. The District retains an administrative fee from the initial bond deposit and returns the bond to the contractor upon completion of the project. Bonded projects are typically completed within one year and, accordingly, the escrow cash is recorded as temporarily restricted in the current section of the balance sheet.

MORRIS COUNTY SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 2 - In-kind Support

In-kind support, which is not controlled by the District, consists of estimated payroll, rent and administrative overhead provided by county and state governments to assist in the operations of the District, as follows:

	<u>County</u>	<u>State</u>	<u>Total for the Years Ended</u>	
			<u>June 30,</u>	
			<u>2010</u>	<u>2009</u>
Technical support		\$ 35,000	\$ 35,000	\$ 45,000
Direct support:				
District supervisors		2,811	2,811	4,187
Rent	\$ 14,000		14,000	14,000
	<u>\$ 14,000</u>	<u>\$ 37,811</u>	<u>\$ 51,811</u>	<u>\$ 63,187</u>

Note 3 - Reserve for Future Soil Erosion and Sediment Control Act Expenditures

The Reserve for Future Soil Erosion and Sediment Control Act Expenditures is established to account for all related costs of future site inspections for projects currently in progress, for which fees under the Soil Conservation Act, NJSA 4:24, et seq. have previously been collected. The current balance of the reserve is calculated by multiplying the certification fees collected during the current and two preceding years by the following percentages:

<u>Certification Fees</u>				<u>Reserve Balance</u>
<u>Collected to June 30,</u>				<u>June 30, 2010</u>
2008	\$ 422,896	x	10%	\$ 42,290
2009	\$ 307,193	x	20%	61,439
2010	\$ 452,821	x	40%	181,128
				<u>\$ 284,857</u>

Note 4 - Pension

District employees are enrolled in the Public Employees' Retirement System (PERS) of New Jersey. The State of New Jersey sponsors and administers this plan which covers substantially all District employees. As a general rule, all full-time employees are required to join the public employee retirement system.

MORRIS COUNTY SOIL CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 4 - Pension (cont'd)

Employees who are members of PERS and retire at or after age 55 are entitled to a retirement benefit based upon a formula which takes 1/55th of the average annual compensation for the highest three fiscal year's compensation for each year of membership during years of creditable service. Vesting occurs after 10 years of service.

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 each of the above systems. 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.

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employee contributions are based on a percentage of 5.0% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits. In the PERS, the employer contribution includes funding for post-retirement medical premiums.

District contributions to the plan amounted to \$36,401 and \$31,433 for the years ended June 30, 2010 and 2009, respectively. The contributions represented 100% of the District's annual pension costs (APC).

MORRIS COUNTY SOIL CONSERVATION DISTRICT
CURRENT YEAR RECOMMENDATIONS
JUNE 30, 2010

Segregation of Duties

The Financial Accounting Manual for New Jersey Soil Conservation Districts, as adopted on September 13, 2007, provides several internal control recommendations relative to the operations of the District. At present, the District's bookkeeper is responsible for all accounting functions. She is responsible for cash disbursements, payroll, accruals, all journal entries, and financial statement preparation. Additionally, all bank statements are received and reconciled by the bookkeeper and all cash deposits are made by an employee other than the bookkeeper.

Although the small size of the District's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate noncompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

We recommend that management continually take the proper steps to segregate duties in certain areas where possible. Where not practical, management should determine ways to mitigate the effect on internal controls due to lack of segregation.

Forestry Grant

We noted that a \$10,000 forestry grant was received in 2002 for a forestry project in the Passaic River Watershed. As of the date of our report, the project has not been started, and therefore, the grant funds have not been utilized.

We recommend that management review the terms of this grant through contact with the State of New Jersey – Department of Environmental Protection to confirm that the District is still entitled to this grant.

MORRIS COUNTY SOIL CONSERVATION DISTRICT
PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2010

Segregation of Duties

The Financial Accounting Manual for New Jersey Soil Conservation Districts, as adopted on September 13, 2007, provides several internal control recommendations relative to the operations of the District. At present, the District's bookkeeper is responsible for all accounting functions. She is responsible for cash disbursements, payroll, accruals, all journal entries, and financial statement preparation. Additionally, all bank statements are received and reconciled by the bookkeeper and all cash deposits are made by the bookkeeper.

Although the small size of the District's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate noncompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

We recommend that management continually take the proper steps to segregate duties in certain areas where possible. Where not practical, management should determine ways to mitigate the effect on internal controls due to lack of segregation.

Management Response

In response to this recommendation the following actions have been taken:

1. All access to the credit card was removed from staff and limited to management (September, 2009).
2. The credit card was later cancelled (December, 2009).
3. The Staples office supply credit card was converted to a business account.
4. A memorandum establishing purchasing procedures was circulated to all staff.
5. A fiscal procedures resolution was drafted in December, 2009 for Board consideration in January 2010.
6. A voucher system is now in place for bills paid as of January 2010.
7. Electronic transfers of funds such as NJ Cash Management to the general checking are now only to be made in the presence of management.

Timesheets

Our audit procedures included testing the payroll system controls. Based on our procedures it appears there were instances where employees' timesheets were not always submitted and reviewed on a timely basis before payroll was processed.

We recommend that the District Manager, who will be generally knowledgeable about employees' attendance, hours, and work assignments during the pay period, should review and approve all timesheets and that timesheets be submitted for processing on a timely basis.

We believe that these procedures will increase the District's control over payroll costs and their accurate recording and also help ensure that wages are paid for work actually performed.

MORRIS COUNTY SOIL CONSERVATION DISTRICT
PRIOR YEAR RECOMMENDATIONS
JUNE 30, 2010
Continued

Management Response

Long term past practices have been for payroll to be submitted in advance of timesheets so as to process payroll in time or direct deposits for same day transfer. This required estimates for hourly employees. This estimation from time to time resulted in the need to adjust the subsequent time sheets so as to either credit or debit differences. The manager failed to submit the requisite June 15th to June 30th time sheet. Past review practices of the time sheets were done either semi annually or annually.

The following actions have been completed to assure that time sheets are "submitted and processed on a timely basis": No payroll is processed in advance of a time sheet which is signed dated. Signatures are required by the employee, the benefits clerk and by management. This process was introduced to staff during meetings throughout October, 2009 and implemented for the pay period of November 1 to November 15, 2009. The process remains in place without incident.

Forestry Grant

We noted that a \$10,000 forestry grant was received in 2002 for a forestry project in the Passaic River Watershed. As of the date of our report, the project has not been started, and therefore, the grant funds have not been utilized.

We recommend that management review the terms of this grant through contact with the State of New Jersey – Department of Environmental Protection to confirm that the District is still entitled to this grant.

Management Response

The grant offered in 2002 was for the establishment of a harvest, planting and deer protection on the Passaic River. Costs of activity as planned developed dramatically exceeded the funds secured. Secondary sites developed with Morris County Park Commission were not followed through due to turnover of MCPC staff sponsor.

The District Forester has secured a private landowner within the designated area and will secure approval of the planning document from the funders. The 100% level of inventory designated in this stewardship plan is significant and may transcend through FY 2012 prior to completion of the plan.