

MORRIS COUNTY SOIL CONSERVATION DISTRICT  
MORRISTOWN, NEW JERSEY  
REPORT OF AUDIT  
FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)

MORRIS COUNTY SOIL CONSERVATION DISTRICT  
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JUNE 30, 2011

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MORRIS COUNTY SOIL CONSERVATION DISTRICT  
ROSTER OF OFFICIALS  
JUNE 30, 2011

DISTRICT GOVERNING BODY

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Welch	Chairman	2013
Louise Davis	Vice Chairman	2014
Jeannette Bonin	Treasurer	2012
Mark Slaff	Assistant Treasurer	2014
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, 2011, 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 2010 financial statements and, in our report dated November 5, 2010, 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, 2011, 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, 2011, 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.

*Nisivoccia LLP*

September 16, 2011  
Mt. Arlington, New Jersey

**MORRIS COUNTY SOIL CONSERVATION DISTRICT**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2011**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2010)**

	Unrestricted Fund	Temporarily Restricted		Totals June 30,	
		Chapter 251	Equipment Fund	Special Projects	2011
<b>ASSETS</b>					
Current assets:					
Cash		\$ 415,179		\$ 415,179	\$ 519,411
Certificates of deposit		322,431		322,431	395,662
Cash restricted for performance bonds		37,911		37,911	38,769
Accounts receivable	\$ 12,500			\$ 14,985	12,500
Total current assets	<u>12,500</u>	<u>775,521</u>		<u>790,506</u>	<u>966,342</u>
Office furniture and equipment			\$ 98,254	98,254	97,056
Less: accumulated depreciation			(80,040)	(80,040)	(77,483)
Total office furniture and equipment			<u>18,214</u>	<u>18,214</u>	<u>19,573</u>
 Total assets	<u>\$ 12,500</u>	<u>\$ 775,521</u>	<u>\$ 18,214</u>	<u>\$ 808,720</u>	<u>\$ 985,915</u>
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities:					
Accounts payable and accrued expenses		\$ 69,357		\$ 69,357	\$ 61,800
Performance bonds		37,911		37,911	31,298
Deferred grant revenue				10,000	10,000
Due to (from) other funds	\$ (22,213)	260,574		(238,361)	
Total current liabilities	<u>(22,213)</u>	<u>367,842</u>		<u>117,268</u>	<u>103,098</u>
Reserve for future Soil Erosion and Sediment Control Act expenditures		226,436		226,436	284,857
Unrestricted net assets	34,713			34,713	41,514
Temporarily restricted net assets		181,243	\$ 18,214	430,303	556,446
Total net assets	<u>34,713</u>	<u>407,679</u>	<u>18,214</u>	<u>691,452</u>	<u>882,817</u>
 Total liabilities and net assets	<u>\$ 12,500</u>	<u>\$ 775,521</u>	<u>\$ 18,214</u>	<u>\$ 808,720</u>	<u>\$ 985,915</u>

MORRIS COUNTY SOIL CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)

	Unrestricted Fund	Temporarily Restricted			Totals For the Year Ended June 30,	
		Chapter 251	Equipment Fund	Special Projects	2011	2010
Support and revenue:						
Soil Erosion and Sediment Control Act fees		\$ 262,880			\$ 262,880	\$ 452,821
Seedling sales	\$ 3,517				3,517	3,808
Forestry income	10,545				10,545	19,240
Nursery income						4,629
Rain Barrel income	7,209				7,209	540
Morris County Board of Chosen Freeholders grant	25,050				25,050	25,000
Stormwater permit revenue				\$ 12,740	12,740	10,675
Interest income		3,329			3,329	5,727
Other income	667				667	383
County and State in-kind support		50,000			50,000	51,811
Total support and revenue	46,988	316,209		12,740	375,937	574,634
Expenses:						
Salaries and wages	28,581	300,055			328,636	342,003
Supplies		2,628			2,628	3,453
Forestry expenses	301				301	12
Seedling purchases	2,699				2,699	2,746
Nursery expenses	1,243				1,243	2,924
Rain Barrel expenses	6,226				6,226	
Dues and registrations		2,483			2,483	2,768
Professional fees		6,120			6,120	7,263
Repairs and maintenance		227			227	418
Payroll tax expense	3,177	23,130			26,307	26,856
Telephone		1,406			1,406	1,416
Office expense		7,320			7,320	7,266
Travel and meals		15,637			15,637	15,357
Employee benefits	11,562	84,172			95,734	90,343
Insurance		8,264			8,264	11,345
Conferences and seminars		2,103			2,103	2,398
Depreciation			\$ 2,557		2,557	5,117
Other		7,411			7,411	978
County and State in-kind expenses		50,000			50,000	51,811
Total expenses	53,789	510,956	2,557		567,302	574,474

MORRIS COUNTY SOIL CONSERVATION DISTRICT  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)  
 (CONTINUED)

	Unrestricted Fund	Temporarily Restricted		Totals For the Year Ended June 30,		
		Chapter 251	Equipment Fund	Special Projects	2011	2010
Excess (deficiency) of support and revenue over expenses	(6,801)	(194,747)	(2,557)	12,740	(191,365)	160
Purchase of fixed assets - current year		(1,198)	1,198			
Fund balance, beginning of year	41,514	318,767	19,573	218,106	597,960	621,023
Reserve for future Soil Erosion and Sediment Control Act expenditures		58,421			58,421	(23,223)
Fund balance, end of year	<u>\$ 34,713</u>	<u>\$ 181,243</u>	<u>\$ 18,214</u>	<u>\$ 230,846</u>	<u>\$ 465,016</u>	<u>\$ 597,960</u>



MORRIS COUNTY SOIL CONSERVATION DISTRICT  
STATEMENT OF CASH FLOWS - ALL FUNDS COMBINED  
YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:	
Deficiency of support and revenue over expenses	\$ (191,365)
Adjustments to reconcile deficiency of support and revenue over expenses to net cash used in operating activities:	
Depreciation	2,557
Changes in assets and liabilities:	
(Increase) in accounts receivable	(2,485)
Increase in accounts payable and accrued expenses	7,557
Increase in performance bonds payable	6,613
Net cash used in operating activities	<u>(177,123)</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(1,198)</u>
Net cash used in investing activities	<u>(1,198)</u>
Net decrease in cash and temporary investments	(178,321)
Cash and temporary investments	
Beginning of year	<u>953,842</u>
End of year	<u>\$ 775,521</u>
Supplemental disclosure of non-cash activities	
Reserve for Soil Erosion and Sediment Control Act Expenditures	(58,421)

**MORRIS COUNTY SOIL CONSERVATION DISTRICT**  
**STATEMENT OF BUDGET VERSUS ACTUAL REVENUE AND EXPENDITURES - ALL FUNDS COMBINED**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	Total Funds For the Year Ended June 30, 2011			Total Funds For the Year Ended June 30, 2010
	Budget (Unaudited)	Actual	Variance	Actual
Support and revenue:				
Soil Erosion and Sediment Control Act fees	\$ 329,750	\$ 262,880	\$ (66,870)	\$ 452,821
Seedling sales	4,000	3,517	(483)	3,808
Forestry income	19,650	10,545	(9,105)	19,240
Nursery income	4,700		(4,700)	4,629
Rain Barrel income	3,000	7,209	4,209	540
Morris County Board of Chosen Freeholders grant	25,000	25,050	50	25,000
Stormwater permit revenue	11,000	12,740	1,740	10,675
Interest income	7,000	3,329	(3,671)	5,727
Other income	1,900	667	(1,233)	383
County and State in-kind support		50,000	50,000	51,811
Total support and revenue	<u>406,000</u>	<u>375,937</u>	<u>(30,063)</u>	<u>574,634</u>
Expenses:				
Salaries and wages	325,000	328,636	3,636	342,003
Supplies	4,000	2,628	(1,372)	3,453
Forestry expenses	500	301	(199)	12
Seedling purchases	3,000	2,699	(301)	2,746
Nursery expenses	2,500	1,243	(1,257)	2,924
Rain Barrel expenses	6,400	6,226	(174)	
Dues and registrations	3,000	2,483	(517)	2,768
Professional fees	5,200	6,120	920	7,263
Repairs and maintenance	500	227	(273)	418
Payroll tax expense	27,000	26,307	(693)	26,856
Telephone	1,550	1,406	(144)	1,416
Office expense	8,675	7,320	(1,355)	7,266
Travel and meals	14,750	15,637	887	15,357
Employee benefits	110,000	95,734	(14,266)	90,343
Insurance	12,000	8,264	(3,736)	11,345
Conferences and seminars	2,500	2,103	(397)	2,398
Depreciation		2,557	2,557	5,117
Other	12,275	7,411	(4,864)	978
County and State in-kind expenses		50,000	50,000	51,811
Total expenses	<u>538,850</u>	<u>567,302</u>	<u>28,452</u>	<u>574,474</u>
Excess (deficiency) of support and revenue over expenses	<u>\$ (132,850)</u>	<u>\$ (191,365)</u>	<u>\$ (58,515)</u>	<u>\$ 160</u>

MORRIS COUNTY SOIL CONSERVATION DISTRICT  
SUPPLEMENTARY SCHEDULE OF STATE FINANCIAL ASSISTANCE  
AND GRANT ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2011

<u>State Program</u>						
<u>State Grantor</u>	<u>State Grant/ Number</u>	<u>Award Amount</u>	<u>June 30, 2011 Revenue</u>	<u>Total Revenue</u>	<u>June 30, 2011 Expenditures</u>	<u>Total Expenditures</u>
Department of Environmental Protection Forestry Management Grant	04248703235234	\$ 10,000	\$	\$	\$	\$

SEE NOTES TO FINANCIAL STATEMENTS

MORRIS COUNTY SOIL CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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, 2011, 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, 2011  
(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.

Reclassifications

Certain reclassifications have been made to the 2010 financial statement presentation to correspond to the current year's format. Net assets and changes in fund balances are unchanged due to these reclassifications.

MORRIS COUNTY SOIL CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011  
(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>2011</u>	<u>2010</u>
Technical support		\$ 36,000	\$ 36,000	\$ 35,000
Direct support:				
District supervisors				2,811
Rent	\$ 14,000		14,000	14,000
	<u>\$ 14,000</u>	<u>\$ 36,000</u>	<u>\$ 50,000</u>	<u>\$ 51,811</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, 2011</u>
2009	\$ 307,193	x	10%	\$ 30,720
2010	\$ 452,821	x	20%	90,564
2011	\$ 262,880	x	40%	105,152
				<u>\$ 226,436</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, 2011  
(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 \$39,274 and \$36,401 for the years ended June 30, 2011 and 2010, respectively. The contributions represented 100% of the District's annual pension costs (APC).

MORRIS COUNTY SOIL CONSERVATION DISTRICT  
CURRENT YEAR RECOMMENDATIONS  
JUNE 30, 2011

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.

At present, the District's bookkeeper is responsible for all accounting functions including cash disbursements, payroll, accruals, all journal entries, and financial statement preparation. Additionally, all bank statements are received and reconciled by the bookkeeper, although all cash deposits are made by an employee other than the bookkeeper.

While several steps have been taken to address the effect on internal controls due to lack of segregation of duties, we recommend that Management continually monitors the situation.

Forestry Grant

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, the grant funds have not been utilized, and approval for an alternate use of the funds has not been granted.

We recommend that management continue to 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, and determine whether or not an alternate use of the funds can be approved.

Bank Deposits

During our auditing procedures, it was noted that funds received are not consistently being deposited within 2 business days as required by the Department of Agriculture's Financial Accounting Manual.

We recommend that procedures be implemented to ensure all funds received are deposited in a timely manner.



MORRIS COUNTY SOIL CONSERVATION DISTRICT  
PRIOR YEAR RECOMMENDATIONS  
JUNE 30, 2011

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.

Management Response

Accepted and acknowledged. A series of steps taken have addressed a majority of the opportunities for management "to mitigate the effect on internal controls due to lack of segregation" These steps included; elimination of the district credit card, conversion of store accounts from credit accounts to and invoice only, instituting a voucher system, adopting a fiscal procedures resolution through the Board of Supervisors and establishing a procedure wherein all non routine purchases are approved in advance by the Manager. While management remains diligent regarding internal controls, the concern is systemic to the staff resources of the office. "Proper steps to segregate duties" is limited when only one member of the staff has the skills and abilities to complete the bookkeeping functions.

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 & 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 FY2012 prior to completion of the plan.