

**HUNTERDON COUNTY
SOIL CONSERVATION DISTRICT**

June 30, 2019

**HUNTERDON COUNTY
SOIL CONSERVATION DISTRICT**

For the Year Ended June 30, 2019

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1 - 3
Statement of Financial Position - Regulatory Basis	4 - 5
Statement of Activities - Regulatory Basis	6 - 7
Statement of Cash Flows - All Funds Combined - Regulatory Basis	8
Notes to the Financial Statements	9 - 27
Supplemental information	
Schedule of Budget Versus Actual Revenue and Expenditures - All Funds Combined - Regulatory Basis	28
Schedule of District Officials (unaudited)	29
Independent Auditors' 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	30 - 31
Schedule of Findings and Responses	32 - 33



Certified Public Accountants, PC

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Independent Auditors' Report

To the Board of Supervisors
Hunterdon County Soil Conservation District
Frenchtown, New Jersey

We have audited the accompanying Financial Statements of Hunterdon County Soil Conservation District (a non-profit organization), which comprise the Statement of Financial Position - Regulatory Basis as of June 30, 2019 and the related Statements of Activities - Regulatory Basis and Cash Flows - All Funds Combined - Regulatory Basis for the year ended June 30, 2019 and the related Notes to the Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the New Jersey Department of Agriculture's Financial Accounting Manual. Management is also responsible for design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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, and the audit requirements as prescribed by the New Jersey Department of Agriculture's Financial Accounting Manual 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers the 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 opinion.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1, these financial statements are prepared in conformity with the financial reporting provisions of the New Jersey Department of Agriculture's Financial Accounting Manual (a regulatory basis), which is a basis of accounting other than accounting principles generally accepted in the United States of America to comply with the requirements of the New Jersey Department of Agriculture. Our opinion is not modified with respect to this matter.

Opinion

In our opinion the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of Hunterdon County Soil Conservation District as of June 30, 2019, and the respective changes in financial position for the year then ended, in accordance with the financial reporting practices prescribed by the New Jersey Department of Agriculture as described in Note 1.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in fiscal year 2019 the District adopted new accounting guidance, GASB Statement 68 *Accounting and financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Hunterdon County Soil Conservation District's June 30, 2018 financial statements and we expressed a qualified opinion on those audited statements in our report dated November 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information as identified in the Table of Contents as required by the New Jersey Department of Agriculture Accounting Manual is presented for additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the information that is marked unaudited the information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and

other procedures in accordance with accounting principles generally accepted in the United States of America and the audit requirements as prescribed by the New Jersey Department of Agriculture's Financial Accounting Manual. In our opinion the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2019, on our consideration of Hunterdon County 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 Hunterdon County Soil Conservation District's internal control over financial reporting and compliance.


BKC, CPAs, PC

October 15, 2019
Flemington, New Jersey

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Statement of Financial Position - Regulatory Basis
June 30, 2019
With Summarized Financial Information as of June 30, 2018

ASSETS

	Unrestricted	Temporarily Restricted		Total	
		Chapter 251	Property and Equipment Fund	2019	2018
Current assets					
Cash and cash equivalents	\$ 352,732	\$ -	\$ -	\$ 352,732	\$ 206,293
Cash - restricted	-	391,724	-	391,724	151,448
Accounts receivable	1,600	-	-	1,600	2,000
Prepaid insurance	2,105	-	-	2,105	3,704
Total current assets	<u>356,437</u>	<u>391,724</u>	<u>-</u>	<u>748,161</u>	<u>363,445</u>
Property and equipment, net of accumulated depreciation of \$591,192	<u>-</u>	<u>-</u>	<u>847,355</u>	<u>847,355</u>	<u>876,677</u>
Total assets	<u>\$ 356,437</u>	<u>\$ 391,724</u>	<u>\$ 847,355</u>	<u>\$ 1,595,516</u>	<u>\$ 1,240,122</u>

See accompanying notes to the financial statements.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Statement of Financial Position - Regulatory Basis (continued)
June 30, 2019
With Summarized Financial Information as of June 30, 2018

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted		Total	
		Chapter 251	Property and Equipment Fund	2019	2018
Current liabilities					
Current maturities of long-term debt	\$ -	\$ -	\$ 4,075	\$ 4,075	\$ 4,080
Accounts payable and accrued expenses	23,000	-	-	23,000	25,509
Intercompany payable (receivable)	284,146	(284,146)	-	-	-
Compliance bonds payable	-	390,000	-	390,000	150,000
Accrued pension	2,100	-	-	2,100	1,775
Accrued vacation and sick pay	45,796	-	-	45,796	56,908
Deferred revenue	44,066	-	-	44,066	49,281
Total current liabilities	399,108	105,854	4,075	509,037	287,553
Long-term liability					
Long-term debt, net of current maturities	-	-	13,243	13,243	17,313
Accrued pension	7,283	-	-	7,283	9,335
Total long-term liabilities	7,283	-	13,243	20,526	26,648
Total liabilities	406,391	105,854	17,318	529,563	314,201
Reserves					
Reserve for future soil erosion and sediment control act expenditure	-	285,870	-	285,870	286,904
Net assets					
Unrestricted (deficit) net assets	(49,954)	-	-	(49,954)	(216,267)
Temporarily restricted net assets	-	-	830,037	830,037	855,284
Total net assets	(49,954)	-	830,037	780,083	639,017
Total reserves and net assets	(49,954)	285,870	830,037	1,065,953	925,921
Total liabilities, reserves and net assets	\$ 356,437	\$ 391,724	\$ 847,355	\$ 1,595,516	\$ 1,240,122

See accompanying notes to the financial statements.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Statement of Activities - Regulatory Basis
For the Year Ended June 30, 2019
With Summarized Financial Information as of June 30, 2018

	Unrestricted	Temporarily Restricted		Total	
		Chapter 251	Property and Equipment Fund	2019	2018
Support and revenue					
Soil erosion and sediment control act fees	\$ -	\$ 501,445	\$ -	\$ 501,445	\$ 403,432
Hunterdon County grant	70,000	-	-	70,000	70,000
Irrigation crop management fees	23,347	-	-	23,347	24,833
Tree, map and conservation material sales, net of purchases	(275)	-	-	(275)	(425)
Rental income	82,845	-	-	82,845	82,845
Interest on savings and temporary investments	-	2,698	-	2,698	55
Solar income	5,920	-	-	5,920	-
Gain on sale of asset	-	-	500	500	1,000
Total support and revenue	181,837	504,143	500	686,480	581,740

See accompanying notes to the financial statements.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Statement of Activities - Regulatory Basis (continued)
For the Year Ended June 30, 2019
With Summarized Financial Information as of June 30, 2018

	Unrestricted	Temporarily Restricted		Total	
		Chapter 251	Property and Equipment Fund	2019	2018
Expenses					
Salaries and wages	\$ -	\$ 216,994	\$ -	\$ 216,994	\$ 212,214
Fringe benefits	-	199,244	-	199,244	205,264
Management	-	22,000	-	22,000	32,417
Administrative services	-	5,441	-	5,441	4,816
Professional fees	-	7,691	-	7,691	7,587
Travel and related expense	-	8,818	-	8,818	11,573
Utilities	-	3,762	-	3,762	7,267
Solar expense	-	7,064	-	7,064	-
Maintenance and repairs	-	12,191	-	12,191	14,403
Insurance	-	20,341	-	20,341	16,453
Telephone	-	3,311	-	3,311	3,241
Materials and supplies	-	7,220	-	7,220	9,476
Dues	-	1,696	-	1,696	1,888
Interest	-	1,353	-	1,353	1,785
Depreciation	-	-	29,322	29,322	28,776
Total expenses	-	517,126	29,322	546,448	557,160
Change in net assets	181,837	(12,983)	(28,822)	140,032	24,580
Transfer of funds	(15,524)	11,949	3,575	-	-
Excess of support over expenses	166,313	(1,034)	(25,247)	140,032	24,580
Total reserves and net assets - beginning of year	(216,267)	286,904	855,284	925,921	901,341
Total reserves and net assets - end of year	\$ (49,954)	\$ 285,870	\$ 830,037	\$ 1,065,953	\$ 925,921

See accompanying notes to the financial statements.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Statement of Cash Flows - All Funds Combined - Regulatory Basis
For the Years Ended June 30, 2019
With Summarized Financial Information as of June 30, 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Excess of support over expenses	\$ 140,032	\$ 24,580
Adjustments to reconcile excess of support over expenses net cash provided by operating activities		
Depreciation	29,322	28,776
Gain on sale of asset	(500)	(1,000)
(Increase) decrease in assets		
Accounts receivable	400	1,750
Grant receivable		35,000
Prepaid insurance	1,599	(1,178)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(2,509)	1,277
Compliance bond payable	240,000	18,000
Accrued vacation and sick pay	(11,112)	(365)
Accrued pension	(1,727)	(1,577)
Deferred revenue	(5,215)	38,729
Total adjustments	<u>250,258</u>	<u>119,412</u>
Net cash provided by operating activities	<u>390,290</u>	<u>143,992</u>
 Cash flows from investing activities		
Purchase of vehicle	-	(1,000)
Proceeds from sale of vehicle	500	1,000
Net cash provided by financing activities	<u>500</u>	<u>-</u>
 Cash flows from financing activities		
Principal payments on debt	(4,075)	(32,533)
Net cash used in financing activities	<u>(4,075)</u>	<u>(32,533)</u>
 Net increase in cash	386,715	111,459
 Cash and cash equivalents - beginning of year	<u>357,741</u>	<u>246,282</u>
 Cash and cash equivalents - end of year	<u><u>\$ 744,456</u></u>	<u><u>\$ 357,741</u></u>

See accompanying notes to the financial statements.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies

Nature of organization

The Hunterdon County Soil Conservation District (the District) is one of fifteen Districts in the State of New Jersey organized by the New Jersey Department of Agriculture. In 1976, the Districts in New Jersey were mandated to administer Chapter 251, The Soil Erosion and Sediment Control Act of 1976, the objective of which was to prevent erosion and sedimentation from development sites, mitigate impacts to soil resources and enhance soil quality. 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.

The District is not considered a part of Hunterdon County, as the County does not retain any control over the operations of the District.

Financial reporting and principles of accounting

The District is required to report information regarding its financial position and activities to three classes of 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 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, 2018, the District only has unrestricted and temporarily restricted net assets.

Financial presentation

The District adopted GASB Statement 68, *Accounting and financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2019. Under the regulatory basis of accounting, this statement provides additional disclosures for the District's pension and post retirement activities.

Basis of accounting

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

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

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Basis of accounting (continued)

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

Cash and cash equivalents

The District considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Property and equipment

Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets. The estimated useful lives used in computing the depreciation provisions are as follows:

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

Income taxes

The District is a special purpose subdivision of the New Jersey Department of Agriculture and is not required to file tax returns. Accordingly, no provision for income taxes has been made in the financial statements.

Prior year summarized financial information

The financial statements included certain prior year summarized comparative information in total but not by net asset class or by functional expense. Such information does not include the information necessary to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended June 30, 2018, from which the summarized information was derived.

Use of estimates

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

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 2 - Restricted cash

The State of New Jersey requires bond money to be treated as restricted when additional work is required but the project is substantially completed. Bond money is returned upon completion of work.

Note 3 - Property and equipment

Property, plant and equipment at June 30, 2019 are:

Land	\$ 250,130
Building and building improvements	1,041,308
Vehicles	64,299
Equipment	82,810
Total property and equipment	1,438,547
Less: accumulated depreciation	(591,192)
Property, plant and equipment, net	\$ 847,355

Depreciation expense was \$29,322 for the year ended June 30, 2019.

Note 4 - Short-term borrowing

The District has a revolving unsecured line of credit with a bank. The line is periodically reviewed by the bank but has no expiration date. Maximum borrowings under the line are \$100,000 with interest due monthly at a rate of prime plus 1.25%. There was no outstanding balance at June 30, 2019. The effective borrowing rate was 6.75% at June 30, 2019.

Note 5 - Long-term debt

The District borrowed \$24,448 during the year ended June 30, 2018. The note is to be repaid in 72 monthly installments of \$340. There is no interest on the loan. There was an outstanding balance of \$17,318 as of June 30, 2019. The truck purchased is collateral for the loan.

The amounts of long-term debt maturing during the next five years ending June 30, are as follows:

2020	\$ 4,075
2021	4,075
2022	4,075
2023	4,075
2024	1,018

Note 6 - Compliance bond payable

Compliance bond payable represents funds received in advance to assure compliance with the Soil Erosion and Sediment Control Act, Chapter 251, P.L. 1975. Upon issuance of the report of compliance, these funds are returned with simple interest added, less the permissible administrative fee.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 7 - Deferred revenue

Deferred revenue represents the estimated amount of the fees and irrigation management revenue received for which additional costs will be incurred at June 30, 2019. It also includes a portion of grant money received by the county to be used in the second half of the calendar year.

Temporarily restricted net assets

Restricted net assets consist of the net property plant and equipment less related liabilities.

Note 8 - Rental income

The District entered into a lease in April of 2012 to lease excess office space to a third party for 124 months. The base rent under the agreement is \$6,904 per month. The cost of real property leased is \$1,041,437, and the carrying amount is \$578,441.

Rent income for the year ended June 30, 2019 totaled \$82,845.

At June 30, 2019, future minimum lease income due under the agreement for the remaining years ending June 30 are as follows:

2020	\$	82,845
2021		82,845
2022		82,845
2023		34,520

Note 9 - Pensions

Employees, who are eligible for a pension plan, are enrolled in one of two pension systems administered by the Division of Pensions, Treasury Department of the State of New Jersey. The two state-administered plans are:

- (1) The Public Employees' Retirement System
- (2) Defined Contribution Retirement Program

Public employee retirement system

Plan description

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.nj.gov/treasury/pensions/financial-reports.shtml.

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.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 9 - Pensions (continued)
Public employee's retirement system (continued)
Plan description (continued)

The following represents the Membership Tiers for PERS

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

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

Allocation methodology

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages for each group as of June 30, 2018, are based on the ratio of each employer's contributions to the total employer contributions of the group for the State fiscal year ended June 30, 2018.

Recording of pension liability

The District's basis of accounting is a regulatory basis and there is no net PERS liability, deferred outflows of resources or deferred inflows of resources to report in the financial statements. However, the notes to the financial statements of the local participating employers must disclose the portion of the non-employer contributing entities' total proportionate share of the collective net PRES liability that is associated with the local participating employer.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 9 - Pensions (continued)

Public employee's retirement system (continued)

Contributions

The contribution policy for PERS is set by N.J.S.A 15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for non-contributory group insurance benefits is based on actual claims paid. For State Fiscal Year 2018, the State's pension contribution was less than the actuarial determined amount.

The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, PL 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State Fiscal Year 2009.

Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The Actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. The balance owed was \$9,383 as of June 30, 2019.

The contribution rate was 7.20% effective July 1, 2017 and will increase annually on July 1st until eventually reaching 7.50% of base salary effective July 1, 2018.

The District's contractually required contribution rate for the year ended June 30, 2019 was 13.16% of the District's covered payroll. This amount was actuarially determined as the amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, including an additional amount to finance any unfunded accrued liability.

The District contributed \$32,289 to PERS during the year ended June 30, 2019.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 9 - Pensions (continued)

Public employee's retirement system (continued)

Collective net pension liability and actuarial information

Components of net pension liability

The components of the District's allocable share of the net pension liability for PERS as of June 30, 2019 is as follows:

Total pension liability	\$ 1,255,232
Plan fiduciary net position	672,767
Net pension liability	\$ 582,465

Plan fiduciary net position as a percentage of the total pension liability	53.60%
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Actuarial assumptions

The collective total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following actuarial assumptions:

Inflation rate	2.25%
Salary increases (based on age)	
Through 2026	1.65% - 4.15%
Thereafter	2.65% - 5.15%
Investment rate of return	7.00%

Preretirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back four years for males and females. For local employees, mortality tables are set back two years for males and seven 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 plan actuary's modified MP-2014 projection scale. Postretirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back one 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 three years for males and set forward one year for females).

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 9 - Pensions (continued)

Public employee's retirement system (continued)

Collective net pension liability and actuarial information (continued)

Actuarial assumptions (continued)

The actuarial assumptions used in the July 1, 2017 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.

Long-term expected rate of return

In accordance with state statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment 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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk mitigation strategies	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 9 - Pensions (continued)

Public employee's retirement system (continued)

Collective net pension liability and actuarial information (continued)

Discount rate

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2019. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.87% as of June 30, 2018, 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 rate in the most recent state fiscal year.

The state employer contributed 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plans fiduciary net position was projected to be available to make projected future benefit payments of current plan members through June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the collective net pension liability to changes in the discount rate

The following presents the District's proportionate share of the collective net pension liability of as of June 30, 2019 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% point lower or 1% point higher than the current rate:

District's proportionate share of the net pension liability

At current discount rate (5.66%)	\$	582,464
At a 1% lower rate (4.66%)		732,382
At a 1% higher rate (6.66%)		456,693

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 9 - Pensions (continued)

Public employee's retirement system (continued)

Collective net pension liability and actuarial information (continued)

Collective deferred outflows of resources and deferred inflows of resources

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,108	\$ 3,003
Changes in assumptions	95,980	186,241
Net difference between projected and actual earnings on pension plan investments	-	5,464
Payment made after measurement date	32,505	-
Changes in proportion and differences between Municipal contributions and proportionate share of contributions	31,577	109,869
Total	\$ 171,170	\$ 304,577

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance
Deferred outflows of resources				
Differences between expected and actual experience	\$ 16,215	\$ -	\$ 5,107	\$ 11,108
Changes of assumptions	138,735	-	42,755	95,980
Deferred inflows of resources				
Differences between expected and actual experience	-	(3,652)	(649)	(3,003)
Changes of assumptions	(138,227)	(95,902)	(47,888)	(186,241)
Differences between projected and actual earnings on pension plan investments	4,688	(13,687)	(3,535)	(5,464)
Net changes in deferred outflows (inflows) of resources	\$ 21,411	\$ (113,241)	\$ (4,210)	\$ (87,620)

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 9 - Pensions (continued)

Public employee's retirement system (continued)

Collective net pension liability and actuarial information (continued)

Collective deferred outflows of resources and deferred inflows of resources (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding employer specific amounts, deferrals from the District's contributions subsequent to the measurement date, and deferrals from change on proportion) will be recognized in pension expense as follows:

Year Ending June 30,

2020	\$	4,043
2021		(5,597)
2022		(40,135)
2023		(34,790)
2024		(11,141)
Total	\$	<u>(87,620)</u>

Pension expense

The components of allocable pension expense, which exclude pension expense related to specific liabilities of individual employers, for the District for the year ending June 30, 2019 is as follows:

Service cost	\$	27,494
Interest on total pension liability		66,096
Member contributions		(15,788)
Administrative expense		437
Expected investment return net of investment expense		(41,497)
Pension expense related to specific liabilities of individual employers		(243)
Amortization of assumptions in changes or inputs		4,459
Amortization of expected versus actual experience		(5,133)
Amortization of projected versus actual investment earnings on pension plan investments		(3,536)
Pension expense	\$	<u>32,289</u>

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 9 - Pensions (continued)

Public employee's retirement system (continued)

Collective net pension liability and actuarial information (continued)

The Defined Contribution Retirement Program

The Defined Contribution Retirement Program (DCRP) is a cost-sharing multiple-employer defined contribution pension fund which was established in 2007 under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A 43:15:c-1 et seq.) and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010. The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in PERS on or after July 1, 2007, who earn salary in excess of established maximum compensation limits; employees otherwise eligible to enroll in PERS on or after November 2, 2008, who do not earn the minimum annual salary for Tier 3 enrollment but who earn salary of at least \$5,000.00 annually; and employees otherwise eligible to enroll in PERS after May 21, 2010, who do not work the minimum number of hours per week required for Tiers 4 or 5 enrollment, but who earn salary of at least \$5,000.00 annually. The District does not match any contributions. The program administrator, Prudential Financial, makes information regarding the program available on its New Jersey Defined Contribution Program website: www.prudential.com/njdcprp.

Note 10 - Postemployment retirement benefits

Plan description - The District contributes to the State Health Benefits Program (SHBP), a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the State of New Jersey Division of Pensions and Benefits. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. For additional information, please refer to the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 10 - Postemployment retirement benefits (continued)

The SHBP provides medical and prescription drug to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiation agreement.

The District has adopted a resolution to participate in the SHBP. The District also elected to reimburse certain retirees for the Federal Medicare Part B premiums. The reimbursements totaled \$1,215 for the year ended June 30, 2019.

Funding Policy - Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Postretirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the District on a monthly basis. Premiums are funded entirely by the District and are based on the type of coverage selected by the employee.

The District's contributions to the SHBP for retirees' postretirement benefits for the year ended June 30, 2019 was \$58,525 which equaled the required benefit contribution for the year.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 10 - Postemployment retirement benefits (continued)

Allocation methodology

GASB Statement No 75 requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are further allocated to employer's based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2017 through June 30, 2018. Employer and non-employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the Schedule of OPEB Amounts by Employer and Non-employer may result in immaterial differences.

Recording of Liability

The District's basis of accounting is a regulatory basis and does not report OPEB liability, deferred outflows of resources or deferred inflows of resources to report in the financial statements. However, the Notes to the Financial Statements of the local participating employers must disclose the portion of the non-employer contributing entities' total proportionate share of the collective net OPEB liability that is associated with the local participating employer.

Components of net OPEB liability

The components of the collective net OPEB liability of the participating employers in the SHBP as of June 30, 2019 is as follows:

Total OPEB liability	\$	925,945
Plan fiduciary net position		18,221
Net OPEB liability	\$	907,724

Plan fiduciary net position as a percentage of the total OPEB liability 1.97%

The total OPEB liability as of December 31, 2018 was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. Salary increases are based on the defined benefit plan that the member is enrolled in and the member's age. The actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

<u>Inflation rate</u>	2.50%
Salary increases	
Through 2026	1.65% - 8.98%
Thereafter	2.65% - 9.98%

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 10 - Postemployment retirement benefits (continued)
Components of net OPEB liability (continued)

Preretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Certain actuarial assumptions used in the July 1, 2016 valuation were based on the results of the pension plans' experience studies for which the members are eligible for coverage under the Public Employees' Retirement System (PERS). The PERS experience studies were prepared for the periods July 1, 2010 to June 30, 2013 and July 1, 2011 to June 30, 2014, respectively.

100 % of active members are considered to participate in the plan upon retirement.

Healthcare trend assumptions

For Pre-Medicare Preferred Provider Organization (PPO) and Health Maintenance Organization (HMO) medical benefits, the trend rate is initially 5.8% and decreases to a 5.0% long-term trend rate after eight years. For self-insured post-65 PPO benefits, the trend rate is 4.5%. For HMO medical benefits, the trend rate is 5.8% and decreases to a 5.0% long-term trend rate after eight years. For prescription drug benefits, the initial trend rate is 8% decreasing to a 5.0% long-term trend rate after seven years. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Discount rate

The discount rate for June 30, 2018 and 2017 was 3.87% and 3.58%, respectively. This represents the municipal bond return rate as chosen by the state. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of net OPEB liability to changes in the discount rate

The following presents the collective net OPEB liability of the participating employers as of December 31, 2018 and 2017, calculated using the discount rate as disclosed above as well as what the collective net OPEB 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:

At current discount rate (3.87% and 3.58%)	\$ 907,724
At a 1% lower rate (2.87% and 2.58%)	1,051,214
At a 1% higher rate (4.87% and 4.58%)	782,096

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 10 - Postemployment retirement benefits (continued)

Sensitivity of net OPEB liability to changes in the healthcare trend rate (continued)

The following presents the collective net OPEB liability of the participating employers as of June 30, 2019, calculated using the discount rate as disclosed above as well as what the collective net OPEB liability would be if it was calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

Healthcare cost trend rate	\$ 907,724
At a 1% lower rate (1% decrease)	757,187
At a 1% higher rate (1% increase)	1,102,541

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 184,300
Changes of assumptions	-	230,256
Net difference between projected and actual earnings on OPEB plan investments	480	-
Changes in proportion and differences between District contributions and proportionate share of contributions	14,919	98,054
Total	\$ 15,399	\$ 512,610

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2019:

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 10 - Postemployment retirement benefits (continued)
Sensitivity of net OPEB liability to changes in the healthcare trend rate (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Deferred outflows of resources				
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Changes of assumptions	-	-	-	-
Differences between projected and actual investment earnings on OPEB plan investments	203	410	133	480
Deferred inflows of resources				
Difference between expected and actual experience	-	(210,113)	(25,812)	(184,301)
Changes of assumptions	(131,291)	(134,087)	(35,122)	(230,256)
Net changes in deferred outflows (inflows) of resources	<u>\$ (131,088)</u>	<u>\$ (343,790)</u>	<u>\$ (60,801)</u>	<u>\$ (414,077)</u>

Year Ending June 30,

2020	\$ (60,802)
2021	(60,802)
2022	(60,802)
2023	(60,852)
2024	(60,934)
Thereafter	(109,885)
Total	<u>\$ (414,077)</u>

The year of deferral for the differences between projected and actual investment earnings on OPEB plan investments was 2017 and 2018 and the amortization period was 5 years for each year. The year of deferral for the change of assumptions was 2017 and 2018 and the amortization period was 8.04 years and 8.14 years, respectively.

Changes in proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflow of resources related to the changes in proportion. These amounts should be recognized (amortized) by each employer over the average remaining service lives of all plan members, which is 8.04 years for the 2017 amounts and 8.14 years for 2018.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 10 - Postemployment retirement benefits (continued)

OPEB expense

The components of allocable OPEB expense, which exclude OPEB expense related to specific liabilities of individual employers, for the years ended June 30, 2019 is as follows:

Service cost	\$	51,927
Interest on total OPEB liability		44,271
Expected investment return		(544)
Administrative expense		475
Current period recognition (amortization) of deferred inflows/outflows of resources		
Changes in assumptions		(35,122)
Difference between projected and actual investment earnings on OPEB plan investments		(25,812)
Investment earnings on open plan investments		133
Total OPEB expenses	\$	35,328

Note 11 - Related party

The District extended its contract with Conservation Management Services, LLC to provide services through December 31, 2019. The management fees paid for the year ended June 30, 2019 totaled \$22,000.

Note 12 - Reserve for Future Soil Erosion and Sediment Control Act (Ch. 251) Expenditures

Initial and subsequent reassessments are based on a standard fee chart. Charges against the applicants' deposits are based upon standard hourly rates of the District's employees performing the service. The Reserve represents fees from applicants which have not been used by the District.

The Reserve for Future Soil Erosion and Sediment Control Act Expenditures is established to identify the funds available for the costs of future expenditures on projects currently received and in progress, for which fees under the act have been previously collected. All fees received shall remain with the reserve balance total. All fees collected from applicants are restricted to the Chapter 251 program and used only for implementing that program. The reserve balance includes the unexpended, initial review/certification/inspection fees and supplemental fees received. At the option of the District Board and pursuant to formal action by the District Board, interest income from the reserve balances may be utilized for the Ch. 251 program or the District education program. Use of interest income is authorized at N.J.A.C. 2:90-1:12 and pursuant to policy approval by the State Soil Conservation Committee on September 13, 2007.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Notes to the Financial Statements

Note 13 - Solar energy lease

In December 2017, the District entered into an agreement with a company to purchase solar energy for a period of 15 years. Whereby the District is required to purchase all Kilowatt hours (KWH) at a rate of \$.279 per KWH. The following is the estimated solar energy payments based on estimated system production for the years ended June 30:

2020	\$	10,551
2021		10,500
2022		10,443
2023		10,392
2024		10,344
Thereafter		93,243

The District would then use the energy purchased for their electric needs and sell the remaining KWH to the utility company. The utility company will buy the Solar Renewable Energy Certificates (SRECS). An SREC is earned for each 1000 KWH produced.

The District has also entered into a site lease agreement to lease land to install solar panels for a period of 20 years for \$1 a year.

Note 14 - Subsequent events

The District's management has determined that there are no material events or transactions that occurred subsequent to June 30, 2019 and through October 15, 2019, the date of the District's financial statement issuance, which require additional disclosure in the District's financial statements.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Schedule of Budget Versus Actual Revenue and Expenditures -
All Funds Combined - Regulatory Basis
For the Year Ended June 30, 2019

	Total Funds		Under (Over) Budget
	Budget (Unaudited)	Actual	
Soil erosion and sediment control act fees	\$ 420,000	\$ 501,445	\$ (81,445)
Hunterdon County grant	70,000	70,000	-
National conservation resource service grant	-	-	-
Irrigation crop management fees	30,000	23,347	6,653
Tree, map and conservation material sales, net of purchases	(225)	(275)	50
Rental income	82,845	82,845	-
Interest on savings and temporary investments	500	2,698	(2,198)
Solar income	-	5,920	(5,920)
Miscellaneous income	400	-	400
Gain on sale of asset	-	500	(500)
Total support and revenue	<u>603,520</u>	<u>686,480</u>	<u>(82,960)</u>
Salaries and wages	220,640	216,994	3,646
Fringe benefits	218,500	199,244	19,256
Management	35,000	22,000	13,000
Administrative services	6,000	5,441	559
Professional fees	11,000	7,691	3,309
Travel and related expense	11,500	8,818	2,682
Utilities	9,000	3,762	5,238
Solar expense	-	7,064	(7,064)
Maintenance and repairs	22,000	12,191	9,809
Insurance	17,885	20,341	(2,456)
Telephone	3,000	3,311	(311)
Materials and supplies	9,650	7,220	2,430
Dues	1,540	1,696	(156)
Interest	300	1,353	(1,053)
Miscellaneous	-	-	-
Depreciation	37,505	29,322	8,183
Total expenses	<u>603,520</u>	<u>546,448</u>	<u>57,072</u>
Net change in assets	<u>\$ -</u>	<u>\$ 140,032</u>	<u>\$ 140,032</u>

See independent auditors' report.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Schedule of District Officials
(Unaudited)
June 30, 2019

District Governing Body

Name	Title	Term Expires
John A. Van Nuys	District Chairperson	June 30, 2021
R. Gregory Manners	District Vice-Chairperson	June 30, 2019
Richard Stoffhoff	Secretary/Treasurer	June 30, 2020
Michael Mathews	Supervisor	June 30, 2019
James Hill	Supervisor	June 30, 2020

Administrative Officials

William Engisch	District Manager
Michael DePalma	Assistant District Manager
Dawn Schwendeman	Bookkeeper/Secretary

See independent auditors' report.



Certified Public Accountants, PC
www.bkc-cpa.com

Independent Auditors' 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

To the Board of Supervisors of
Hunterdon County Soil Conservation District
Frenchtown, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hunterdon County Soil Conservation District, which comprise the Statement of Financial Position - Regulatory Basis as of June 30, 2019, and the related Statements of Activities - Regulatory Basis, and Cash Flows All Funds Combined - Regulatory Basis for the year then ended, and the related Notes to the Financial Statements, and have issued our report thereon dated October 15, 2019. These financial statements have been prepared in accordance with financial reporting practices prescribed by the New Jersey department of Agriculture which is a basis of accounting principles generally accepted in the United States of America. The report contains an unmodified opinion on the regulatory basis of accounting and an emphasis paragraph describing the new accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hunterdon County Soil Conservation District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hunterdon County Soil Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hunterdon County Soil Conservation District's financial statements are free from 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*.

Hunterdon County Soil Conservation District's Response to Findings

Hunterdon County Soil Conservation District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hunterdon County Soil Conservation District's response was not subject to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BKC, CPAs, PC

October 15, 2019
Flemington, New Jersey

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2019

Finding 2019-001

- Criteria: Adequate segregation of duties should be maintained or compensating controls to mitigate risks of fraud or errors.
- Condition: Limited number of personnel are responsible for and performing substantially all bookkeeping and accounting duties.
- Cause: Limited staffing.
- Effect: Lack of segregation of duties increases the risk that if errors or defalcations, if any, were to occur they would not be detected and corrected by employees in the normal course of performing their routine job functions.
- Recommendation: Procedures should be implemented by the District to reduce the risk of errors or defalcations in connection with lack of segregation of duties.
- Management's Response (unaudited): The Supervisors of the District have determined that the District is effectively and efficiently served with single person performing these functions. The District continues to consider risk assessment as it related to the likelihood of financial statement amounts due to error or fraud.

HUNTERDON COUNTY SOIL CONSERVATION DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2019

Finding 2019-002

- Criteria: All checks should be signed by authorized personnel to mitigate risk of fraud or errors.
- Condition: Signature stamp is used in emergencies.
- Cause: Limited authorized signers available to sign checks when needed.
- Effect: Lack of segregation of duties increases the risk that if errors or defalcations, if any, were to occur they would not be detected and corrected by employees in the normal course of performing their routine job functions.
- Recommendation: Signature stamp should not be used.
- Management's Response (unaudited): The Supervisors of the District have determined that the District is effectively and efficiently served with using the signature stamp when needed in an emergency. The District continues to consider risk assessment as it related to the likelihood of financial statement amounts due to error or fraud.

Status of Prior Year's Audit Findings/Recommendations

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

1. Procedures should be implemented by the district to reduce the risk of errors or defalcations in connection with a lack of segregation of duties.
2. Using the signature stamp in emergencies.