



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Pinelands Commission**

Fiscal Year 2013

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**Stephen M. Eells  
State Auditor**

LEGISLATIVE SERVICES COMMISSION

SENATE

CHRISTOPHER J. CONNORS  
NIA H. GILL  
ROBERT M. GORDON  
THOMAS H. KEAN, JR.  
JOSEPH M. KYRILLOS, JR.  
JOSEPH PENNACCHIO  
STEPHEN M. SWEENEY  
LORETTA WEINBERG

GENERAL ASSEMBLY

JON M. BRAMNICK  
ANTHONY M. BUCCO  
JOHN J. BURZICHELLI  
THOMAS P. GIBLIN  
LOUIS D. GREENWALD  
ALISON LITTELL MCHOSE  
VINCENT PRIETO  
SCOTT T. RUMANA



*New Jersey State Legislature*

**OFFICE OF LEGISLATIVE SERVICES**

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JOHN J. TERMNYNA  
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The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our audit report of the Pinelands Commission for the fiscal year ended June 30, 2013. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells  
State Auditor  
September 30, 2014

**PINELANDS COMMISSION  
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### INDEPENDENT AUDITOR'S REPORT

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

#### **Report on the Financial Statements**

We have audited the accompanying modified accrual basis financial statements of the Pinelands Commission as of and for the year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified accrual basis of accounting described in Note 1; this includes determining that the modified accrual basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

As discussed in Note 1, the Pinelands Commission prepares its financial statements on a modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified accrual basis financial position of the Pinelands Commission as of June 30, 2013, and the respective changes in financial position, and budgetary comparisons for the General Fund and the special revenue funds for the year then ended in accordance with the modified accrual basis of accounting described in Note 1.

### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified accrual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## ***Other Matters***

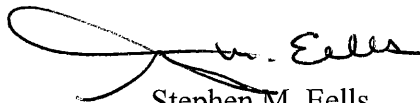
### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the Pinelands Commission financial statements. The schedule of expenditures of state financial assistance is presented for the purpose of additional analysis as required by New Jersey Department of the Treasury Circular Letter 04-04-OMB and is not a required part of the financial statements.

The schedule of expenditures of state financial assistance 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. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Financial Assistance 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 July 16, 2014 on our consideration of the Pinelands Commission management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pinelands Commission's internal control over financial reporting and compliance.



Stephen M. Eells  
State Auditor  
July 16, 2014

**PINELANDS COMMISSION  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2013**

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		
	GENERAL FUND	SPECIAL REVENUE FUNDS	PRIVATE PURPOSE TRUST FUND	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	TOTAL (Memorandum Only)
<b>ASSETS</b>						
Cash & Cash Equivalents	\$2,748,805	\$12,677,852	\$22,408			\$15,449,065
Receivables:						
Federal	91,362	54,382				145,744
Other	3,386					3,386
Prepaid Expenses	259					259
General Fixed Assets:						
Furniture & Equipment				\$1,203,667		1,203,667
Vehicles				72,765		72,765
Amount to be Provided for						
Retirement of Long-Term Liabilities					\$330,716	330,716
Due from Other Funds	233,167	30,858				264,025
<b>Total Assets</b>	<b>\$3,076,979</b>	<b>\$12,763,092</b>	<b>\$22,408</b>	<b>\$1,276,432</b>	<b>\$330,716</b>	<b>\$17,469,627</b>
<b>LIABILITIES &amp; FUND BALANCE</b>						
Liabilities:						
Accounts Payable	\$128,958	\$4,746				\$133,704
Salaries Payable	106,707					106,707
Payroll Deductions Payable	30,972					30,972
Liabilities for Compensated						
Absences	28,355				\$330,716	359,071
Deferred Revenue:						
Other	65,823					65,823
Pinelands Development Credit Fund		1,759,200				1,759,200
Due to Other Funds	30,858	233,167				264,025
<b>Total Liabilities</b>	<b>391,673</b>	<b>1,997,113</b>	<b>0</b>	<b>0</b>	<b>330,716</b>	<b>2,719,502</b>
Fund Balance:						
Restricted For:						
Unemployment Compensation			\$2,369			2,369
Katie Fund			20,039			20,039
Timber Rattlesnake Study	6,566					6,566
Rattlesnake Fencing	21,395					21,395
Committed To:						
Pinelands Conservation		7,965,428				7,965,428
Kirkwood-Cohansey Study		256,548				256,548
Encumbrances	52,387	244,400				296,787
Retiree's Health Benefits	799,155					799,155
Microfilming Project	63,825					63,825
Building Improvements	42,381					42,381
Vehicular Replacements	20,131					20,131
Computer Replacements	121,635					121,635
Other	5,001					5,001
Investment in General Fixed Assets				\$1,276,432		1,276,432
Assigned To:						
Subsequent Year's Expenditures	120,120	2,299,603				2,419,723
Other	1,835					1,835
Unassigned Fund Balance	1,430,875					1,430,875
<b>Total Fund Balance</b>	<b>2,685,306</b>	<b>10,765,979</b>	<b>22,408</b>	<b>1,276,432</b>	<b>0</b>	<b>14,750,125</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$3,076,979</b>	<b>\$12,763,092</b>	<b>\$22,408</b>	<b>\$1,276,432</b>	<b>\$330,716</b>	<b>\$17,469,627</b>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

**PINELANDS COMMISSION**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	
	GENERAL FUND	SPECIAL REVENUE FUNDS	PRIVATE PURPOSE TRUST FUND	TOTAL (Memorandum Only)
<b>REVENUES</b>				
State of New Jersey Appropriations	\$2,469,000			\$2,469,000
Fringe Benefits Paid by the State	687,000			687,000
Federal Grants	372,727	\$101,448		474,175
Other Grants	10,354			10,354
Interest Income	1,921	8,932	\$13	10,866
Unemployment Deductions			3,915	3,915
Application Fees	489,092			489,092
Other	74,617	10,205	454	85,276
<b>Total Revenues</b>	<b>4,104,711</b>	<b>120,585</b>	<b>4,382</b>	<b>4,229,678</b>
<b>EXPENDITURES</b>				
Current:				
Personnel	3,648,022	465,246		4,113,268
Supplies	96,100	923		97,023
Services	195,208	117,217		312,425
Maintenance & Rent	27,424			27,424
Other		91,730		91,730
Capital Outlay	21,725	10,137		31,862
Land Acquisition		2,812,790		2,812,790
Unemployment Compensation Claims			8,158	8,158
<b>Total Expenditures</b>	<b>3,988,479</b>	<b>3,498,043</b>	<b>8,158</b>	<b>7,494,680</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>116,232</b>	<b>(3,377,458)</b>	<b>(3,776)</b>	<b>(3,265,002)</b>
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In	61,094		6,612	67,706
Operating Transfers Out	(6,612)	(61,094)		(67,706)
<b>Total Other Financing Sources (Uses)</b>	<b>54,482</b>	<b>(61,094)</b>	<b>6,612</b>	
<b>Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses</b>	<b>170,714</b>	<b>(3,438,552)</b>	<b>2,836</b>	<b>(3,265,002)</b>
<b>Fund Balance - Beginning of the Year</b>	<b>2,514,592</b>	<b>14,204,531</b>	<b>19,572</b>	<b>16,738,695</b>
<b>Fund Balance - End of the Year</b>	<b>\$2,685,306</b>	<b>\$10,765,979</b>	<b>\$22,408</b>	<b>\$13,473,693</b>

The accompanying Notes to the Financial Statements are an integral part of this Statement.



**PINELANDS COMMISSION**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GENERAL AND SPECIAL REVENUE FUND TYPES**  
**BUDGET AND ACTUAL - BUDGETARY BASIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	GENERAL FUND				SPECIAL REVENUE FUNDS			
	ADOPTED BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ADOPTED BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES</b>								
State of New Jersey Appropriations	\$2,469,000	\$2,469,000	\$2,469,000	\$0				
Fringe Benefits Paid by the State	687,000	687,000	687,000					
Federal Grants	303,000	303,000	372,727	69,727	\$61,500	\$91,500	\$101,447	\$9,947
Other Grants	12,200	12,200	10,354	(1,846)				
Interest Income	1,000	1,000	1,921	921	6,250	6,250	8,932	2,682
Application Fees	425,000	425,000	489,092	64,092				
Anticipated from Reserves	110,500	110,500	75,312	(35,188)				
Pinelands Conservation Activities Reserves					4,265,700	4,275,700	3,252,131	(1,023,569)
Other	63,200	63,200	75,581	12,381			38,475	38,475
<b>Total Revenues</b>	<b>4,070,900</b>	<b>4,070,900</b>	<b>4,180,987</b>	<b>110,087</b>	<b>4,333,450</b>	<b>4,373,450</b>	<b>3,400,985</b>	<b>(972,465)</b>
<b>EXPENDITURES</b>								
Current:								
Personnel	3,782,300	3,782,300	3,648,022	134,278	506,900	539,400	465,246	74,154
Supplies	97,900	111,660	98,905	12,755	8,600	9,100	923	8,177
Services	292,900	292,900	180,633	112,267	150,400	151,400	81,617	69,783
Maintenance & Rent	66,800	66,800	18,624	48,176				
Capital Outlay	112,200	98,440	58,603	39,837	7,500	13,500	10,137	3,363
Land Acquisition					3,717,000	3,717,000	2,812,790	904,210
<b>Total Expenditures</b>	<b>4,352,100</b>	<b>4,352,100</b>	<b>4,004,787</b>	<b>347,313</b>	<b>4,390,400</b>	<b>4,430,400</b>	<b>3,370,713</b>	<b>1,059,687</b>
<b>Other Financing Sources (Uses):</b>								
Operating Transfers In	60,700	60,700	61,094	394				
Operating Transfers Out			(6,612)	(6,612)	(60,700)	(60,700)	(61,094)	(394)
<b>Total Other Financing Sources (Uses)</b>	<b>60,700</b>	<b>60,700</b>	<b>54,482</b>	<b>(6,218)</b>	<b>(60,700)</b>	<b>(60,700)</b>	<b>(61,094)</b>	<b>(394)</b>
<b>Net Increase (Decrease) in Fund Balances</b>	<b>\$(220,500)</b>	<b>\$(220,500)</b>	<b>\$230,682</b>	<b>\$451,182</b>	<b>\$(117,650)</b>	<b>\$(117,650)</b>	<b>\$(30,822)</b>	<b>\$86,828</b>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

**PINELANDS COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of the Reporting Entity** - The Pinelands Commission was formed in 1979 by the Pinelands Protection Act. The Commission is charged with the development and implementation of the Comprehensive Management Plan for the Pinelands. It plays significant roles in monitoring the level and types of development that occur within the Pinelands, acquisition of land, planning, zoning, permitting, research and education. The Commission consists of 15 members. Seven are appointed by the Governor of New Jersey. Another seven are appointed by each of the counties within the Pinelands, i.e. Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, and Ocean. One member is appointed by the U.S. Secretary of the Interior. The Commission works closely with all levels of government, organizations and interested citizens to help them understand and implement the Pinelands Comprehensive Management Plan.

The primary criterion for including activities within the Commission's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the Commission. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds and account groups of the Commission over which the Board exercises operating control. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year.

**Basis of Presentation** - The financial statements of the Pinelands Commission have been prepared on a modified accrual basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. The more significant of the Commission's accounting policies are described in this note.

The accounts of the Commission 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, fund balance, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The various funds and accounts are grouped into three fund types within two broad fund categories and two account groups as follows:

## **GOVERNMENTAL FUNDS**

**General Fund** - The General Fund is the general operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - The Special Revenue Funds are used to account for the proceeds of specific revenues, other than trusts, that are legally restricted to expenditures for specified purposes. The Commission utilizes the following three special revenue funds:

**Pinelands Development Credit Fund** - This fund is used to account for appropriations from the State of New Jersey that are restricted for purchasing Pinelands Development Credits through the Pinelands Development Credit Bank.

**Kirkwood-Cohansey Study Fund** - This fund is used to account for monies transferred to the Commission from the "Water Supply Fund" by the State of New Jersey to fund the completion of a report on the assessment on how the future and current water supply needs within the Pinelands area may be met while protecting the Kirkwood-Cohansey aquifer system.

**Pinelands Conservation Fund** - The Commission has reserved a portion of this fund for preservation of land and designated other portions to be used for conservation planning/research and for community planning/design.

## **FIDUCIARY FUNDS**

**Private Purpose Trust Funds** - The Private Purpose Trust Funds are used to account for assets held by the Commission in a trustee capacity or as an agent on behalf of others. These include two Private Purpose Trust Funds, the Unemployment Compensation Insurance Fund and the "Katie" Fund. Private Purpose Trust Funds are accounted for in essentially the same manner as governmental funds. Private Purpose Trust Funds account for assets of which both the principal and interest may be spent.

## **ACCOUNT GROUPS**

**General Fixed Assets Account Group** - Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds.

**General Long-Term Debt Account Group** - Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds. This includes the non-current portion of the liability for compensated absences.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

**Basis of Accounting and Measurement Focus** - The modified accrual basis of accounting is used for measuring financial position and operating results of all governmental and fiduciary fund types. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

**Budgets/Budgetary Control** - An annual appropriated budget is approved by the Commission each year for the General Fund and Special Revenue Funds. The budgets are prepared using the budgetary basis of accounting. Formal budgetary integration into the accounting system is employed as a management control device during the year. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

The accounting records of the General Fund and Special Revenue Funds are maintained on the budgetary basis. The budgetary basis differs from modified accrual basis in that the budgetary basis recognizes encumbrances as expenditures and also recognizes increases/decreases in internal designations of fund balance, whereas the modified accrual basis does not. Sufficient supplemental records are maintained to allow for the presentation of modified basis financial reports.

The budget, as detailed on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary Basis - General Fund and Special Revenue Funds, include all amendments to the adopted budget.

The following presents a reconciliation of the General Fund from the budgetary basis of accounting as presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund to the modified accrual basis of accounting as presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental and Fiduciary Fund Types (in thousands).

Net Increase (Decrease) in Fund Balances for the Year (Budgetary Basis)	\$ 230.7
Adjustments:	
Less: Net decrease in revenue recognized in previous years	(76.3)
Less: Prior year encumbrances recognized as current year expenditures	(28.6)
Add: Current year encumbrances payable	44.9
Excess (Deficiency) of Revenues and Other Financing Sources over	
Expenditures and Other Financing Uses (Modified Accrual Basis)	<u>\$ 170.7</u>

The following presents a reconciliation of the Special Revenue Funds from the budgetary basis of accounting as presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Special Revenue Funds to the modified accrual basis of accounting as presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental and Fiduciary Fund Types (in thousands).

Net Increase (Decrease) in Fund Balances for the Year (Budgetary Basis)	\$ (30.8)
Adjustments:	
Less: Net decrease in designation due to revenue previously claimed	(3,252.1)
Less: Prior year encumbrances	(127.3)
Less: Cancellation of prior year encumbrances payable	<u>(28.3)</u>
Excess (Deficiency) of Revenues and Other Financing Sources over	
Expenditures and Other Financing Uses (Modified Accrual Basis)	<u>\$ (3,438.5)</u>

**Encumbrances** - Under encumbrance accounting purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances are reported as reservations of fund balances at fiscal year end as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services.

**Cash and Cash Equivalents** - Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost which approximates fair value. The Commission also participates in the State of New Jersey Cash Management Fund administered by the New Jersey Department of the Treasury, Division of Investment, wherein amounts contributed by the State as well as other local government units are combined into a large scale investment program.

**Prepaid Expenses** - Prepaid expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2013.

**Fixed Assets** - General fixed assets are reflected as expenditures in the applicable governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Fixed assets are defined by the Commission as assets, which have a cost in excess of \$1,000 at the date of acquisition and a useful life of one year or more. Expenditures which enhance the asset or significantly extend the useful life of the asset are considered improvements and are added to the fixed asset's currently capitalized cost. The cost of normal repairs and maintenance is not capitalized.

**Compensated Absences** - Compensated absences are those absences for which employees will be paid, such as vacation, sick and paid leave bank. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the Commission and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the Commission and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

In governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for the compensated absences. The remainder of the compensated absences liability is reported in the General Long-Term Debt Account Group.

**Due from/to Other Funds** - Amounts due from/to other funds represent monies owed from or to other funds. The General Fund disburses all the funds for expenditures incurred by all other funds, the monies are transferred between funds.

**Deferred Revenue** - Deferred revenue in the general and special revenue funds represents cash that has been received but not yet earned.

**Fund Balance** - Refer to Note 11 for full description.

**Total Columns on Combined Statements** - Total columns are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation.

**Note 2: CASH AND CASH EQUIVALENTS**

The Pinelands Commission is governed by the deposit limitations of New Jersey state law. The deposits held at June 30, 2013, and reported at fair value are as follows:

<b>Type</b>	<b>Carrying Value</b>
<b>Deposits:</b>	
Demand Deposits	<u>\$15,449,065</u>
Total Deposits	<u>\$15,449,065</u>
<b>Reconciliation of Statement of Comparative Balance Sheets:</b>	
General Fund	\$ 2,748,805
Special Revenue Funds	12,677,852
Private Purpose Trust Fund	<u>22,408</u>
Total Reconciliation of Comparative Balance Sheets	<u>\$15,449,065</u>

GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, requires that the Pinelands Commission disclose bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Commission will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. As of June 30, 2013, the Commission's confirmed bank balances amounted to \$50,763. Of this balance, none was exposed to custodial credit risk as uninsured and uncollateralized.

The balance of the Commission's cash and cash equivalents are deposited in the New Jersey Cash Management Fund. The Fund is governed by regulations of the State Investment Council, who prescribes standards designed to insure the quality of investments in order to minimize risk to the Fund's participants. An amount totaling \$15.4 million is deposited with the Fund as of June 30, 2013. The New Jersey Department of the Treasury, Division of Investment issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, NJ 08625-0290.

**Note 3: FIXED ASSETS**

The following schedule is a summarization of general fixed assets by source as of June 30, 2013:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Furniture/Equipment	\$1,239,929	\$31,862	\$68,124	\$1,203,667
Vehicles	85,759	-	12,994	72,765
Total	<u>\$1,325,688</u>	<u>\$31,862</u>	<u>\$81,118</u>	<u>\$1,276,432</u>

**Note 4: LEASES**

**Lease Obligations** - At June 30, 2013, the Commission had operating lease agreements in effect for two copy machines. Future minimum rental payments under operating lease agreements are as follows:

2014	\$2,145
2015	\$2,145
2016	\$2,145
2017	\$ 536

Rental payments under the operating lease for the fiscal year ended June 30, 2013 were \$1,609.

**Note 5: PENSION PLAN**

**Plan Description** - All required employees of the Commission are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pensions and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the systems will be assumed by the State of New Jersey should the system terminate. The Division issues a publicly available financial report that includes the financial statement and required supplementary information for the Public Employees' Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey, 08625.

**Public Employees' Retirement System (PERS)** - The Public Employees' Retirement System (PERS) was established in January 1955 under the provisions of *N.J.S.A.43:15A* to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or



public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

**Vesting and Benefit Provisions** - The vesting and benefit provisions of PERS are set by *N.J.S.A.43:15A*. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. Retiring employees with 25 or more years in PERS, their dependents, and surviving spouses may be eligible to continue receiving paid health insurance. Employees hired on or after July 1, 2008 are required to have worked a minimum of seven (7) of those service years at the Pinelands Commission. These same benefits are extended to employees who retire on disability pensions with no requirements on the years of service.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 78, P.L. 2011 changed this for employees enrolled after June 28, 2011. See Significant Legislation below.

**Significant Legislation** - During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by ½ of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the Commission's normal contributions to the Fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits; accordingly, the pension costs for PERS was reduced.

New Legislation signed by the Acting Governor (Chapter 133, Public Laws 2001) changed the formula for calculating retirement benefits for all current and future non-veteran retirees from N/60 to N/55 (a 9.09% increase). This legislation, signed June 29, 2001, provides that all members of the PERS will have their pensions calculated on the basis of years of credit divided by 55. It also provides that all current retirees will have their original pension recalculated under the N/55 formula. Starting February 1, 2002, pension cost of living adjustments will be based on the new original pension.

Effective June 28, 2011, Chapter 78, P.L. 2011 reformed various pension and health benefits provisions. Employees hired after June 28, 2011 and enrolled in PERS will be enrolled in a new tier, Tier 5. Full retirement for Tier 5 PERS members will be age 65 and 30 years of service and will be calculated using N/60.

All cost of living adjustments are frozen until the pension fund reaches a "target funded ratio".

Chapter 78 also requires all covered employees to contribute a prescribed percentage towards their health costs.

**Contribution Requirements** - The contribution policy is set by *N.J.S.A.43:15A*, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and *N.J.S.A.18:66*, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contributions of 6.5%, effective October 1, 2011, of employees' annual compensation, as defined. Contributions will increase annually through 2018 when the contribution amount reaches 7.5%. Employers are required to contribute at an actuarially determined rate in PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. The Commission's contributions to the plan, equal to the required contributions, were as follows:

Fiscal Year	PERS	
2013	\$308,083	\$(189,136) **
2012	\$367,251	\$(221,244) **
2011	\$389,099	\$(245,471) **
2010	\$292,434	\$(177,009) **
2009	\$270,274	\$(177,009) **
2008	\$244,476	\$ (48,895) *

\*Funded by the Pension Security Act Credit

\*\*Funded by New Jersey interdepartmental accounts

**Note 6: HEALTH CARE BENEFITS**

The Commission provides health care benefits through the New Jersey State Health Benefits Program to all continuing employees who are scheduled to work 25 or more hours per week, along with their spouses and eligible dependents. Expenditures for health care benefits are recognized on a pay-as-you-go basis.

In accordance with P.L. 2011, Chapter 78, employees enrolled in the New Jersey State Health Benefits Program are required to contribute a portion of their bi-weekly salary. The balance of the monthly health care benefits premium is paid by the Commission, who receives a partial reimbursement from the New Jersey interdepartmental accounts. Employees covered by other health insurance can elect to waive coverage and receive \$1,000 annually. The Commission's health care benefits premiums, including employee coinsurance, are as follows:

Fiscal Year	Health Care Costs			
	Premium	Commission	Coinsurance	Interdepartmental
2013	\$649,837	\$227,396	\$60,864	\$361,577
2012	\$611,148	\$228,371	\$36,728	\$346,049
2011	\$586,260	\$199,799	\$39,719	\$346,742
2010	\$642,944	\$141,832	\$45,864	\$455,248
2009	\$616,708	\$126,774	\$34,686	\$455,248
2008	\$678,309	\$424,309		\$254,000

**Note 7: POST EMPLOYMENT BENEFITS**

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through PERS. It created separate funds outside of the pension plan for the funding and payment of post-retirement medical benefits for retired State employees and retired education and other eligible employees. As of June 30, 2013, there were 100,134 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a prefunding basis to a pay-as-you-go basis beginning in Fiscal Year 1994. During the fiscal year ended June 30, 2013, expenditures of \$216,099 and Medicare Part B payments of \$5,899 were recognized for post-retirement health care of which \$136,287 was funded by the New Jersey interdepartmental accounts. The Commission has committed a portion of the unassigned fund balance (see note 11) as a funding source for post-employment benefits.

**Note 8: RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**Property and Liability Insurance** - The Commission maintains commercial insurance coverage for property, liability, and surety bonds.

**New Jersey Unemployment Compensation Insurance** - In 1979, the Commission elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Commission is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Commission is billed quarterly for amounts due to the State. The following is a summary of employee contributions, reimbursements to the State for benefits paid and the ending balance of the Commission's trust fund for the current and previous four years:

<u>Fiscal Year</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Funding Balance*</u>
2013	\$3,915	\$ 8,158	\$ 2,369 ****
2012	\$3,916	\$30,963	\$ 0 ***
2011	\$4,627	\$77,101	\$ 7,933 **
2010	\$3,012	\$11,976	\$65,319
2009	\$5,017	\$10,940	\$74,031
2008	\$4,855	\$ 100	\$78,904

\*Includes annual interest income

\*\*Includes employer contribution of \$15,000

\*\*\*Includes employer contribution of \$19,112

\*\*\*\*Includes employer contribution of \$ 6,612

**Note 9: LONG-TERM DEBT****Compensated Absences:**

The Commission's policy states that employees are entitled, upon termination, to the current year's unused vacation time in addition to any unused vacation time previously earned up to a maximum of 30 days. In addition, employees are eligible at retirement to receive payment for one-half of their accumulated sick leave up to a maximum of \$15,000. Unused vacation time expected to be taken in the succeeding fiscal year in the amount of \$28,355 has been recorded as a liability in the General Fund on the accompanying balance sheet.

A liability for vested compensated absences has also been established in the General Long-Term Debt Account Group as the benefits accrue to employees. As of June 30, 2013, the estimated long-term liability for compensated absences was \$330,716. Long term debt as of June 30, 2013 is as follows:

	Balance 6/30/12	Additions	Retired	Balance 6/30/2013	Due Within One Year
Compensated Absences Payable	\$23,129	\$5,226	-	\$28,355	\$28,355
Estimated Compensated Absences Payable	334,868	-	\$4,152	330,716	-
Total	<u>\$357,997</u>	<u>\$5,226</u>	<u>\$4,152</u>	<u>\$359,071</u>	<u>\$28,355</u>

**Note 10: INTERFUND RECEIVABLES AND PAYABLES**

The following interfund balances remained on the balance sheet at June 30, 2013:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$233,167	\$30,858
Special Revenue Fund	30,858	233,167
Total	<u>\$264,025</u>	<u>\$264,025</u>

**Note 11: GASB STATEMENT 54 FUND BALANCE DISCLOSURES**

In accordance with Government Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Pinelands Commission classifies governmental fund balances as follows:

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by external parties, constitutional provision or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the Executive Director.

- Unassigned - includes balance within the General Fund that has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Specific reservation of fund balances are described below:

**RESTRICTED FOR:**

Unemployment Compensation - This reserve was established with funds contributed by employees and used to reimburse the State for benefits paid.

Katie Fund - The Kathleen M. Lynch-van de Sande Fund consists of contributions from the public which are dedicated to the support of reforestation and vegetation activities in the Pinelands and to further educational programs and projects that enhance the understanding of the Pinelands National Reserve.

Timber Rattlesnake Study - This reserve was created as a result of a settlement in order to fund an escrow for the study and monitoring of the timber rattlesnakes in and near a particular development site.

Rattlesnake Fencing - This reserve was created to account for funds restricted for possible future fencing necessitated by the above rattlesnake study.

**COMMITTED TO:**

Pinelands Conservation Fund - This reserve was established with funds provided by the Atlantic Electric Co. as a result of the proposed electric transmission line project to further the Pinelands protection program and ensure a greater level of protection for the unique resources of the Pinelands area.

Kirkwood-Cohansey Study - This reserve was created from funds from the Water Supply Fund to assess and prepare a report on the key hydrological and ecological information needed to determine how the current and future water supply needs with the Pinelands may be met while protecting the Kirkwood-Cohansey aquifer system and avoiding any adverse ecological impact.

Encumbrances - The reserve for encumbrances was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the Commission but not completed as of the close of the fiscal year.

Retirees' Health Benefits - This is a designation of fund balance that the Commission approved to fund future retirees' health benefits.

Microfilming Project - This is a designation of fund balance that the Commission approved for the microfilming or imaging of Commission records and documents.

Building Improvements - This is a designation of fund balance that the Commission approved to fund building improvements.

Vehicular Replacements - This is a designation of fund balance that the Commission approved to replace existing Commission motor vehicles.

Computer Replacements - This is a designation of fund balance that the Commission approved to replace obsolete computer hardware and software.

Other - This represents designations of fund balance that the Commission approved for various projects, such as educational activities.

**ASSIGNED TO:**

Subsequent Year's Expenditures - This designation of fund balance has been appropriated and included as anticipated revenue for the year ending June 30, 2014.

Other - This represents designations of fund balance that the Commission intends to utilize for various projects, such as Pinelands poster reprinting and service awards.

**UNASSIGNED FUND BALANCE:**

Unassigned - This represents the portion of fund balance resources available for appropriation.

**Note 12: ECONOMIC DEPENDENCY**

The Commission receives a significant portion of its total revenues from the State of New Jersey. Since these revenues are subject to annual appropriation, any reduction in the amount appropriated in the State's budget will have a material impact on the operations of the Commission. A comparison of annual operating revenues is shown below:

<u>Fiscal Year</u>	<u>Total State Aid Revenues</u>	<u>General Fund Revenues *</u>	<u>Percentage</u>
2013	\$3,156,000	\$4,165,805	76%
2012	\$3,156,000	\$4,139,823	76%
2011	\$3,006,000	\$3,946,577	76%
2010	\$3,180,000	\$4,203,260	76%
2009	\$3,305,000	\$4,874,354	68%
2008	\$3,613,650	\$4,960,052	73%

\*Includes transfers from other funds

### **Other Information**



**PINELANDS COMMISSION**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Grantor/Pass Through Grantor/Program Title	State Grant or GMS Number	Program or Award Amount	Grant Period		Accounts Receivable 06/30/12	Deferred Revenue 06/30/12	Cash Received	Expenditures	Accounts Receivable 06/30/13	Deferred Revenue 06/30/13
			From	To						
Department of Environmental Protection										
State Aid	100-042-4800-082	\$2,469,000	7/1/2012	6/30/2013			\$2,469,000	\$2,469,000		
Pinelands Development Credit Purchases	100-042-4800-324	\$13,000,000	7/1/1999	Completion		\$1,759,200				\$1,759,200
Interdepartmental Accounts										
State Aid-Fringe Benefits	100-094-9410-011	\$687,000.00	7/1/2012	6/30/2013			687,000	687,000		
Total State Assistance					\$0	\$1,759,200	\$3,156,000	\$3,156,000	\$0	\$1,759,200

See Report and the Notes to the Schedule of Expenditures of State Financial Assistance.

**PINELANDS COMMISSION**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF**  
**STATE FINANCIAL ASSISTANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Note 1. GENERAL**

The accompanying Schedule of Expenditures of State Financial Assistance presents the activity of all state financial assistance programs of the New Jersey Pinelands Commission. The Commission is defined in Note 1 to the financial statements. All state financial assistance received directly from state agencies is included on the Schedule of Expenditures of State Financial Assistance.

**Note 2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of State Financial Assistance is presented using the modified accrual basis of accounting. This basis of accounting is described in Note 1 to the Commission's general-purpose financial statements.

**Note 3. RELATIONSHIP TO FINANCIAL STATEMENTS**

Amounts reported in the accompanying schedule agree with amounts reported in the Commission's financial statements.

**Note 4. RELATIONSHIP TO STATE FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree with the amounts reported in the related state financial reports.

**Note 5. MAJOR PROGRAMS**

Major programs are identified in the *Summary of Auditor's Results* section of the Schedule of Findings and Questioned Costs.

**Pinelands Commission**

**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***

**For Fiscal Year Ended June 30, 2013**

SENATE

CHRISTOPHER J. CONNORS  
NIA H. GILL  
ROBERT M. GORDON  
THOMAS H. KEAN, JR.  
JOSEPH M. KYRILLOS, JR.  
JOSEPH PENNACCHIO  
STEPHEN M. SWEENEY  
LORETTA WEINBERG

GENERAL ASSEMBLY

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THOMAS P. GIBLIN  
LOUIS D. GREENWALD  
ALISON LITTELL MCHOSE  
VINCENT PRIETO  
SCOTT T. RUMANA



## New Jersey State Legislature

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*State Auditor*

GREGORY PICA  
*Assistant State Auditor*

JOHN J. TERMNYNA  
*Assistant State Auditor*

## 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*

### INDEPENDENT AUDITOR'S REPORT

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

We have audited, in accordance with 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 the Pinelands Commission as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated July 16, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Pinelands Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of

the Pinelands Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pinelands Commission's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

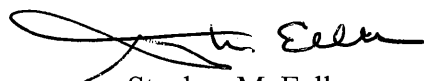
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. Refer to finding # 2013-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pinelands Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

This 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Stephen M. Eells  
State Auditor  
July 16, 2014

**PINELANDS COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2013**

**Finding: 2013-001**

**Inadequate Application of Internal Controls**

The Commission's business office is responsible for the preparation of the financial statements. An accounting firm is retained to review adjusting journal entries, examine the annual financial statements, and to provide assurances that they are appropriate and ready for audit. However, the controls over financial reporting for the Pinelands Commission were inadequately applied and failed to prevent, detect, or correct misstatements. The financial statements presented for fiscal year 2013 contained material misstatements in fund balance classifications for the Special Revenue Funds. These misstatements prompted audit adjustments totaling \$5.5 million to the Pinelands Conservation Fund, and a \$256,548 audit adjustment to the Kirkwood-Cohansey Study Fund.

We recommend proper application of the controls over the financial reporting process. In addition, disclosing the balances of the components that comprise each fund in the notes to the financial statements would aid in the reconciliation of each fund balance presented. The Commission should also consider replacing its accounting system with one that includes a financial reporting module, reducing the risk of misstatements.

**Response: 2013-001**

Please see page 35.

**Pinelands Commission**

**Report on Compliance for Each Major State Program; Report on  
Internal Control Over Compliance; and Report on Schedule of  
Expenditures of State Financial Assistance Required by New Jersey Department of the  
Treasury Circular Letter 04-04-OMB**

**For the Fiscal Year Ended June 30, 2013**

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JOHN J. TERMYNA  
*Assistant State Auditor*

## REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE REQUIRED BY NEW JERSEY DEPARTMENT OF TREASURY CIRCULAR LETTER 04-04-OMB

### INDEPENDENT AUDITOR'S REPORT

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

### **Report on Compliance for Each Major State Program**

We have audited the Pinelands Commission's compliance with the types of compliance requirements described in the New Jersey Grant Compliance Supplement that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013. The Pinelands Commission's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.



## **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Pinelands Commission's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and New Jersey Department of the Treasury Circular Letter 04-04-OMB. These standards and New Jersey Department of the Treasury Circular Letter 04-04-OMB require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Pinelands Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Pinelands Commission's compliance.

## **Opinion on Each Major State Program**

In our opinion, the Pinelands Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013.

## **Report on Internal Control Over Compliance**

Management of the Pinelands Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pinelands Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with New Jersey Department of the Treasury Circular Letter 04-04-OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pinelands Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance

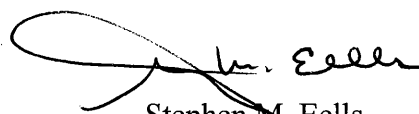
requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of New Jersey Department of the Treasury Circular Letter 04-04-OMB. Accordingly, this report is not suitable for any other purposes.

**Report on Schedule of Expenditures of State Financial Assistance Required by New Jersey Department of the Treasury Circular Letter 04-04-OMB**

We have audited the financial statements of the Pinelands Commission as of and for the year ended June 30, 2013, and have issued our report thereon dated July 16, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by New Jersey Department of the Treasury Circular Letter 04-04-OMB and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.



Stephen M. Eells  
State Auditor  
July 16, 2014

**PINELANDS COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2013**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Federal Awards Section**

Federal Awards Section is not applicable; The Pinelands Commission did not meet the \$500,000 threshold for federal single audit.

**State Awards Section**

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with New Jersey Department of the Treasury Circular Letter 04-04-OMB	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**PINELANDS COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2013**

**Section I - Summary of Auditor's Results (continued):**

Identification of major programs:

<u>State Program Number</u>	<u>Name of State Program</u>
100-042-4800-082	State of New Jersey Appropriation
100-094-9410-011	State Aid - Fringe Benefits

**Section II - Schedule of Financial Statement Findings**

**Finding: 2013-001**

**Inadequate Application of Internal Controls**

The Commission's business office is responsible for the preparation of the financial statements. An accounting firm is retained to review adjusting journal entries, examine the annual financial statements, and to provide assurances that they are appropriate and ready for audit. However, the controls over financial reporting for the Pinelands Commission were inadequately applied and failed to prevent, detect, or correct misstatements. The financial statements presented for fiscal year 2013 contained material misstatements in fund balance classifications for the Special Revenue Fund. These misstatements prompted audit adjustments totaling \$5.5 million to the Pinelands Conservation Fund, and a \$256,548 audit adjustment to the Kirkwood-Cohansey Study Fund.

We recommend proper application of the controls over the financial reporting process. In addition, disclosing the balances of the components that comprise each fund in the notes to the financial statements would aid in the reconciliation of each fund balance presented. The Commission should also consider replacing its accounting system with one that includes a financial reporting module, reducing the risk of misstatements.

No compliance findings were noted that are required to be reported under *Government Auditing Standards*.

**Section III - Schedule of State Awards Findings and Questioned Costs**

The audit disclosed no findings or questioned costs for the current period.

**PINELANDS COMMISSION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2013**

There were no audit findings or questioned costs during the prior year.



Chris Christie  
Governor

Kim Guadagno  
Lt. Governor

## State of New Jersey

THE PINELANDS COMMISSION

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Mark S. Lohbauer  
Chairman

Nancy Wittenberg  
Executive Director

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September 23, 2014

Mr. Stephen M. Eells  
State Auditor  
Office of the State Auditor  
State House Annex  
P.O. Box 067  
Trenton, NJ 08625-0067

Dear Mr. Eells:

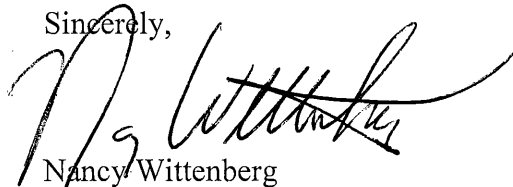
The Pinelands Commission and its Audit Committee appreciate the outstanding and efficient work of the State Auditors in completing our FY2013 Audit. Additionally, the Commission looks forward to working with your staff on our FY2014 audit and into the future.

The audit report includes one finding dealing with Inadequate Application of Internal Controls regarding the preparation of the financial statements. The Auditors recommend disclosing the balances of the components that comprise each fund in the notes of the financial statements which would aid in the reconciliation of each fund balance. Additionally, the Commission should also consider replacing its accounting system with one that includes a financial reporting module, reducing the risk of misstatements.

The Commission's Business Office will establish additional controls over the financial reporting process which will include the itemized balances of the Pinelands Conservation Fund accounts. The Business Office staff has already begun the fact finding process for a replacement Accounting System. The required modules for the system will consist of General Ledger, Accounts Payables and Receivable, Reporting, Fixed Assets and Payroll. Anticipated project implementation is slated for FY2016 pending the approval of the project's funding in the FY2016 budget.

The Commission's Management Team and its Audit Committee are confident that this issue will be resolved with the implementation of a New Accounting System.

Sincerely,



Nancy Wittenberg  
Executive Director