

**NEW JERSEY HIGHLANDS WATER PROTECTION &
PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

FINANCIAL STATEMENTS

June 30, 2012

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

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June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Commissioners of
New Jersey Highlands Water Protection & Planning Council
Directly Administered Funds

We have audited the accompanying financial statements of the directly administered funds of New Jersey Highlands Water Protection & Planning Council (the "Council") as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council's directly administered funds as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

- AN INDEPENDENTLY OWNED MEMBER,
MCGGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2013 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Amercadion, PC
Certified Public Accountants
June 11, 2013

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report for the New Jersey Highlands Water Protection & Planning Council (the "Council") presents our discussion and analysis of the Council's financial performance of directly administered funds during the fiscal year ended June 30, 2012. Please read it in conjunction with the Council's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Current assets increased by \$1,720,752 (or 126%)
 Current liabilities increased by \$6,000 (or 100%)
 Revenues increased by \$4,968,719 (or 491%)
 Expenditures increased by \$1,630,925 (or 61%)
 Net assets increased by \$3,337,794 (or 203%)

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements, which consist of government-wide and governmental fund financial statements, which are linked by a reconciliation. The government-wide financial statements are prepared using the economic resources management focus and the accrual basis of accounting; the governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

FINANCIAL ANALYSIS OF THE COUNCIL

Condensed Statement of Net Assets

The following table summarizes the changes in the statements of net assets between June 30, 2012 and 2011. Explanations of significant changes follow the table:

| | June 30. | | | | % Increase (Decrease) |
|--|---------------------|---------------------|---------------------|---------------------|--------------------------|
| | 2012 | 2011 | 2010 | Difference | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 3,069,494 | \$ 1,230,675 | \$ 3,092,531 | \$ 1,838,819 | 149 % |
| Due from State of NJ | - | 118,544 | 353 | (118,544) | (100)% |
| Prepaid expenses | 13,152 | 12,675 | 16,065 | 477 | 4 % |
| Total current assets | <u>3,082,646</u> | <u>1,361,894</u> | <u>3,108,949</u> | <u>1,720,752</u> | <u>126 %</u> |
| Property and equipment, net of accumulated depreciation of \$404,786 (2012) and \$371,375 (2011) | 51,381 | 68,695 | 91,060 | (17,314) | (25)% |
| Total assets | <u>\$ 3,134,027</u> | <u>\$ 1,430,589</u> | <u>\$ 3,200,009</u> | <u>\$ 1,703,438</u> | <u>119 %</u> |
| LIABILITY AND NET ASSETS | | | | | |
| Liability | | | | | |
| Accounts payable | \$ 12,000 | \$ 6,000 | \$ 135,064 | \$ 6,000 | 100 % |
| Total liability | <u>12,000</u> | <u>6,000</u> | <u>135,064</u> | <u>6,000</u> | <u>100 %</u> |
| Net assets | | | | | |
| Restricted - RMP | 261,852 | 431,618 | 391,094 | (169,766) | 39 % |
| Restricted - HDCB | 2,172,117 | 463,836 | 1,734,000 | 1,708,281 | 368 % |
| | <u>688,058</u> | <u>529,135</u> | <u>939,851</u> | <u>158,923</u> | <u>30 %</u> |
| Total net assets | <u>3,122,027</u> | <u>1,424,589</u> | <u>1,330,945</u> | <u>1,697,438</u> | <u>119 %</u> |
| Total liability and net assets | <u>\$ 3,134,027</u> | <u>\$ 1,430,589</u> | <u>\$ 1,466,009</u> | <u>\$ 1,703,438</u> | <u>119 %</u> |

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE COUNCIL (CONTINUED)

Cash and cash equivalents increased by approximately 149%, or \$1,838,819, during fiscal year 2012, due to an excess of appropriations revenue over expenditures.

Liabilities increased by approximately 100%, or \$6,000. At the end of fiscal year 2012, payables were \$12,000 compared to \$6,000 at the end of fiscal year 2011, which includes outstanding obligations accrued at the end of the year.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

The following table summarizes the changes in statements of revenues, expenses and changes in net assets between June 30, 2012 and 2011. Explanations of significant changes follow the table:

| | Year Ended June 30, | | | Difference | % Increase (Decrease) |
|------------------------------------|---------------------|-----------------------|---------------------|---------------------|--------------------------|
| | 2012 | 2011 | 2010 | | |
| Revenues | | | | | |
| State appropriations - operating | \$ 624,647 | \$ 116,339 | \$ 443,346 | \$ 508,308 | 437 % |
| State appropriations - credit bank | 5,350,500 | 882,000 | 1,734,000 | 4,468,500 | - % |
| Interest income | 3,970 | 8,901 | 4,520 | (4,931) | (55)% |
| Other | 2,487 | 5,645 | 58,359 | (3,158) | (56)% |
| Total revenues | 5,981,604 | 1,012,885 | 2,240,225 | 4,968,719 | 491 % |
| Expenditures | | | | | |
| RMP | 171,370 | 12,617 | 203,227 | 158,753 | 1,258 % |
| HDCB | 3,643,910 | 2,155,165 | - | 1,488,745 | 69 % |
| Administrative expenses | 435,475 | 426,439 | 435,897 | 9,036 | 2 % |
| Provision for depreciation | 33,411 | 59,020 | 78,826 | (25,609) | (43)% |
| Total expenditures | 4,284,166 | 2,653,241 | 717,950 | 1,630,925 | 61 % |
| Change in net assets | \$ 1,697,438 | \$ (1,640,356) | \$ 1,522,275 | \$ 3,337,794 | 203 % |

Other revenues decreased by \$(3,158) due to reduced requests for information in accordance with the Open Public Records Act ("OPRA").

Expenditures increased by \$1,630,925 primarily due to an increase in expenditures dedicated to the HDCB and RMP expenditures.

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Council's capital assets include computer equipment, furniture and leasehold improvements made to its facilities. Net capital assets decreased by \$17,315 during fiscal year 2012. The change in net capital assets includes the depreciation of the new and existing furniture and computer equipment. The following table summarizes the changes in capital assets between June 30, 2012 and 2011:

| | June 30, | | | Difference | % Increase (Decrease) |
|-----------------------------------|------------------|------------------|------------------|--------------------|--------------------------|
| | 2012 | 2011 | 2010 | | |
| Furniture | \$ 57,806 | \$ 57,805 | \$ 57,806 | \$ 1 | - % |
| Computer equipment | 374,501 | 358,404 | 321,749 | 16,097 | 4 % |
| Leasehold improvements | 23,860 | 23,860 | 23,860 | - | - % |
| Total capital assets | 456,167 | 440,069 | 403,415 | 16,098 | 4 % |
| Less: accumulated depreciation | (404,786) | (371,373) | (312,355) | (33,413) | 9 % |
| Capital assets, net | <u>\$ 51,381</u> | <u>\$ 68,696</u> | <u>\$ 91,060</u> | <u>\$ (17,315)</u> | (25)% |

Capital Debt

The Council had no debt for the years ended June 30, 2012 and 2011.

MANAGEMENT AT THE COUNCIL

For the periods under audit of June 30, 2012 and 2011, respectively, Council's management changed. Eileen Swan, the previous Executive Director left office on March 23, 2012. Dan Van Abs was the interim Executive Director from March 23, 2012 through May 13, 2012. Gene Feyl was appointed Executive Director on May 14, 2012 and continues to serve in this position.

CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT

This financial report is designed to provide New Jersey citizens, taxpayers and legislators with a general overview of the Council's finances for its directly administered funds and to demonstrate the Council's accountability for its expenditures and revenues. If you have questions about this report or need additional financial information, contact the Council at (908) 879-6737 or visit its website at: www.highlands.state.nj.us.

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2012**

| ASSETS | <u>Governmental Funds</u> | <u>Adjustments (Note D)</u> | <u>Statement of Net Assets</u> |
|--|-------------------------------|---------------------------------|------------------------------------|
| Cash and cash equivalents | \$ 3,069,494 | \$ - | \$ 3,069,494 |
| Prepaid expenses | - | 13,152 | 13,152 |
| Capital assets, net | <u>-</u> | <u>51,381</u> | <u>51,381</u> |
| Total Assets | <u>\$ 3,069,494</u> | <u>\$ 64,533</u> | <u>\$ 3,134,027</u> |
| LIABILITY AND FUND BALANCE/NET ASSETS | | | |
| Liability | | | |
| Accounts payable | <u>\$ 12,000</u> | <u>\$ -</u> | <u>\$ 12,000</u> |
| Total Liability | <u>12,000</u> | <u>-</u> | <u>12,000</u> |
| Fund Balance/Net Assets | | | |
| Restricted - RMP | 261,852 | - | 261,852 |
| Restricted - HDCB | 2,172,117 | - | 2,172,117 |
| Unrestricted | <u>623,525</u> | <u>64,533</u> | <u>688,058</u> |
| Total Fund Balance/Net Assets | <u>3,057,494</u> | <u>64,533</u> | <u>3,122,027</u> |
| Total Liability and Fund Balance/Net Assets | <u>\$ 3,069,494</u> | <u>\$ 64,533</u> | <u>\$ 3,134,027</u> |

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2011**

| ASSETS | <u>Governmental Funds</u> | <u>Adjustments (Note D)</u> | <u>Statement of Net Assets</u> |
|--|-------------------------------|---------------------------------|------------------------------------|
| Cash and cash equivalents | \$ 1,230,675 | \$ - | \$ 1,230,675 |
| Due from State of New Jersey | - | 118,544 | 118,544 |
| Prepaid expenses | - | 12,674 | 12,675 |
| Capital assets, net | <u>-</u> | <u>68,696</u> | <u>68,695</u> |
| Total Assets | <u>\$ 1,230,675</u> | <u>\$ 199,914</u> | <u>\$ 1,430,589</u> |
| LIABILITY AND FUND BALANCE/NET ASSETS | | | |
| Liability | | | |
| Accounts payable | <u>\$ 6,000</u> | <u>\$ -</u> | <u>\$ 6,000</u> |
| Total Liability | <u>6,000</u> | <u>-</u> | <u>6,000</u> |
| Fund Balance/Net Assets | | | |
| Restricted - RMP | 431,618 | - | 431,618 |
| Restricted - HDCB | 463,836 | - | 463,836 |
| Unrestricted | <u>329,221</u> | <u>199,914</u> | <u>529,135</u> |
| Total Fund Balance/Net Assets | <u>1,224,675</u> | <u>199,914</u> | <u>1,424,589</u> |
| Total Liability and Fund Balance/Net Assets | <u>\$ 1,230,675</u> | <u>\$ 199,914</u> | <u>\$ 1,430,589</u> |

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE/NET ASSETS
Year Ended June 30, 2012**

| | <u>Governmental Funds</u> | <u>Adjustments (Note D)</u> | <u>Statement of Net Assets</u> |
|--|-------------------------------|---------------------------------|------------------------------------|
| Revenues | | | |
| State appropriations - operating | \$ 625,000 | \$ (353) | \$ 624,647 |
| State appropriations - credit bank | 5,350,500 | - | 5,350,500 |
| Interest income | 3,970 | - | 3,970 |
| Other income | <u>2,487</u> | <u>-</u> | <u>2,487</u> |
| Total revenues | <u>5,981,957</u> | <u>(353)</u> | <u>5,981,604</u> |
| Expenditures | | | |
| Materials and supplies | 27,524 | - | 27,524 |
| Professional fees | 6,000 | - | 6,000 |
| Rent and utilities | 230,554 | - | 230,554 |
| Depreciation | - | 33,411 | 33,411 |
| Capital outlay | 16,096 | (16,096) | - |
| Other operating expenses | 53,684 | 117,713 | 171,397 |
| RMP | 171,370 | - | 171,370 |
| HDCB | <u>3,643,910</u> | <u>-</u> | <u>3,643,910</u> |
| Total expenditures | <u>4,149,138</u> | <u>135,028</u> | <u>4,284,166</u> |
| Change in fund balance/net assets | 1,832,819 | (135,381) | 1,697,438 |
| Fund balance/net assets, beginning of year | <u>1,224,675</u> | <u>199,914</u> | <u>1,424,589</u> |
| Fund balance/net assets, end of year | <u>\$ 3,057,494</u> | <u>\$ 64,533</u> | <u>\$ 3,122,027</u> |

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE/NET ASSETS
Year Ended June 30, 2011**

| | <u>Governmental Funds</u> | <u>Adjustments (Note D)</u> | <u>Statement of Net Assets</u> |
|--|-------------------------------|---------------------------------|------------------------------------|
| Revenues | | | |
| State appropriations - operating | \$ 116,339 | \$ - | \$ 116,339 |
| State appropriations - credit bank | 882,000 | - | 882,000 |
| Interest income | 8,901 | - | 8,901 |
| Other income | <u>5,645</u> | <u>-</u> | <u>5,645</u> |
| Total revenues | <u>1,012,885</u> | <u>-</u> | <u>1,012,885</u> |
| Expenditures | | | |
| Materials and supplies | 26,679 | - | 26,679 |
| Professional fees | 6,000 | - | 6,000 |
| Rent and utilities | 220,573 | - | 220,573 |
| Depreciation | - | 59,020 | 59,020 |
| Capital outlay | 36,656 | (36,656) | - |
| Other operating expenses | 287,987 | (114,800) | 173,187 |
| RMP | 12,617 | - | 12,617 |
| HDCB | <u>2,155,165</u> | <u>-</u> | <u>2,155,165</u> |
| Total expenditures | <u>2,745,677</u> | <u>(92,436)</u> | <u>2,653,241</u> |
| Change in fund balance/net assets | (1,732,792) | 92,436 | (1,640,356) |
| Fund balance/net assets, beginning of year | <u>2,957,467</u> | <u>107,478</u> | <u>3,064,945</u> |
| Fund balance/net assets, end of year | <u>\$ 1,224,675</u> | <u>\$ 199,914</u> | <u>\$ 1,424,589</u> |

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

New Jersey Highlands Water Protection & Planning Council (the "Council"), located in Chester, New Jersey, was created by the State of New Jersey (the "State") on November 30, 2004, pursuant to the Highlands Water Protection and Planning Act (the "Act") that preserves open space and protects the State's greatest diversity of natural resources including the precious water resources that supply drinking water to more than half of New Jersey's families. The Act documents the geographical boundary of the Highlands Region and establishes the Highlands Preservation Area and the Highlands Planning Area. The Council is charged with carrying out the provisions of the Act, including the development of a regional master plan for the Highlands Region. State appropriations fund all directly administered expenditures included in these financial statements. The Council's debt and certain other program related activities are included in the State of New Jersey's financial statements.

The Council manages two major programs:

The Regional Master Plan ("RMP") was developed to restore and enhance the significant values of the abundant and critical resources of the Highlands Region.

The Highlands Development Credit Bank ("HDCB") was established to support the transfer of development rights program for the Highlands Region. This program serves as one mechanism to address some of the equity concerns of property owners in the preservation area that have been affected by the implementation of the Highlands Act.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

The accompanying financial statements include only the accounts and activity of the directly administered funds of the Council.

The basic financial statements consist of government-wide and governmental fund financial statements.

The Council combines government-wide and governmental fund financial statements, which are linked together by a reconciliation.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenditures are recognized when incurred.

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when measurable and available. Expenditures are recognized when the related liability is incurred.

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Council considers all highly liquid debt instruments with original maturities of ninety days or less to be cash equivalents.

Concentration of Risk

The Council maintains cash balances which may exceed federally insured limits. It historically has not experienced any credit-related losses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes to the financial statements. Actual results could differ from those estimates.

Due from State of New Jersey

Amounts due from the State of New Jersey consist of appropriations receivable from State of New Jersey budgets for operations and the development credit bank program.

Capital Assets

Capital assets of \$1,000 or more are recorded at cost when purchased in the government-wide financial statements. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which are 3 years for computers and computer equipment, and 7 years for furniture and equipment. Leasehold improvements are depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Property and equipment are expensed when purchased in the governmental fund financial statements. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Income Taxes

As a public body, the Council is exempt from both federal and state taxes under existing statute.

B. CASH AND CASH EQUIVALENTS

Custodial Credit Risk-Deposit

Custodial credit risk is the risk that in the event of a bank failure the Council's deposits may not be returned to it. The Council currently deposits funds in banks that will insure or secure their deposits. During December 31, 2012 and 2011, the Council's funds were deposited at a bank which provided an irrevocable letter of credit ("LOC") from the Federal Home Loan Bank ("FHLB") (Aaa rated by Moody's) for \$3,000,000, which was the average amount of the Council's deposits. The LOC expired on April 30, 2013. The Council has since transferred their funds to another bank where they are fully insured.

NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

B CASH AND CASH EQUIVALENTS (CONTINUED)

| | <u>June 30, 2012</u> | |
|--------------|----------------------|---------------------|
| | <u>Book</u> | <u>Bank</u> |
| | <u>Balance</u> | <u>Balance</u> |
| Insured FDIC | \$ 250,000 | \$ 250,000 |
| LOC- FHLB | 2,819,494 | 2,711,525 |
| Total | <u>\$ 3,069,494</u> | <u>\$ 2,961,525</u> |

| | <u>June 30, 2011</u> | |
|--------------|----------------------|---------------------|
| | <u>Book</u> | <u>Bank</u> |
| | <u>Balance</u> | <u>Balance</u> |
| Insured FDIC | \$ 250,000 | \$ 250,000 |
| LOC- FHLB | 980,675 | 1,031,715 |
| Total | <u>\$ 1,230,675</u> | <u>\$ 1,281,715</u> |

C. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 and 2011 are as follows:

| | <u>2012</u> | | | |
|--|-------------------|--------------------|-----------------|-------------------|
| | <u>Beginning</u> | | <u>Decrease</u> | <u>Ending</u> |
| | <u>Balance</u> | <u>Increase</u> | <u>Balance</u> | <u>Balance</u> |
| Leasehold improvements | \$ 23,860 | \$ - | \$ - | \$ 23,860 |
| Furniture and equipment | 57,805 | - | - | 57,805 |
| Computers and related equipment | 358,404 | 16,096 | - | 374,500 |
| Total cost of property and equipment | <u>440,069</u> | <u>16,096</u> | <u>-</u> | <u>456,165</u> |
| Less accumulated depreciation for | | | | |
| Leasehold improvements | 14,275 | 2,901 | - | 17,176 |
| Furniture and equipment | 50,577 | 5,130 | - | 55,707 |
| Computers and related equipment | 306,521 | 25,380 | - | 331,901 |
| Total accumulated depreciation | <u>\$ 371,373</u> | <u>\$ 33,411</u> | <u>\$ -</u> | <u>\$ 404,784</u> |
| Total accumulated depreciation capital assets, net | <u>\$ 68,696</u> | <u>\$ (17,315)</u> | <u>\$ -</u> | <u>\$ 51,381</u> |

| | <u>2011</u> | | | |
|--|-------------------|--------------------|-----------------|-------------------|
| | <u>Beginning</u> | | <u>Decrease</u> | <u>Ending</u> |
| | <u>Balance</u> | <u>Increase</u> | <u>Balance</u> | <u>Balance</u> |
| Leasehold improvements | \$ 23,860 | \$ - | \$ - | \$ 23,860 |
| Furniture and equipment | 57,805 | - | - | 57,805 |
| Computers and related equipment | 321,748 | 36,656 | - | 358,404 |
| Total cost of property and equipment | <u>403,413</u> | <u>36,656</u> | <u>-</u> | <u>440,069</u> |
| Less accumulated depreciation for | | | | |
| Leasehold improvements | 11,374 | 2,901 | - | 14,275 |
| Furniture and equipment | 42,319 | 8,258 | - | 50,577 |
| Computers and related equipment | 258,660 | 47,861 | - | 306,521 |
| Total accumulated depreciation | <u>\$ 312,353</u> | <u>\$ 59,020</u> | <u>\$ -</u> | <u>\$ 371,373</u> |
| Total accumulated depreciation capital assets, net | <u>\$ 91,060</u> | <u>\$ (22,364)</u> | <u>\$ -</u> | <u>\$ 68,696</u> |

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS**

NOTES TO FINANCIAL STATEMENTS

D. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND AND GOVERNMENT-WIDE FINANCIAL STATEMENTS

- (1) When capital assets that are to be used in governmental activities are purchased or constructed, the cost of those assets is reported as an expenditure in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Council as a whole.

| | <u>June 30.</u> | |
|--------------------------------------|------------------|------------------|
| | <u>2012</u> | <u>2011</u> |
| Leasehold improvements | \$ 23,860 | \$ 23,860 |
| Furniture and equipment | 57,806 | 57,806 |
| Computers and computer equipment | <u>374,501</u> | <u>358,405</u> |
| Total cost of property and equipment | 456,167 | 440,071 |
| Accumulated depreciation | <u>(404,786)</u> | <u>(371,375)</u> |
| Property and equipment, net | <u>\$ 51,381</u> | <u>\$ 68,696</u> |
| Capital outlay | <u>\$ 16,096</u> | <u>\$ 36,656</u> |

- (2) Receivables from the State of New Jersey are not part of the Council's governmental fund activities because no portion of this balance is available for use by the Council at year end.

| | <u>June 30.</u> | |
|--|-----------------|-------------------|
| | <u>2012</u> | <u>2011</u> |
| Due from State of New Jersey and other governments | <u>\$ -</u> | <u>\$ 118,544</u> |

- (3) Depreciation expense in the governmental fund (\$0 for both 2012 and 2011) differs from depreciation expense in the statement of activities (\$33,411 for 2012 and \$59,020 for 2011). The difference is a result of the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

E. SUBSEQUENT EVENT

The Council received \$9,305,262 in September 2012 from PSE&G. The funds were used to set up a mitigation fund to compensate for certain unavoidable impacts from a PSE&G construction project to existing and future public attributes and natural resources of the Highlands Region.

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 Commissioners of
New Jersey Highlands Water Protection & Planning Council
Directly Administered Funds

We have audited the financial statements of the directly administered funds of New Jersey Highlands Water Protection & Planning Council (the "Council") as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated June 11, 2013. We conducted our audits 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.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures 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 Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

- AN INDEPENDENTLY OWNED MEMBER,
MCGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

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 (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have 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 opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, the audit committee, management, and others within the Council and is not intended to be and should not be used by anyone other than these specified parties.

Amercader, P.C.
Certified Public Accountants
June 11, 2013