

**NEW JERSEY HIGHLANDS WATER
PROTECTION AND PLANNING COUNCIL**

DIRECTLY ADMINISTERED FUNDS

FINANCIAL STATEMENTS

June 30, 2019

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

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INDEPENDENT AUDITORS' REPORT

To the Members of
New Jersey Highlands Water Protection and Planning Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the directly administered funds of New Jersey Highlands Water Protection and Planning Council (the "Council") as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the Council's basic 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the 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 auditors' 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 Council'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 Council'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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the directly administered funds of the Council as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2020, 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 grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of 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* in considering the Council's internal control over financial reporting and compliance.

Mercedien, P.C.

Certified Public Accountants

February 25, 2020

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the annual financial report for the New Jersey Highlands Water Protection and 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, 2019. Please read it in conjunction with the Council's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Current assets decreased by \$5,831,070 or 50%
 Current liabilities decreased by \$34,368 or 5%
 Revenues decreased by \$2,056,811 or 58%
 Expenses decreased by \$4,688,983 or 39%
 Total net position decreased by \$5,779,942 or 46%

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 funds 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 funds financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

FINANCIAL ANALYSIS OF THE COUNCIL

Statements of Net Position

The following table summarizes the changes in the statements of net position between June 30, 2019 and 2018. Explanations of significant changes follow the table:

	June 30,		
	2019	2018	Change
ASSETS			
Current assets			
Cash and cash equivalents	\$ 6,634,840	\$ 13,205,910	\$(6,571,070)
Due from the State of New Jersey	740,000	-	740,000
Total current assets	<u>7,374,840</u>	<u>13,205,910</u>	<u>(5,831,070)</u>
Capital assets, net	55,087	38,327	16,760
Total assets	<u>\$ 7,429,927</u>	<u>\$ 13,244,237</u>	<u>\$(5,814,310)</u>
LIABILITIES AND NET POSITION			
Accounts payable - current	\$ 717,436	\$ 751,804	\$ (34,368)
Total liabilities	<u>717,436</u>	<u>751,804</u>	<u>(34,368)</u>
Net position			
Restricted - regional master plan ("RMP")	1,791,428	664,398	1,127,030
Restricted - highlands development credit bank	-	350,694	(350,694)
Restricted - PSE&G mitigation	4,699,682	10,235,873	(5,536,191)
Unrestricted	221,381	1,241,468	(1,020,087)
Total net position	<u>6,712,491</u>	<u>12,492,433</u>	<u>(5,779,942)</u>
Total liabilities and net position	<u>\$ 7,429,927</u>	<u>\$ 13,244,237</u>	<u>\$(5,814,310)</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

FINANCIAL ANALYSIS OF THE COUNCIL (CONTINUED)

Cash and cash equivalents decreased by approximately 50%, or \$6,571,070, during fiscal year 2019, due to the activity of the PSE&G mitigation project.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table summarizes the changes in the statements of revenues, expenses and changes in net position between June 30, 2019 and 2018. Explanations of significant changes follow the table:

	<u>Years Ended June 30,</u>		<u>Change</u>
	<u>2019</u>	<u>2018</u>	
Revenues			
State appropriations - operating	\$ 500,000	\$ 500,000	\$ -
State appropriations - RMP	148,125	182,091	(33,966)
Comprehensive mitigation contributions	740,000	2,420,000	(1,680,000)
Development credit bank contributions	-	332,695	(332,695)
Interest income	92,480	105,938	(13,458)
Other income	<u>7,360</u>	<u>4,052</u>	<u>3,308</u>
Total revenues	<u>1,487,965</u>	<u>3,544,776</u>	<u>(2,056,811)</u>
Expenses			
Mitigation project	6,335,810	10,747,611	(4,411,801)
RMP	113,656	69,788	43,868
Highlands development credit bank	352,485	658,615	(306,130)
Administrative expenses	435,215	453,397	(18,182)
Depreciation	<u>30,741</u>	<u>27,479</u>	<u>3,262</u>
Total expenses	<u>7,267,907</u>	<u>11,956,890</u>	<u>(4,688,983)</u>
Changes in net position	<u>\$ (5,779,942)</u>	<u>\$ (8,412,114)</u>	<u>\$ 2,632,172</u>

Total revenues decreased by \$2,056,811 primarily due to a decrease in grant reimbursements for mitigation fund and a reduction in the allocation of State budget appropriations for RMP appropriations.

Expenses decreased by \$4,688,983 primarily due to a decrease in mitigation program expenses.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (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 increased by \$16,760 during fiscal year 2019. The change in net capital assets includes depreciation and the purchase of computer equipment. The following table summarizes the changes in capital assets between June 30, 2019 and 2018:

	June 30,		Change
	2019	2018	
Furniture	\$ 57,806	\$ 57,806	\$ -
Vehicles	18,044	-	18,044
Computer equipment	518,696	493,830	24,866
Leasehold improvements	<u>28,451</u>	<u>23,860</u>	<u>4,591</u>
Total capital assets	622,997	575,496	47,501
Less: accumulated depreciation	<u>567,910</u>	<u>537,169</u>	<u>30,741</u>
Capital assets, net	<u>\$ 55,087</u>	<u>\$ 38,327</u>	<u>\$ 16,760</u>

Capital Debt

The Council had no debt as of June 30, 2019 and 2018.

MANAGEMENT AT THE COUNCIL

For the period under audit of June 30, 2019, Lisa J. Plevin was the Executive Director and she continues to serve in this position at the Highlands Council.

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 revenues and expenses. 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 AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
 June 30, 2019

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 6,634,840	\$ -	\$ 6,634,840
Capital assets, net	-	55,087	55,087
Grants Receivable	-	740,000	740,000
Total assets	<u>\$ 6,634,840</u>	<u>\$ 795,087</u>	<u>\$ 7,429,927</u>
LIABILITIES AND FUND BALANCE/NET POSITION			
Accounts payable	<u>\$ -</u>	<u>\$ 717,436</u>	<u>\$ 717,436</u>
Total liabilities	<u>-</u>	<u>717,436</u>	<u>717,436</u>
Fund balance/net position			
Restricted - RMP	1,791,428	-	1,791,428
Restricted - Mitigation	4,677,118	22,564	4,699,682
Unrestricted	<u>166,294</u>	<u>55,087</u>	<u>221,381</u>
Total fund balance/net position	<u>6,634,840</u>	<u>77,651</u>	<u>6,712,491</u>
Total liabilities and fund balance/net position	<u>\$ 6,634,840</u>	<u>\$ 795,087</u>	<u>\$ 7,429,927</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES/EXPENSES AND CHANGES IN FUND BALANCE/NET POSITION
Year Ended June 30, 2019

	<u>Governmental Funds</u>	<u>Adjustments (Note D)</u>	<u>Statement of Activities</u>
Revenues			
State appropriations - Operating	\$ 500,000	\$ -	\$ 500,000
State appropriations - RMP	148,125	-	148,125
Comprehensive mitigation contributions	-	740,000	740,000
Interest income	92,480	-	92,480
Other income	<u>7,360</u>	<u>-</u>	<u>7,360</u>
Total revenues	<u>747,965</u>	<u>740,000</u>	<u>1,487,965</u>
Expenditures/expenses			
Materials and supplies	27,863	-	27,863
Professional fees	9,786	-	9,786
Rent and utilities	232,133	-	232,133
Depreciation	-	30,741	30,741
Capital outlay	47,500	(47,500)	-
Other operating	165,433	-	165,433
PSE&G mitigation project	5,618,374	717,436	6,335,810
RMP	113,656	-	113,656
Highlands Development Credit Bank	<u>352,485</u>	<u>-</u>	<u>352,485</u>
Total expenditures/expenses	<u>6,567,230</u>	<u>700,677</u>	<u>7,267,907</u>
Changes in fund balance/net position	(5,819,265)	39,324	(5,779,942)
Fund balance/net position, beginning of year	<u>12,454,106</u>	<u>38,327</u>	<u>12,492,433</u>
Fund balance/net position, end of year	<u>\$ 6,634,841</u>	<u>\$ 77,651</u>	<u>\$ 6,712,491</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

New Jersey Highlands Water Protection and 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 ("RMP") for the Highlands Region. State appropriations fund all directly administered expenditures included in these financial statements. Certain other program related activities of the Council are included in the State's financial statements. The Council manages three major programs:

The 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 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 Act.

Comprehensive Mitigation Plan was established with contributions from public utilities to be used by the Council to support the acquisition and stewardship of lands, preservation of farm land, and by the Highlands Development Credit Bank, within the Highlands Region.

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. Certain capital fund and grant activities are not included in the financial statements as they are managed through the New Jersey Department of Environmental Protection ("DEP"), though certain revenues are funded through grant reimbursements for allowable program expenditures.

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 expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

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. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities in the current period.

NEW JERSEY HIGHLANDS WATER PROTECTION AND 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 exceeds 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.

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 three years for computers and computer equipment, and seven 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. At June 30, 2019, the Council's funds were deposited at TD Bank, N.A., through which the Council was provided an irrevocable standby letter of credit ("LOC") from the Federal Home Loan Bank of Pittsburgh ("FHLB") (Aaa rated by Moody's) for \$8,000,000, which was the average amount of the Council's deposits over the course of the fiscal year. This LOC expired on September 25, 2019, and was subsequently renewed for an additional six-month period which ends on March 25, 2020.

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

B. CASH AND CASH EQUIVALENTS (CONTINUED)

	June 30, 2018	
	Book Balance	Bank Balance
Insured FDIC	\$ 250,000	\$ 250,000
LOC-FHLB	6,384,840	6,396,168
Total	<u>\$ 6,634,840</u>	<u>\$ 6,646,168</u>

C. CAPITAL ASSETS

Capital assets activity, as of and for the year ended June 30, 2019, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Leasehold improvements	\$ 23,861	\$ 4,590	\$ -	\$ 28,451
Furniture and equipment	57,806	-	-	57,806
Vehicles	-	18,044	-	18,044
Computers and related equipment	493,830	24,866	-	518,696
Total cost of capital assets	<u>575,497</u>	<u>47,500</u>	<u>-</u>	<u>622,997</u>
Less accumulated depreciation for				
Leasehold improvements	23,860	765	-	24,626
Furniture and equipment	57,806	-	-	57,806
Vehicles	-	-	-	-
Computers and related equipment	455,503	29,975	-	485,478
Total accumulated depreciation	<u>537,170</u>	<u>30,740</u>	<u>-</u>	<u>567,910</u>
Capital assets, net	<u>\$ 38,327</u>	<u>\$ 16,760</u>	<u>\$ -</u>	<u>\$ 55,087</u>

D. CHANGES IN FUND BALANCE/NET POSITION

Changes in Fund Balance/Net Position for the year ended June 30, 2019, are as follows:

	Total	Unrestricted	Restricted - RMP	Restricted - HDCB	Restricted - CMP
Balance at June 30, 2018	\$ 12,492,433	\$ 1,241,469	\$ 664,397	\$ 350,694	\$10,235,873
State appropriations	648,125	500,000	148,125	-	-
Mitigation funds	740,000	-	-	-	740,000
HDCB funds	-	-	-	-	-
Other income	7,360	7,360	-	-	-
Fund transfers	-	(1,063,594)	1,076,051	785	(13,242)
Interest income	92,480	2,101	16,511	1,006	72,862
Expenses	(7,237,166)	(435,214)	(113,656)	(352,485)	(6,335,811)
Depreciation	(30,741)	(30,741)	-	-	-
Balance at June 30, 2019	<u>\$ 6,712,491</u>	<u>\$ 221,381</u>	<u>\$1,791,428</u>	<u>\$ -</u>	<u>\$ 4,699,682</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

E. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS 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 position includes those capital assets among the assets of the Council as a whole.

	<u>June 30, 2018</u>
Leasehold improvements	\$ 28,451
Vehicles	18,044
Furniture and equipment	57,806
Computers and computer equipment	<u>518,696</u>
Total cost of capital assets	622,997
Accumulated depreciation	<u>567,910</u>
Capital assets, net	<u>\$ 55,087</u>
Capital outlay	<u>\$ 47,500</u>

(2) Depreciation expense of zero in the governmental fund differs from depreciation expense in the statement of activities of 30,741 for 2019. 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.

(3) Accounts payable and related expenses and accounts receivable and related revenues for grant activities were zero in the governmental funds and differs from the statement of net position and activities of \$717,436 and \$740,000, respectively, for 2019. 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.

F. POST-RETIREMENT BENEFITS OTHER THAN PENSION

The Council is a member of the State's cost sharing multiple-employer plan for health and post-retirement medical benefits. Thus, the Council's portion of this liability and cost is included in the State of New Jersey's Comprehensive Annual Financial Report, as such, the liability of Council's employees is covered under the State plan on an annual basis. The Council's payroll is processed through the DEP. As a result, the related payroll expense and fringe benefits, inclusive of health and post-retirement medical benefit costs, are recorded by DEP with the equal value netted from the Council's revenues derived from State budget appropriations. For the fiscal year ended June 30, 2019, the Council's payroll was \$1,666,875. This amount was netted from the annual appropriation of \$2,315,000 resulting in the \$648,125 remaining State appropriation received during the fiscal year and recorded as revenue. Please refer to State website www.state.nj.us for more information regarding the plan.

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN

The Council's employees which are part of the DEP participate in the Public Employees Retirement System of New Jersey ("PERS"), a cost sharing multiple-employer defined benefit plan. The Council's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS.

The Council's payroll is processed through the State DEP. As a result, the related payroll expense and fringe benefits, inclusive of pension costs, are recorded by DEP with the equal value netted from the Council's revenues derived from State budget appropriations.

The State's contribution is based on the employer contribution rate developed by the system's actuary. The rate is then applied against the pension eligible salary for all State employees. The State does not keep track of contributions made to PERS for each separate State agency.

The State of New Jersey, Division of Pension and Benefits, issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at: www.state.nj.us/treasury/pensions.

H. OPERATING LEASE

The Council entered into an operating lease with the Township of Chester for office space that expires December 31, 2021. Rental expense for this lease was \$165,291 for the year ended June 30, 2019.

The future minimum lease payments under the operating lease are as follows:

<u>Years Ending June 30,</u>	
2020	\$ 168,634
2021	171,977
2022	<u>86,824</u>
Total	<u>\$ 427,435</u>

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2019

Finding 2018-001 (U.S. Department of the Interior - Highlands Conservation, CFDA number 15.667)

Condition: The Council did not file the audit with the federal clearinghouse in a timely manner.

This finding was resolved in the current year.

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 Members of
New Jersey Highlands Water Protection and Planning Council
Directly Administered Funds

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 governmental activities of the directly administered funds of New Jersey Highlands Water Protection and Planning Council (the "Council"), as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated February 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council'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 Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council'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 our 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.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council'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.

Mercadieu, P.C.
Certified Public Accountants

February 25, 2020