

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

DIRECTLY ADMINISTERED FUNDS

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

June 30, 2018

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

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June 30, 2018

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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, 2018, 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 an opinion 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 opinion.

Opinion

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, 2018, 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 on pages four through six 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Council's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance") is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2019, 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.

Mercadieu, P.C.
Certified Public Accountants

July 17, 2019

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, 2018. Please read it in conjunction with the Council's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Current assets decreased by \$7,664,527 or 37%
 Current liabilities increased by \$744,104 or 9,664%
 Revenues increased by \$2,715,611 or 328%
 Expenses increased by \$11,297,324 or 1,713%
 Total net position decreased by \$8,412,113 or 40%

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

Condensed Statements of Net Position

The following table summarizes the changes in the statements of net position between June 30, 2018 and 2017. Explanations of significant changes follow the table:

	June 30,		
	2018	2017	Change
ASSETS			
Cash and cash equivalents	\$ 13,205,910	\$ 20,870,437	\$(7,664,527)
Capital assets, net	38,327	41,809	(3,482)
Total assets	<u>\$ 13,244,237</u>	<u>\$ 20,912,246</u>	<u>\$(7,668,009)</u>
LIABILITIES AND NET POSITION			
Accounts payable	\$ 751,804	\$ 7,700	\$ 744,104
Total liabilities	<u>751,804</u>	<u>7,700</u>	<u>744,104</u>
Net position			
Restricted - regional master plan ("RMP")	664,398	542,806	121,592
Restricted - highlands development credit bank	350,694	674,617	(323,923)
Restricted - PSE&G mitigation	10,235,873	18,469,996	(8,234,123)
Unrestricted	1,241,468	1,217,127	24,341
Total net position	<u>12,492,433</u>	<u>20,904,546</u>	<u>(8,412,113)</u>
Total liabilities and net position	<u>\$ 13,244,237</u>	<u>\$ 20,912,246</u>	<u>\$(7,668,009)</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 37%, or \$7,664,527, during fiscal year 2018, 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, 2018 and 2017. Explanations of significant changes follow the table:

	<u>Years Ended June 30,</u>		<u>Change</u>
	<u>2018</u>	<u>2017</u>	
Revenues			
State appropriations - operating	\$ 500,000	\$ 500,000	\$ -
State appropriations - RMP	182,091	266,386	(84,295)
Comprehensive mitigation contributions	2,420,000	-	2,420,000
Development credit bank contributions	332,695	-	332,695
Interest income	105,938	59,612	46,326
Other income	4,052	3,167	885
Total revenues	<u>3,544,776</u>	<u>829,165</u>	<u>2,715,611</u>
Expenses			
Mitigation project	10,747,611	-	10,747,611
RMP	69,788	210,851	(141,063)
Highlands development credit bank	658,615	2,650	655,965
Administrative expenses	453,397	420,559	32,838
Depreciation	27,479	25,506	1,973
Total expenses	<u>11,956,890</u>	<u>659,566</u>	<u>11,297,324</u>
Changes in net position	<u>\$ (8,412,114)</u>	<u>\$ 169,599</u>	<u>\$ (8,581,713)</u>

Total revenues increased by \$2,715,611 primarily due to an increase in grant reimbursements for mitigation fund and State budget appropriations between payroll and RMP appropriations in which payroll decreased and RMP revenues increased.

Interest income increased \$46,326 due to an increase in interest rates.

Expenses increased by \$11,297,324 primarily due to an increase in mitigation and Highlands development credit 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 decreased by \$3,483 during fiscal year 2018. 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, 2018 and 2017:

	June 30,		Change
	2018	2017	
Furniture	\$ 57,806	\$ 57,806	\$ -
Computer equipment	493,830	469,834	23,996
Leasehold improvements	23,860	23,860	-
Total capital assets	575,496	551,500	23,996
Less: accumulated depreciation	537,169	509,690	27,479
Capital assets, net	<u>\$ 38,327</u>	<u>\$ 41,810</u>	<u>\$ (3,483)</u>

Capital Debt

The Council had no debt as of June 30, 2018 and 2017.

MANAGEMENT AT THE COUNCIL

For the period under audit of June 30, 2018, Margaret Nordstrom was the Executive Director. Subsequent to the fiscal year end Lisa J. Plevin was appointed as the Executive Director.

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, 2018

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 13,205,910	\$ -	\$ 13,205,910
Capital assets, net	<u>-</u>	<u>38,327</u>	<u>38,327</u>
Total assets	<u>\$ 13,205,910</u>	<u>\$ 38,327</u>	<u>\$ 13,244,237</u>
LIABILITIES AND FUND BALANCE/NET POSITION			
Accounts payable	<u>\$ 751,804</u>	<u>\$ -</u>	<u>\$ 751,804</u>
Total liabilities	<u>751,804</u>	<u>-</u>	<u>751,804</u>
Fund balance/net position			
Restricted - RMP	664,398	-	664,398
Restricted - Highlands Development Credit Bank	350,694	-	350,694
Restricted - mitigation	10,235,873	-	10,235,873
Unrestricted	<u>1,203,141</u>	<u>38,327</u>	<u>1,241,468</u>
Total fund balance/net position	<u>12,454,106</u>	<u>38,327</u>	<u>12,492,433</u>
Total liabilities and fund balance/net position	<u>\$ 13,205,910</u>	<u>\$ 38,327</u>	<u>\$ 13,244,237</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, 2018

	<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	182,091	-	182,091
Comprehensive mitigation contributions	2,420,000	-	2,420,000
Development credit bank contributions	332,695	-	332,695
Interest income	105,939	-	105,939
Other income	<u>4,052</u>	<u>-</u>	<u>4,052</u>
Total revenues	<u>3,544,777</u>	<u>-</u>	<u>3,544,777</u>
Expenditures/expenses			
Materials and supplies	29,003	-	29,003
Professional fees	11,172	-	11,172
Rent and utilities	232,270	-	232,270
Depreciation	-	27,479	27,479
Capital outlay	23,997	(23,997)	-
Other operating	180,952	-	180,952
PSE&G mitigation project	10,747,611	-	10,747,611
RMP	69,788	-	69,788
Highlands Development Credit Bank	<u>658,615</u>	<u>-</u>	<u>658,615</u>
Total expenditures/expenses	<u>11,953,408</u>	<u>3,482</u>	<u>11,956,890</u>
Changes in fund balance/net position	(8,408,631)	(3,482)	(8,412,113)
Fund balance/net position, beginning of year	<u>20,862,737</u>	<u>41,809</u>	<u>20,904,546</u>
Fund balance/net position, end of year	<u>\$ 12,454,106</u>	<u>\$ 38,327</u>	<u>\$ 12,492,433</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 RMP 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'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 Highlands 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 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 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, 2018, 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 \$16,000,000, which was the average amount of the Council's deposits over the course of the fiscal year. This LOC expired on September 24, 2018 and was subsequently renewed for \$12,500,000 for an additional six-month period which ended on March 25, 2019.

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	12,955,910	12,818,806
Total	<u>\$ 13,205,910</u>	<u>\$ 13,068,806</u>

C. CAPITAL ASSETS

Capital assets activity, as of and for the year ended June 30, 2018, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Leasehold improvements	\$ 23,860	\$ -	\$ -	\$ 23,860
Furniture and equipment	57,806	-	-	57,806
Computers and related equipment	<u>469,833</u>	<u>23,997</u>	-	<u>493,830</u>
Total cost of capital assets	<u>551,499</u>	<u>23,997</u>	-	<u>575,496</u>
Less accumulated depreciation for				
Leasehold improvements	23,860	-	-	23,860
Furniture and equipment	57,806	-	-	57,806
Computers and related equipment	<u>428,024</u>	<u>27,479</u>	-	<u>455,503</u>
Total accumulated depreciation	<u>509,690</u>	<u>27,479</u>	-	<u>537,169</u>
Capital assets, net	<u>\$ 41,809</u>	<u>\$ (3,482)</u>	<u>\$ -</u>	<u>\$ 38,327</u>

D. CHANGES IN FUND BALANCE/NET POSITION

Changes in Fund Balance/Net Position for the year ended June 30, 2018, are as follows:

	Total	Unrestricted	Restricted - RMP	Restricted - HDCB	Restricted - CMP
Balance at June 30, 2017	\$ 20,904,546	\$1,217,127	\$ 542,806	\$ 674,617	\$ 18,469,996
State appropriations	682,091	500,000	182,091	-	-
Mitigation funds	2,420,000	-	-	-	2,420,000
HDCB funds	332,695	-	-	332,695	-
Other income	4,052	4,052	-	-	-
Interest income	105,939	1,166	9,289	1,997	93,487
Expenses	(11,929,411)	(453,397)	(69,788)	(658,615)	(10,747,611)
Depreciation	(27,479)	(27,479)	-	-	-
Balance at June 30, 2018	<u>\$ 12,492,433</u>	<u>\$1,241,469</u>	<u>\$ 664,398</u>	<u>\$ 350,694</u>	<u>\$ 10,235,872</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	\$ 23,860
Furniture and equipment	57,806
Computers and computer equipment	<u>493,830</u>
Total cost of capital assets	575,496
Accumulated depreciation	<u>537,169</u>
Capital assets, net	<u>\$ 38,327</u>
Capital outlay	<u>\$ 23,997</u>

- (2) Depreciation expense of zero in the governmental fund differs from depreciation expense in the statement of activities of \$27,479 for 2018. 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, 2018, the Council's payroll was \$1,632,909. This amount was netted from the annual appropriation of \$2,315,000 resulting in the \$682,091 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.

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.

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

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.

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Award Amount</u>	<u>Program Award Amount</u>	<u>Grant Period</u>	<u>Current Year Disbursements</u>	<u>Matching Fund Disbursements</u>	<u>Disbursements to Subrecipients</u>	<u>Cumulative Disbursements</u>
U.S. Department of the Interior:								
Highlands Conservation	15.667	<u>\$ 2,420,000</u>	<u>\$ 2,420,000</u>	11/23/16- 09/14/18	<u>\$ 2,420,000</u>	<u>\$ 3,032,000</u>	<u>\$ -</u>	<u>\$ 2,420,000</u>
U.S. Department of the Interior & Federal Program Totals		<u><u>\$ 2,420,000</u></u>	<u><u>\$ 2,420,000</u></u>		<u><u>\$ 2,420,000</u></u>	<u><u>\$ 3,032,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,420,000</u></u>

See notes to schedule of expenditures of federal awards.

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards include the federal grant activity of the Council and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Single Audit Act and Subpart F of Title 2 U.S. Code of Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

B. Significant Accounting Policy

The Council recognizes grant revenue when earned on an accrual basis; that is, activities prerequisite to obtaining benefit have been completed, such as complying with the terms and conditions of the grant agreement.

C. Indirect Cost Rate

The Council does not have an indirect cost rate nor does it use the default rate of 10%.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

**Section I - Summary of Auditors' Results
Financial Statements**

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiency identified Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness identified? Yes No
- Significant deficiency identified? Yes None reported

Type of auditors' report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes No

Identification of major programs:

CFDA Number
15.667

Name of Federal Program
Highlands Conservation

Dollar threshold used to distinguish between type A and type B programs for federal awards: \$ 750,000

Auditee qualified as low-risk auditee for federal purposes? Yes No

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2018

Section II - Financial Statement Findings

None reported.

Section III - Federal Awards Findings and Questioned Costs

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

Criteria: The Council is required to timely submit the audit to the federal clearinghouse.

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

Cause: Council staff was unfamiliar with filing deadlines for the federal clearinghouse.

Effect: The audit was not submitted timely to the federal clearinghouse.

Perspective Information: This finding represents an isolated incident.

Recommendation: We recommend that the Council implement procedures to ensure the audit is submitted to the federal clearinghouse in a timely manner.

View of Responsible Official: The Council is in agreement with the finding and will complete a corrective action plan to address the finding.

Section IV - Summary Schedule of Prior Year Audit Findings

None reported.

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, 2018, and the related notes to financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated July 17, 2019.

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.

Mercedien, P.C.
Certified Public Accountants

July 17, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the financial statements of the governmental activities of the directly administered funds of New Jersey Highlands Water Protection and Planning Council's (the "Council") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Council's major federal program for the year ended June 30, 2018. The Council's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal award applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Council's major federal program 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the Council'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 the major federal program. However, our audit does not provide a legal determination of the Council's compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE (CONTINUED)

Opinion on the Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance, which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on the major federal program is not modified with respect to this matter. The Council's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Council 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 Council's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 Council'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 federal 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 federal 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 federal 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, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as finding 2018-001, that we consider to be a significant deficiency.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE (CONTINUED)

The Council's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mercedien, P.C.
Certified Public Accountants

July 17, 2019