

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

DIRECTLY ADMINISTERED FUNDS

FINANCIAL STATEMENTS

June 30, 2020

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

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INDEPENDENT AUDITORS' REPORT

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, 2020, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2020, 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 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 February 3, 2021, 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 Council's 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.

Mercadion, P.C.
Certified Public Accountants

February 3, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2020. Please read it in conjunction with the Council's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Current assets decreased by \$4,072,703 or 55%
 Current liabilities increased by \$3,785 or 1%
 Revenues increased by \$740,756 or 50%
 Expenses decreased by \$960,552 or 13%
 Total net position decreased by \$4,078,634 or 61%

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, 2020 and 2019. Explanations of significant changes follow the table:

	June 30,		
	2020	2019	Change
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,302,137	\$ 6,634,840	\$(3,332,703)
Due from the State of New Jersey	-	740,000	(740,000)
Total current assets	3,302,137	7,374,840	(4,072,703)
Capital assets, net	52,941	55,087	(2,146)
Total assets	<u>\$ 3,355,078</u>	<u>\$ 7,429,927</u>	<u>\$(4,074,849)</u>
LIABILITIES AND NET POSITION			
Accounts payable - current	\$ 721,221	\$ 717,436	\$ 3,785
Total liabilities	<u>721,221</u>	<u>717,436</u>	<u>3,785</u>
Net position			
Restricted - regional master plan ("RMP")	1,314,340	1,791,428	(477,088)
Restricted - comprehensive mitigation plan	1,066,212	4,699,682	(3,633,470)
Unrestricted	253,305	221,381	31,924
Total net position	<u>2,633,857</u>	<u>6,712,491</u>	<u>(4,078,634)</u>
Total liabilities and net position	<u>\$ 3,355,078</u>	<u>\$ 7,429,927</u>	<u>\$(4,074,849)</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 55%, or \$3,332,703, during fiscal year 2020, mostly due to the activity of the comprehensive mitigation plan.

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, 2020 and 2019. Explanations of significant changes follow the table:

	<u>Years Ended June 30,</u>		<u>Change</u>
	<u>2020</u>	<u>2019</u>	
Revenues			
State appropriations - operating	\$ 500,000	\$ 500,000	\$ -
State appropriations - RMP	-	148,125	(148,125)
Comprehensive mitigation contributions	1,680,000	740,000	940,000
Interest income	45,084	92,480	(47,396)
Other income	3,637	7,360	(3,723)
Total revenues	<u>2,228,721</u>	<u>1,487,965</u>	<u>740,756</u>
Expenses			
Comprehensive mitigation plan	5,343,648	6,335,810	(992,162)
RMP	490,096	113,656	376,440
Highlands Development Credit Bank	-	352,485	(352,485)
Administrative expenses	445,750	435,215	10,535
Depreciation	27,861	30,741	(2,880)
Total expenses	<u>6,307,355</u>	<u>7,267,907</u>	<u>(960,552)</u>
Changes in net position	<u>\$ (4,078,634)</u>	<u>\$ (5,779,942)</u>	<u>\$ 1,701,308</u>

Total revenues increased by \$740,756 primarily due to an increase in grant reimbursements for the mitigation fund offset by reductions in the allocation of State budget appropriations for RMP appropriations and interest income.

Expenses decreased by \$960,552 primarily due to decreases in mitigation program and Highlands Development Credit Bank expenses, offset by an increase in RMP 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 \$2,146 during fiscal year 2020. The change in net capital assets includes purchases of computer equipment and depreciation. The following table summarizes the changes in capital assets between June 30, 2020 and 2019:

	June 30,		
	2020	2019	Change
Furniture	\$ 57,806	\$ 57,806	\$ -
Vehicles	18,044	18,044	-
Computer equipment	544,411	518,696	25,715
Leasehold improvements	28,451	28,451	-
Total capital assets	648,712	622,997	25,715
Less: accumulated depreciation	595,771	567,910	27,861
Capital assets, net	<u>\$ 52,941</u>	<u>\$ 55,087</u>	<u>\$ (2,146)</u>

Capital Debt

The Council had no debt as of June 30, 2020 and 2019.

MANAGEMENT AT THE COUNCIL

For the period under audit of June 30, 2020, 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.

BASIC FINANCIAL STATEMENTS

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
 June 30, 2020

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 3,302,137	\$ -	\$ 3,302,137
Capital assets, net	<u>-</u>	<u>52,941</u>	<u>52,941</u>
Total assets	<u>\$ 3,302,137</u>	<u>\$ 52,941</u>	<u>\$ 3,355,078</u>
LIABILITIES AND FUND BALANCE/NET POSITION			
Accounts payable	<u>\$ -</u>	<u>\$ 721,221</u>	<u>\$ 721,221</u>
Total liabilities	<u>-</u>	<u>721,221</u>	<u>721,221</u>
Fund balance/net position			
Restricted - RMP	1,359,264	(44,924)	1,314,340
Restricted - Comprehensive Mitigation Plan	1,733,074	(666,862)	1,066,212
Unrestricted	<u>209,799</u>	<u>43,506</u>	<u>253,305</u>
Total fund balance/net position	<u>3,302,137</u>	<u>(668,280)</u>	<u>2,633,857</u>
Total liabilities and fund balance/net position	<u>\$ 3,302,137</u>	<u>\$ 52,941</u>	<u>\$ 3,355,078</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, 2020

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Activities</u>
Revenues			
State appropriations - operating	\$ 500,000	\$ -	\$ 500,000
Comprehensive mitigation contributions	2,420,000	(740,000)	1,680,000
Interest income	45,084	-	45,084
Other income	<u>3,637</u>	<u>-</u>	<u>3,637</u>
Total revenues	<u>2,968,721</u>	<u>(740,000)</u>	<u>2,228,721</u>
Expenditures/expenses			
Materials and supplies	25,431	-	25,431
Professional fees	349	9,436	9,785
Rent and utilities	231,642	-	231,642
Depreciation	-	27,861	27,861
Capital outlay	25,715	(25,715)	-
Other operating	178,892	-	178,892
Comprehensive mitigation plan	5,394,222	(50,574)	5,343,648
RMP	<u>445,173</u>	<u>44,923</u>	<u>490,096</u>
Total expenditures/expenses	<u>6,301,424</u>	<u>5,931</u>	<u>6,307,355</u>
Changes in fund balance/net position	(3,332,703)	(745,931)	(4,078,634)
Fund balance/net position, beginning of year	<u>6,634,840</u>	<u>77,651</u>	<u>6,712,491</u>
Fund balance/net position, end of year	<u>\$ 3,302,137</u>	<u>\$ (668,280)</u>	<u>\$ 2,633,857</u>

NOTES TO FINANCIAL STATEMENTS

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.

The 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 exceed federally insured limits. It historically has not experienced any credit-related losses.

State appropriations and federal grant reimbursements represented 22% and 75% of the Council's revenues for the fiscal year ended June 30, 2020. If these revenues were not made available, the Council's operations would be significantly impacted.

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.

RMP, Highlands Development Credit Bank, and Comprehensive Mitigation Plan Expenditures/Expenses

The Council's RMP and land acquisition, stewardship, and preservation program expenses are not capitalized as these expenses are not for the operational benefit of the Council.

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, 2020, 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 \$4,800,000, which was the average amount of the Council's deposits over the course of the fiscal year.

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

B. CASH AND CASH EQUIVALENTS (CONTINUED)

This LOC expired on August 26, 2020, and was subsequently renewed in the amount of \$4,000,000 for two additional three-month periods ended November 30, 2020 and March 1, 2021.

Cash and cash equivalents book and bank balances as of June 30, 2020, were as follows:

	<u>June 30, 2020</u>	
	<u>Book</u>	<u>Bank</u>
	<u>Balance</u>	<u>Balance</u>
Insured FDIC	\$ 250,000	\$ 250,000
LOC-FHLB	3,052,137	3,734,307
Total	<u>\$ 3,302,137</u>	<u>\$ 3,984,307</u>

C. CAPITAL ASSETS

Capital assets activity as of and for the year ended June 30, 2020, is as follows:

	<u>Beginning</u>		<u>Decrease</u>	<u>Ending</u>
	<u>Balance</u>	<u>Increase</u>		<u>Balance</u>
Leasehold improvements	\$ 28,451	\$ -	\$ -	\$ 28,451
Furniture and equipment	57,806	-	-	57,806
Vehicles	18,044	-	-	18,044
Computers and related equipment	<u>518,696</u>	<u>25,715</u>	-	<u>544,411</u>
Total cost of capital assets	<u>622,997</u>	<u>25,715</u>	-	<u>648,712</u>
Less accumulated depreciation for				
Leasehold improvements	24,626	1,530	-	26,156
Furniture and equipment	57,806	-	-	57,806
Vehicles	3,007	6,015	-	9,022
Computers and related equipment	<u>482,471</u>	<u>20,316</u>	-	<u>502,787</u>
Total accumulated depreciation	<u>567,910</u>	<u>27,861</u>	-	<u>595,771</u>
Capital assets, net	<u>\$ 55,087</u>	<u>\$ (2,146)</u>	<u>\$ -</u>	<u>\$ 52,941</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

D. CHANGES IN NET POSITION

Changes in Net Position for the year ended June 30, 2020, are as follows:

	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted - RMP</u>	<u>Restricted - Mitigation</u>
Balance at June 30, 2019	\$ 6,712,491	\$ 221,381	\$ 1,791,428	\$ 4,699,682
State appropriations	500,000	500,000	-	-
Comprehensive mitigation contributions	1,680,000	-	-	1,680,000
Other income	3,637	3,637	-	-
Interest income	45,084	1,898	13,008	30,178
Expenses	(6,279,494)	(445,750)	(490,096)	(5,343,648)
Depreciation	(27,861)	(27,861)	-	-
Balance at June 30, 2020	<u>\$ 2,633,857</u>	<u>\$ 253,305</u>	<u>\$ 1,314,340</u>	<u>\$ 1,066,212</u>

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, 2020</u>
Leasehold improvements	\$ 28,451
Vehicles	18,044
Furniture and equipment	57,806
Computers and computer equipment	<u>544,411</u>
Total cost of capital assets	648,712
Accumulated depreciation	<u>595,771</u>
Capital assets, net	<u>\$ 52,941</u>
Capital outlay	<u>\$ 25,715</u>

(2) Governmental fund expenditures reflect expenses that were included in government-wide accounts payable in the prior year and paid this year. Depreciation expense of \$0 in the governmental fund differs from depreciation expense in the statement of activities of \$27,861 for 2020. Governmental fund revenues reflect \$740,000 in comprehensive mitigation contributions that were included in government-wide receivables in the prior year and received this year. The net adjustment of \$745,931 is a result of the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

	<u>June 30, 2020</u>
Comprehensive Mitigation Plan Revenue	\$ 740,000
Professional Fees	9,436
Depreciation Expense	27,861
Capital Outlay	(25,715)
Comprehensive Mitigation Plan Expense	(50,574)
RMP Expense	<u>44,923</u>
Total Adjustments	<u>\$ 745,931</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

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 the DEP with the equal value netted from the Council's revenues derived from State budget appropriations. For the fiscal year ended June 30, 2020, the Council's payroll was \$1,729,114. This amount was netted from the annual appropriation of \$2,315,000 resulting in a remaining appropriation of \$585,886, \$500,000 of which was received during the year and recorded as revenue and \$85,886 of which lapsed and will not be received. 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 DEP. As a result, the related payroll expense and fringe benefits, inclusive of pension costs, are recorded by the 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 \$168,634 for the year ended June 30, 2020.

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

<u>Years Ending June 30,</u>	
2021	\$ 171,977
2022	<u>86,824</u>
Total	<u>\$ 258,801</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

I. CORONAVIRUS - ORGANIZATION IMPACT

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Council operates. Due to the impact of New Jersey Governor Murphy's Executive Order No. 107 dated March 21, 2020, mandating statewide stay-at-home practices and closure of all non-essential retail businesses, it is reasonably possible certain operating expenses will increase. It is unknown how long these conditions will last and what the complete financial affect will be to the Council.

J. PENDING GOVERNMENTAL ACCOUNTING STANDARDS (GASB) STATEMENTS

The Governmental Accounting Standards Board has issued Statement No. 84, "*Fiduciary Activities*." This statement is required to be adopted by the Authority for the year ending June 30, 2021. The Authority has not determined the effect of Statement No. 84 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 87, "*Leases*." This statement is required to be adopted by the Authority for the year ending June 30, 2022. The Authority has not determined the effect of Statement No. 87 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*." This statement is required to be adopted by the Authority for the year ending June 30, 2022. The Authority has not determined the effect of Statement No. 89 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 90, "*Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*." This statement is required to be adopted by the Authority for the year ending June 30, 2021. The Authority has not determined the effect of Statement No. 90 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 91, "*Conduit Debt Obligations*." This statement is required to be adopted by the Authority for the year ending June 30, 2023. The Authority has not determined the effect of Statement No. 91 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 92, "*Omnibus 2020*." This statement clarifies the effective date of Statement No. 87 and addresses other topics that are required to be adopted by the Authority for the year ended June 30, 2023. The Authority has not determined the effect of Statement No. 92 on the financial statements.

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO FINANCIAL STATEMENTS

**J. PENDING GOVERNMENTAL ACCOUNTING STANDARDS (GASB) STATEMENTS
(CONTINUED)**

The Governmental Accounting Standards Board has issued Statement No. 93, "*Replacement of Interbank Offered Rates.*" This statement is required to be adopted by the Authority for the year ending June 30, 2022. The Authority has not determined the effect of Statement No. 93 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements.*" This statement is required to be adopted by the Authority for the year ending June 30, 2023. The Authority has not determined the effect of Statement No. 94 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance.*" This statement postpones the effective dates of applicable pending Statements described above. The effective dates mentioned above are the applicable postponed dates as prescribed by Statement No. 95.

The Governmental Accounting Standards Board has issued Statement No. 96, "*Subscription-Based Information Technology Arrangements.*" This statement is required to be adopted by the Authority for the year ending June 30, 2023. The Authority has not determined the effect of Statement No. 96 on the financial statements.

The Governmental Accounting Standards Board has issued Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a suppression of GASB No. 32.*" This statement is required to be adopted by the Authority for the year ending June 30, 2022. The Authority has not determined the effect of Statement No. 97 on the financial statements.

SUPPLEMENTARY INFORMATION

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

<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 Expenditures</u>	<u>Passed Through to Subrecipients</u>	<u>Cumulative Expenditures</u>
U.S. Department of the Interior:							
Highlands Conservation	15.667	\$ 2,420,000	\$ 2,420,000	12/01/17- 12/01/2019	\$ 1,680,000	\$ -	\$ 2,420,000
U.S. Department of the Interior & Federal Program Totals		<u>\$ 2,420,000</u>	<u>\$ 2,420,000</u>		<u>\$ 1,680,000</u>	<u>\$ -</u>	<u>\$ 2,420,000</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, 2020

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 and 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, 2020**

**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

Section II - Financial Statement Findings

None reported.

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:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
15.667	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, 2020

Section II - Financial Statement Findings

None reported.

Section III - Federal Awards Findings and Questioned Costs

None reported.

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, 2020, and the related notes to financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated February 3, 2021.

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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

February 3, 2021

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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

Report on Compliance for the 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, 2020. 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 AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE 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, 2020.

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, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mercadieu, P.C.
Certified Public Accountants

February 3, 2021