

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

Financial Statements

June 30, 2006

NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

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January 5, 2009

To the Audit Committee of
New Jersey Highlands Water Protection & Planning Council
Directly Administered Funds
100 North Road, Route 513
Chester, NJ 07930-2322

To Whom it May Concern:

This letter is intended to inform the audit committee about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the audit committee.

In addition to our report on your financial statements, we have provided, under separate cover, a letter dated January 5, 2009, concerning opportunities for strengthening operating efficiency and internal control that we noted during our audit of the New Jersey Highlands Water Protection & Planning Council's financial statements for the year ended June 30, 2006.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America:

The Auditor's Responsibility under Auditing Standards Generally Accepted in the United States of America

Our audit of the financial statements of the directly administered funds of New Jersey Highlands Water Protection & Planning Council (the "Council") for the year ended June 30, 2006, was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

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January 5, 2009

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In accordance with *Government Auditing Standards*, we have also performed tests of controls over internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements that contribute to the evidence supporting our opinion on the financial statements. However, these tests do not provide a basis for opining on the Council's internal control over financial reporting, on compliance, and on other matters.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that it used all the relevant facts available to it at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. Estimates significant to the financial statements include such items as depreciation of capital assets. Throughout the year, the audit committee may wish to monitor the process used to compute and record these accounting estimates.

Audit Adjustments

There were two audit adjustments made to the original trial balance presented to us to begin our audit. Of the adjustments that were recorded, the following is a description of the adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Council's financial reporting process:

- 1) Adjustment to record depreciation expense on capital assets.
- 2) Adjustment to record accounts payable as of June 30, 2006.

Uncorrected Misstatements

We accumulated no uncorrected misstatements during the course of our audit.

Accounting Policies and Alternative Treatments

Management and the audit committee have the ultimate responsibility for the appropriateness of the accounting policies used by the Council. The Council did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period that should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the Council.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

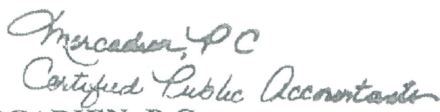
We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Council.

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

Very truly yours,


MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

January 5, 2009

To the Commissioners of
New Jersey Highlands Water Protection & Planning Council
Directly Administered Funds
100 North Road, Route 513
Chester, NJ 07930-2322

To Whom this May Concern:

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the directly administered funds of the New Jersey Highlands Water Protection & Planning Council (the "Council") for the year ended June 30, 2006. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the Council's practices and procedures.

Accounts Payable

During our search for unrecorded liabilities, we noted numerous exceptions in which invoices relating to goods received or services performed prior to the year-end date were not recorded as payables in the proper period. Proper cut-offs are critical for the accuracy of the accrual basis of accounting and for accounting for amounts due at any given time. We suggest that the Council prepare written instructions to be included as part of the Council's accounting policies and procedures manual which indicates basic concepts of proper cut-offs and the individuals responsible for accruing payables at the end of the year.

Fixed Assets

Depreciation expense was not recorded until the year-end audit and was based upon the computations of the auditors. We recommend that the Council calculate depreciation expense for each year by implementing a spreadsheet which would include all capital assets and related depreciation calculations.

Additionally, we noted that the Council has no formal policy for the capitalization of property and equipment purchases. This leaves the Council open to the possibility that capital assets will not be appropriately recorded, depreciated, or reported for accounting purposes. We suggest that the Council implement a written policy requiring all assets costing more than an established amount, such as \$1,000, to be capitalized and depreciated over the assets' useful lives.

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January 5, 2009

Page 2

Closing

This letter is intended solely for the information and use of the Audit Committee, Commissioners, management, and others within the Council, and is not intended to be and should not be used by anyone other than these specified parties. We appreciate serving New Jersey Highlands Water Protection & Planning Council and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

Very truly yours,

Mercadien, P.C.
Certified Public Accountants

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the directly administered funds of New Jersey Highlands Water Protection & Planning Council (the "Council") as of and for the year ended June 30, 2006 and for the period November 30, 2004 (inception) to June 30, 2005. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council's directly administered funds as of June 30, 2006 and 2005, and the changes in its financial position for the year ended June 30, 2006, and for the period November 30, 2004 (inception) to June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2009 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Council has elected not to present a management's discussion and analysis section, which the Governmental Accounting Standards Board has determined is necessary to supplement, although is not required to be part of, the basic financial statements.

Amercadon, PC
Certified Public Accountants

January 5, 2009

NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL

DIRECTLY ADMINISTERED FUNDS

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and cash equivalents	\$ 1,404,010	\$ -	\$ 1,404,010
Due from State of New Jersey	-	275,353	275,353
Property and equipment, net	<u>-</u>	<u>112,487</u>	<u>112,487</u>
Total Assets	<u>\$ 1,404,010</u>	<u>\$ 387,840</u>	<u>\$ 1,791,850</u>
LIABILITY AND FUND BALANCE/NET ASSETS			
Liability			
Accounts payable	<u>\$ 161,091</u>	<u>\$ -</u>	<u>\$ 161,091</u>
Total Liability	<u>161,091</u>	<u>-</u>	<u>161,091</u>
Fund Balance/Net Assets			
Restricted - Regional Master Plan	1,159,317	-	1,159,317
Unrestricted	<u>83,602</u>	<u>387,840</u>	<u>471,442</u>
Total Fund Balance/Net Assets	<u>1,242,919</u>	<u>387,840</u>	<u>1,630,759</u>
Total Liability and Fund Balance/Net Assets	<u>\$ 1,404,010</u>	<u>\$ 387,840</u>	<u>\$ 1,791,850</u>

NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL

DIRECTLY ADMINISTERED FUNDS

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2005

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and cash equivalents	\$ 222,414	\$ -	\$ 222,414
Due from State of New Jersey	-	703,249	703,249
Property and equipment, net	<u>-</u>	<u>86,114</u>	<u>86,114</u>
Total Assets	<u>\$ 222,414</u>	<u>\$ 789,363</u>	<u>\$ 1,011,777</u>
LIABILITY AND FUND BALANCE/NET ASSETS			
Liability			
Accounts payable	<u>\$ 78,790</u>	<u>\$ -</u>	<u>\$ 78,790</u>
Total Liability	<u>78,790</u>	<u>-</u>	<u>78,790</u>
Fund Balance/Net Assets			
Restricted - Regional Master Plan	-	703,249	703,249
Unrestricted	<u>143,624</u>	<u>86,114</u>	<u>229,738</u>
Total Fund Balance/Net Assets	<u>143,624</u>	<u>789,363</u>	<u>932,987</u>
Total Liability and Fund Balance/Net Assets	<u>\$ 222,414</u>	<u>\$ 789,363</u>	<u>\$ 1,011,777</u>

See notes to financial statements.

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

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE/NET ASSETS**

Year Ended June 30, 2006

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Net Assets</u>
Revenues			
State appropriations - Regional Master Plan	\$ 2,180,003	\$ (703,249)	\$ 1,476,754
State appropriations - operating	331,751	275,353	607,104
Private grants	35,000	-	35,000
Other	<u>353</u>	<u>-</u>	<u>353</u>
Total revenues	<u>2,547,107</u>	<u>(427,896)</u>	<u>2,119,211</u>
Expenditures			
Materials and supplies	59,201	-	59,201
Professional fees	5,000	-	5,000
Rent and utilities	145,536	-	145,536
Depreciation	-	30,593	30,593
Capital outlay	56,966	(56,966)	-
Other operating expenses	160,423	-	160,423
Regional Master Plan expenditures	<u>1,020,686</u>	<u>-</u>	<u>1,020,686</u>
Total expenditures	<u>1,447,812</u>	<u>(26,373)</u>	<u>1,421,439</u>
Change in fund balance/net assets	1,099,295	(401,523)	697,772
Fund balance/net assets, beginning of year	<u>143,624</u>	<u>789,363</u>	<u>932,987</u>
Fund balance/net assets, end of year	<u>\$ 1,242,919</u>	<u>\$ 387,840</u>	<u>\$ 1,630,759</u>

See notes to financial statements.

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

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE/NET ASSETS**

For the Period November 30, 2004 (Inception) to June 30, 2005

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Net Assets</u>
Revenues			
State appropriations - Regional Master Plan	\$ -	\$ 703,249	\$ 703,249
State appropriations - Operating	<u>400,000</u>	<u>-</u>	<u>400,000</u>
Total revenues	<u>400,000</u>	<u>703,249</u>	<u>1,103,249</u>
Expenditures			
Materials and supplies	17,803	-	17,803
Professional fees	5,000	-	5,000
Rent and utilities	73,790	-	73,790
Depreciation	-	11,521	11,521
Capital outlay	97,635	(97,635)	-
Other operating expenses	<u>62,148</u>	<u>-</u>	<u>62,148</u>
Total expenditures	<u>256,376</u>	<u>(86,114)</u>	<u>170,262</u>
Change in fund balance/net assets	143,624	789,363	932,987
Fund balance/net assets, beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance/net assets, end of period	<u>\$ 143,624</u>	<u>\$ 789,363</u>	<u>\$ 932,987</u>

NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS
NOTES TO FINANCIAL STATEMENTS

A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Significant Accounting Policies

Basis of Accounting

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

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

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

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

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

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

Cash Equivalents

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

Concentration of Risk

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

NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
 DIRECTLY ADMINISTERED FUNDS
 NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies (continued)

Use of Estimates

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

Due from State of New Jersey

Amounts due from the State of New Jersey consist of appropriations receivable from the June 30, 2006 and 2005, State of New Jersey budgets, respectively.

Property and Equipment

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

Income Taxes

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

B. CASH AND CASH EQUIVALENTS

The Council has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires uncollateralized deposits exposed to custodial credit risk to be disclosed. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits that are in the possession of an outside party. The following is a summary of the Council's cash deposits by financial institution and the amount exposed to custodial credit risk. The Council's deposits at Peapack-Gladstone Bank are insured by the Federal Deposit Insurance Corporation up to \$100,000.

	June 30,	
	2006	2005
Peapack-Gladstone Bank	\$1,411,629	\$ 277,171
Collateralized deposits	100,000	100,000
Total deposits exposed to custodial credit risk	\$1,311,629	\$ 177,171

**NEW JERSEY HIGHLANDS WATER PROTECTION & PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS
NOTES TO FINANCIAL STATEMENTS**

C. RESTRICTED NET ASSETS

Restricted net assets are available for the development of the Regional Master Plan. Restricted net assets amounted to \$1,159,317 and \$703,249 at June 30, 2006 and 2005, respectively.

D. COMMITMENTS AND CONTINGENCIES

The Council leases office space at 100 North Road in Chester, New Jersey under an operating lease expiring December 31, 2006. This lease may be renewed at the option of the State for three terms of one year each. The Council renewed the lease for three terms. Rental expenses under all leases was \$145,536 for the year ended June 30, 2006, and \$73,790 for the period November 30, 2004 to June 30, 2005.

Future minimum lease payments under operating leases are as follows:

Year Ending June 30,	
2007	\$ 160,807
2008	154,571
2009	<u>78,652</u>
Total	<u>\$ 394,030</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 assets includes those capital assets among the assets of the Council as a whole.

	June 30,	
	2006	2005
Leasehold improvements	\$ 16,212	\$ 4,980
Furniture and equipment	51,095	43,790
Computers and computer equipment	<u>87,294</u>	<u>48,865</u>
Total cost of property and equipment	154,601	97,635
Accumulated depreciation	<u>(42,114)</u>	<u>(11,521)</u>
Property and equipment, net	<u>\$ 112,487</u>	<u>\$ 86,114</u>
Capital outlay	<u>\$ 56,966</u>	<u>\$ 97,635</u>

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

	June 30,	
	2006	2005
Due from State of New Jersey	<u>\$ 275,353</u>	<u>\$ 703,249</u>

- (3) Depreciation expense in the governmental fund (\$0 for both 2006 and 2005) differs from depreciation expense in the statement of activities (\$30,593 for 2006 and \$11,521 for 2005). 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.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the directly administered funds of New Jersey Highlands Water Protection & Planning Council (the "Council") as of and for the year ended June 30, 2006, and have issued our report thereon dated January 5, 2009. We conducted our audit 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 audit requirements prescribed by the State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition under which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting, which we have reported to management of the Council in a separate letter dated January 5, 2009.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)

Compliance and Other Matters

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

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

Mercedon, PC
Certified Public Accountants

January 5, 2009