

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

Financial Statements

June 30, 2010 and 2009

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the directly administered funds of New Jersey Highlands Water Protection & Planning Council (the "Council") as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council's directly administered funds as of June 30, 2010 and 2009, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

- * AN INDEPENDENTLY OWNED MEMBER OF THE RSM MCGladREY NETWORK
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OVER 45 YEARS OF SERVICE TO THE COMMUNITY

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2011 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Mercaderes, P.C.
Certified Public Accountants

April 15, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report for the New Jersey Highlands Water Protection & Planning Council (the "Council") presents our discussion and analysis of the Council's financial performance of directly administered funds during the fiscal year ended June 30, 2010. Please read it in conjunction with the Council's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Current assets increased by \$1,603,433 (or 107%)
 Current liabilities increased by \$18,688 (or 16%)
 Revenues increased by \$1,604,018 (or 252%)
 Expenditures decreased by \$326,521 (or 31%)
 Net assets increased by \$1,522,275 (or 99%)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE COUNCIL

Balance Sheets

The following table summarizes the changes in the statements of net assets between June 30, 2010 and 2009. Explanations of significant changes follow the report:

	<u>June 30,</u>			
	<u>2010</u>	<u>2009</u>	<u>Difference</u>	<u>% Increase (Decrease)</u>
<u>ASSETS</u>				
Current assets				
Cash and cash equivalents	\$ 3,092,531	\$ 1,480,030	\$ 1,612,501	109 %
Due from State of NJ	353	353	-	-
Prepaid expenses	<u>16,065</u>	<u>25,133</u>	<u>(9,068)</u>	100 %
Total current assets	3,108,949	1,505,516	1,603,433	107 %
Property and equipment, net of accumulated depreciation of \$312,355 (2010) and \$233,529 (2009)	<u>91,060</u>	<u>153,530</u>	<u>(62,470)</u>	(41)%
Total assets	<u>\$ 3,200,009</u>	<u>\$ 1,659,046</u>	<u>\$ 1,540,963</u>	93 %
<u>LIABILITY AND NET ASSETS</u>				
Liability				
Accounts payable	<u>\$ 135,064</u>	<u>\$ 116,376</u>	<u>\$ 18,688</u>	16 %
Total liability	<u>135,064</u>	<u>116,376</u>	<u>18,688</u>	16 %
Net assets				
Restricted - Regional Master Plan	391,094	594,321	(203,227)	(34)%
Unrestricted	<u>2,673,851</u>	<u>948,349</u>	<u>1,725,502</u>	182 %
Total net assets	<u>3,064,945</u>	<u>1,542,670</u>	<u>1,522,275</u>	99 %
Total liability and net assets	<u>\$ 3,200,009</u>	<u>\$ 1,659,046</u>	<u>\$ 1,540,963</u>	93 %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE COUNCIL (CONTINUED)

Current assets: Cash and cash equivalents increased by approximately 109%, or \$1,612,501, during fiscal year 2010, due to an excess of appropriations revenue over expenditures.

Liability: Liabilities increased by approximately 16%, or \$18,688. At the end of fiscal year 2010, payables were \$135,064 compared to \$116,376 at the end of fiscal year 2009, which includes outstanding obligations accrued at the end of the year.

Statements of Revenues, Expenses and Changes in Net Assets

The following table summarizes the changes in statements of revenues, expenses and changes in net assets between June 30, 2010 and 2009. Explanations of significant changes follow the report:

	<u>Year Ended June 30,</u>			<u>% Increase</u>
	<u>2010</u>	<u>2009</u>	<u>Difference</u>	<u>(Decrease)</u>
Revenues				
State appropriations - operating	\$ 443,346	\$ 622,151	\$ (178,805)	(29)%
State appropriations - HDCB	1,734,000	-	1,734,000	- %
Interest income	4,520	6,526	(2,006)	(31)%
Other	58,359	7,530	50,829	675 %
Total revenues	<u>2,240,225</u>	<u>636,207</u>	<u>1,604,018</u>	252 %
Expenditures				
RMP expenditures	203,227	506,693	(303,466)	(60)%
Administrative expenses	435,897	457,949	(22,052)	(5)%
Provision for depreciation	78,826	79,829	(1,003)	(1)%
Total expenditures	<u>717,950</u>	<u>1,044,471</u>	<u>(326,521)</u>	(31)%
Change in net assets	<u>\$1,522,275</u>	<u>\$ (408,264)</u>	<u>\$1,930,539</u>	(473)%

Other revenues: Other revenues increased by \$50,829 due to additional revenue received from the State of New Jersey for the Regional Master Plan ("RMP") budget.

Expenditures: Expenditures decreased by \$326,521 primarily due to a decrease in expenditures dedicated to the RMP.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Council's capital assets include computer equipment, furniture and leasehold improvements made to its facilities. Net capital assets decreased by \$62,470 during fiscal year 2010. The change in net capital assets includes the depreciation of the new and existing furniture and computer equipment. The following table summarizes the changes in capital assets between June 30, 2010 and 2009:

	<u>June 30,</u>		<u>Difference</u>	<u>% Increase (Decrease)</u>
	<u>2010</u>	<u>2009</u>		
Furniture	\$ 57,806	\$ 57,806	\$ -	- %
Computer equipment	321,749	305,393	16,356	5 %
Leasehold improvements	<u>23,860</u>	<u>23,860</u>	<u>-</u>	- %
Total capital assets	403,415	387,059	16,356	4 %
Less: accumulated depreciation	<u>(312,355)</u>	<u>(233,529)</u>	<u>(78,826)</u>	34 %
Capital assets, net	<u>\$ 91,060</u>	<u>\$ 153,530</u>	<u>\$ (62,470)</u>	(41)%

Capital Debt

The Council had no debt for the years ended June 30, 2010 and 2009.

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 the appropriations and revenues that it receives. If you have questions about this report or need additional financial information, contact the Council at (908) 879-6737 or visit its website at: www.highlands.state.nj.us.

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

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2010

	Governmental Funds	Adjustments (Note E)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 3,092,531	\$ -	\$ 3,092,531
Due from State of New Jersey	-	353	353
Prepaid expenses	-	16,065	16,065
Property and equipment, net	-	91,060	91,060
Total Assets	<u>\$ 3,092,531</u>	<u>\$ 107,478</u>	<u>\$ 3,200,009</u>
LIABILITY AND FUND BALANCE/NET ASSETS			
Liability			
Accounts payable	\$ 135,064	\$ -	\$ 135,064
Total Liability	135,064	-	135,064
Fund Balance/Net Assets			
Restricted - Regional Master Plan	391,094	-	391,094
Unrestricted	2,566,373	107,478	2,673,851
Total Fund Balance/Net Assets	2,957,467	107,478	3,064,945
Total Liability and Fund Balance/Net Assets	<u>\$ 3,092,531</u>	<u>\$ 107,478</u>	<u>\$ 3,200,009</u>

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

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2009

	<u>Governmental Funds</u>	<u>Adjustments (Note E)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and cash equivalents	\$ 1,480,030	\$ -	\$ 1,480,030
Due from State of New Jersey	-	353	353
Prepaid expenses	-	25,133	25,133
Property and equipment, net	<u>-</u>	<u>153,530</u>	<u>153,530</u>
Total Assets	<u>\$ 1,480,030</u>	<u>\$ 179,016</u>	<u>\$ 1,659,046</u>
LIABILITY AND FUND BALANCE/NET ASSETS			
Liability			
Accounts payable	<u>\$ 116,376</u>	<u>\$ -</u>	<u>\$ 116,376</u>
Total Liability	<u>116,376</u>	<u>-</u>	<u>116,376</u>
Fund Balance/Net Assets			
Restricted - Regional Master Plan	594,321	-	594,321
Unrestricted	<u>769,333</u>	<u>179,016</u>	<u>948,349</u>
Total Fund Balance/Net Assets	<u>1,363,654</u>	<u>179,016</u>	<u>1,542,670</u>
Total Liability and Fund Balance/Net Assets	<u>\$ 1,480,030</u>	<u>\$ 179,016</u>	<u>\$ 1,659,046</u>

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

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

Year Ended June 30, 2010

	Governmental Funds	Adjustments (Note E)	Statement of Net Assets
Revenues			
State appropriations - operating	\$ 443,346	\$ -	\$ 443,346
State appropriations - HDCB	1,734,000	-	1,734,000
Interest income	4,520	-	4,520
Other	58,359	-	58,359
Total revenues	2,240,225	-	2,240,225
Expenditures			
Materials and supplies	26,785	-	26,785
Professional fees	14,000	-	14,000
Rent and utilities	223,054	-	223,054
Depreciation	-	78,826	78,826
Capital outlay	16,356	(16,356)	-
Other operating expenses	162,990	9,068	172,058
Regional Master Plan expenditures	203,227	-	203,227
Total expenditures	646,412	71,538	717,950
Change in fund balance/net assets	1,593,813	(71,538)	1,522,275
Fund balance/net assets, beginning of year	1,363,654	179,016	1,542,670
Fund balance/net assets, end of year	\$ 2,957,467	\$ 107,478	\$ 3,064,945

**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, 2009

	Governmental Funds	Adjustments (Note E)	Statement of Net Assets
Revenues			
State appropriations - operating	\$ 622,151	\$ -	\$ 622,151
Interest income	6,526	-	6,526
Other	7,530	-	7,530
Total revenues	636,207	-	636,207
Expenditures			
Materials and supplies	38,367	-	38,367
Professional fees	26,000	-	26,000
Rent and utilities	216,183	-	216,183
Depreciation	-	79,829	79,829
Capital outlay	65,271	(65,271)	-
Other operating expenses	194,041	(16,642)	177,399
Regional Master Plan expenditures	506,693	-	506,693
Total expenditures	1,046,555	(2,084)	1,044,471
Change in fund balance/net assets	(410,348)	2,084	(408,264)
Fund balance/net assets, beginning of year	1,774,002	176,932	1,950,934
Fund balance/net assets, end of year	\$ 1,363,654	\$ 179,016	\$ 1,542,670

**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. NATURE OF ACTIVITIES AND 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, 2010 and 2009, 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

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. The Council's deposits at TD Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. In addition, the Council has entered into an agreement with TD Bank to collateralize all deposits in excess of the FDIC insured limits.

	June 30,	
	2010	2009
TD Bank	\$3,201,521	\$1,655,661
Less: FDIC insured deposits	250,000	250,000
Less: deposits collateralized by TD Bank	2,951,521	1,405,661
Total deposits exposed to custodial credit risk	<u>\$ -</u>	<u>\$ -</u>
Total book balance of deposits	<u>\$3,092,531</u>	<u>\$1,480,030</u>

**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 \$391,094 and \$594,321 at June 30, 2010 and 2009, respectively.

**D. 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.	
	2010	2009
Leasehold improvements	\$ 23,860	\$ 23,860
Furniture and equipment	57,806	57,806
Computers and computer equipment	321,749	305,393
Total cost of property and equipment	403,415	387,059
Accumulated depreciation	(312,355)	(233,529)
Property and equipment, net	\$ 91,060	\$ 153,530
Capital outlay	\$ 16,356	\$ 65,271

- (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.	
	2010	2009
Due from State of New Jersey	\$ 353	\$ 353

- (3) Depreciation expense in the governmental fund (\$0 for both 2010 and 2009) differs from depreciation expense in the statement of activities (\$78,826 for 2010 and \$79,829 for 2009). The difference is a result of the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

E. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the statement of net assets date but before April 15, 2011, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

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, 2010, and have issued our report thereon dated April 15, 2011. 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.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

- AN INDEPENDENTLY OWNED MEMBER OF THE RSM MCGILDRAY NETWORK
- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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- NEW YORK SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
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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 direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Inspector, PC
Certified Public Accountant

April 15, 2011