



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

**FINANCIAL STATEMENTS**

**June 30, 2013**

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

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June 30, 2013

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## **INDEPENDENT AUDITORS' REPORT**

To the Council 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-type activities directly administered funds of New Jersey Highlands Water Protection and Planning Council (the "Council") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the directly administered funds of the governmental-type activities of the Council, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

#### *Required Supplementary Information*

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

#### **Other Reporting by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2013, 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 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 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.

*Mercadien, P.C.*  
*Certified Public Accountants*

**MERCADIEN, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

June 23, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2013. Please read it in conjunction with the Council's financial statements and accompanying notes.

**FINANCIAL HIGHLIGHTS**

- Current assets increased by \$8,831,563 or 286%
- Current liabilities increased by \$8,750 or 73%
- Revenues increased by \$4,266,756 or 71%
- Expenditures decreased by \$2,845,421 or 66%
- Net position increased by \$7,112,177 or 419%

**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**

**Condensed Statement of Net Position**

The following table summarizes the changes in the statements of net position between June 30, 2013 and 2012. Explanations of significant changes follow the table:

	<u>June 30,</u>			<u>% Increase</u>
	<u>2013</u>	<u>2012</u>	<u>Difference</u>	<u>(Decrease)</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 11,914,209	\$ 3,069,494	\$ 8,844,715	288 %
Prepaid expenses	-	13,152	(13,152)	(100)%
Total current assets	<u>11,914,209</u>	<u>3,082,646</u>	<u>8,831,563</u>	<u>286 %</u>
Capital assets, net of accumulated depreciation of \$(431,446) (2013) and \$(404,786) (2012)	38,183	51,381	(13,198)	(26)%
Total assets	<u>\$ 11,952,392</u>	<u>\$ 3,134,027</u>	<u>\$ 8,818,365</u>	<u>281 %</u>
<b>LIABILITY AND NET POSITION</b>				
Liability				
Accounts payable	\$ 20,750	\$ 12,000	\$ 8,750	73 %
Total liability	<u>20,750</u>	<u>12,000</u>	<u>8,750</u>	<u>73 %</u>
Net position				
Restricted - regional master plan	228,320	261,852	(33,532)	(13)%
Restricted - highlands development credit bank	1,369,508	2,172,117	(802,609)	(37)%
Restricted - mitigation	9,325,064	-	9,325,064	100 %
Unrestricted	<u>1,008,750</u>	<u>688,058</u>	<u>320,692</u>	<u>47 %</u>
Total net position	<u>11,931,642</u>	<u>3,122,027</u>	<u>8,809,615</u>	<u>282 %</u>
Total liability and net position	<u>\$ 11,952,392</u>	<u>\$ 3,134,027</u>	<u>\$ 8,818,365</u>	<u>281 %</u>

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

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

**FINANCIAL ANALYSIS OF THE COUNCIL (CONTINUED)**

Cash and cash equivalents increased by approximately 288%, or \$8,844,715, during fiscal year 2013, due to the receipt of mitigation funds from PSE&G and Algonquin Gas.

Liabilities increased by approximately 73%, or \$8,750. At the end of fiscal year 2013, payables were \$20,750 compared to \$12,000 at the end of fiscal year 2012, which includes outstanding obligations accrued at the end of the year, primarily for professional services and rent.

**Condensed Statements of Revenues, Expenditures and Changes in Net Position**

The following table summarizes the changes in statements of revenues, expenditures and changes in net position between June 30, 2013 and 2012. Explanations of significant changes follow the table:

	<u>Year Ended June 30,</u>		<u>Difference</u>	<u>% Increase (Decrease)</u>
	<u>2013</u>	<u>2012</u>		
<b>Revenues</b>				
State appropriations - operating	\$ 836,843	\$ 624,647	\$ 212,196	34 %
State appropriations - credit bank	-	5,350,500	(5,350,500)	(100)%
Mitigation contributions	9,384,727	-	9,384,727	100 %
Interest income	22,837	3,970	18,867	475 %
Other income	3,953	2,487	1,466	59 %
<b>Total revenues</b>	<u>10,248,360</u>	<u>5,981,604</u>	<u>4,266,756</u>	<b>71 %</b>
<b>Expenditures</b>				
Regional master plan	34,360	171,370	(137,010)	(80)%
Highlands development credit bank	884,038	3,643,910	(2,759,872)	(76)%
Administrative expenses	493,687	435,475	58,212	13 %
Provision for depreciation	26,660	33,411	(6,751)	(20)%
<b>Total expenditures</b>	<u>1,438,745</u>	<u>4,284,166</u>	<u>(2,845,421)</u>	<b>(66)%</b>
<b>Change in net position</b>	<u>\$ 8,809,615</u>	<u>\$ 1,697,438</u>	<u>\$ 7,112,177</u>	<b>(419)%</b>

State appropriations-operating increased due to additional operating funds requested by the Council.

Credit bank revenues decreased by \$5,350,500 due to the receipt of highlands development credit bank funds allocated to the Council in 2012. There were no highlands development credit bank funds allocated to the Council in 2013. These funds are usually allocated every other year.

Mitigation contributions totaling \$9,384,727 were received in 2013 from PSE&G and Algonquin Gas.

Other revenues increased by \$1,466 due to reduced requests for information in accordance with the Open Public Records Act.

Interest income increased \$18,867 due to the receipt of the PSE&G mitigation contribution.

Expenditures decreased by \$2,845,421 primarily due to the decrease in highlands development credit bank expenditures.

**NEW JERSEY HIGHLANDS WATER PROTECTION AND 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 \$13,197 during fiscal year 2013. 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, 2013 and 2012:

	<u>June 30,</u>		<u>Difference</u>	<u>% Increase (Decrease)</u>
	<u>2013</u>	<u>2012</u>		
Furniture	\$ 57,806	\$ 57,806	\$ -	- %
Computer equipment	387,963	374,500	13,463	4 %
Leasehold improvements	23,860	23,860	-	- %
Total capital assets	469,629	456,166	13,463	3 %
Less: accumulated depreciation	431,446	404,786	26,660	7 %
Capital assets, net	<u>\$ 38,183</u>	<u>\$ 51,380</u>	<u>\$ (13,197)</u>	(26)%

Capital Debt

The Council had no debt for the years ended June 30, 2013 and 2012.

**MANAGEMENT AT THE COUNCIL**

For the periods under audit of June 30, 2013 and 2012, respectively, Council's management changed. Eileen Swan, the previous Executive Director left office on March 23, 2012. Dan Van Abs was the interim Executive Director from March 23, 2012, through May 13, 2012. Gene Feyl was appointed Executive Director on May 14, 2012, and continues to serve in this position.

**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 expenditures and revenues. 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](http://www.highlands.state.nj.us).

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

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET  
June 30, 2013**

	<u>Governmental Funds</u>	<u>Adjustments (Note D)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,914,209	\$ -	\$11,914,209
Capital assets, net	<u>-</u>	<u>38,183</u>	<u>38,183</u>
<b>Total position</b>	<b><u>\$ 11,914,209</u></b>	<b><u>\$ 38,183</u></b>	<b><u>\$11,952,392</u></b>
<b>LIABILITY AND FUND BALANCE/NET POSITION</b>			
<b>Liability</b>			
Accounts payable	<u>\$ 20,750</u>	<u>\$ -</u>	<u>\$ 20,750</u>
<b>Total liability</b>	<b><u>20,750</u></b>	<b><u>-</u></b>	<b><u>20,750</u></b>
<b>Fund balance/net position</b>			
Restricted - regional master plan	228,320	-	228,320
Restricted - highlands development credit bank	1,369,508	-	1,369,508
Restricted - mitigation	9,325,064	-	9,325,064
Unrestricted	<u>970,567</u>	<u>38,183</u>	<u>1,008,750</u>
<b>Total fund balance/net position</b>	<b><u>11,893,459</u></b>	<b><u>38,183</u></b>	<b><u>11,931,642</u></b>
<b>Total liability and fund balance/net position</b>	<b><u>\$ 11,914,209</u></b>	<b><u>\$ 38,183</u></b>	<b><u>\$11,952,392</u></b>



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

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE/NET POSITION  
Year Ended June 30, 2013**

	<u>Governmental Funds</u>	<u>Adjustments (Note D)</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
State appropriations - operating	\$ 836,843	\$ -	\$ 836,843
Mitigation contributions	9,384,727	-	9,384,727
Interest income	22,837	-	22,837
Other income	<u>3,953</u>	<u>-</u>	<u>3,953</u>
Total revenues	<u>10,248,360</u>	<u>-</u>	<u>10,248,360</u>
<b>Expenditures</b>			
Materials and supplies	28,971	-	28,971
Professional fees	6,247	-	6,247
Rent and utilities	230,795	3,602	234,397
Depreciation	-	26,660	26,660
Capital outlay	13,463	(13,463)	-
Other operating	214,521	9,551	224,072
Regional master plan	34,360	-	34,360
Highlands development credit bank	<u>884,038</u>	<u>-</u>	<u>884,038</u>
Total expenditures	<u>1,412,395</u>	<u>26,350</u>	<u>1,438,745</u>
Change in fund balance/net position	8,835,965	(26,350)	8,809,615
Fund balance/net position, beginning of year	<u>3,057,494</u>	<u>64,533</u>	<u>3,122,027</u>
Fund balance/net position, end of year	<u>\$ 11,893,459</u>	<u>\$ 38,183</u>	<u>\$11,931,642</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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**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 for the Highlands Region. State appropriations fund all directly administered expenditures included in these financial statements. The Council's debt and certain other program related activities are included in the State's financial statements.

The Council manages three major programs:

The Regional Master Plan was developed to restore and enhance the significant values of the abundant and critical resources of the Highlands Region.

The Highlands Development Credit Bank was established to support the transfer of development rights program for the Highlands Region. This program serves as one mechanism to address some of the equity concerns of property owners in the preservation area that have been affected by the implementation of the Highlands Act.

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

**Basis of Accounting**

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

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

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.

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

**NOTES TO FINANCIAL STATEMENTS**

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

**Use of Estimates**

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

**Due from the State**

Amounts due from the State consist of appropriations receivable from State budgets for operations and the development credit bank program. There was no amount due from the State of New Jersey at June 30, 2013.

**Capital Assets**

Capital assets of \$1,000 or more are recorded at cost when purchased in the government-wide financial statements. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which are three years for computers and computer equipment, and seven years for furniture and equipment. Leasehold improvements are depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Property and equipment are expensed when purchased in the governmental fund financial statements. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

**Income Taxes**

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

**B. CASH AND CASH EQUIVALENTS**

*Custodial Credit Risk-Deposit*

Custodial credit risk is the risk that in the event of a bank failure the Council's deposits may not be returned to it. The Council currently deposits funds in banks that will insure or secure their deposits. At June 30, 2013, the Council's funds were deposited at a bank which provided an irrevocable letter of credit ("LOC") from the Federal Home Loan Bank ("FHLB") (Aaa rated by Moody's) for \$13,000,000, which was the average amount of the Council's deposits. The LOC expires on April 30, 2014.

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

**NOTES TO FINANCIAL STATEMENTS**

**B. CASH AND CASH EQUIVALENTS (CONTINUED)**

	<u>June 30, 2013</u>	
	<u>Book Balance</u>	<u>Bank Balance</u>
Insured FDIC	\$ 250,000	\$ 250,000
LOC-FHLB	11,664,209	11,354,922
Total	<u>\$ 11,914,209</u>	<u>\$ 11,604,922</u>

**C. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2013, is as follows:

	<u>2013</u>			
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Leasehold improvements	\$ 23,860	\$ -	\$ -	\$ 23,860
Furniture and equipment	57,806	-	-	57,806
Computers and related equipment	374,500	13,463	-	387,963
Total cost of capital assets	<u>456,166</u>	<u>13,463</u>	<u>-</u>	<u>469,629</u>
Less accumulated depreciation for				
Leasehold improvements	17,176	2,902	-	20,078
Furniture and equipment	55,707	1,204	-	56,911
Computers and related equipment	331,903	22,554	-	354,457
Total accumulated depreciation	<u>\$ 404,786</u>	<u>\$ 26,660</u>	<u>\$ -</u>	<u>\$ 431,446</u>
Capital assets, net	<u>\$ 51,380</u>	<u>\$ (13,197)</u>	<u>\$ -</u>	<u>\$ 38,183</u>

**D. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND 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, 2013</u>
Leasehold improvements	\$ 23,860
Furniture and equipment	57,806
Computers and computer equipment	387,963
Total cost of capital assets	<u>469,629</u>
Accumulated depreciation	<u>431,446</u>
Capital assets, net	<u>\$ 38,183</u>
Capital outlay	<u>\$ 13,463</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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**D. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL  
FUND AND GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

- (2) Expenses of \$13,153 reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.
- (3) Depreciation expense of zero in the governmental fund differs from depreciation expense in the statement of activities of \$26,660 for 2013. 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 Council Members of  
New Jersey Highlands Water Protection and Planning Council  
Directly Administered Funds

We have audited the financial statements 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, 2013, and have issued our report thereon dated June 23, 2013. 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.

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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 Council Members, 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.

*Mercaderes, P.C.*  
*Certified Public Accountants*

June 23, 2013