

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

FINANCIAL STATEMENTS

June 30, 2015

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

TABLE OF CONTENTS

June 30, 2015

	<u>Page Number</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements	
Statement of Net Position and Governmental Fund Balance Sheet.....	6
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Net Position.....	7
Notes to Basic Financial Statements.....	8
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 <i>Government Auditing Standards</i>	12

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 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, 2015, and the related notes to financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the directly administered funds of the Council, as of June 30, 2015, 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 Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2016, 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**

February 11, 2016

**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, 2015. Please read it in conjunction with the Council's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- Current assets increased by \$23,094 or less than 1%
- Current liabilities did not change from the prior year
- Revenues decreased by \$10,181,551 or 92%
- Expenditures decreased by \$1,215,893 or 60%
- Change in net position decreased by \$8,965,658 or 100%

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 statement of net position between June 30, 2015 and 2014. Explanations of significant changes follow the table:

	June 30,		Change
	2015	2014	
ASSETS			
Cash and cash equivalents	\$ 20,933,189	\$ 20,910,095	\$ 23,094
Capital assets, net	16,556	16,678	(122)
Total assets	<u>\$ 20,949,745</u>	<u>\$ 20,926,773</u>	<u>\$ 22,972</u>
LIABILITY AND NET POSITION			
Accounts payable	\$ 6,500	\$ 6,500	\$ -
Net position			
Restricted - regional master plan	447,787	376,779	71,008
Restricted - highlands development credit bank	675,608	789,067	(113,459)
Restricted - mitigation	18,678,052	18,645,133	32,919
Unrestricted	1,141,798	1,109,294	32,504
Total net position	<u>20,943,245</u>	<u>20,920,273</u>	<u>22,972</u>
Total liability and net position	<u>\$ 20,949,745</u>	<u>\$ 20,926,773</u>	<u>\$ 22,972</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 increased by less than 1%, or approximately \$23,094, during fiscal year 2015, due to the decreased activity of revenues and expenses in 2015.

Liabilities did not change in 2015. At the end of fiscal years 2015 and 2014, payables were \$6,500 primarily for professional services.

Condensed Statement of Revenues, Expenses and Changes in Net Position

The following table summarizes the changes in the statement of revenues, expenses and changes in net position between June 30, 2015 and 2014. Explanations of significant changes follow the table:

	<u>Year Ended June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Revenues			
State appropriations - operating	\$ 500,000	\$ 591,334	\$ (91,334)
State appropriations - credit bank	-	936,718	(936,718)
State appropriations - RMP	295,852	161,142	134,710
Mitigation contributions	-	9,306,612	(9,306,612)
Interest income	36,514	18,241	18,273
Other income	196	66	130
Total revenues	<u>832,562</u>	<u>11,014,113</u>	<u>(10,181,551)</u>
Expenses			
Regional master plan	226,957	14,145	212,812
Highlands development credit bank	114,650	1,518,485	(1,403,835)
Administrative expenses	456,550	465,571	(9,021)
Depreciation	11,432	27,281	(15,849)
Total expenses	<u>809,589</u>	<u>2,025,482</u>	<u>(1,215,893)</u>
Change in net position	<u>\$ 22,973</u>	<u>\$ 8,988,631</u>	<u>\$ (8,965,658)</u>

State appropriations-operating decreased due to less operating funds requested by the Council.

Credit bank revenues decreased by \$936,718. There was no funding to the credit bank program in 2015. At this time, the highlands development credit bank is undergoing rule adoption by the Council for any new acquisition under the new open space grant/highlands development credit purchase program.

Mitigation contributions in prior years were one time payments to the Council intended to compensate for certain unavoidable impacts from projects in the Highlands Region.

Interest income increased \$18,273 due to the decreased use of funds.

Expenses decreased by \$1,215,893 primarily due to a decrease in highlands development credit bank 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 \$122 during fiscal year 2015. The change in net capital assets includes; depreciation and the purchase of leasehold improvements. The following table summarizes the changes in capital assets between June 30, 2015 and 2014:

	June 30,		Change
	2015	2014	
Furniture	\$ 57,806	\$ 57,806	\$ -
Computer equipment	405,049	393,739	11,310
Leasehold improvements	23,860	23,860	-
Total capital assets	486,715	475,405	11,310
Less: accumulated depreciation	470,159	458,727	11,432
Capital assets, net	<u>\$ 16,556</u>	<u>\$ 16,678</u>	<u>\$ (122)</u>

Capital Debt

The Council had no debt for the years ended June 30, 2015 and 2014.

MANAGEMENT AT THE COUNCIL

For the period under audit of June 30, 2015 Margaret Nordstrom, was appointed as Acting Executive Director, on April 1, 2014. Margaret Nordstrom was appointed Executive Director on November 10, 2014 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 revenues and expenditures. If you have questions about this report or need additional financial information, contact the Council at (908) 879-6737 or visit its website at: www.highlands.state.nj.us.

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

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
June 30, 2015

	<u>Governmental Funds</u>	<u>Adjustments (Note D)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 20,933,189	\$ -	\$ 20,933,189
Capital assets, net	<u>-</u>	<u>16,556</u>	<u>16,556</u>
Total assets	<u>\$ 20,933,189</u>	<u>\$ 16,556</u>	<u>\$ 20,949,745</u>
LIABILITY AND FUND BALANCE/NET POSITION			
Liability			
Accounts payable	<u>\$ 6,500</u>	<u>\$ -</u>	<u>\$ 6,500</u>
Total liability	<u>6,500</u>	<u>-</u>	<u>6,500</u>
Fund balance/net position			
Restricted - regional master plan	447,787	-	447,787
Restricted - highlands development credit bank	675,608	-	675,608
Restricted - mitigation	18,678,052	-	18,678,052
Unrestricted	<u>1,125,242</u>	<u>16,556</u>	<u>1,141,798</u>
Total fund balance/net position	<u>20,926,689</u>	<u>16,556</u>	<u>20,943,245</u>
Total liability and fund balance/net position	<u>\$ 20,933,189</u>	<u>\$ 16,556</u>	<u>\$ 20,949,745</u>

**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, 2015

	<u>Governmental Funds</u>	<u>Adjustments (Note D)</u>	<u>Statement of Activities</u>
Revenues			
State appropriations - operating	\$ 500,000	\$ -	\$ 500,000
State appropriations - RMP	295,852	-	295,852
Interest income	36,514	-	36,514
Other income	<u>196</u>	<u>-</u>	<u>196</u>
Total revenues	<u>832,562</u>	<u>-</u>	<u>832,562</u>
Expenditures/expenses			
Materials and supplies	29,190	-	29,190
Professional fees	6,177	-	6,177
Rent and utilities	207,154	-	207,154
Depreciation	-	11,432	11,432
Capital outlay	11,311	(11,311)	-
Other operating	214,029	-	214,029
Regional master plan	226,957	-	226,957
Highlands development credit bank	<u>114,650</u>	<u>-</u>	<u>114,650</u>
Total expenditures/expenses	<u>809,468</u>	<u>121</u>	<u>809,589</u>
Change in fund balance/net position	23,094	(121)	22,973
Fund balance/net position, beginning of year	<u>20,903,595</u>	<u>16,678</u>	<u>20,920,273</u>
Fund balance/net position, end of year	<u>\$ 20,926,689</u>	<u>\$ 16,556</u>	<u>\$ 20,943,245</u>

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

New Jersey Highlands Water Protection and Planning Council (the "Council"), located in Chester, New Jersey, was created by the State of New Jersey (the "State") on November 30, 2004, pursuant to the Highlands Water Protection and Planning Act (the "Act") that preserves open space and protects the State's greatest diversity of natural resources including the precious water resources that supply drinking water to more than half of New Jersey's families. The Act documents the geographical boundary of the Highlands Region and establishes the Highlands Preservation Area and the Highlands Planning Area. The Council is charged with carrying out the provisions of the Act, including the development of a 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 expenses are recognized when incurred.

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

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Concentration of Risk

The Council maintains cash balances which 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.

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, 2015, 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 \$22,000,000, which was the average amount of the Council's deposits. The LOC expires on March 30, 2016.

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

NOTES TO FINANCIAL STATEMENTS

B. CASH AND CASH EQUIVALENTS (CONTINUED)

	<u>June 30, 2015</u>	
	<u>Book Balance</u>	<u>Bank Balance</u>
Insured FDIC	\$ 250,000	\$ 250,000
LOC-FHLB	20,683,189	20,412,436
Total	<u>\$ 20,933,189</u>	<u>\$ 20,662,436</u>

C. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, is as follows:

	<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	<u>393,738</u>	<u>11,311</u>	<u>-</u>	<u>405,049</u>
Total cost of capital assets	<u>475,404</u>	<u>11,311</u>	<u>-</u>	<u>486,715</u>
Less accumulated depreciation for				
Leasehold improvements	22,980	880	-	23,860
Furniture and equipment	57,774	32	-	57,806
Computers and related equipment	<u>377,974</u>	<u>10,519</u>	<u>-</u>	<u>388,493</u>
Total accumulated depreciation	<u>458,728</u>	<u>11,432</u>	<u>-</u>	<u>470,159</u>
Capital assets, net	<u>\$ 16,676</u>	<u>\$ (121)</u>	<u>\$ -</u>	<u>\$ 16,556</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, 2015</u>
Leasehold improvements	\$ 23,860
Furniture and equipment	57,806
Computers and computer equipment	<u>405,049</u>
Total cost of capital assets	486,715
Accumulated depreciation	<u>470,159</u>
Capital assets, net	<u>\$ 16,556</u>
Capital outlay	<u>\$ 11,311</u>

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

NOTES TO FINANCIAL STATEMENTS

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

- (2) Depreciation expense of zero in the governmental fund differs from depreciation expense in the statement of activities of \$11,432 for 2015. 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, 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, 2015, and the related notes to financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated February 11, 2016.

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 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.

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- REGISTERED WITH THE PCAOB

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)

Internal Control over Financial Reporting (Continued)

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 weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercadieu, P.C.
Certified Public Accountants

February 11, 2016