

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

FINANCIAL STATEMENTS

June 30, 2017

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

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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 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, 2017, 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, 2017, 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 June 26, 2018, 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.

Mercadim, P.C.

Certified Public Accountants

June 26, 2018

**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, 2017. Please read it in conjunction with the Council's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Current assets decreased by \$209,337 or 1%
 Current liabilities decreased by \$32,234 or 81%
 Revenues increased by \$58,828 or 8%
 Expenses increased by \$377,016 or 60%
 The net position decreased by \$178,443 or 1%

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, 2017 and 2016. Explanations of significant changes follow the table:

	June 30,		
	2017	2016	Change
ASSETS			
Cash and cash equivalents	\$ 20,870,437	\$ 21,079,774	\$(209,337)
Capital assets, net	41,809	43,149	(1,340)
Total assets	<u>\$ 20,912,246</u>	<u>\$ 21,122,923</u>	<u>\$(210,677)</u>
LIABILITY AND NET POSITION			
Accounts payable	\$ 7,700	\$ 39,934	\$ (32,234)
Total liability	<u>7,700</u>	<u>39,934</u>	<u>(32,234)</u>
Net position			
Restricted - regional master plan	542,806	483,371	59,435
Restricted - highlands development credit bank	674,617	675,529	(912)
Restricted - PSE&G mitigation	18,469,996	18,716,459	(246,463)
Unrestricted	1,217,127	1,207,630	9,497
Total net position	<u>20,904,546</u>	<u>21,082,989</u>	<u>(178,443)</u>
Total liability and net position	<u>\$ 20,912,246</u>	<u>\$ 21,122,923</u>	<u>\$(210,677)</u>

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

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

FINANCIAL ANALYSIS OF THE COUNCIL (CONTINUED)

Cash and cash equivalents decreased by approximately 1%, or \$209,337, during fiscal year 2017, due to the activity of the PSE&G mitigation project.

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, 2017 and 2016. Explanations of significant changes follow the table:

	<u>Year Ended June 30,</u>		<u>Change</u>
	<u>2017</u>	<u>2016</u>	
Revenues			
State appropriations - operating	\$ 500,000	\$ 500,000	\$ -
State appropriations - RMP	266,386	227,647	38,739
Interest income	59,612	42,688	16,924
Other income	3,167	2	3,165
Total revenues	<u>829,165</u>	<u>770,337</u>	<u>58,828</u>
Expenses			
PSE&G mitigation project	\$ 300,000	\$ -	\$ 300,000
Regional master plan	210,851	194,681	16,170
Highlands development credit bank	2,650	1,328	1,322
Administrative expenses	468,602	420,559	48,043
Depreciation	25,506	14,025	11,481
Total expenses	<u>1,007,609</u>	<u>630,593</u>	<u>377,016</u>
Change in net position	<u>\$ (178,444)</u>	<u>\$ 139,744</u>	<u>\$ (318,188)</u>

Revenues increased by \$58,828 primarily due to an increase in interest income and a shift in State budget appropriations between payroll and RMP appropriations in which payroll decreased and RMP revenues increased.

Interest income increased \$16,924 due to the decreased use of funds.

There was no funding to the credit bank program in 2017. 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.

Expenses increased by \$377,016 primarily due to an increase in PSE&G mitigation 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 \$1,341 during fiscal year 2017. The change in net capital assets includes depreciation and the purchase of computer equipment. The following table summarizes the changes in capital assets between June 30, 2017 and 2016:

	June 30,		Change
	2017	2016	
Furniture	\$ 57,806	\$ 57,806	\$ -
Computer equipment	469,833	445,668	24,165
Leasehold improvements	23,860	23,860	-
Total capital assets	551,499	527,334	24,165
Less: accumulated depreciation	509,690	484,184	25,506
Capital assets, net	<u>\$ 41,809</u>	<u>\$ 43,150</u>	<u>\$ (1,341)</u>

Capital Debt

The Council had no debt for the years ended June 30, 2017 and 2016.

MANAGEMENT AT THE COUNCIL

For the period under audit of June 30, 2017, Margaret Nordstrom was the Executive Director and she continues to serve in this position at the Highlands Council.

CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT

This financial report is designed to provide New Jersey citizens, taxpayers and legislators with a general overview of the Council's finances for its directly administered funds and to demonstrate the Council's accountability for its revenues and expenses. If you have questions about this report or need additional financial information, contact the Council at (908) 879-6737 or visit its website at: www.highlands.state.nj.us.

BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
June 30, 2017**

	<u>Governmental Funds</u>	<u>Adjustments (Note D)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 20,870,437	\$ -	\$ 20,870,437
Capital assets, net	<u>-</u>	<u>41,809</u>	<u>41,809</u>
Total assets	<u>\$ 20,870,437</u>	<u>\$ 41,809</u>	<u>\$ 20,912,246</u>
LIABILITY AND FUND BALANCE/NET POSITION			
Accounts payable	<u>\$ 7,700</u>	<u>\$ -</u>	<u>\$ 7,700</u>
Total liability	<u>7,700</u>	<u>-</u>	<u>7,700</u>
Fund balance/net position			
Restricted - regional master plan	\$ 542,806	\$ -	\$ 542,806
Restricted - Highlands Development Credit Bank	674,617	-	674,617
Restricted - mitigation	18,469,996	-	18,469,996
Unrestricted	<u>1,175,318</u>	<u>41,809</u>	<u>1,217,127</u>
Total fund balance/net position	<u>20,862,737</u>	<u>41,809</u>	<u>20,904,546</u>
Total liability and fund balance/net position	<u>\$ 20,870,437</u>	<u>\$ 41,809</u>	<u>\$ 20,912,246</u>

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

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES/EXPENSES AND CHANGES IN FUND BALANCE/NET POSITION
Year Ended June 30, 2017**

	<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	266,386	-	266,386
Interest income	59,613	-	59,613
Other income	<u>3,167</u>	<u>-</u>	<u>3,167</u>
Total revenues	<u>829,166</u>	<u>-</u>	<u>829,166</u>
Expenditures/expenses			
Materials and supplies	30,274	-	30,274
Professional fees	9,436	-	9,436
Rent and utilities	250,130	-	250,130
Depreciation	-	25,506	25,506
Capital outlay	24,166	(24,166)	-
Other operating	178,762	-	178,762
PSE&G mitigation project	300,000	-	300,000
Regional master plan	210,851	-	210,851
Highlands Development Credit Bank	<u>2,650</u>	<u>-</u>	<u>2,650</u>
Total expenditures/expenses	<u>1,006,269</u>	<u>1,340</u>	<u>1,007,609</u>
Change in fund balance/net position	(177,103)	(1,340)	(178,443)
Fund balance/net position, beginning of year	<u>21,039,840</u>	<u>43,149</u>	<u>21,082,989</u>
Fund balance/net position, end of year	<u>\$ 20,862,737</u>	<u>\$ 41,809</u>	<u>\$ 20,904,546</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO BASIC 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 BASIC 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, 2017, the Council's funds were deposited at TD Bank, N.A., through which the Council was provided an irrevocable letter of credit ("LOC") from the Federal Home Loan Bank of Pittsburgh ("FHLB") (Aaa rated by Moody's) for \$24,000,000, which was the average amount of the Council's deposits. This LOC expired on September 28, 2017, but was subsequently renewed without a change in terms for two additional six-month periods ending September 28, 2018.

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO BASIC FINANCIAL STATEMENTS

B. CASH AND CASH EQUIVALENTS (CONTINUED)

	June 30, 2017	
	Book Balance	Bank Balance
Insured FDIC	\$ 250,000	\$ 250,000
LOC-FHLB	20,620,437	20,426,590
Total	<u>\$ 20,870,437</u>	<u>\$ 20,676,590</u>

C. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Leasehold improvements	\$ 23,860	\$ -	\$ -	\$ 23,860
Furniture and equipment	57,806	-	-	57,806
Computers and related equipment	445,667	24,166	-	469,833
Total cost of capital assets	<u>527,333</u>	<u>24,166</u>	<u>-</u>	<u>551,499</u>
Less accumulated depreciation for				
Leasehold improvements	23,860	-	-	23,860
Furniture and equipment	57,806	-	-	57,806
Computers and related equipment	402,518	25,506	-	428,024
Total accumulated depreciation	<u>484,184</u>	<u>25,506</u>	<u>-</u>	<u>509,690</u>
Capital assets, net	<u>\$ 43,149</u>	<u>\$ (1,340)</u>	<u>\$ -</u>	<u>\$ 41,809</u>

D. CHANGES IN FUND BALANCE/NET POSITION

Changes in Fund Balance/Net Position for the year ended June 30, 2017, are as follows:

	Total	Unrestricted	Restricted - RMP	Restricted - HDCB	Restricted - CMP
Balance at June 30, 2016	\$ 21,082,988	\$ 1,207,630	\$ 483,371	\$ 675,528	\$ 18,716,459
State appropriations	766,386	500,000	266,386	-	-
Other income	3,167	3,167	-	-	-
Interest income	59,611	437	3,899	1,738	53,537
Expenses	(982,101)	(468,601)	(210,850)	(2,650)	(300,000)
Depreciation	(25,506)	(25,506)	-	-	-
Balance at June 30, 2017	<u>\$ 20,904,545</u>	<u>\$ 1,217,127</u>	<u>\$ 542,806</u>	<u>\$ 674,616</u>	<u>\$ 18,469,996</u>

NEW JERSEY HIGHLANDS WATER PROTECTION AND PLANNING COUNCIL
DIRECTLY ADMINISTERED FUNDS

NOTES TO BASIC FINANCIAL STATEMENTS

E. 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, 2017</u>
Leasehold improvements	\$ 23,860
Furniture and equipment	57,806
Computers and computer equipment	<u>469,833</u>
Total cost of capital assets	551,499
Accumulated depreciation	<u>509,690</u>
Capital assets, net	\$ 41,809
Capital outlay	<u>\$ 24,166</u>

- (2) Depreciation expense of zero in the governmental fund differs from depreciation expense in the statement of activities of \$25,506 for 2017. 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.

F. GASB STATEMENT NUMBER 75 - ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION

The Council is a member of the State's cost sharing multiple-employer plan for health and post-retirement medical benefits. Thus, the Council's portion of this liability and cost is included in the State of New Jersey's Comprehensive Annual Financial Report, as such, the Liability of Council's employees is covered under the State plan on an annual basis. The Council's payroll is processed through the State of New Jersey Department of Environmental Protection ("DEP"). As a result, the related payroll expense and fringe benefits, inclusive of health and post-retirement medical benefit costs, are recorded by DEP with the equal value netted from the Council's revenues derived from state budget appropriations. Please refer to State website www.state.nj.us for more information regarding the plan.

G. PENSION PLAN

The Council's employees which are part of the Department of Environmental Protection, participate in the Public Employees Retirement System of New Jersey ("PERS"), a cost sharing multiple-employer defined benefit plan. The Council's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS.

The Council's payroll is processed through the State of New Jersey DEP. As a result, the related payroll expense and fringe benefits, inclusive of pension costs, are recorded by DEP with the equal value netted from the Council's revenues derived from state budget appropriations. For the fiscal year ended June 30, 2017, the Council's payroll was \$1,548,614. This amount was netted from the annual appropriation of \$2,315,000 resulting in the \$766,386 remaining appropriation received during the fiscal year.

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

NOTES TO BASIC FINANCIAL STATEMENTS

G. PENSION PLAN (Continued)

The State's contribution is based on the employer contribution rate developed by the system's actuary. The rate is then applied against the pension eligible salary for all State employees. The State does not keep track of contributions made to PERS for each separate State agency. For Fiscal Year ended June 30, 2017 and 2016, the contribution rate was 3.06%.

The State of New Jersey, Division of Pension and Benefits, issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at: www.state.nj.us/treasury/pensions.

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, 2017, and the related basic notes to financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

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

Mercedien, P.C.
Certified Public Accountants

June 26, 2018