

**MERCER COUNTY  
IMPROVEMENT AUTHORITY  
(A Component Unit of the County of Mercer)**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

December 31, 2016

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

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## **INDEPENDENT AUDITORS' REPORT**

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Commissioners of  
Mercer County Improvement Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Mercer County Improvement Authority ("Authority"), a component unit of the County of Mercer, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority'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 these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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.

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Authority, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages four through seven and the schedules of proportionate share of net pension liability and contributions on pages 35 and 36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of operating expenses and the schedule of expenditures of state awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of operating expenses and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses and the schedule of expenditures of state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2017, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

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

April 30, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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As financial management of the Mercer County Improvement Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2016 and 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

**Financial Highlights**

In 2016, net operating income of the Authority decreased by approximately 5% due to mandatory adjustment to the State of NJ Public Employees' Retirement System (PERS) expense required by the Governmental Accounting Standard Board Statement No.68 (GASB-68). However, the Authority's net position at year-end remains positive.

In 2015, the Authority implemented Governmental Accounting Standards Board Statement No. 68 ("GASB-68"). As a result of this implementation, 2014 financial statements of the Authority had to be restated, which resulted in negative net position in 2014 financial statements due to significant increase in 2014 long term liabilities. The mandatory adjustments required by GASB-68 and based on the State of New Jersey Public Employees' Retirement System ("PERS") allocations had also affected long term liabilities, income from operations and, accordingly, change in net position in 2015. See Financial Statements and Notes to Financial Statements for detailed information regarding GASB-68 implementation. However, the Authority has achieved a positive overall net position at year end primarily due to decreases in non-operating expenses.

Visit the Authority's website [www.mccianj.org](http://www.mccianj.org) for more information about the Authority's programs and activities and management contact information.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. This report also contains other supplementary information, including a schedule of operating expenses budget vs. actual, a schedule of expenditures of state and local awards.

**Basic financial statements.** The basic financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to that employed by private-sector businesses.

The statements of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding decrease to liabilities result in increased net position, which indicate an improved financial position.

The statements of revenues, expenses and changes in net position presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.



**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

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

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**Overview of the Financial Statements (Continued)**

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information.

**Financial Analysis, Capital Assets and Debt Administration**

**2016**

Cash and Investment balances of \$88,155,286 comprise the largest portion of the Authority's current assets and consist primarily of project funds and debt service funds held by trustees on behalf of the Authority in accordance with respective bond resolutions. \$25,740,128 in current assets and \$278,769,347 in non-current assets represent leases and loans receivable in conjunction with project bonds issued by the Authority. In addition, the Authority's non-current assets reflect a significant investment of \$37,011,034 related to the Sun National Bank Center (Sports Arena) and related parking facilities, administered by the Authority and funded by the issuance of bonds guaranteed by the County of Mercer. At December 31, 2016, the Authority had a total of \$8,163,254 invested in capital assets, which represent \$2,367,922 increase from the prior year, primarily due to major modifications to the transfer station. More detailed information about the Authority's capital assets is presented in "Property and Equipment" Note to the basic financial statements.

The Authority has \$20,845,000 in current and non-current bonds payable outstanding relating to the Solid Waste Facility, which is administered by the Authority on behalf of the County of Mercer. The remaining bonds payable of \$257,354,051, unearned lease/loan income of \$93,613,262 and escrow funds payable of \$51,134,854 are included in current and long-term liabilities and are secured by bond proceeds and revenues from leases, loans and/or guaranties with the County of Mercer, municipalities, boards of educations and not-for-profit organizations. In total, at 2016 year end, the Authority had \$278,199,051 in bonds outstanding compared to \$298,116,417 at December 31, 2015. This change represents approximately 7% decrease in bonds outstanding. More detailed information about the Authority's long-term debt is presented in "Debt-Long-Term Projects" Note to the basic financial statements.

**2015**

Cash and investment balances of \$90,588,763 comprise the largest portion of the Authority's current assets and consist primarily of project funds and debt service funds held by the trustees on behalf of the Authority in accordance with respective bond resolutions. \$25,477,155 in current assets and \$304,480,998 in non-current assets represent leases and loans receivable in conjunction with project bonds issued by the Authority. The Authority's non-current assets also include \$1,317,674 in stranded costs related to the Resource Recovery Facility. In addition, the Authority's non-current assets reflect a significant investment of \$38,403,245 related to the Sun National Bank Center (Sports Arena) and related parking facilities, administered by the Authority and funded by the issuance of bonds guaranteed by the County of Mercer. At December 31, 2015, the Authority had a total of

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

**Financial Analysis, Capital Assets and Debt Administration (Continued)**

**2015 (Continued)**

\$5,795,331 invested in capital assets, which represent \$577,915 increase from the prior year primarily due to significant modifications to the transfer station. More detailed information about the Authority's capital assets is presented in "Capital Assets" Note to the basic financial statements.

The Authority has \$23,780,000 in current and non-current bonds payable outstanding relating to the Solid Waste Facility, which is administered by the Authority on behalf of the County of Mercer. The remaining bonds payable of \$274,336,418, unearned lease/loan income of \$104,300,298 and escrow funds payable of \$59,253,027 are included in current and long-term liabilities and are secured by bond proceeds and revenues from leases, loans and/or guaranties with the County of Mercer, municipalities, boards of educations and not-for-profit organizations. In total, at 2015 year end, the Authority had \$298,116,417 in bonds outstanding compared to \$290,793,308 at December 31, 2014. This change represents approximately 2.5% increase in bonds outstanding. More detailed information about the Authority's long-term debt is presented in "Debt-Long-Term-Project Bonds Payable" Note to the basic financial statements.

The following tables contain condensed financial information derived from the December 31, 2016, 2015 and 2014 financial statements of the Authority:

**Condensed Statement of Net Position**

	December 31,			Change 2016-2015	Percentage Change 2016-2015
	2016	2015	2014		
Capital assets	\$ 46,748,404	\$ 46,999,729	\$ 55,798,113	\$ (251,325)	-1%
Other assets	403,188,478	434,726,594	373,390,721	(31,538,116)	-7%
Total assets	<u>449,936,882</u>	<u>481,726,323</u>	<u>429,188,834</u>	<u>(31,789,441)</u>	-7%
Deferred outflows of resources	<u>3,634,305</u>	<u>2,770,013</u>	<u>3,020,925</u>	<u>864,292</u>	31%
Current liabilities	97,678,937	104,791,693	79,476,403	(7,112,756)	-7%
Long-term liabilities	<u>347,711,523</u>	<u>376,760,734</u>	<u>356,820,851</u>	<u>(29,049,211)</u>	-8%
Total liabilities	<u>445,390,460</u>	<u>481,552,427</u>	<u>436,297,254</u>	<u>(36,161,967)</u>	-8%
Deferred inflows or resources-pensions	<u>341,727</u>	<u>515,956</u>	<u>302,632</u>	<u>(174,229)</u>	-34%
Net position:					
Net investment in capital assets	(20,517,879)	(21,720,663)	(24,180,091)	1,202,784	-6%
Restricted for debt service	7,642,784	10,564,826	6,636,714	(2,922,042)	-28%
Unrestricted	<u>20,714,095</u>	<u>13,583,790</u>	<u>13,153,250</u>	<u>7,130,305</u>	-52%
Total Net position	<u>\$ 7,839,000</u>	<u>\$ 2,427,953</u>	<u>\$ (4,390,127)</u>	<u>\$ 5,411,047</u>	-223%

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

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

**Condensed Statement of Revenues, Expenses and Change in Net Position**

	Years Ended December 31,			Change 2016-2015	Percentage Change 2016-2015
	2016	2015	2014		
Operating revenues	\$ 32,302,526	\$ 31,800,619	\$ 30,412,711	\$ 501,907	2%
Waste disposal costs	18,391,912	18,009,573	16,876,592	382,339	2%
Gross operating profit	13,910,614	13,791,046	13,536,119	119,568	1%
Other operating revenues*	575,750	553,164	633,020	22,586	4%
Gross operating profit and other operating revenues	14,486,364	14,344,210	14,169,139	142,154	1%
Operating expenses	6,663,579	6,221,293	6,172,873	442,286	7%
Depreciation and amortization	351,563	295,319	241,033	56,244	19%
Income from operations	7,471,222	7,827,598	7,755,233	(356,376)	-5%
Non-operating expenses, net	4,130,266	3,657,414	5,644,576	472,852	13%
Change in net position	3,340,956	4,170,184	2,110,657	(829,228)	-20%
Change in net position - Sports Arena	2,070,089	2,647,896	2,776,065	(577,807)	-22%
Net position, beginning of year	2,427,953	(4,390,127)	(4,200,710)	6,818,080	-155%
Cumulative change in accounting principal	-	-	(5,076,139)	-	0%
Net position, beginning of year, restated	2,427,953	(4,390,127)	(9,276,849)	6,818,080	-155%
Net position, end of year	\$ 7,838,998	\$ 2,427,953	\$ (4,390,127)	\$ 5,411,045	-223%
*Other operating revenues:					
Project costs reimbursement	\$ 384,528	\$ 452,755	\$ 531,037	\$ (68,227)	-15%
Interest on investments	191,222	100,409	101,983	90,813	90%
	\$ 575,750	\$ 553,164	\$ 633,020	\$ 22,586	4%

**Significant Events**

**2016**

The Authority's operating expenses in 2016 were \$340,124 under the budget before mandatory GASB-68 adjustment to PERS expenses and \$30,164 over the budget after the mandatory adjustment, amounts for which were provided by the State of NJ. Refer to "Supplementary Information", schedule "Budget vs. Actual" for further details.

In 2015 the Authority financed the County of Mercer Court House Annex Project with \$29,720,000 Bond issuance. The project continued to be in progress in 2016.

The Authority's assets and liabilities decreased by approximately 7% and 8%, respectively, in 2016, primarily due to the repayment of the existing debt during the year.

**2015**

The Authority's operating expenses were \$215,820 under budget. Refer to "Supplementary Information", schedule "Budget vs. Actual" for further details.

In 2015, the Authority financed the County of Mercer Court House Annex project with \$29,720,000 bond issuance.

The Authority's assets and liabilities increased by approximately 12% and 10%, respectively, in 2015, primarily due to the issuance of the Court House Annex project bonds.

The Authority implemented GASB Statement 68, Accounting and Reporting for Pensions, which restated the beginning of year 2014, net position by \$5,076,139.

## **BASIC FINANCIAL STATEMENTS**

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

STATEMENTS OF NET POSITION

		December 31,	
		2016	2015
ASSETS			
Current Assets			
Unrestricted			
Cash and equivalents		\$ 26,359,995	\$ 22,240,209
Investments		2,030,113	2,010,939
Accounts receivable-haulers, net		2,736,881	4,036,854
Due from restricted funds		3,040,672	3,051,541
Construction in progress		-	1,899,407
Resource recovery cost		-	1,317,674
Other receivables, net		1,426,296	1,371,146
Other assets		96,514	346,206
Total Unrestricted		<u>35,690,471</u>	<u>36,273,976</u>
Restricted			
Cash and equivalents		59,765,178	66,337,615
Accounts receivable - recycling		243,661	328,124
Minimum lease payments receivable			
County of Mercer		25,271,114	24,824,301
Other governmental units		104,250	108,375
Loans receivable		364,764	544,479
Loan interest receivable		41,525	43,291
Other receivables		1,664,704	1,653,996
Other assets		209,264	131,439
Total Restricted		<u>87,664,460</u>	<u>93,971,620</u>
Total Current Assets		<u>123,354,931</u>	<u>130,245,596</u>
Non-Current Assets			
Unrestricted			
Property and equipment, net		<u>8,163,254</u>	<u>5,795,331</u>
Restricted			
Minimum lease payments receivable			
County of Mercer		270,340,478	295,611,591
Other governmental units		-	104,250
Construction in progress		1,574,116	2,801,153
Loans receivable		8,428,869	8,765,157
Other receivables		1,064,200	-
Sports arena		37,011,034	38,403,245
Total Non-Current Restricted Assets		<u>318,418,697</u>	<u>345,685,396</u>
Total Non-Current Assets		<u>326,581,951</u>	<u>351,480,727</u>
Total Assets		<u>449,936,882</u>	<u>481,726,323</u>
Deferred Outflows of Resources			
Losses on debt restructuring		1,772,085	2,067,432
Pension		1,862,220	702,581
		<u>3,634,305</u>	<u>2,770,013</u>
Total Assets and Deferred Outflows of Resources		<u>\$ 453,571,187</u>	<u>\$ 484,496,336</u>

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

STATEMENTS OF NET POSITION (CONTINUED)

	December 31,	
	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Restricted		
Current portion of project bonds payable	\$ 21,474,231	\$ 20,322,010
Accounts payable and accrued expenses	6,711,679	6,330,270
Due to unrestricted fund	3,040,672	3,051,541
Accrued interest payable	3,514,200	3,234,945
Haulers' deposits	366,645	337,068
Unearned lease/loan income	9,683,778	10,687,035
Unearned revenues	1,394,396	1,360,746
State grants unearned	358,482	215,051
Escrow funds payable	51,134,854	59,253,027
Total Current Liabilities	<u>97,678,937</u>	<u>104,791,693</u>
Non-Current Liabilities		
Long-term project bonds payable	256,724,820	277,794,408
Unearned lease/loan income	83,929,484	93,613,263
Net pension liability	7,057,219	5,353,063
Total Non-Current Liabilities	<u>347,711,523</u>	<u>376,760,734</u>
Total Liabilities	<u>\$ 445,390,460</u>	<u>\$ 481,552,427</u>
Deferred inflows of resources		
Pension	<u>\$ 341,727</u>	<u>\$ 515,956</u>
Net Position		
Net investment in capital assets	\$ (20,517,879)	\$ (21,720,663)
Restricted	7,642,784	10,564,826
Unrestricted	20,714,095	13,583,790
Total Net Position	<u>\$ 7,839,000</u>	<u>\$ 2,427,953</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 453,571,187</u>	<u>\$ 484,496,336</u>

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2016	2015
Waste disposal revenues	\$ 29,427,094	\$ 28,984,403
Recycling revenues	2,875,432	2,816,216
Operating revenues	32,302,526	31,800,619
Waste disposal costs	18,391,912	18,009,573
Gross operating profit	13,910,614	13,791,046
Other operating revenues		
Project costs reimbursement and other operating revenues	384,528	452,755
Interest on investments	191,222	100,409
Total other operating revenues	575,750	553,164
Gross operating profit and other operating revenues	14,486,364	14,344,210
Operating expenses	6,663,579	6,221,293
Income from operations before depreciation and amortization	7,822,785	8,122,917
Depreciation and amortization	351,563	295,319
Income from operations	7,471,222	7,827,598
Non-operating revenues (expenses)		
Sludge facility, net	5,158	768,431
Sports Arena revenues	6,446,640	6,462,944
Sports Arena expenses	(6,446,640)	(6,462,944)
Roebing Steel complex grant revenues	109,653	19,072
Roebing Steel complex grant expenses	(109,653)	(19,072)
Amortization of resource recovery costs	(1,317,674)	(1,126,798)
Bond interest expense, Solid Waste	(1,009,141)	(1,124,322)
Bond interest expense, projects	(11,352,265)	(10,107,127)
Minimum lease income, projects	10,687,036	9,416,223
Loan interest income	665,229	690,904
Miscellaneous	255,120	149,508
Non-operating expenses before		
bond interest accretion, depreciation and amortization	(2,066,537)	(1,333,181)
Bond interest accretion - Sports Arena	(376,168)	(634,268)
Depreciation and amortization - Sports Arena	(1,392,212)	(1,394,618)
Amortization of deferred outflows - Solid Waste	(295,347)	(295,347)
Total non-operating expenses	(4,130,264)	(3,657,414)
Change in net position	3,340,958	4,170,184
Change in net position - Sports Arena	2,070,089	2,647,896
Net position, beginning of year	2,427,953	(4,390,127)
Net position, end of year	\$ 7,839,000	\$ 2,427,953

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2016	2015
<b>Cash Flows from Operating Activities</b>		
Cash received from		
Waste disposal revenue	\$ 30,624,527	\$ 27,564,015
Recycling revenue	2,959,895	2,823,158
State of New Jersey grants	269,157	61,273
Project costs reimbursement	384,528	452,755
Investment interest	191,222	100,409
Cash used for		
Waste disposal costs	(18,391,912)	(18,009,573)
Operating expenses	(6,312,746)	(5,863,413)
State of New Jersey grants	(152,195)	(133,113)
Net cash from operating activities	<u>9,572,476</u>	<u>6,995,511</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Change in net position-Sports Arena	<u>2,070,089</u>	<u>2,647,898</u>
Net cash from noncapital and related financing activities	2,070,089	2,647,898
Leases/Loans	18,660,481	23,831,120
Bond proceeds	-	29,720,000
Repayments	(20,073,361)	(22,304,930)
Interest paid on bonds	(12,361,406)	(11,231,449)
Net cash from capital and related financing activities	<u>(11,704,197)</u>	<u>22,662,639</u>
<b>Cash Flows from Investing Activities</b>		
Investments	(19,174)	(3,882)
Sludge facility, net	13,163	1,200,598
Sports Arena revenues	6,459,025	6,112,195
Sports Arena expenses	(6,042,854)	(6,405,556)
Purchases of property and equipment	(2,735,236)	(1,156,182)
Construction in progress	1,899,407	258,691
Other activities	104,739	(4,983)
Net cash from investing activities	<u>(320,930)</u>	<u>881</u>
<b>Net (decrease) increase in cash and equivalents</b>	<u>(2,452,651)</u>	<u>29,659,031</u>
<b>Cash and equivalents, beginning of year</b>	<u>88,577,824</u>	<u>58,918,793</u>
<b>Cash and equivalents, end of year</b>	<u>\$ 86,125,173</u>	<u>\$ 88,577,824</u>
<b>Cash and equivalents, unrestricted</b>	<u>\$ 26,359,995</u>	<u>\$ 22,240,209</u>
<b>Cash and equivalents, restricted</b>	<u>59,765,178</u>	<u>66,337,615</u>
	<u>\$ 86,125,173</u>	<u>\$ 88,577,824</u>



**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended December 31,	
	2016	2015
Reconciliation of Income from Operations to Net Cash from Operating Activities		
Income from operations	\$ 7,471,222	\$ 7,827,598
Adjustments to reconcile income from operations to net cash from operating activities		
Amortization and depreciation - solid waste	351,563	295,319
Allowance for doubtful accounts	174,155	22,849
Net pension expense	370,288	55,003
Changes in assets and liabilities		
Accounts receivable - haulers	1,143,558	(1,459,788)
Accounts receivable - recycling	84,463	6,942
Other receivables	24,298	48,806
Other assets	249,692	(232,437)
Accounts payable, accrued expenses and other liabilities	(443,302)	512,465
Haulers' deposits	29,577	(9,405)
State grants unearned	116,962	(71,841)
Net cash from operating activities	<u>\$ 9,572,476</u>	<u>\$ 6,995,511</u>

# MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Mercer County Improvement Authority (the "Authority") is a public body, corporate and politic, that was created by resolution of the Board of Chosen Freeholders (the "Freeholders") of the County of Mercer (the "County") in 1967 and that constitutes a political subdivision of the State of New Jersey (the "State"). The Authority is a component unit of the County.

The Authority was established as an instrumentality of the State for the purpose of exercising public and essential governmental functions to provide for the public convenience, benefit and welfare. Under the terms of the Act creating it, the Authority has the power to, among other actions, acquire, construct, equip and lease any public facility as defined in the Act and to issue its bonds, notes, or other obligations to finance the costs of such facilities. Under existing statutes, the Authority is exempt from both federal and state taxes.

The Authority has been designated by the Freeholders of the County as the implementing agency for the Mercer County District and Solid Waste Management Plan (the "Plan") and is empowered to plan, acquire, maintain and operate facilities for the processing, disposal and recycling of solid waste which is generated in or to be disposed of in the County. Through this Plan the Authority operates a Transfer Station and is responsible for the Regional Sludge Management Project.

#### Basis of Accounting

The basic financial statements of the Authority have been prepared under the economic resources measurement focus and accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America that are applicable to governmental proprietary type funds. Revenues are recognized when earned, and expenses are recorded when a liability has been incurred regardless of the timing of the related cash flows.

#### Operating Revenues

The Authority's operating revenues consist of waste disposal and recycling fees which are earned based on tonnage, as well as project costs reimbursement, interest income and financing fees related to solid waste and recycling programs. These revenues constitute the Authority's principal ongoing operations.

#### Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit, change funds and highly liquid debt instruments with original maturities of three months or less.

#### Investments

The Authority has investments in U.S. Treasury Notes which are stated at fair market value.

#### Accounts Receivable

Accounts receivable are reported net of allowance for doubtful accounts. The allowance for doubtful accounts is based on management's evaluation of potential uncollectible receivables. Accounts receivable deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Construction Projects**

The Authority issues bonds to finance various construction projects undertaken by the County and eligible political subdivisions of the County (the “lessees”). In conjunction with these bond issuances, the Authority enters into leases and agreements with the applicable entity under which the lessees, in coordination with the Authority, arrange all contracts for design, acquisition and construction as well as supervise construction work and accept the completed projects. All project costs are paid by the bond trustee after approval by an authorized Authority representative. During the lease terms, the lessees pay for the operation, maintenance and repair, utilities, taxes and government charges in connection with the projects.

**Capitalization of Interest**

The Authority capitalizes all interest related to projects under construction.

**Allocation of Operating Expenses**

The Authority allocates salary and certain administrative expenses that can be identified with a specific project to applicable projects or programs. Start-up costs of unrealized projects are covered by funds from unrestricted net position.

**Interest Income on Construction Account**

Interest income earned on investments for construction projects operated by entities other than the Authority is classified as escrow funds payable, and the related cash and equivalents are classified as restricted assets, as this income has been designated by resolution of the Authority to pay future construction costs. Any excess amounts are to be used to pay debt service in subsequent years.

**Deferred Outflows and Inflows of Resources**

The Statement of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

The Authority is required to report the following as deferred outflows of resources and deferred inflows of resources:

***Defined Benefit Pension Plans*** - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the Authority’s proportion of expenses and liabilities to the pension as a whole, differences between the Authority’s pension contribution and its proportionate share of contributions, and the Authority’s pension contributions subsequent to the pension valuation measurement date.

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows and Inflows of Resources (Continued)**

**Loss on Debt Refunding-** The Authority has performed current and advance refundings, material differences between the reacquisition price and net carrying amounts of the old debt are deferred and amortized over the life of the new debt.

**Net Position**

**Net Investment in Capital Assets**

Net investment in capital assets, consist of capital assets of the projects owned and operated by the Authority less accumulated depreciation and debt associated with the projects.

**Restricted for Debt Service**

In accordance with the terms of the various bond resolutions, cash and cash equivalents of all funds required under such bond resolutions are classified as restricted assets.

**Unrestricted**

The unrestricted net position may be designated for specific purposes by management and/or the governing body upon trustee approval, when applicable.

In 2016, the Authority determined a portion of restricted net position to be unrestricted and reclassified it appropriately. This did not have an impact on the total net position of the Authority.

**Capital Assets**

The Authority capitalizes fixed assets of \$5,000 or more. Land, buildings and leasehold improvements, parking facilities, transfer station (building and machinery), office furniture and equipment, and computer hardware and software, automobiles, recycling containers and landfill are recorded at cost. Depreciation and amortization are provided over the estimated useful lives of the assets using the straight-line method. The transfer station building and machinery are depreciated over the shorter of the estimated useful lives or the underlying lease term. The estimated useful lives are as follows:

Buildings and leasehold improvements	40 years
Parking facilities	40 years
Transfer station (building and machinery)	9-27 years
Landfill	8 years
Office furniture and equipment	7 years
Electronic hardware and software and automobiles	3-5 years

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Rounding**

Some schedules in the financial statements and management's discussion and analysis may have dollar differences due to rounding. Certain prior year amounts were reclassified to conform with current year presentation.

**B. DEPOSITS AND INVESTMENTS**

All the Authority's deposits are in external investment pools, protected under the New Jersey Governmental Unit Deposit Protection Act ("GUDPA"), separate trust agreements with the financial institution or insured under FDIC.

Bond related deposits are in compliance with the State of New Jersey Local Bond Law and related bond resolutions.

The Authority has Level 1 investments in U.S. Treasury Notes in the amount of \$2,030,113 that mature in two years. The Authority's investment practices are in compliance with N.J.S.A. 40A: 5-15.1.

At December 31, 2016 and 2015, respectively, the Authority's bank balance on deposit was \$86,125,173 and \$89,100,628, respectively, inclusive of unrestricted and restricted cash. Of the bank balance, \$250,000 in each bank was covered by federal depository insurance and the rest of the balance was covered by a collateral pool maintained by the banks as required by New Jersey statutes in accordance with GUDPA, except for funds held by Trustees in Bank of New York Mellon and U.S. Bank.

The Authority manages custodial credit risk by depositing all funds with banks covered by GUDPA. The Authority's deposits were fully collateralized with all the funds held by the financial institutions but not in the name of the Authority, except for funds held by Trustees in Bank of New York Mellon and U.S. Bank.

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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**C. ACCOUNTS RECEIVABLE - HAULERS**

Accounts receivable – haulers as of December 31, 2016 and 2015 are expected to be received within one year. They are as follows:

	December 31,	
	2016	2015
Accounts receivable-haulers	\$ 3,387,814	\$ 4,531,373
Less: allowance for doubtful accounts	650,933	494,519
Net accounts receivable	<u>\$ 2,736,881</u>	<u>\$ 4,036,854</u>

**D. MINIMUM LEASE PAYMENTS RECEIVABLE**

Minimum lease payments from lessees are equal to the annual debt service of the outstanding bonds. At any time prior to the expiration of the lease terms, lessees have the option to purchase the projects for \$1 plus an amount sufficient to provide for full payment of the related bonds in conformity with the applicable bond resolutions. If such option has not been exercised prior to the end of the lease term, title to the projects transfers to the lessee at that time. The leases are accounted for as direct financing leases.

Accordingly, the total future interest payments on the bonds issued to cover the cost of the leased properties is recorded as unearned income. This income is amortized ratably over the lease terms and is included in non-operating revenues.

Future minimum lease payments to be collected under the Authority's equipment and project lease programs are as follows:

	Year Ending December 31,
2017	\$ 25,375,364
2018	24,508,161
2019	20,948,268
2020	19,998,106
2021	17,554,581
Thereafter	187,331,363
	<u>\$ 295,715,842</u>

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

**E. LOANS RECEIVABLE**

Loans receivable consist of loan agreements between the Authority and the borrower, whereby the Authority issues bonds on behalf of the borrower and lends the proceeds of the bonds for specific purposes defined in the loan agreement. Loan payments from the borrowers are equal to the annual debt service of the outstanding bonds. Loans receivable consist of the following as of December 31, 2016 and 2015:

Project	Borrower	Security	Maturity Date	Interest Rate	Loans Receivable (in thousands)			Amounts Due within One Year	
					December 31, 2015	Additions	Reductions		
ARC/Mercer, Inc.	ARC/Mercer, Inc.	Mortgage and Security Agreement	2031	4.740%	\$ 1,733	\$ -	\$ (79)	\$ 1,654	\$ 82
Beth Chaim	Congregation Beth Chaim	Mortgage and Security Agreement	2026	4.690%	947	-	(87)	860	117
Lease Bank Program	Various	Mercer County Guarantee Agreement	2016	3.790%-4.330%	188	-	(188)	-	-
Twin Rivers	Twin Rivers Community Trust	Mercer County Guarantee Agreement	2022	3.000%-5.250%	554	-	(92)	462	92
Westlake Mews	Westlake Mews, L.L.C.	Loan Agreement	2041	7.200%-8.000%	5,887	-	(69)	5,818	74
Total					9,309	\$ -	\$ (515)	8,794	\$ 365
Less current portion					544			365	
Net long-term loans receivable					\$ 8,765			\$ 8,429	

Project	Borrower	Security	Maturity Date	Interest Rate	Loans Receivable (in thousands)			Amounts Due within One Year	
					December 31, 2014	Additions	Reductions		
ARC/Mercer, Inc.	ARC/Mercer, Inc.	Mortgage and Security Agreement	2031	4.740%	\$ 1,808	\$ -	\$ (75)	\$ 1,733	\$ 78
Beth Chaim	Congregation Beth Chaim	Mortgage and Security Agreement	2026	4.690%	1,077	-	(130)	947	112
Lease Bank Program	Various	Mercer County Guarantee Agreement	2016	3.790%-4.330%	369	-	(181)	188	188
Twin Rivers	Twin Rivers Community Trust	Mercer County Guarantee Agreement	2022	3.000%-5.250%	821	-	(267)	554	97
Westlake Mews	Westlake Mews, L.L.C.	Loan Agreement	2041	7.200%-8.000%	5,951	-	(64)	5,887	69
Total					10,026	\$ -	\$ (717)	9,309	\$ 544
Less current portion					547			544	
Net long-term loans receivable					\$ 9,479			\$ 8,765	

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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**E. LOANS RECEIVABLE (CONTINUED)**

Maturities of loans receivable are as follows:

	<u>Year Ending December 31,</u>	
2017	\$	364,764
2018		384,198
2019		367,709
2020		383,489
2021		400,880
Thereafter		6,892,592
	\$	<u>8,793,633</u>

**F. CAPITAL ASSETS**

Capital assets consists of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Other		
Land	\$ 275,919	\$ 275,919
Building	150,000	150,000
Subtotal	<u>425,919</u>	<u>425,919</u>
Less accumulated depreciation	74,990	71,240
Total	<u>\$ 350,929</u>	<u>\$ 354,679</u>
Solid Waste		
Transfer station (building and machinery)	\$ 12,209,362	\$ 11,409,931
Building	5,544,474	3,645,067
Office furniture and equipment	374,459	374,459
Computer hardware and software	456,934	468,933
Automobiles	279,159	262,537
Landfill	415,134	415,134
Subtotal	<u>19,279,522</u>	<u>16,576,061</u>
Less accumulated depreciation and amortization	11,467,197	11,135,409
Total	<u>\$ 7,812,325</u>	<u>\$ 5,440,652</u>



**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

**F. CAPITAL ASSETS (CONTINUED)**

Depreciation and amortization expense was as follows:

	Year Ended December 31,	
	2016	2015
<b>Solid Waste</b>		
Transfer station (building and machinery)	\$ 140,747	\$ 129,710
Building	139,889	91,672
Office furniture and equipment	16,344	16,344
Computer hardware and software	23,897	30,856
Automobiles	30,686	26,737
Total depreciation and amortization expense - solid waste	<u>351,563</u>	<u>295,319</u>
Depreciation-other capital assets	<u>3,750</u>	<u>3,750</u>
Total depreciation and amortization expense	<u>\$ 355,313</u>	<u>\$ 299,069</u>

Depreciation of other capital assets totaling \$3,750 is netted against miscellaneous revenue on the statement of revenues, expenses and changes in net position.

Capital asset activities were as follows:

	December 31, 2015	Additions	Retirements	December 31, 2016
Non-Depreciable Assets				
Land	\$ 275,919	\$ -	\$ -	\$ 275,919
Depreciable Assets				
Transfer station (building and machinery)	11,409,930	799,433	-	12,209,363
Buildings	3,795,067	1,899,407	-	5,694,474
Office furniture and equipment	374,459	-	-	374,459
Computer hardware and software	468,934	-	(12,000)	456,934
Automobiles	262,537	36,397	(19,775)	279,159
Landfill	415,134	-	-	415,134
Total at historical cost	<u>17,001,980</u>	<u>\$ 2,735,236</u>	<u>\$ (31,775)</u>	<u>19,705,441</u>
Less accumulated depreciation and amortization	<u>11,206,648</u>			<u>11,542,187</u>
Total capital assets	<u>\$ 5,795,332</u>			<u>\$ 8,163,255</u>

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

**F. CAPITAL ASSETS (CONTINUED)**

	December 31, 2014	Additions	Retirements	December 31, 2015
Non-Depreciable Assets				
Land	\$ 555,116	\$ -	\$ (279,197)	\$ 275,919
Depreciable Assets				
Transfer station (building and machinery)	10,578,234	831,696	-	11,409,930
Buildings	3,489,776	305,291	-	3,795,067
Office furniture and equipment	372,461	1,998	-	374,459
Computer hardware and software	451,737	17,197	-	468,934
Automobiles	262,537	-	-	262,537
Recycling containers	1,824,286	-	(1,824,286)	-
Landfill	415,134	-	-	415,134
Total at historical cost	<u>17,949,281</u>	<u>\$ 1,156,182</u>	<u>\$(2,103,483)</u>	<u>17,001,980</u>
Less accumulated depreciation and amortization	<u>12,731,865</u>			<u>11,206,648</u>
Total capital assets	<u>\$ 5,217,416</u>			<u>\$ 5,795,332</u>

Construction in progress consists of projects in process but not completed as of December 31, 2016 and 2015. The balance at December 31, 2016 and 2015 was \$1,574,116 and \$4,700,560, respectively.

**G. SOLID WASTE SYSTEM**

The Authority has established regulatory flow control over certain solid waste generated within the geographic boundaries of the County. Such regulatory flow control provides for the direct delivery of such solid waste to the Authority's Transfer Station and, after processing, for transportation to and disposal to landfills.

The Authority enforces the regulatory wasteflow provisions of the Mercer County District Solid Waste Management Plan ("Solid Waste Management Plan") and charges and collects solid waste service charges that are sufficient to provide for payment of the Authority's operating and debt service costs. Notwithstanding the County's programs enforcing the flow of solid waste generated within the County, if the County is unable to enforce the wasteflow provisions of the Solid Waste Management Plan, revenues of the Authority necessary to provide for, among other things, debt service on the Authority bonds, may be reduced. If such revenues are significantly reduced, then the County would likely be required to make payments under the County guarantees, which payments could have a material adverse effect on the finances of the County.

The amount of revenues that the Authority can generate through the provision of disposal services by the solid waste system is largely dependent upon the tonnage of solid waste that is serviced by the solid waste system and the per ton charge imposed upon each ton of solid waste which is managed by the solid waste system. The Authority is authorized to charge and collect certain charges, commonly referred to as "tipping fees," from any governmental unit or person that uses the solid waste system. Those fees are the Authority's primary source of revenue. The Authority's annual debt service is reduced to a level that the Authority believes can be serviced by the current tipping fees.

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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**G. SOLID WASTE SYSTEM (CONTINUED)**

The Authority reserves all net income from solid waste operations for future debt service on outstanding bond issues relating to the solid waste system, including maintenance and/or replenishment of the balances required by the bond resolutions. The Authority budgets annually for such reserves.

**Transfer Station and Landfill**

Waste disposal collections from the County are tipped and weighed at the Authority's Transfer Station and transported to the G.R.O.W.S. landfill site. The Authority charges waste haulers on a per ton basis for waste tipped. Rates charged by the Authority are approved by the New Jersey Department of Environmental Protection. Disposal revenues for waste tipped at the Transfer Station during the years ended December 31, 2016 and 2015, amounted to \$29,427,094 and \$29,984,403, respectively. The Authority is billed by G.R.O.W.S. for waste disposal costs on a per ton basis. Charges by G.R.O.W.S. for the years ended December 31, 2016 and 2015, amounted to \$18,391,912 and \$18,009,573, respectively. Recycling costs for the years ended December 31, 2016 and 2015, amounting to \$2,572,099 and \$2,620,837, respectively, are included in waste disposal costs in the statements of revenues, expenses and changes in net position.

The Authority is committed to rent the Transfer Station land in Ewing Township for \$175,000 per year, under an operating lease that expires December 31, 2017.

**Resource Recovery**

The Freeholders have designated the Authority as its agent in connection with the development and implementation of a Solid Waste Management Plan. In this capacity, the Authority is to provide for (1) improvements to the existing Ewing-Trenton Transfer Station and related start-up costs; (2) the acquisition of landfill disposal rights; (3) the construction of a countywide recycling facility; and (4) the construction of a resource recovery facility. At December 31, 2016 and 2015, the net amounts of \$0 and \$1,317,674, respectively, constitute the carrying value of the project. Resource recovery costs are being depreciated over the term of the bonds issued to finance these costs. Amortization expense for the years ended December 31, 2016 and 2015, was \$1,317,674 and \$1,126,798, respectively. The resource recovery facility project was terminated in November 1996 as a result of the occurrence of significant changes in the legal powers of the Authority to control the flow of waste and additional environmental regulatory requirements.

**H. SLUDGE FACILITY**

**Regional Sludge Management**

The Authority entered into a Regional Sludge Management Project Service Agreement, (the "Agreement") with the Township of Hamilton, the City of Trenton, and Ewing-Lawrence Sewerage Authority (the "Participants").

Pursuant to the Agreement, the Authority is the lead agency and is responsible for the financing, construction and operation of the regional sludge management facility (the "Facility").

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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**H. SLUDGE FACILITY (CONTINUED)**

**Regional Sludge Management (Continued)**

The Participants are obligated to share the total cost of the sludge treatment service provided by the Facility. The Agreement provides that the annual charges to be paid by the Participants will be sufficient to pay for the operating costs, capital expansions, improvements and debt relating to the Facility.

The Agreement also provides that, in the event the Facility is not placed in operation, all costs incurred by the Authority for the Facility shall be apportioned among Participants on the basis described in the Agreement.

The Authority constructed a facility which was to receive undigested dewatered sludge from several sewerage treatment plants located in the County and undigested liquid sludge from the Trenton treatment plants. These materials were to be converted into slow-release organic fertilizer or a low-sulphur-content boiler fuel. During 1993, construction of the Facility was completed. The project was declared a failure by the Federal Environmental Protection Agency, and the Authority was released from further obligation.

In December 2015, the Sludge Facility Bond Series 2003 was paid off.

The Authority was amortizing the cost of the Facility based on the principal maturity of the bonds issued to finance its construction that was the obligation of the Participants. Amortization expense was \$0 and \$3,379,115 for the years ended December 31, 2016 and 2015.

**I. SPORTS ARENA**

On December 1, 1999, the Authority was conveyed title of the Sports Arena from Roebing Arena Redevelopment, LLC, in exchange for assumption of debt used to finance acquisition and construction. The Authority pledges for the benefit of the bondholders all revenues derived from the Sports Arena, subject to the application thereof toward operating expenses attributable to it. Any shortfall from operations is reimbursable through a County guarantee. The Authority is depreciating the costs of the Sports Arena over the term of the bonds issued to finance the acquisition and construction.

The Authority owns and has designated a management company to operate the Sports Arena.

The following is a summary of the cost of the assets related to the Sports Arena:

	December 31,	
	2016	2015
Land	\$ 5,294,518	\$ 5,294,518
Building	47,672,896	47,672,896
Parking facilities	7,918,333	7,918,333
Furniture and equipment	3,728,740	3,728,740
Subtotal	64,614,487	64,614,487
Less accumulated depreciation	27,603,453	26,211,242
Total	<u>\$ 37,011,034</u>	<u>\$ 38,403,245</u>

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

**J. DEBT - LONG-TERM PROJECT BONDS PAYABLE**

The following is a summary of long-term project bonds payable:

Project	Lessee/Borrower	Maturity Date	Interest Rate	Bonds Outstanding (in thousands)			Bonds Outstanding (in thousands)		Amounts Due within One Year
				December 31, 2015	Additions	(Reductions)	December 31, 2016		
ARC/Mercer, Inc.	ARC/Mercer, Inc.	2031	4.74%	1,732	-	(78)	1,654	82	
Beth Chaim	Beth Chaim	2026	4.69%	948	-	(88)	860	117	
County Courthouse	Mercer County Series 2009A	2019	3.00%-5.00%	10,320	-	(2,580)	7,740	2,580	
County Courthouse	Mercer County Series 2009B	2034	5.56%-6.37%	55,940	-	-	55,940	-	
County Courthouse Annex	Mercer County Series 2015	2040	2.00%-5.00%	29,720	-	-	29,720	735	
County Capital BAB's 2009	Mercer County	2029	1.10%-5.95%	27,880	-	(1,580)	26,300	1,630	
DOT Improvements Project	City of Trenton	2017	2.50%-4.25%	200	-	(100)	100	100	
Farm Preservation	Mercer County	2021	7.00%	1,356	-	-	1,356	-	
Equipment Lease/Open Space 2005A	Mercer County	2035	3.25%-5.00%	20,985	-	(1,815)	19,170	1,820	
Equipment Lease/Open Space 2005B	Mercer County	2040	3.25%-5.00%	14,170	-	(450)	13,720	465	
Lease Bank Program	Mercer County	2016	3.79%-4.33%	188	-	(188)	-	-	
*Parking Facilities Project	Mercer County	2018	7.29%-8.30%	1,460	-	(450)	1,010	485	
*Parking Facilities Project	Mercer County	2031	6.00%	2,249	-	(64)	2,185	68	
Refunding 2011	Mercer County	2020	1.00%-4.00%	9,285	-	(2,515)	6,770	2,620	
Refunding 2012A	Mercer County	2024	1.50%-5.00%	14,095	-	(1,765)	12,330	1,815	
Refunding 2012B	Mercer County	2018	0.62%-2.33%	4,565	-	(1,500)	3,065	1,520	
Solar Project 2011	Mercer County	2027	1.19%-4.90%	23,640	-	(1,970)	21,670	1,970	
*Solid Waste 2010, Series A	MCIA	2022	5.00%	19,215	-	-	19,215	1,435	
*Solid Waste 2010, Series B	MCIA	2017	1.52%-4.75%	4,565	-	(2,935)	1,630	1,630	
Special Services School District	Mercer County/Special Services School District	2025	3.25%-4.00%	2,980	-	(235)	2,745	250	
*Sports Arena	MCIA	2034	6.00%-8.27%	29,285	-	(1,435)	27,850	1,595	
*Sports Arena	MCIA	2034	6.00%	9,380	376	-	9,756	-	
*Sports Arena	MCIA	2031	6.00%	5,783	-	(163)	5,620	175	
Twin Rivers	Twin Rivers	2018	4.00%-4.50%	120	-	(40)	80	40	
Twin Rivers	Community Trust	2022	3.00%-5.25%	354	-	(47)	307	46	
Twin Rivers	Twin Rivers	2024		80	-	(5)	75	5	
Westlake Mews	Westlake Mews, L.L.C.	2041	7.20%-8.00%	5,887	-	(69)	5,818	74	
Total				296,382	376	(20,072)	276,686	21,257	
*Original issue premiums				1,734	-	(221)	1,513	217	
Subtotal				298,116	\$ 376	\$ (20,293)	278,199	\$ 21,474	
Less amounts due within one year				20,322			21,474		
Net long-term project bonds payable				\$ 277,794			\$ 256,725		

**MERCER COUNTY IMPROVEMENT AUTHORITY**

(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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**J. DEBT - LONG-TERM PROJECT BONDS PAYABLE (CONTINUED)**

<u>Project</u>	<u>Security</u>
ARC/Mercer, Inc.	Mortgage and Security Agreement
Beth Chaim	Mortgage and Security Agreement
County Courthouse, Series 2009 and 2015	Mercer County lease
County Capital Build America Bonds	Mercer County lease
DOT Improvements Project	City of Trenton lease and Mercer County lease
Equipment Lease/Open Space	Mercer County guarantee
Farm Preservation	Mercer County guarantee
Lease Bank Program	Mercer County guarantee
Parking Facilities Project	Mercer County guarantee
Refunding issues 2011 and 2012	Mercer County guarantee
Solar Project 2011	Mercer County guarantee
Solid Waste	Mercer County guarantee
Special Service Schools	Mercer County guarantee/Special Services School District
Sports Arena	Mercer County guarantee
Twin Rivers	Mercer County guarantee
Westlake Mews	Loan agreement with Westlake Mews, LLC

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

**J. DEBT - LONG-TERM PROJECT BONDS PAYABLE (CONTINUED)**

Project	Lessee/Borrower	Maturity Date	Interest Rate	Bonds Outstanding (in thousands)			Bonds Outstanding (in thousands)		Amounts Due within One Year
				December 31, 2014	Additions	(Reductions)	December 31, 2015		
ARC/Mercer, Inc.	ARC/Mercer, Inc.	2031	4.74%	\$ 1,806	\$ -	\$ (74)	\$ 1,732	\$ 78	
Beth Chaim	Beth Chaim	2026	4.69%	1,078	-	(130)	948	112	
County Courthouse	Mercer County Series 2009A	2019	3.00%-5.00%	12,900	-	(2,580)	10,320	2,580	
County Courthouse	Mercer County Series 2009B	2034	5.56%-6.37%	55,940	-	-	55,940	-	
County Courthouse Annex	Mercer County Series 2015	2040	2.00%-5.00%	-	29,720	-	29,720	-	
County Capital BAB's 2009	Mercer County	2029	1.10%-5.95%	29,415	-	(1,535)	27,880	1,580	
DOT Improvements Project	City of Trenton	2017	2.50%-4.25%	300	-	(100)	200	100	
Farm Preservation	Mercer County	2021	7.00%	1,356	-	-	1,356	-	
Equipment Lease/Open Space 2005A	Mercer County	2035	3.25%-5.00%	21,700	-	(715)	20,985	1,815	
Equipment Lease/Open Space 2005B	Mercer County	2040	3.25%-5.00%	14,610	-	(440)	14,170	450	
Lease Bank Program	Mercer County	2016	3.79%-4.33%	369	-	(181)	188	188	
Hamilton Fire Districts	Hamilton Township	2015	2.25%-4.125%	145	-	(145)	-	-	
Hamilton Fire Districts	Hamilton Township	2015	2.25%-4.125%	245	-	(245)	-	-	
*Parking Facilities Project	Mercer County	2018	7.29%-8.30%	1,875	-	(415)	1,460	450	
*Parking Facilities Project	Mercer County	2015	7.30%-8.98%	425	-	(425)	-	-	
*Parking Facilities Project	Mercer County	2031	6.00%	2,173	76	-	2,249	64	
Refunding 2011	Mercer County	2020	1.00%-4.00%	11,180	-	(1,895)	9,285	2,515	
Refunding 2012A	Mercer County	2024	1.50%-5.00%	15,815	-	(1,720)	14,095	1,765	
Refunding 2012B	Mercer County	2018	0.62%-2.33%	6,050	-	(1,485)	4,565	1,500	
Solar Project 2011	Mercer County	2027	1.19%-4.90%	25,610	-	(1,970)	23,640	1,970	
*Sludge Facility	MCIA	2015	2.00%-5.00%	3,500	-	(3,500)	-	-	
*Solid Waste 2010, Series A	MCIA	2022	5.00%	19,215	-	-	19,215	-	
*Solid Waste 2010, Series B	MCIA	2017	1.52%-4.75%	7,385	-	(2,820)	4,565	2,935	
Special Services School District	Mercer County/Special Services School District	2025	3.25%-4.00%	3,210	-	(230)	2,980	235	
*Sports Arena	MCIA	2034	6.00%-8.27%	30,565	-	(1,280)	29,285	1,435	
*Sports Arena	MCIA	2034	6.00%	9,018	362	-	9,380	-	
*Sports Arena	MCIA	2015	7.30%-9.50%	235	-	(235)	-	-	
*Sports Arena	MCIA	2034	6.00%	5,587	196	-	5,783	164	
Twin Rivers	Twin Rivers	2018	4.00%-4.50%	266	-	(146)	120	40	
Twin Rivers	Community Trust	2022	3.00%-5.25%	402	-	(48)	354	47	
Twin Rivers	Twin Rivers	2024		153	-	(73)	80	10	
Westlake Mews	Westlake Mews, L.L.C.	2041	7.20%-8.00%	5,951	-	(64)	5,887	69	
Total				288,479	30,354	(22,451)	296,382	20,102	
*Original issue premiums				2,314	-	(580)	1,734	221	
Subtotal				290,793	\$ 30,354	\$ (23,031)	298,116	\$ 20,323	
Less amounts due within one year				22,661			20,323		
Net long-term project bonds payable				\$ 268,132			\$ 277,793		

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

**J. DEBT - LONG-TERM PROJECT BONDS PAYABLE (CONTINUED)**

Project	Security
ARC/Mercer, Inc.	Mortgage and Security Agreement
Beth Chaim	Mortgage and Security Agreement
County Courthouse, Series 2009 and 2015	Mercer County lease
County Capital Build America Bonds	Mercer County lease
DOT Improvements Project	City of Trenton lease and Mercer County lease
Equipment Lease/Open Space	Mercer County guarantee
Farm Preservation	Mercer County guarantee
Lease Bank Program	Mercer County guarantee
Parking Facilities Project	Mercer County guarantee
Refunding issues 2011 and 2012	Mercer County guarantee
Sludge Facility	Financial Guarantee Insurance Company
Solar Project 2011	Mercer County guarantee
Solid Waste	Mercer County guarantee
Special Service Schools	Mercer County guarantee/Special Services School District
Sports Arena	Mercer County guarantee
Twin Rivers	Mercer County guarantee
Westlake Mews	Loan agreement with Westlake Mews, LLC

Annual debt service requirements to maturity for bonds outstanding are as follows:

	Principal (in Thousands)	Interest (in Thousands)	Total (in Thousands)
2017	21,258	14,217	35,475
2018	21,392	13,265	34,657
2019	18,281	12,338	30,619
2020	17,116	12,018	29,134
2021	15,591	11,177	26,768
2022-2026	65,254	43,634	108,888
2027-2031	56,062	25,226	81,288
2032-2036	49,291	8,307	57,598
2037-2041	12,441	1,699	14,140
Total	<u>276,686</u>	<u>\$ 141,881</u>	<u>\$ 418,567</u>
Original issue premiums	1,513		
Total	<u>\$ 278,199</u>		

Bond premium amortization of \$220,174 and \$265,744, which was netted against interest expense, for the years ended December 31, 2016 and 2015, respectively, is included in non-operating expenses.



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NOTES TO FINANCIAL STATEMENTS

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**J. DEBT – LONG-TERM PROJECT BONDS PAYABLE (CONTINUED)**

**Build America Bond Issuances**

In 2009, the Authority issued \$36,485,000 in County-Guaranteed Revenue Bonds for various capital improvements, acquisitions of capital equipment and acquisition of real property for open space preservation for and within the County. The Authority also issued \$76,000,000 in County-Guaranteed Revenue Bonds for the County's Courthouse project. Of the total 2009 debt issuances, \$92,425,000 were Build America Bonds as authorized by the American Recovery and Reinvestment Act of 2009 ("Stimulus Act"). Under the Stimulus Act, the County is entitled to receive cash subsidy payments equal to 35% of the interest portion of the debt issued on the Build America Bonds. Since April 2014, the amounts of subsidy payments have been reduced by approximately 6-8%.

**Solid Waste Bond Issue**

In 2010, the Authority refinanced its outstanding solid waste debt. The purpose of the refinancing was to refund the outstanding solid waste bonds to permit the annual debt service on these bonds to be reduced to approximately \$4,200,000 per year which is expected to be generated from the Authority's operations. The refunding bonds are guaranteed by the County. The proceeds of the Refunding Series 2010 Bonds were deposited in an irrevocable trust with an escrow agent to pay an outstanding interest and principal of 1990, 1992 and 1997 Bonds. The 1990 and 1992 Bonds were paid off on April 1, 2014 and the 1997 Bond was paid off on September 15, 2016. The unamortized deferred amount of refunding totaling \$1,772,085 and \$2,067,432 in 2016 and 2015, respectively, is included in the deferred outflows of resources balance and is amortized annually in equal installments over the life of the Refunding Series 2010 Bonds.

**K. ESCROW FUNDS PAYABLE**

Escrow funds payable consist primarily of the portion of bond proceeds deposited in construction (project) funds, which are held by the bond trustees. All project costs paid by the bond trustees are recorded as a reduction to escrow funds payable. As required by the Authority's bond resolutions, excess bond proceeds over project costs are dedicated to the payment of debt service in subsequent years.

**L. PENSION PLAN**

The Authority participates in the Public Employees' Retirement System of New Jersey, (the "PERS Plan") which is a part of the Division of Pensions in the Department of the Treasury, State of New Jersey. The PERS Plan is funded annually based on the projected benefit method with aggregate level normal cost and frozen initial unfunded accrued liability. The PERS Plan, which covers public employees throughout the State, does not maintain separate records for each reporting unit, and accordingly, the actuarial data for the employees of the Authority who are members of the PERS Plan is not available.

The State of New Jersey, Division of Pension and Benefits, issues a publicly available financial DRAReport 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](http://www.state.nj.us/treasury/pensions).

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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NOTES TO FINANCIAL STATEMENTS

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**L. PENSION PLAN (CONTINUED)**

In addition, the Authority has a deferred compensation plan in which all eligible employees may participate and which is funded entirely by employee contributions.

**Plan Description**

PERS is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955. The PERS plan provides retirement, death and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:38.

**Benefits Provided**

All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

**Contributions**

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in state fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

The Authority is billed annually for its normal contribution plus any accrued liability. Contributions to PERS from the Authority were \$245,299 and \$258,471 for the years ended June 30, 2016 and 2015, respectively.

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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NOTES TO FINANCIAL STATEMENTS

**L. PENSION PLAN**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016 and 2015, the Authority reported a liability of \$7,057,219 and \$5,353,063 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of the plan, actuarially determined. At June 30, 2016 and 2015, respectively, the Authority's proportion was 0.0238281634% and 0.0238465084%, which was a decrease of .000018 from its proportion measured as of June 30, 2015. For the year ended June 30, 2016 and 2015 the Authority recognized pension expense of \$615,587, \$313,474, respectively. The Authority reported deferred outflows and inflows of resources as follows:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 131,243	\$ -	\$ 127,705	\$ -
Changes in assumptions	1,461,879	-	574,876	-
Net difference between projected and actual investment earnings on pension plan investments	269,098	-	-	86,067
Changes in proportion	-	341,727	-	429,889
	<u>\$ 1,862,220</u>	<u>\$ 341,727</u>	<u>\$ 702,581</u>	<u>\$ 515,956</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2017	\$ 342,325
2018	342,325
2019	396,595
2020	333,198
2021	106,049
	<u>\$ 1,520,492</u>

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 and 2015, respectively, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2016</u>
Inflation rate	3.08%
Salary increases:	
through 2026, based on age	1.65% - 4.15%
Thereafter, based on age	2.65 - 5.15%
Investment rate of return	7.65%
	<u>2015</u>
Inflation rate	3.04%
Salary increases:	
2012-2021, based on age	2.15 - 4.40%
Thereafter, based on age	3.15 - 5.40%
Investment rate of return	7.90%

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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NOTES TO FINANCIAL STATEMENTS

**L. PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back two years for males and seven years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back one year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality table (set back three years for males and set forward one year for females).

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

In accordance with State statute, the long term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real estate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	2016		2015	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Cash	5.00%	87.00%	5.00%	1.04%
U.S. Treasuries	1.50%	1.74%	1.75%	1.64%
Investment Grade Credit	8.00%	1.79%	10.00%	1.79%
Mortgages	2.00%	1.67%	2.10%	1.62%
High Yield Bonds	2.00%	4.56%	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.44%	1.50%	3.25%
Broad US Equities	26.00%	8.53%	27.25%	8.52%
Developed Foreign Equities	13.25%	6.83%	12.00%	6.88%
Emerging Market Equities	6.50%	9.95%	6.40%	10.00%
Private Equities	9.00%	12.40%	9.25%	12.41%
Hedge Fund/Absolute Return	12.50%	4.68%	12.00%	4.72%
Real Estate (Property)	2.00%	6.91%	2.00%	6.83%
Commodities	50.00%	5.45%	1.00%	5.32%
Global Debt ex US	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	4.25%	5.12%

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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NOTES TO FINANCIAL STATEMENTS

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**L. PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projected cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The Local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

*Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate*

The following presents collective net pension liability of the participating employers as of June 30, 2016, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

June 30, 2016		
At 1% decrease (2.98%)	At current discount rate (3.98%)	At 1% increase (4.98%)
\$ 8,647,798	\$ 7,057,219	\$ 5,744,058
June 30, 2015		
At 1% decrease (3.90%)	At current discount rate (4.90%)	At 1% increase (5.90%)
\$ 6,653,202	\$ 5,353,063	\$ 4,263,035

**M. COLLECTIVE BARGAINING AGREEMENT**

Beginning January 1, 2005, certain Authority employees are represented through American Federation of State, County and Municipal Employees ("AFSCME") Local #2287. In February 2015, the Authority entered into a four year contract that expired December 31, 2016. The new contract is currently under negotiation.

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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NOTES TO FINANCIAL STATEMENTS

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**N. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION**

The Authority is a member of the State's cost sharing multiple-employer plan (the "State Plan") for health and post-retirement medical benefits. Thus, the Authority's portion of this liability is included in the State of New Jersey's Comprehensive Annual Financial Report ("CAFR"), as such, the liability of Authority employees is covered under the State Plan on an annual basis. The total cost included in health insurance expense for these post-retirement benefits was \$142,579, \$155,014 and \$118,678 for the years ended December 31, 2016, 2015 and 2014, respectively.

Please refer to State website [www.state.nj.us](http://www.state.nj.us) for more information regarding the PERS Plan.

**O. COMMITMENTS**

At December 31, 2016 and 2015, the Authority had uncompleted agreements with contractors to perform various services related to its construction projects. Commitments under contracts in process amounted to \$20,801,226 and \$4,953,571, at December 31, 2016 and 2015, respectively.

As a part of the Roebling Steel complex Rehabilitation Project (the "Roebling Project"), the Authority had entered into two Cooperative Agreements with the United States Environmental Protection Agency related to the Roebling Project's Book 3 development: Petroleum Cleanup and Hazardous Cleanup. Approved Assistance Amount for each agreement is \$200,000. In 2016 and 2015, total reimbursements received from both agreements were \$8,328 and \$19,072, respectively.

HHG Development Associates was appointed the developer of the Block 3 site of the project by the Authority. In January 2016, the Authority sold a parcel of land to the developer for which it holds the three-year promissory note of \$1,020,000 due January 27, 2019.

**P. COUNTY ENVIRONMENTAL HEALTH ACT (the "CEHA")**

The Authority and the County have entered into inter-local services agreements to jointly provide services and carry out the provisions of the CEHA Work Program, including, primarily enforcing compliance with laws, regulations and standards applicable to the County District Solid Waste Management Plan. Fines and penalties collected by the County or the Authority through enforcement activities undertaken pursuant to the agreement are deposited into the County's Environmental Quality and Enforcement Fund (the "Fund") that are supposed to reimburse the Authority for CEHA related expenses and the Authority's Solid Waste Operating Fund.

No disbursements were made from the Fund to the Authority pending necessary agreements and regulations.

## **MERCER COUNTY IMPROVEMENT AUTHORITY**

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### NOTES TO FINANCIAL STATEMENTS

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#### **Q. ARBITRAGE RULES**

The Authority is subject to certain arbitrage rules. Under these rules, interest earnings on certain investments of proceeds of the Authority's bond issues are subject to the limitations imposed by the arbitrage provisions of the Internal Revenue Code. The Authority is required to rebate certain arbitrage profits on non-purpose investments at least once every five years. At December 31, 2016, there were no material arbitrage profits subject to rebate.

#### **R. LITIGATION**

On or about December 1, 2011, the Authority entered into a publicly financed renewable energy Lease Purchase Agreement with Sunlight General Mercer, LLC ("SLG"). Pursuant to that agreement, SLG retained Mastec Power Partners ("Mastec") to construct an 8.3 MW solar renewable energy project designed to serve the Mercer County Community College (the "Project"). The Project was completed and placed into operation on October 1, 2013.

On or about January 2014, Mastec filed a Municipal Mechanics Lien Claim with the Authority. At this time, the Authority does not know the outcome of this litigation.

#### **S. NEW ACCOUNTING PRONOUNCEMENT**

**GASB Statement 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement 75 provides guidance for reporting by state and local governments that provide other postemployment benefits ("OPEB"), such as retiree health insurance, to their employees and for governments that finance OPEB for employees of other governments. Statement 75 is effective for fiscal years beginning after June 15, 2017.

**REQUIRED SUPPLEMENTARY INFORMATION**



**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)**

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**Schedule of Proportionate Share of Net Pension Liability**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of net pension liability	0.0238281634%	0.0238465064%	0.026559977%
Proportionate share of the net, pension liability	7,057,219	5,353,063	4,964,927
Covered-employee payroll	1,968,910	1,754,197	1,785,202
Plan fiduciary net position as a percentage of the total pension liability	40.14%	47.93%	52.08%

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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**SCHEDULE OF CONTRIBUTIONS (UNAUDITED)**

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**Schedule of Contributions**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 245,299	\$ 205,016	218,612
Contribution in relation to the contractually required contribution	245,299	258,471	218,612
	<u>\$ 490,598</u>	<u>\$ 463,487</u>	<u>\$ 437,224</u>
Covered-employee payroll	1,968,910	1,754,197	1,785,202
Contributions as a percentage of covered-employee payroll	24.92%	26.42%	12.25%

**OTHER SUPPLEMENTARY INFORMATION**

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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SCHEDULE OF OPERATING EXPENSES  
Year Ended December 31, 2016

Budget Items	Budget (Unaudited)	Actual	(Over) Under Budget
Salaries and wages	\$ 2,105,682	\$ 1,968,910	\$ 136,772
Payroll taxes	166,200	133,068	33,132
Pension plan contribution	260,000	245,299	14,701
Health insurance	498,919	563,260	(64,341)
Other insurance	133,000	80,104	52,896
Professional fees	285,000	160,904	124,096
Telephone	25,000	29,421	(4,421)
Office expense	516,509	322,338	194,171
Seminars / CPEs	15,500	11,591	3,909
Automobile expenses	41,000	20,895	20,105
Rent expense	175,000	175,000	-
Transfer station costs	1,910,000	2,016,960	(106,960)
Recycling contract solid waste tires	85,000	49,410	35,590
Repairs and maintenance	189,805	180,631	9,174
Dues and membership fees	6,800	5,287	1,513
Advertising and printing	14,500	15,811	(1,311)
Postage and freight	6,500	3,745	2,755
Outside services and consultants	184,000	115,370	68,630
Tenant related expenses	15,000	21,132	(6,132)
Bad debt	-	174,155	(174,155)
Pension plan- GASB 68 required adjustment	-	370,288	(370,288)
Total	\$ 6,633,415	\$ 6,663,579	\$ (30,164)

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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SCHEDULE OF OPERATING EXPENSES (CONTINUED)  
Year Ended December 31, 2015

Budget Items	Budget (Unaudited)	Actual	(Over) Under Budget
Salaries and wages	\$ 2,044,351	\$ 2,038,424	\$ 5,927
Payroll taxes	166,200	127,522	38,678
Pension plan contribution	250,000	258,471	(8,471)
Health insurance	499,504	541,482	(41,978)
Other insurance	143,000	123,660	19,340
Professional fees	275,000	229,060	45,940
Telephone	25,000	24,259	741
Office expense	454,353	315,013	139,340
Seminars / CPEs	15,500	13,082	2,418
Automobile expenses	41,000	23,285	17,715
Rent expense	175,000	175,000	-
Transfer station costs	1,900,000	1,913,518	(13,518)
Recycling contract solid waste tires	85,000	42,040	42,960
Repairs and maintenance	188,805	137,844	50,961
Dues and membership fees	6,800	5,362	1,438
Advertising and printing	9,100	13,934	(4,834)
Postage and freight	6,500	752	5,748
Outside services and consultants	152,000	148,620	3,380
Tenant related expenses	-	12,113	(12,113)
Bad debt	-	22,849	(22,849)
Pension plan- GASB 68 required adjustment	-	55,003	(55,003)
Total	\$ 6,437,113	\$ 6,221,293	\$ 215,820

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
(A Component Unit of the County of Mercer)

**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
Year Ended December 31, 2016

State and Local Grantor/Program Title	Program or Award Amount	Grant Period	Current Year's Expenditures	Cumulative Expenditures
New Jersey DEP Clean Community 2014	\$ 50,407	1/1/14-Until Complete	\$ 8,792	\$ 50,407
New Jersey DEP Clean Community 2015	61,273	1/1/15-Until Complete	61,273	61,273
New Jersey DEP Clean Community 2016	69,657	1/1/16-Until Complete	2,559	2,559
Scrap Tire Management Fund Grant	30,000	7/1/05-Until Complete	-	16,577
Solid Waste REA Tax Grant-2014	203,500	(1)	79,570	151,507
Solid Waste REA Tax Grant-2015	199,500	(1)	-	-
HDSRF Grant	137,793	Until complete	101,325	101,325
Total	<u>\$ 752,130</u>		<u>\$ 253,519</u>	<u>\$ 383,648</u>

(1) Term and amount is specified when application is prepared. The term can be for up to two years.

Note: There was no state single audit requirement for the year ended December 31, 2016

**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 Board of Commissioners of  
Mercer County Improvement Authority

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 business-type activities, of Mercer County Improvement Authority (the "Authority"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 30, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 a 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. *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 Authority's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

April 30, 2017