

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

December 31, 2017

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 Mercer County Improvement Authority ("Authority"), a component unit of the County of Mercer, as of and for the years ended December 31, 2017 and 2016, 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 Authority, as of December 31, 2017 and 2016, and the changes in financial position and cash flows 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 audits were 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, except for the part marked "unaudited," 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. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it. In our opinion, except for the part marked "unaudited," 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 Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018, 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 solely 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.

Mercadien, P.C.

Certified Public Accountants

June 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2017 and 2016. 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 2017, net operating income of the Authority decreased by approximately 5%, due to approximately 4% decrease in corresponding revenues and due to mandatory adjustment to the State of NJ Public Employees' Retirement System (PERS) expense required by the Government Accounting Standard Board Statement No.68 (GASB-68).

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 remained positive.

Visit the Authority's website www.mcianj.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 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)

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

2017

Cash and Investment balances of \$74,788,331 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. \$24,892,359 in current assets and \$253,917,467 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 \$35,630,846 related to the Cure Insurance Arena, formerly Sun National Bank Arena (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, 2017, the Authority had a total of \$7,963,379 invested in capital assets, which represent \$199,875 decrease from the prior year. More detailed information about the Authority's capital assets is presented in "Property and Equipment" Note to the basic financial statements.

The Authority has \$17,780,000 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 \$239,376,555, unearned lease/loan income of \$83,929,484 and escrow funds payable of \$35,276,233 are included in current and long-term liabilities and are secured by bond proceeds and revenues from leases, loans and/or guarantees with the County of Mercer, municipalities, boards of educations and not-for-profit organizations. In total, at 2017 year end, the Authority had \$257,156,555 in bonds outstanding compared to \$278,199,051 at December 31, 2016. This change represents approximately 8% 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.

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.

MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

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

Financial Analysis, Capital Assets and Debt Administration (Continued)

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.

The following tables contain condensed financial information derived from the December 31, 2017, 2016 and 2015 financial statements of the Authority:

Condensed Statement of Net Position

| | December 31, | | | Change | Percentage |
|--|---------------|---------------|---------------|----------------|------------|
| | 2017 | 2016 | 2015 | 2017-2016 | Change |
| Capital assets | \$ 45,168,341 | \$ 46,748,404 | \$ 46,999,729 | \$ (1,580,063) | -3% |
| Other assets | 365,899,153 | 403,188,478 | 434,726,594 | (37,289,325) | -9% |
| Total assets | 411,067,495 | 449,936,882 | 481,726,323 | (38,869,387) | -9% |
| Deferred outflows of resources | 2,825,610 | 3,634,305 | 2,770,013 | (808,695) | -22% |
| Current liabilities | 81,249,299 | 97,678,937 | 104,791,693 | (16,429,639) | -17% |
| Long-term liabilities | 316,927,147 | 347,711,523 | 376,760,734 | (30,784,376) | -9% |
| Total liabilities | 398,176,446 | 445,390,460 | 481,552,427 | (47,214,015) | -11% |
| Deferred inflows or resources-pensions | 1,375,994 | 341,727 | 515,956 | 1,034,267 | 303% |
| Net position: | | | | | |
| Net investment in capital assets | (17,101,419) | (20,517,879) | (21,720,663) | 3,416,460 | 17% |
| Restricted for debt service | 6,786,973 | 7,642,784 | 10,564,826 | (855,811) | -11% |
| Unrestricted | 24,655,111 | 20,714,095 | 13,583,790 | 3,941,016 | 19% |
| Total Net position | \$ 14,340,665 | \$ 7,839,000 | \$ 2,427,953 | \$ 6,501,665 | 83% |

Condensed Statement of Revenues, Expenses and Change in Net Position

| | Years Ended December 31, | | | Change | Percentage |
|---|--------------------------|---------------|---------------|----------------|------------|
| | 2017 | 2016 | 2015 | 2017-2016 | Change |
| Operating revenues | \$ 31,111,897 | \$ 32,302,526 | \$ 31,800,619 | \$ (1,190,629) | -4% |
| Waste disposal costs | 17,998,337 | 18,391,912 | 18,009,573 | (393,575) | -2% |
| Gross operating profit | 13,113,559 | 13,910,614 | 13,791,046 | (797,055) | -6% |
| Other operating revenues* | 662,683 | 575,750 | 553,164 | 86,933 | 15% |
| Gross operating profit and other operating revenues | 13,776,242 | 14,486,364 | 14,344,210 | (710,122) | -5% |
| Operating expenses | 6,289,052 | 6,663,579 | 6,221,293 | (374,527) | -6% |
| Depreciation and amortization | 388,816 | 351,563 | 295,319 | 37,253 | 11% |
| Income from operations | 7,098,374 | 7,471,222 | 7,827,598 | (372,848) | -5% |
| Non-operating expenses, net | 2,879,615 | 4,130,264 | 3,657,414 | (1,250,649) | -30% |
| Change in net position | 4,218,759 | 3,340,958 | 4,170,184 | 877,801 | 26% |
| Change in net position - Sports Arena | 2,282,906 | 2,070,089 | 2,647,896 | 212,817 | 10% |
| Net position, beginning of year | 7,839,000 | 2,427,953 | (4,390,127) | 5,411,047 | 223% |
| Cumulative change in accounting principal | - | - | - | - | 0% |
| Net position, beginning of year, restated | 7,839,000 | 2,427,953 | (4,390,127) | 5,411,047 | 223% |
| Net position, end of year | \$ 14,340,665 | \$ 7,839,000 | \$ 2,427,953 | \$ 6,501,665 | 183% |
| *Other operating revenues: | | | | | |
| Project costs reimbursement | \$ 381,042 | \$ 384,528 | \$ 452,755 | \$ (3,486) | -1% |
| Interest on investments | 281,641 | 191,222 | 100,409 | 90,419 | 47% |
| | \$ 662,683 | \$ 575,750 | \$ 553,164 | \$ 86,933 | 15% |

MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

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

Significant Events

2017

The Authority's operating expenses in 2017 were \$427,660 under the budget. Refer to "Supplementary Information", schedule "Budget vs. Actual" for further details.

The Authority's assets and liabilities decreased by approximately 9% and 11%, respectively, in 2017, primarily due to the repayment of the existing debt during the year.

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 2017.

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.

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.

Contacting the Authority's Financial Management

If you have any questions or need additional financial information, contact the Mercer County Improvement Authority, at 80 Hamilton Avenue, 2nd Floor, Trenton, NJ 08611.

BASIC FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION

| | | December 31, | |
|---|----------------|----------------|------|
| | | 2017 | 2016 |
| ASSETS | | | |
| Current Assets | | | |
| Unrestricted | | | |
| Cash and equivalents | \$ 29,063,501 | \$ 26,359,995 | |
| Investments | 2,046,433 | 2,030,113 | |
| Accounts receivable-haulers, net | 3,167,506 | 2,736,881 | |
| Due from restricted funds | 3,367,101 | 3,040,672 | |
| Other receivables, net | 1,448,584 | 1,426,296 | |
| Other assets | 97,067 | 96,514 | |
| Total Unrestricted | 39,190,192 | 35,690,471 | |
| Restricted | | | |
| Cash and equivalents | 43,678,397 | 59,765,178 | |
| Accounts receivable - recycling | 393,751 | 243,661 | |
| Minimum lease payments receivable | | | |
| County of Mercer | 24,508,161 | 25,271,114 | |
| Other governmental units | - | 104,250 | |
| Loans receivable | 384,198 | 364,764 | |
| Loan interest receivable | 39,706 | 41,525 | |
| Other receivables | 1,718,380 | 1,664,704 | |
| Other assets | 91,751 | 209,264 | |
| Total Restricted | 70,814,344 | 87,664,460 | |
| Total Current Assets | 110,004,536 | 123,354,931 | |
| Non-Current Assets | | | |
| Unrestricted | | | |
| Property and equipment, net | 7,963,379 | 8,163,254 | |
| Restricted | | | |
| Minimum lease payments receivable | | | |
| County of Mercer | 245,832,316 | 270,340,478 | |
| Construction in progress | 1,574,116 | 1,574,116 | |
| Loans receivable | 8,085,151 | 8,428,869 | |
| Other receivables | 1,977,150 | 1,064,200 | |
| Sports arena | 35,630,846 | 37,011,034 | |
| Total Non-Current Restricted Assets | 293,099,579 | 318,418,697 | |
| Total Non-Current Assets | 301,062,958 | 326,581,951 | |
| Total Assets | 411,067,495 | 449,936,882 | |
| Deferred Outflows of Resources | | | |
| Losses on debt restructuring | 1,476,738 | 1,772,085 | |
| Pension | 1,348,872 | 1,862,220 | |
| Total Deferred Outflows of Resources | 2,825,610 | 3,634,305 | |
| Total Assets and Deferred Outflows of Resources | \$ 413,893,105 | \$ 453,571,187 | |

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

STATEMENTS OF NET POSITION (CONTINUED)

| | December 31, | |
|--|-----------------------|-----------------------|
| | 2017 | 2016 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | |
| Current Liabilities | | |
| Restricted | | |
| Current portion of project bonds payable | \$ 21,604,825 | \$ 21,474,231 |
| Accounts payable and accrued expenses | 6,669,952 | 6,711,679 |
| Due to unrestricted fund | 3,367,101 | 3,040,672 |
| Accrued interest payable | 3,298,333 | 3,514,200 |
| Haulers' deposits | 614,191 | 366,645 |
| Unearned lease/loan income | 9,082,792 | 9,683,778 |
| Unearned revenues | 874,333 | 1,394,396 |
| State grants unearned | 461,538 | 358,482 |
| Escrow funds payable | 35,276,233 | 51,134,854 |
| Total Current Liabilities | <u>81,249,299</u> | <u>97,678,937</u> |
| Non-Current Liabilities | | |
| Long-term project bonds payable | 235,551,730 | 256,724,820 |
| Unearned lease/loan income | 74,846,692 | 83,929,484 |
| Unearned revenues | 918,750 | - |
| Net pension liability | 5,609,975 | 7,057,219 |
| Total Non-Current Liabilities | <u>316,927,147</u> | <u>347,711,523</u> |
| Total Liabilities | <u>\$ 398,176,446</u> | <u>\$ 445,390,460</u> |
| Deferred inflows of resources | | |
| Pension | <u>\$ 1,375,994</u> | <u>\$ 341,727</u> |
| Net Position | | |
| Net investment in capital assets | \$ (17,101,419) | \$ (20,517,879) |
| Restricted | 6,786,973 | 7,642,784 |
| Unrestricted | 24,655,111 | 20,714,095 |
| Total Net Position | <u>\$ 14,340,665</u> | <u>\$ 7,839,000</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 413,893,105</u> | <u>\$ 453,571,187</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, | |
|---|--------------------------|---------------|
| | 2017 | 2016 |
| Waste disposal revenues | \$ 28,180,912 | \$ 29,427,094 |
| Recycling revenues | 2,930,985 | 2,875,432 |
| Operating revenues | 31,111,897 | 32,302,526 |
| Waste disposal costs | 17,998,337 | 18,391,912 |
| Gross operating profit | 13,113,559 | 13,910,614 |
| Other operating revenues | | |
| Project costs reimbursement and other operating revenues | 381,042 | 384,528 |
| Interest on investments | 281,641 | 191,222 |
| Total other operating revenues | 662,683 | 575,750 |
| Gross operating profit and other operating revenues | 13,776,242 | 14,486,364 |
| Operating expenses | 6,289,052 | 6,663,579 |
| Income from operations before depreciation and amortization | 7,487,190 | 7,822,785 |
| Depreciation and amortization | 388,816 | 351,563 |
| Income from operations | 7,098,374 | 7,471,222 |
| Non-operating revenues (expenses) | | |
| Sludge facility, net | (764) | 5,158 |
| Sports Arena revenues | 6,532,189 | 6,446,640 |
| Sports Arena expenses | (6,532,189) | (6,446,640) |
| Amortization of resource recovery costs | - | (1,317,674) |
| Bond interest expense, Solid Waste | (875,641) | (1,009,141) |
| Bond interest expense, projects | (10,324,934) | (11,352,265) |
| Minimum lease income, projects | 9,683,778 | 10,687,036 |
| Loan interest income | 641,156 | 665,229 |
| Miscellaneous | 63,579 | 255,120 |
| Non-operating expenses before | | |
| bond interest accretion, depreciation and amortization | (812,826) | (2,066,537) |
| Bond interest accretion - Sports Arena | (391,254) | (376,168) |
| Depreciation and amortization - Sports Arena | (1,380,188) | (1,392,212) |
| Amortization of deferred outflows - Solid Waste | (295,347) | (295,347) |
| Total non-operating expenses | (2,879,615) | (4,130,264) |
| Change in net position | 4,218,759 | 3,340,958 |
| Change in net position - Sports Arena | 2,282,906 | 2,070,089 |
| Net position, beginning of year | 7,839,000 | 2,427,953 |
| Net position, end of year | \$ 14,340,665 | \$ 7,839,000 |

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

STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | |
|---|--------------------------|----------------------|
| | 2017 | 2016 |
| Cash Flows from Operating Activities | | |
| Cash received from | | |
| Waste disposal revenue | \$ 28,446,592 | \$ 30,624,527 |
| Recycling revenue | 2,780,895 | 2,959,895 |
| State of New Jersey grants | 295,720 | 269,157 |
| Project costs reimbursement | 381,042 | 384,528 |
| Investment interest | 281,641 | 191,222 |
| Cash used for | | |
| Waste disposal costs | (17,998,337) | (18,391,912) |
| Operating expenses | (6,279,459) | (6,312,746) |
| State of New Jersey grants | (192,665) | (152,195) |
| Net cash from operating activities | <u>7,715,430</u> | <u>9,572,476</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Change in net position-Sports Arena | 2,282,902 | 2,070,089 |
| Net cash from noncapital and related financing activities | <u>2,282,902</u> | <u>2,070,089</u> |
| Leases/Loans | 9,616,949 | 18,660,481 |
| Repayments | (21,217,061) | (20,073,361) |
| Interest paid on bonds | (11,200,575) | (12,361,406) |
| Net cash from capital and related financing activities | <u>(20,517,785)</u> | <u>(11,704,197)</u> |
| Cash Flows from Investing Activities | | |
| Investments | (16,320) | (19,174) |
| Sludge facility, net | (12,722) | 13,163 |
| Sports Arena revenues | 6,040,964 | 6,459,025 |
| Sports Arena expenses | (6,551,577) | (6,042,854) |
| Purchases of property and equipment | (192,691) | (2,735,236) |
| Construction in progress | - | 1,899,407 |
| Other activities | 151,426 | 104,739 |
| Net cash from investing activities | <u>(580,920)</u> | <u>(320,930)</u> |
| Net decrease in cash and equivalents | (13,383,275) | (2,452,651) |
| Cash and equivalents, beginning of year | 86,125,173 | 88,577,824 |
| Cash and equivalents, end of year | <u>\$ 72,741,898</u> | <u>\$ 86,125,173</u> |

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

STATEMENTS OF CASH FLOWS (CONTINUED)

| | Years Ended December 31, | |
|---|--------------------------|---------------------|
| | 2017 | 2016 |
| Reconciliation of Income from Operations to Net Cash | | |
| from Operating Activities | | |
| Income from operations | \$ 7,098,374 | \$ 7,471,222 |
| Adjustments to reconcile income from operations to net cash | | |
| from operating activities | | |
| Amortization and depreciation - solid waste | 388,816 | 351,563 |
| Allowance for doubtful accounts | 16,759 | 174,155 |
| Net pension expense | 100,371 | 370,288 |
| Changes in assets and liabilities | | |
| Accounts receivable - haulers | 104,696 | 1,143,558 |
| Accounts receivable - recycling | (150,090) | 84,463 |
| Other receivables | (86,561) | 24,298 |
| Other assets | (553) | 249,692 |
| Accounts payable, accrued expenses and other liabilities | (106,984) | (443,302) |
| Haulers' deposits | 247,546 | 29,577 |
| State grants unearned | 103,056 | 116,962 |
| Net cash from operating activities | <u>\$ 7,715,430</u> | <u>\$ 9,572,476</u> |

MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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 90 days 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

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

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

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 \$2,046,433 and \$2,030,113, that mature in two years at December 31, 2017 and 2016, respectively. The Authority's investment practices are in compliance with N.J.S.A. 40A: 5-15.1.

At December 31, 2017 and 2016, respectively, the Authority's bank balance on deposit was \$75,058,871 and \$86,125,173, 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**C. ACCOUNTS RECEIVABLE - HAULERS**

Accounts receivable – haulers as of December 31, 2017 and 2016, are expected to be received within one year. They are as follows:

| | December 31, | |
|---------------------------------------|---------------------|---------------------|
| | 2017 | 2016 |
| Accounts receivable-haulers | \$ 3,283,118 | \$ 3,387,814 |
| Less: allowance for doubtful accounts | 115,612 | 650,933 |
| Net accounts receivable | <u>\$ 3,167,506</u> | <u>\$ 2,736,881</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:

| | Years Ending December 31, |
|------------|---------------------------|
| 2018 | \$ 24,508,161 |
| 2019 | 20,948,268 |
| 2020 | 19,998,106 |
| 2021 | 17,554,581 |
| 2022 | 17,368,338 |
| Thereafter | 169,963,024 |
| | <u>\$ 270,340,478</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, 2017 and 2016:

| Project | Borrower | Security | Maturity Date | Interest Rate | Loans Receivable (in thousands) December 31, 2016 | Additions | Reductions | Loans Receivable (in thousands) December 31, 2017 | Amounts Due within One Year |
|--------------------------------|-----------------------------|-----------------------------------|---------------|---------------|---|-----------|------------|---|--------------------------------|
| ARC/Mercer, Inc. | ARC/Mercer, Inc. | Mortgage and Security Agreement | 2031 | 4.740% | \$ 1,654 | | \$ (82) | \$ 1,572 | \$ 86 |
| Beth Chaim | Congregation Beth Chaim | Mortgage and Security Agreement | 2026 | 4.690% | 860 | | (77) | 783 | 123 |
| Twin Rivers | Twin Rivers Community Trust | Mercer County Guarantee Agreement | 2022 | 3.000%-5.250% | 462 | | (92) | 370 | 96 |
| Westlake Mews | Westlake Mews, L.L.C. | Loan Agreement | 2041 | 7.200%-8.000% | 5,818 | | (74) | 5,744 | 79 |
| Total | | | | | 8,794 | \$ - | \$ (325) | 8,469 | 384 |
| Less current portion | | | | | 365 | | | 384 | |
| Net long-term loans receivable | | | | | <u>\$ 8,429</u> | | | <u>\$ 8,085</u> | |

| Project | Borrower | Security | Maturity Date | Interest Rate | Loans Receivable (in thousands) December 31, 2015 | Additions | Reductions | Loans Receivable (in thousands) December 31, 2016 | Amounts Due within One Year |
|--------------------------------|-----------------------------|-----------------------------------|---------------|---------------|---|-----------|------------|---|--------------------------------|
| 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 | | | | | 547 | | | 365 | |
| Net long-term loans receivable | | | | | <u>\$ 8,762</u> | | | <u>\$ 8,429</u> | |

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

NOTES TO FINANCIAL STATEMENTS

E. LOANS RECEIVABLE (CONTINUED)

Maturities of loans receivable are as follows:

| | Years Ending December 31, |
|------------|---------------------------|
| 2018 | \$ 384,198 |
| 2019 | 367,709 |
| 2020 | 383,489 |
| 2021 | 400,880 |
| 2022 | 427,220 |
| Thereafter | 6,505,853 |
| | <u>\$ 8,469,349</u> |

F. CAPITAL ASSETS

Capital assets consists of the following:

| | December 31, | |
|--|---------------------|---------------------|
| | 2017 | 2016 |
| Other | | |
| Land | \$ 275,919 | \$ 275,919 |
| Building | 150,000 | 150,000 |
| Subtotal | 425,919 | 425,919 |
| Less accumulated depreciation | 78,740 | 74,990 |
| Total | <u>\$ 347,179</u> | <u>\$ 350,929</u> |
| Solid Waste | | |
| Transfer station (building and machinery) | \$ 12,234,635 | \$ 12,209,362 |
| Building | 5,544,474 | 5,544,474 |
| Office furniture and equipment | 380,764 | 374,459 |
| Computer hardware and software | 487,879 | 456,934 |
| Automobiles | 377,708 | 279,159 |
| Landfill | 415,134 | 415,134 |
| Subtotal | 19,440,593 | 19,279,522 |
| Less accumulated depreciation and amortization | 11,824,394 | 11,467,197 |
| Total | <u>\$ 7,616,200</u> | <u>\$ 7,812,325</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:

| | December 31, | |
|---|-------------------|-------------------|
| | 2017 | 2016 |
| Solid Waste | | |
| Transfer station (building and machinery) | \$ 167,091 | \$ 140,747 |
| Building | 139,889 | 139,889 |
| Office furniture and equipment | 16,776 | 16,344 |
| Computer hardware and software | 26,079 | 23,897 |
| Automobiles | 38,981 | 30,686 |
| Total depreciation and amortization expense - solid waste | 388,816 | 351,563 |
| Depreciation-other capital assets | 3,750 | 3,750 |
| Total depreciation and amortization expense | <u>\$ 392,566</u> | <u>\$ 355,313</u> |

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

Capital asset activities were as follows:

| | December 31, 2016 | Additions | Retirements | December 31, 2017 |
|--|----------------------|-------------------|--------------------|----------------------|
| Non-Depreciable Assets | | | | |
| Land | \$ 275,919 | \$ - | \$ - | \$ 275,919 |
| Depreciable Assets | | | | |
| Transfer station (building and machinery) | 12,209,363 | 25,272 | - | 12,234,635 |
| Buildings | 5,694,474 | - | - | 5,694,474 |
| Office furniture and equipment | 374,459 | 6,305 | | 380,764 |
| Computer hardware and software | 456,934 | 30,945 | | 487,879 |
| Automobiles | 279,159 | 130,169 | (31,620) | 377,708 |
| Landfill | 415,134 | - | - | 415,134 |
| Total at historical cost | 19,705,441 | <u>\$ 192,691</u> | <u>\$ (31,620)</u> | 19,866,512 |
| Less accumulated depreciation and amortization | 11,542,187 | | | 11,903,133 |
| Total capital assets | <u>\$ 8,163,255</u> | | | <u>\$ 7,963,379</u> |

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

NOTES TO FINANCIAL STATEMENTS

F. CAPITAL ASSETS (CONTINUED)

| | 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 |
| Recycling containers | - | - | - | - |
| Landfill | 415,134 | - | - | 415,134 |
| Total at historical cost | 17,001,980 | <u>\$ 2,735,236</u> | <u>\$ (31,775)</u> | 19,705,441 |
| Less accumulated depreciation and amortization | 11,206,648 | | | 11,542,187 |
| Total capital assets | <u>\$ 5,795,332</u> | | | <u>\$ 8,163,255</u> |

Construction in progress consists of projects in process but not completed as of December 31, 2017 and 2016. The balance at December 31, 2017 and 2016, was \$1,574,116.

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

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, 2017 and 2016, amounted to \$28,180,912 and \$29,427,094, 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, 2017 and 2016, amounted to \$17,998,337 and \$18,391,912, respectively. Recycling costs for the years ended December 31, 2017 and 2016, amounting to \$2,536,766 and \$2,572,099, 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 expired at December 31, 2017. Effective January 1, 2018, the Lease Agreement between the Authority and Ewing Realty Trust for the rent of Transfer Station has commenced. The term of the lease is ten years with seven consecutive five year option periods. The rent is \$190,000 per year from January 1, 2018 until December 1, 2023, after which the base rent amount will be revisited.

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. 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, 2017 and 2016, was \$0 and \$1,317,674, 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. At December 31, 2017, resource recovery costs are fully amortized.

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 was the lead agency and was 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

H. SLUDGE FACILITY (CONTINUED)

Regional Sludge Management (Continued)

The Participants were obligated to share the total cost of the sludge treatment service provided by the Facility. The Agreement provided 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 provided 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. The carrying value of the project is zero.

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

I. SPORTS ARENA

On December 1, 1999, the Authority was conveyed title of the Sports Arena from Roebling 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, | |
|-------------------------------|----------------------|----------------------|
| | 2017 | 2016 |
| Land | \$ 5,294,519 | \$ 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 | 28,983,641 | 27,603,453 |
| Total | <u>\$ 35,630,846</u> | <u>\$ 37,011,034</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) December 31, 2016 | Additions | (Reductions) | Bonds Outstanding (in thousands) December 31, 2017 | Amounts Due within One Year |
|-------------------------------------|--|---------------|---------------|---|-----------|--------------|---|-----------------------------|
| ARC/Mercer, Inc. | ARC/Mercer, Inc. | 2031 | 4.74% | \$ 1,654 | \$ - | \$ (82) | \$ 1,572 | \$ 86 |
| Beth Chaim | Beth Chaim | 2026 | 4.69% | 860 | - | (77) | 783 | 123 |
| County Courthouse | Mercer County Series 2009A | 2019 | 3.00%-5.00% | 7,740 | - | (2,580) | 5,160 | 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 | - | (735) | 28,985 | 750 |
| County Capital BAB's 2009 | Mercer County | 2029 | 1.10%-5.95% | 26,300 | - | (1,630) | 24,670 | 1,680 |
| DOT Improvements Project | City of Trenton | 2017 | 2.50%-4.25% | 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% | 19,170 | - | (1,820) | 17,350 | 1,845 |
| Equipment Lease/Open Space 2005B | Mercer County | 2040 | 3.25%-5.00% | 13,720 | - | (465) | 13,255 | 490 |
| *Parking Facilities Project | Mercer County | 2018 | 7.29%-8.30% | 1,010 | - | (485) | 525 | 525 |
| *Parking Facilities Project | Mercer County | 2031 | 6.00% | 2,185 | - | (68) | 2,117 | 72 |
| Refunding 2011 | Mercer County | 2020 | 1.00%-4.00% | 6,770 | - | (2,620) | 4,150 | 2,240 |
| Refunding 2012A | Mercer County | 2024 | 1.50%-5.00% | 12,330 | - | (1,815) | 10,515 | 1,870 |
| Refunding 2012B | Mercer County | 2018 | 0.62%-2.33% | 3,065 | - | (1,520) | 1,545 | 1,545 |
| Solar Project 2011 | Mercer County | 2027 | 1.19%-4.90% | 21,670 | - | (1,970) | 19,700 | 1,970 |
| *Solid Waste 2010, Series A | MCIA | 2022 | 5.00% | 19,215 | - | (1,435) | 17,780 | 3,215 |
| *Solid Waste 2010, Series B | MCIA | 2017 | 1.52%-4.75% | 1,630 | - | (1,630) | - | - |
| Special Services School District | Mercer County/Special Services School District | 2025 | 3.25%-4.00% | 2,745 | - | (250) | 2,495 | 260 |
| *Sports Arena | MCIA | 2034 | 6.00%-8.27% | 27,850 | - | (1,595) | 26,255 | 1,780 |
| *Sports Arena | MCIA | 2034 | 6.00% | 9,756 | 391 | - | 10,147 | - |
| *Sports Arena | MCIA | 2031 | 6.00% | 5,620 | - | (175) | 5,445 | 186 |
| Twin Rivers | Twin Rivers | 2018 | 4.00%-4.50% | 80 | - | (40) | 40 | 40 |
| Twin Rivers | Community Trust | 2022 | 3.00%-5.25% | 307 | - | (46) | 261 | 46 |
| Twin Rivers | Twin Rivers | 2024 | - | 75 | - | (5) | 70 | 10 |
| Westlake Mews | Westlake Mews, L.L.C. | 2041 | 7.20%-8.00% | 5,818 | - | (74) | 5,744 | 79 |
| Total | | | | 276,686 | 391 | (21,217) | 255,860 | 21,392 |
| *Original issue premiums | | | | 1,513 | - | (216) | 1,297 | 213 |
| Subtotal | | | | 278,199 | \$ 391 | \$ (21,433) | 257,157 | \$ 21,605 |
| Less amounts due within one year | | | | 21,474 | | | 21,605 | |
| Net long-term project bonds payable | | | | \$ 256,725 | | | \$ 235,552 | |

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 |
| 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) December 31, 2015 | Additions | (Reductions) | Bonds Outstanding (in thousands) December 31, 2016 | Amounts Due within One Year |
|-------------------------------------|--|---------------|---------------|---|-----------|--------------|---|-----------------------------|
| 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

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

| Project | Security |
|---|--|
| ARC/Mercer, Inc. | Mortgage and Security Agreement |
| Beth Chaim | Mortgage and Security Agreement |
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| County Capital Build America Bonds | Mercer County lease |
| DOT Improvements Project | City of Trenton lease and Mercer County lease |
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| 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 |

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

| | Principal (in Thousands) | Interest (in Thousands) | Total (in Thousands) |
|-------------------------|-----------------------------|----------------------------|-------------------------|
| 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 | 16,280 | 10,344 | 26,624 |
| 2023-2027 | 61,723 | 39,892 | 101,615 |
| 2028-2032 | 54,183 | 21,692 | 75,875 |
| 2033-2037 | 41,479 | 5,961 | 47,440 |
| 2038-2041 | 9,815 | 1,071 | 10,886 |
| Total | <u>255,860</u> | <u>\$ 127,758</u> | <u>\$ 383,618</u> |
| Original issue premiums | 1,297 | | |
| Total | <u>\$ 257,157</u> | | |

Bond premium amortization of \$216,689 and \$220,174, which was netted against interest expense, for the years ended December 31, 2017 and 2016, respectively, is included in non-operating expenses.

MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

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 \$1,476,738 and \$1,772,085 in 2017 and 2016, 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 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.

NOTES TO FINANCIAL STATEMENTS

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 \$252,452 and \$245,299 for the years ended December 31, 2017 and 2016, respectively.

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

At June 30, 2017 and 2016, the Authority reported a liability of \$5,609,975 and \$7,057,219 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017 and 2016, respectively, the Authority's proportion was 0.0240994860% and 0.0238281634%, which was an increase of 0.00027 from its proportion measured as of June 30, 2016. The Authority reported deferred outflows and inflows of resources as follows:

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

NOTES TO FINANCIAL STATEMENTS

L. PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

| | 2017 | | 2016 | |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 132,096 | \$ - | \$ 131,243 | \$ - |
| Changes of assumptions | 1,130,217 | 1,126,073 | 1,461,879 | - |
| Net difference between projected and actual investment earnings on pension plan investments | 38,200 | - | 269,098 | - |
| Changes in proportion | 48,359 | 249,921 | - | 341,727 |
| | <u>\$ 1,348,872</u> | <u>\$ 1,375,994</u> | <u>\$ 1,862,220</u> | <u>\$ 341,727</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:

| Years Ending June 30, | |
|-----------------------|--------------------|
| 2018 | \$ 132,064 |
| 2019 | 199,288 |
| 2020 | 120,758 |
| 2021 | (160,609) |
| 2022 | (318,624) |
| | <u>\$ (27,122)</u> |

Actuarial Assumptions

The collective total pension liability for the June 30, 2017 and 2016, measurement date, respectively, was determined by an actuarial valuation as of July 1, 2016 and 2015, respectively, which was rolled forward to June 30, 2017 and 2016, respectively, using the following actuarial assumptions:

| | 2017 |
|----------------------------|---------------|
| Inflation rate | 2.25% |
| Salary increases: | |
| through 2026, based on age | 1.65% - 4.15% |
| Thereafter, based on age | 2.65 - 5.15% |
| Investment rate of return | 7% |
| | 2016 |
| Inflation rate | 3.08% |
| Salary increases: | |
| 2012-2021, based on age | 1.65% - 4.15% |
| Thereafter, based on age | 2.65 - 5.15% |
| Investment rate of return | 7.65% |

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

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, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

In accordance with State statute, the long term expected rate of return on plan investments (7% at June 30, 2017) is determined by the State Treasurer, after consultation with the directors of the Division of Investment 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, 2017, are summarized in the following table:

| Asset Class | 2017 | |
|-----------------------------------|-------------------|--|
| | Target Allocation | Long-term Expected Real Rate of Return |
| Absolute return/risk mitigation | 5.00% | 5.51% |
| Cash equivalents | 5.50% | 1.00% |
| U.S. Treasuries | 3.00% | 1.87% |
| Investment Grade Credit | 10.00% | 3.78% |
| Public High Yield | 2.50% | 6.82% |
| Global Diversified Credit | 5.00% | 7.10% |
| Credit Oriented Hedge Funds | 1.00% | 6.60% |
| Debt Related Private Equity | 2.00% | 10.63% |
| Debt Related Real Estate | 1.00% | 6.61% |
| Private Real Estate | 2.50% | 11.83% |
| Equity Related Real Estate | 6.25% | 9.23% |
| U.S. Equity | 30.00% | 8.19% |
| Non-U.S. Developed Markets Equity | 11.50% | 9.00% |
| Emerging Markets Equity | 6.50% | 11.65% |
| Buyouts/Venture Capital | 8.25% | 13.08% |

MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

NOTES TO FINANCIAL STATEMENTS

L. PENSION PLAN (CONTINUED)**Actuarial Assumptions (Continued)**

| Asset Class | 2016 | |
|----------------------------|-------------------|--|
| | Target Allocation | Long-term Expected Real Rate of Return |
| Cash | 5.00% | 87.00% |
| U.S. Treasuries | 1.50% | 1.74% |
| Investment Grade Credit | 8.00% | 1.79% |
| Mortgages | 2.00% | 1.67% |
| High Yield Bonds | 2.00% | 4.56% |
| Inflation-Indexed Bonds | 1.50% | 3.44% |
| Broad US Equities | 26.00% | 8.53% |
| Developed Foreign Equities | 13.25% | 6.83% |
| Emerging Market Equities | 6.50% | 9.95% |
| Private Equities | 9.00% | 12.40% |
| Hedge Fund/Absolute Return | 12.50% | 4.68% |
| Real Estate (Property) | 2.00% | 6.91% |
| Commodities | 50.00% | 5.45% |
| Global Debt ex US | 5.00% | -0.25% |
| REIT | 5.25% | 5.63% |

The discount rate used to measure the total pension liability was 5% as of June 30, 2017. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7% and a municipal bond rate of 3.58% as of June 30, 2017, 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 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, 2017, 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:

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

NOTES TO FINANCIAL STATEMENTS

L. PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

| June 30, 2017 | | |
|---------------------------|--|---------------------------|
| At 1% decrease (4.00%) | At current discount rate (5.00%) | At 1% increase (6.00%) |
| \$ 6,959,555 | \$ 5,609,975 | \$ 4,485,608 |
| 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 |

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.

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 \$149,367, \$142,579 and \$155,014 for the years ended December 31, 2017, 2016 and 2015, respectively.

Please refer to State website www.state.nj.us for more information regarding the PERS Plan.

O. COMMITMENTS

At December 31, 2017 and 2016, the Authority had uncompleted agreements with contractors to perform various services related to its construction projects. Commitments under contracts in process amounted to \$20,447,347 and \$20,801,226, at December 31, 2017 and 2016, 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 2017 and 2016, total reimbursements received from both agreements were \$3,340 and \$8,328, 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.

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

NOTES TO FINANCIAL STATEMENTS

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.

Q. ARBITRAGE RULES

The Authority is subject to certain arbitration 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 arbitration provisions of the Internal Revenue Code. The Authority is required to rebate certain arbitration profits on non-purpose investments at least once every five years. At December 31, 2017, there were no material arbitration 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 will be effective for fiscal year ending December 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)

Schedule of Proportionate Share of Net Pension Liability

| | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|--------------|--------------|
| Proportion of net pension liability | 0.0240994860% | 0.0238281634% | 0.023846506% | 0.026559977% |
| Proportionate share of the net pension liability | \$ 5,609,975 | \$ 7,057,219 | \$ 5,353,063 | \$ 4,964,927 |
| Covered-employee payroll | 1,951,017 | 1,968,910 | 1,754,197 | 1,785,202 |
| Plan fiduciary net position as a percentage of the total pension liability | 48.10% | 40.14% | 47.93% | 52.08% |

This schedule reports information for those years subsequent to the adoption of GASB Statement No. 68.
A full ten years presentation will be made as appropriate information becomes available in future years.

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

SCHEDULE OF CONTRIBUTIONS (UNAUDITED)

Schedule of Contributions

| | 2017 | 2016 | 2015 | 2014 |
|---|------------|------------|------------|------------|
| Contractually required contribution | \$ 223,256 | \$ 245,299 | \$ 205,016 | \$ 218,612 |
| Contribution in relation to the contractually required contribution | 252,452 | 245,299 | 258,471 | 218,612 |
| Covered-employee payroll | 1,951,017 | 1,968,910 | 1,754,197 | 1,785,202 |
| Contributions as a percentage of covered-employee payroll | 12.94% | 12.46% | 14.73% | 12.25% |

This schedule reports information for those years subsequent to the adoption of GASB Statement No. 68.
A full ten years presentation will be made as appropriate information becomes available in future years.

OTHER SUPPLEMENTARY INFORMATION

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

SCHEDULE OF OPERATING EXPENSES
Year Ended December 31, 2017

| Budget Items | Budget (Unaudited) | Actual | (Over) Under Budget |
|--|-----------------------|---------------------|------------------------|
| Salaries and wages | \$ 2,168,852 | \$ 1,951,017 | \$ 217,835 |
| Payroll taxes | 155,000 | 127,869 | 27,131 |
| Pension plan contribution | 260,000 | 252,452 | 7,548 |
| Health insurance | 596,000 | 513,238 | 82,762 |
| Other insurance | 133,000 | 77,433 | 55,567 |
| Professional fees | 275,000 | 152,231 | 122,769 |
| Telephone | 32,000 | 25,584 | 6,416 |
| Office expense | 487,360 | 421,295 | 66,065 |
| Seminars / CPE's | 15,500 | 10,485 | 5,015 |
| Automobile expenses | 41,000 | 31,774 | 9,226 |
| Rent expense | 175,000 | 175,000 | - |
| Transfer station costs | 1,910,000 | 2,086,484 | (176,484) |
| Recycling contract solid waste tires | 50,000 | 47,460 | 2,540 |
| Repairs and maintenance | 155,000 | 172,588 | (17,588) |
| Dues and membership fees | 6,000 | 6,016 | (16) |
| Advertising and printing | 15,500 | 12,625 | 2,875 |
| Postage and freight | 6,500 | 4,025 | 2,475 |
| Outside services, consultants, and temp. staff | 213,000 | 94,829 | 118,171 |
| Tenant related expenses | 22,000 | 9,517 | 12,483 |
| Bad debt | - | 16,759 | (16,759) |
| Pension Plan-GASB 68 required adjustment | - | 100,371 | (100,371) |
| Total | <u>\$ 6,716,712</u> | <u>\$ 6,289,052</u> | <u>\$ 427,660</u> |

MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

SCHEDULE OF OPERATING EXPENSES (CONTINUED)

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 | <u>\$ 6,633,415</u> | <u>\$ 6,663,579</u> | <u>\$ (30,164)</u> |

MERCER COUNTY IMPROVEMENT AUTHORITY

(A Component Unit of the County of Mercer)

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended December 31, 2017

| <u>State and Local Grantor/Program Title</u> | <u>Program or Award Amount</u> | <u>Grant Period</u> | <u>Current Year's Expenditures</u> | <u>Cumulative Expenditures</u> |
|--|--|-----------------------|--|------------------------------------|
| New Jersey DEP Clean Community 2016 | \$ 69,657 | 1/1/16-Until Complete | \$ 31,287 | \$ 33,846 |
| New Jersey DEP Clean Community 2017 | 59,242 | 1/1/17-Until Complete | - | - |
| Scrap Tire Management Fund Grant | 30,000 | 7/1/05-Until Complete | - | 16,577 |
| Solid Waste REA Tax Grant-2014 | 203,500 | (1) | 51,993 | 203,500 |
| Solid Waste REA Tax Grant-2015 | 199,500 | (1) | 109,385 | 109,314 |
| Solid Waste REA Tax Grant-2016 | 236,478 | (1) | - | - |
| HDSRF Grant | 137,793 | Until complete | - | 101,325 |
| Total | <u>\$ 936,170</u> | | <u>\$ 192,665</u> | <u>\$ 464,562</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, 2017

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, 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, the financial statements of the Mercer County Improvement Authority (the "Authority"), a component unit of the County of Mercer, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 12, 2018.

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.

Mercadieu, P.C.
Certified Public Accountants

June 12, 2018

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

SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS
Year Ended December 31, 2017

None reported.

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

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended December 31, 2017

None reported.