

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

December 31, 2018

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

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December 31, 2018

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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, 2018 and 2017, and the related notes to the financial statements, which 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 auditors' 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, 2018 and 2017, 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.

### Emphasis of Matter

As discussed in Note S to the financial statements, in 2018 the Authority adopted new accounting guidance Governmental Accounting Standards Board Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

### 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; and proportionate share of the OPEB liability and contributions on pages 43 through 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The schedule of operating expenses – budget vs. actual 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 – budget vs. actual 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 – budget vs. actual 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 August 2, 2019, 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 the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Mercedien, P.C.*

*Certified Public Accountants*

August 2, 2019

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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As financial management of the Mercer County Improvement Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2018 and 2017. 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 2018, net operating income of the Authority increased by approximately 13% primarily due to increase in solid waste tipping revenues and return on investments. In 2018, the Authority implemented Governmental Accounting Standard Board Statement No.75 (GASB-75) "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (OPEB)". Implementation of GASB-75 required adjustment to the Authority's net position and restatement of financial statements for the years ended December 2017 and 2016. This resulted in total \$7,996,852 decrease of the Authority's net position. However, the Authority's net position at year-end remains positive.

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).

Visit the Authority's website [www.mcyanj.org](http://www.mcyanj.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 present 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 present information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.



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

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

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

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

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

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

**2018**

Cash and Investment balances of \$55,849,210 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. \$21,315,977 in current assets and \$232,644,155 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 \$34,238,635 related to the Cure Insurance 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, 2018, the Authority had a total of \$7,620,062 invested in capital assets, which represents a \$343,317 decrease from the prior year. More detailed information about the Authority's capital assets is presented in "Capital Assets" Note to the basic financial statements.

The Authority has \$14,565,000 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 \$221,436,339, unearned lease/loan income of \$74,846,692 and escrow funds payable of \$11,092,308 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 and not-for-profit organizations. In total, at 2018 year end, the Authority had \$236,001,339 in bonds outstanding compared to \$257,156,555 at December 31, 2017. This change represents approximately 9% 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.

**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 a \$199,875 decrease from the prior year. More detailed information about the Authority's capital assets is presented in "Capital Assets" 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 \$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 Project Bonds Payable" Note to the basic financial statements.

The following tables contain condensed financial information derived from the December 31, 2018, 2017 and 2016 financial statements of the Authority:

**Condensed Statements of Net Position**

	December 31,			Change 2018-2017	Percentage Change 2018-2017
	2018	2017	2016		
Capital assets	\$ 43,432,813	\$ 45,168,341	\$ 46,748,404	\$ (1,735,528)	-4%
Other assets	321,260,109	365,899,153	403,188,478	(44,639,045)	-12%
Total assets	<u>364,692,922</u>	<u>411,067,495</u>	<u>449,936,882</u>	<u>(46,374,573)</u>	-11%
Deferred outflows of resources	2,046,526	2,826,744	3,634,305	(780,218)	-28%
Current liabilities	53,382,584	81,249,299	97,678,937	(27,866,715)	-34%
Long-term liabilities	294,020,843	323,543,292	355,488,981	(29,522,449)	-9%
Total liabilities	<u>347,403,427</u>	<u>404,792,591</u>	<u>453,167,918</u>	<u>(57,389,164)</u>	-14%
Deferred inflows or resources	4,967,255	2,757,835	341,727	2,209,420	80%
Net position:					
Net investment in capital assets	(13,466,122)	(17,101,419)	(20,517,879)	3,635,297	21%
Restricted for debt service	5,629,825	6,786,973	7,642,784	(1,157,148)	-17%
Unrestricted	22,205,063	16,658,259	20,714,095	5,546,804	33%
Total Net position	<u>\$ 14,368,766</u>	<u>\$ 6,343,813</u>	<u>\$ 7,839,000</u>	<u>\$ 8,024,953</u>	127%

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

	Years Ended December 31,			Change 2018-2017	Percentage Change 2018-2017
	2018	2017	2016		
Operating revenues	\$ 32,608,806	\$ 31,111,897	\$ 32,302,526	\$ 1,496,909	5%
Waste disposal costs	18,815,631	17,998,337	18,391,912	817,293	5%
Gross operating profit	13,793,175	13,113,559	13,910,614	679,616	5%
Other operating revenues*	991,912	662,683	575,750	329,229	50%
Gross operating profit and other operating revenues	14,785,087	13,776,242	14,486,364	1,008,845	7%
Operating expenses	6,346,546	6,289,052	6,663,579	57,494	1%
Depreciation and amortization	390,118	388,816	351,563	1,302	0%
Income from operations	8,048,423	7,098,374	7,471,222	950,049	13%
Non-operating expenses, net	2,588,051	2,879,615	4,130,264	(291,564)	-10%
Changes in net position	5,460,372	4,218,759	3,340,958	1,241,612	29%
Changes in net position - Sports Arena	2,564,581	2,282,906	2,070,089	281,675	12%
Net position, beginning of year	6,343,813	7,839,000	2,427,953	(1,495,187)	-19%
Net position, beginning of year, restated	-	(157,852)	-	(1,495,187)	-100%
Net position, end of year	<u>\$ 14,368,766</u>	<u>\$ 6,343,813</u>	<u>\$ 7,839,000</u>	<u>\$ 8,024,952</u>	227%
*Other operating revenues:					
Project costs reimbursement	\$ 354,031	\$ 381,042	\$ 384,528	\$ (27,011)	-7%
Interest on investments	637,880	281,641	191,222	356,240	126%
	<u>\$ 991,912</u>	<u>\$ 662,683</u>	<u>\$ 575,750</u>	<u>\$ 329,229</u>	50%

## **MERCER COUNTY IMPROVEMENT AUTHORITY**

(A Component Unit of the County of Mercer)

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

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#### **Significant Events**

##### **2018**

The Authority's operating expenses in 2018 were \$935,472 under the budget. Refer to "Supplementary Information", schedule "Budget vs. Actual" for further details.

In 2015 the Authority financed the County of Mercer Court House Annex Project with \$29,720,000 Bond issuance. This project is considered completed.

On February 14, 2019, the Authority refunded its Equipment Lease and Open Space Bonds, Series 2005 A and B, and Special Services School District Bonds, Series 2005A. Refunding provided for the total Net Present Value saving of approximately \$3.8 Million.

On August 1, 2019, the Authority refunded its Build America Bonds, Series 2009 (Both Court House and County Capital projects). Refunding provided for the total Net Present Value saving of approximately \$10 million.

The Authority's assets and liabilities decreased by approximately 9% in 2018, primarily due to the repayment of the existing debt during the year.

##### **2017**

The Authority's operating expenses in 2017 were \$427,660 under the budget. Refer to "Supplementary Information", "Schedule of Operating Expenses - Budget to 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.

#### **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, 2<sup>nd</sup> 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,	
	2018	2017 *
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets		
Unrestricted		
Cash and equivalents	\$ 33,500,588	\$ 29,063,501
Investments	2,082,649	2,046,433
Accounts receivable-haulers, net	2,448,821	3,167,506
Due from restricted funds	3,522,574	3,367,101
Other receivables, net	1,338,805	1,448,584
Other assets	95,510	97,067
Total Unrestricted	<u>42,988,947</u>	<u>39,190,192</u>
Restricted		
Cash and equivalents	20,265,973	43,678,397
Accounts receivable - recycling	357,813	393,751
Minimum lease payments receivable		
County of Mercer	20,948,268	24,508,161
Loans receivable	367,709	384,198
Loan interest receivable	37,751	39,706
Other receivables	2,629,450	1,718,380
Other assets	172,291	91,751
Total Restricted	<u>44,779,256</u>	<u>70,814,344</u>
Total Current Assets	<u>87,768,204</u>	<u>110,004,536</u>
Non-Current Assets		
Unrestricted		
Property and equipment, net	7,620,062	7,963,379
Restricted		
Minimum lease payments receivable		
County of Mercer	224,884,048	245,832,316
Construction in progress	1,574,116	1,574,116
Loans receivable	7,760,107	8,085,151
Other receivables	847,750	1,977,150
Sports arena	34,238,635	35,630,846
Total Non-Current Restricted Assets	<u>269,304,656</u>	<u>293,099,579</u>
Total Non-Current Assets	<u>276,924,719</u>	<u>301,062,958</u>
Total Assets	<u>364,692,922</u>	<u>411,067,495</u>
Deferred Outflows of Resources		
Losses on debt restructuring	1,181,391	1,476,738
Pension	862,577	1,348,872
OPEB	2,558	1,134
Total Deferred Outflows of Resources	<u>2,046,526</u>	<u>2,826,744</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 366,739,448</u>	<u>\$ 413,894,239</u>

\* Certain account balances have been restated to conform with current year presentation.

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

STATEMENTS OF NET POSITION (CONTINUED)

	December 31,	
	2018	2017 *
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Restricted		
Current portion of project bonds payable	\$ 18,490,023	\$ 21,604,825
Accounts payable and accrued expenses	6,203,486	6,669,952
Due to unrestricted fund	3,522,574	3,367,101
Accrued interest payable	3,071,011	3,298,333
Haulers' deposits	395,082	614,191
Unearned lease/loan income	8,479,082	9,082,792
Unearned revenues	1,749,666	874,333
State grants unearned	379,352	461,538
Escrow funds payable	11,092,308	35,276,233
Total Current Liabilities	<u>53,382,584</u>	<u>81,249,299</u>
Non-Current Liabilities		
Long-term project bonds payable	217,511,316	235,551,730
Unearned lease/loan income	66,367,610	74,846,692
Unearned revenues	813,750	918,750
Net pension liability	4,487,339	5,609,975
OPEB liability	4,840,828	6,616,145
Total Non-Current Liabilities	<u>294,020,843</u>	<u>323,543,292</u>
Total Liabilities	<u>\$ 347,403,427</u>	<u>\$ 404,792,591</u>
Deferred inflows of resources		
Pension	\$ 1,900,949	\$ 1,375,994
OPEB	3,066,306	1,381,841
Total Deferred Inflows of Resources	<u>\$ 4,967,255</u>	<u>\$ 2,757,835</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 352,370,682</u>	<u>\$ 407,550,426</u>
Net Position		
Net investment in capital assets	\$ (13,466,122)	\$ (17,101,419)
Restricted	5,629,825	6,786,973
Unrestricted	22,205,063	16,658,259
Total Net Position	<u>\$ 14,368,766</u>	<u>\$ 6,343,813</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 366,739,448</u>	<u>\$ 413,894,239</u>

\* Certain account balances have been restated to conform with current year presentation.

**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,	
	2018	2017 *
Waste disposal revenues	\$ 29,542,787	\$ 28,180,912
Recycling revenues	3,066,019	2,930,985
Operating revenues	32,608,806	31,111,897
Waste disposal costs	18,815,631	17,998,337
Gross operating profit	13,793,175	13,113,559
Other operating revenues		
Project costs reimbursement and other operating revenues	354,031	381,042
Interest on investments	637,880	281,641
Total other operating revenues	991,912	662,683
Gross operating profit and other operating revenues	14,785,087	13,776,242
Operating expenses	6,346,546	6,289,052
Income from operations before depreciation and amortization	8,438,541	7,487,190
Depreciation and amortization	390,118	388,816
Income from operations	8,048,423	7,098,374
Non-operating revenues (expenses)		
Sludge facility, net	39,810	(764)
Sports Arena revenues	6,439,542	6,532,189
Sports Arena expenses	(6,439,542)	(6,532,189)
Bond interest expense, Solid Waste	(725,501)	(875,641)
Bond interest expense, projects	(9,707,464)	(10,324,934)
Minimum lease income, projects	9,082,792	9,683,778
Loan interest income	624,672	641,156
Miscellaneous	192,144	63,579
Non-operating expenses before		
bond interest accretion, depreciation and amortization	(493,547)	(812,826)
Bond interest accretion - Sports Arena	(406,945)	(391,254)
Depreciation and amortization - Sports Arena	(1,392,212)	(1,380,188)
Amortization of deferred outflows - Solid Waste	(295,347)	(295,347)
Total non-operating expenses	(2,588,051)	(2,879,615)
Changes in net position	5,460,372	4,218,759
Changes in net position - Sports Arena	2,564,581	2,282,906
Net position, beginning of year	6,343,813	7,839,000
Net position, beginning of year, restated	-	(157,852)
Net position, end of year	\$ 14,368,766	\$ 6,343,813

\* Certain account balances have been restated to conform with current year presentation.

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

**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Cash received from		
Waste disposal revenue	\$ 30,048,248	\$ 28,446,592
Recycling revenue	3,101,957	2,780,895
State of New Jersey grants	56,738	295,720
Project costs reimbursement	354,031	381,042
Investment interest	637,880	281,641
Cash used for		
Waste disposal costs	(18,815,631)	(17,998,337)
Operating expenses	(6,521,168)	(6,279,459)
State of New Jersey grants	(134,018)	(192,665)
Net cash from operating activities	<u>8,728,037</u>	<u>7,715,430</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Change in net position-Sports Arena	2,564,581	2,282,902
Net cash from noncapital and related financing activities	2,564,581	2,282,902
Leases/Loans	384,703	9,616,949
Principal paid on bonds and agreements, net	(21,349,303)	(21,217,061)
Interest paid on bonds	(10,432,965)	(11,200,575)
Net cash from capital and related financing activities	<u>(28,832,984)</u>	<u>(20,517,785)</u>
<b>Cash Flows from Investing Activities</b>		
Investments	(36,216)	(16,320)
Sludge facility, net	299,833	(12,722)
Sports Arena revenues	6,293,783	6,040,964
Sports Arena expenses	(5,899,920)	(6,551,577)
Purchases of property and equipment	(54,147)	(192,691)
Other activities	526,277	151,426
Net cash from investing activities	<u>1,129,610</u>	<u>(580,920)</u>
Net decrease in cash and equivalents	(18,975,337)	(13,383,275)
Cash and equivalents, beginning of year	72,741,898	86,125,173
Cash and equivalents, end of year	<u>\$ 53,766,561</u>	<u>\$ 72,741,898</u>



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

STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31,	
	2018	2017
Reconciliation of Income from Operations to Net Cash		
from Operating Activities		
Income from operations	\$ 8,048,423	\$ 7,098,374
Adjustments to reconcile income from operations to net cash		
from operating activities		
Amortization and depreciation - solid waste	390,118	388,816
Allowance for doubtful accounts	6,462	16,759
Net pension expense	(111,386)	100,371
Net OPEB expense	(92,276)	-
Changes in assets and liabilities		
Accounts receivable - haulers	715,783	104,696
Accounts receivable - recycling	35,938	(150,090)
Other receivables	8,786	(86,561)
Other assets	1,558	(553)
Accounts payable, accrued expenses and other liabilities	21,020	(106,984)
Haulers' deposits	(219,109)	247,546
State grants unearned	(77,280)	103,056
Net cash from operating activities	<u>\$ 8,728,037</u>	<u>\$ 7,715,430</u>

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

NOTES TO FINANCIAL STATEMENTS

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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

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

The Authority has been designated by the Freeholders of the County as the implementing agency for the Mercer County District Solid Waste Management Plan (the "Solid Waste Management 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

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

**Construction Projects**

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

**Capitalization of Interest**

The Authority capitalizes all interest related to projects under construction.

**Allocation of Operating Expenses**

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

**Interest Income on Construction Account**

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

**Deferred Outflows and Inflows of Resources**

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

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

***Pension and OPEB 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 and OPEB as a whole, differences between the Authority’s contribution and its proportionate share of contributions, and the Authority’s contributions subsequent to the valuation measurement date.

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

**Net Position**

**Net Investment in Capital Assets**

Net investment in capital assets consists 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.

**Capital Assets**

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

**Use of Estimates**

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

**Rounding**

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

**B. DEPOSITS AND INVESTMENTS**

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

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

The Authority has Level 1 investments in U.S. Treasury Notes in the amount of \$2,082,649 and \$2,046,433, that mature in one year at December 31, 2018 and 2017, respectively. The Authority's investment practices are in compliance with N.J.S.A. 40A: 5-15.1.

At December 31, 2018 and 2017, respectively, the Authority's bank balance on deposit was \$54,150,661 and \$75,058,871, respectively, inclusive of unrestricted and restricted cash. Of the bank balance, \$250,000 in each bank was covered by federal depository insurance and the rest of the balance was covered by a collateral pool maintained by the banks as required by New Jersey statutes in accordance with GUDPA, except for funds held by Trustees in Bank of New York Mellon and U.S. Bank.

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

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

NOTES TO FINANCIAL STATEMENTS

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**C. ACCOUNTS RECEIVABLE - HAULERS**

Accounts receivable – haulers as of December 31, 2018 and 2017, are expected to be received within one year. They are as follows:

	December 31,	
	2018	2017
Accounts receivable-haulers	\$ 2,567,334	\$ 3,283,118
Less: allowance for doubtful accounts	118,513	115,612
Net accounts receivable	<u>\$ 2,448,821</u>	<u>\$ 3,167,506</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,
2019	\$ 20,948,268
2020	19,998,106
2021	17,554,581
2022	17,368,338
2023	17,196,387
Thereafter	152,766,638
	<u>\$ 245,832,317</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, 2018 and 2017:

Project	Borrower	Security	Maturity Date	Interest Rate	Loans Receivable (in thousands)			Amounts Due Within One Year	
					December 31, 2017	Additions	Reductions		
ARC/Mercer, Inc.	ARC/Mercer, Inc.	Mortgage and Security Agreement	2031	4.740%	\$ 1,572	\$ -	\$ (86)	\$ 1,486	\$ 91
Beth Chaim	Congregation Beth Chaim	Mortgage and Security Agreement	2026	4.690%	783		(81)	702	129
Twin Rivers	Twin Rivers Community Trust	Mercer County Guarantee Agreement	2022	3.000%-5.250%	370		(95)	275	85
Westlake Mews	Westlake Mews, L.L.C.	Loan Agreement	2041	7.200%-8.000%	5,744		(79)	5,665	63
Total					8,469	\$ -	\$ (341)	8,128	\$ 368
Less current portion					-			368	
Net long-term loans receivable					\$ 8,469			\$ 7,760	

  

Project	Borrower	Security	Maturity Date	Interest Rate	Loans Receivable (in thousands)			Amounts Due Within One Year	
					December 31, 2016	Additions	Reductions		
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					\$ 8,429			\$ 8,085	

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

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**E. LOANS RECEIVABLE (CONTINUED)**

Maturities of loans receivable are as follows:

	<u>Years Ending December 31,</u>	
2019	\$	367,709
2020		383,489
2021		400,880
2022		427,220
2023		381,609
Thereafter		<u>6,166,909</u>
	\$	<u><u>8,127,816</u></u>

**F. CAPITAL ASSETS**

Capital assets consists of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Other		
Land	\$ 275,919	\$ 275,919
Building	150,000	150,000
Subtotal	<u>425,919</u>	<u>425,919</u>
Less accumulated depreciation	82,490	78,740
Total	<u><u>\$ 343,429</u></u>	<u><u>\$ 347,179</u></u>
Solid Waste		
Transfer station (building and machinery)	\$ 12,261,885	\$ 12,234,635
Building	5,544,474	5,544,474
Office furniture and equipment	387,440	380,764
Computer hardware and software	414,262	487,879
Automobiles	356,139	377,708
Landfill	415,134	415,134
Subtotal	<u>19,379,333</u>	<u>19,440,593</u>
Less accumulated depreciation and amortization	12,102,701	11,824,394
Total	<u><u>\$ 7,276,632</u></u>	<u><u>\$ 7,616,200</u></u>



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

**F. CAPITAL ASSETS (CONTINUED)**

Depreciation and amortization expense was as follows:

	December 31,	
	2018	2017
<b>Solid Waste</b>		
Transfer station (building and machinery)	\$ 161,094	\$ 167,091
Building	139,889	139,889
Office furniture and equipment	10,505	16,776
Computer hardware and software	18,580	26,079
Automobiles	60,050	38,981
Total depreciation and amortization expense - solid waste	<u>390,118</u>	<u>388,816</u>
Depreciation-other capital assets	<u>3,750</u>	<u>3,750</u>
Total depreciation and amortization expense	<u><u>\$ 393,868</u></u>	<u><u>\$ 392,566</u></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,			December 31,
	2017	Additions	Retirements	2018
<b>Non-Depreciable Assets</b>				
Land	\$ 275,919	\$ -	\$ -	\$ 275,919
<b>Depreciable Assets</b>				
Transfer station (building and machinery)	12,234,635	27,250	-	12,261,885
Buildings	5,694,474	-	-	5,694,474
Office furniture and equipment	380,764	6,676	-	387,440
Computer hardware and software	487,879	20,221	(93,837)	414,263
Automobiles	377,708	-	(21,570)	356,138
Landfill	415,134	-	-	415,134
Total at historical cost	19,866,512	<u>\$ 54,147</u>	<u>\$ (115,407)</u>	19,805,253
Less accumulated depreciation and amortization	11,903,133			12,185,191
Total capital assets	<u><u>\$ 7,963,379</u></u>			<u><u>\$ 7,620,062</u></u>

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

NOTES TO FINANCIAL STATEMENTS

**F. CAPITAL ASSETS (CONTINUED)**

	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	<u>19,705,441</u>	<u>\$ 192,691</u>	<u>\$ (31,620)</u>	<u>19,866,512</u>
Less accumulated depreciation and amortization	<u>11,542,187</u>			<u>11,903,133</u>
Total capital assets	<u>\$ 8,163,255</u>			<u>\$ 7,963,379</u>

Construction in progress consists of projects in process but not completed as of December 31, 2018 and 2017. The balance at December 31, 2018 and 2017, 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 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**  
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NOTES TO FINANCIAL STATEMENTS

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

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

**Transfer Station and Landfill**

Waste disposal collections from the County are tipped and weighed at the Authority's Transfer Station and transported to the G.R.O.W.S. landfill site. The Authority charges waste haulers on a per ton basis for waste tipped. Rates charged by the Authority are approved by the New Jersey Department of Environmental Protection. Disposal revenues for waste tipped at the Transfer Station during the years ended December 31, 2018 and 2017, amounted to \$29,542,787 and \$28,180,912, 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, 2018 and 2017, amounted to \$18,815,631 and \$17,998,337, respectively. Recycling costs for the years ended December 31, 2018 and 2017, amounting to \$2,558,600 and \$2,536,766, respectively, are included in waste disposal costs in the statements of revenues, expenses and changes in net position.

Effective January 1, 2018, an operating 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.

**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").

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.

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

NOTES TO FINANCIAL STATEMENTS

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**H. SLUDGE FACILITY (CONTINUED)**

**Regional Sludge Management (Continued)**

The 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 Roebbling 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,	
	2018	2017
Land	\$ 5,294,519	\$ 5,294,519
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	30,375,852	28,983,641
Total	<u>\$ 34,238,635</u>	<u>\$ 35,630,846</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 as of December 31, 2018:

Project	Lessee/Borrower	Maturity Date	Interest Rate	Bonds Outstanding (in thousands)			Bonds Outstanding (in thousands)		Amounts Due Within One Year
				December 31, 2017	Additions	(Reductions)	December 31, 2018		
ARC/Mercer, Inc.	ARC/Mercer, Inc.	2031	4.74%	\$ 1,572	\$ -	\$ (86)	\$ 1,486	\$ 90	
Beth Chaim	Beth Chaim	2026	4.69%	783	-	(81)	702	129	
County Courthouse	Mercer County Series 2009A	2019	3.00%-5.00%	5,160	-	(2,580)	2,580	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%	28,985	-	(750)	28,235	775	
County Capital BAB's 2009	Mercer County	2029	1.10%-5.95%	24,670	-	(1,680)	22,990	1,735	
Farm Preservation	Mercer County	2021	7.00%	1,356	-	-	1,356	-	
Equipment Lease/Open Space 2005A	Mercer County	2035	3.25%-5.00%	17,350	-	(1,845)	15,505	1,850	
Equipment Lease/Open Space 2005B	Mercer County	2040	3.25%-5.00%	13,255	-	(490)	12,765	495	
*Parking Facilities Project	Mercer County	2018	7.29%-8.30%	525	-	(525)	-	-	
*Parking Facilities Project	Mercer County	2031	6.00%	2,117	-	(72)	2,045	77	
Refunding 2011	Mercer County	2020	1.00%-4.00%	4,150	-	(2,240)	1,910	1,285	
Refunding 2012A	Mercer County	2024	1.50%-5.00%	10,515	-	(1,870)	8,645	1,330	
Refunding 2012B	Mercer County	2018	0.62%-2.33%	1,545	-	(1,545)	-	-	
Solar Project 2011	Mercer County	2027	1.19%-4.90%	19,700	-	(1,970)	17,730	1,970	
*Solid Waste 2010, Series A	MCIA	2022	5.00%	17,780	-	(3,215)	14,565	3,375	
Special Services School District	Mercer County/Special Services School District	2025	3.25%-4.00%	2,495	-	(260)	2,235	275	
*Sports Arena	MCIA	2034	6.00%-8.27%	26,255	-	(1,780)	24,475	1,970	
*Sports Arena	MCIA	2034	6.00%	10,147	407	-	10,554	-	
*Sports Arena	MCIA	2031	6.00%	5,445	-	(186)	5,259	197	
Twin Rivers	Twin Rivers	2018	4.00%-4.50%	40	-	(40)	-	-	
Twin Rivers	Community Trust	2022	3.00%-5.25%	261	-	(46)	215	53	
Twin Rivers	Twin Rivers	2024	3.90%-4.75%	70	-	(10)	60	10	
Westlake Mews	Westlake Mews, L.L.C.	2041	7.20%-8.00%	5,744	-	(79)	5,665	85	
<b>Total</b>				<b>255,860</b>	<b>407</b>	<b>(21,350)</b>	<b>234,917</b>	<b>18,281</b>	
*Original issue premiums				1,297	-	(213)	1,084	209	
Subtotal				<u>257,157</u>	<u>\$ 407</u>	<u>\$ (21,563)</u>	<u>236,001</u>	<u>\$ 18,490</u>	
Less amounts due within one year				21,605			18,490		
Net long-term project bonds payable				<u>\$ 235,552</u>			<u>\$ 217,511</u>		

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

NOTES TO FINANCIAL STATEMENTS

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

<u>Project</u>	<u>Security</u>
ARC/Mercer, Inc.	Mortgage and Security Agreement
Beth Chaim	Mortgage and Security Agreement
County Courthouse, Series 2009 and 2015	Mercer County lease
County Capital Build America Bonds	Mercer County lease
DOT Improvements Project	City of Trenton lease and Mercer County lease
Equipment Lease/Open Space	Mercer County guarantee
Farm Preservation	Mercer County guarantee
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)**

The following is a summary of long-term project bonds payable as of December 31, 2017:

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
Lease Bank Program	Mercer County	2016	3.79%-4.33%	-		-	-	-
*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	3.90%-4.75%	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	

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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

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

	Principal (in Thousands)	Interest (in Thousands)	Total (in Thousands)
2019	\$ 18,281	\$ 12,338	\$ 30,619
2020	17,116	12,018	29,134
2021	16,947	11,177	28,124
2022	16,287	10,248	26,535
2023	12,829	9,409	22,238
2024-2028	59,945	36,214	96,159
2029-2033	54,333	18,190	72,523
2034-2038	32,097	4,219	36,316
2039-2041	7,082	585	7,667
Total	<u>234,917</u>	<u>\$ 114,398</u>	<u>\$ 349,315</u>
Original issue premiums	1,084		
Total	<u>\$ 236,001</u>		

Bond premium amortization of \$212,857 and \$216,689, which was netted against interest expense, for the years ended December 31, 2018 and 2017, respectively, is included in non-operating expenses.



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NOTES TO FINANCIAL STATEMENTS

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

**Build America Bond Issuances**

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

See Note T for information on the issuance of refunding bonds to refund the Build America Bonds subsequent to December 31, 2018.

**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, 2013, and the 1997 Bond was paid off on September 15, 2016. The unamortized deferred amount of refunding totaling \$1,181,391 and \$1,476,738 in 2018 and 2017, 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**

Full-time employees of the Authority are covered by the Public Employees' Retirement System of New Jersey, ("PERS"). In addition, the Authority has a deferred compensation plan in which all eligible employees may participate and which is funded entirely by employee contributions. PERS is administered by the State of New Jersey, Division of Pensions and Benefits ("Division"). The Authority has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 require the Authority to report its share of the defined benefit pension liability and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the PERS.

The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may

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

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**L. PENSION PLAN (CONTINUED)**

be obtained by writing to the State of New Jersey, Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at: [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

**Plan Description and Benefits Provided**

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 and their beneficiaries. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:38. 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.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007, and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008, and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010, and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

As a condition of employment, all Authority full-time employees are required to be members of PERS. PERS members can apply for a service retirement at age 60 if enrolled before November 2, 2008 (Tier 1 or Tier 2), or at age 62 if enrolled on or after November 2, 2008, but before June 28, 2011 (Tier 3 or Tier 4), or at age 65 if enrolled on or after June 28, 2011 (Tier 5), regardless of the amount of service credit earned.

Service retirement benefits 1/55<sup>th</sup> of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60<sup>th</sup> of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 years or more of service credit before age 62, and tier 5 with 30 years or more of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

**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 determined the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law.

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NOTES TO FINANCIAL STATEMENTS

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**L. PENSION PLAN (CONTINUED)**

**Contributions (Continued)**

This unfunded liability will be paid by the employer in level annual payments over a period of 15 years which began with the payments due in the fiscal year ended June 30, 2012, and are adjusted by the rate of return on the actuarial value of assets.

Employee contribution rates to PERS governed by P.L. 2011, C. 78, effective June 28, 2011, were increased from 5.5% of salary to 6.5% of salary, and a phase-in to 7.5% of salary over a seven-year period. Covered Authority employees are required by PERS to contribute 7.5% of their salaries. State statute requires the Authority to contribute an actuarially determined rate which includes the normal cost and the unfunded accrued liability. The amount of the Authority's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest. In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Specific information on actuarial assumptions and rates of return can be found at <https://www.nj.gov/treasury/pensions/documents/financial/gasb/gasb68-pers19.pdf>.

The payroll for employees covered by PERS for the years ended December 31, 2018 and 2017, was \$1,921,507 and \$1,951,017, respectively. The Authority's total payroll for the years ended December 31, 2018 and 2017, was \$2,010,169 and \$2,032,856, respectively. The Authority is billed annually for its normal contribution plus any accrued liability. Contributions to PERS from the Authority were \$265,636 and \$252,452 for the years ended December 31, 2018 and 2017, respectively. Contributions were made in accordance with the actuarial funding requirement.

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

Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense excluding that attributable to employer-paid member contributions are determined separately for each individual employer of the State and local groups.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedules of pension amount by employer. The allocation percentages for each group as of June 30, 2018 and 2017, are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2018 and 2017, respectively.

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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)**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collected deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented in the PERS schedule of employer allocations and applied to amounts presented in the PERS schedule of pension amounts by employer are based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2018 and 2017.

At December 31, 2018 and 2017, the Authority reported a net pension liability of \$4,487,339 and \$5,609,975. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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, 2018 and 2017, respectively, the Authority's proportionate share of the collective net pension liability was 0.0227905158% and 0.0240994860%, which was a decrease of 0.00131. For the years ended December 31, 2018 and 2017, the Authority recognized PERS pension expense of (\$111,386) and \$100,371, respectively. The Authority reported deferred outflows and inflows of resources as follows:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 85,574	\$ 23,138
Changes of assumptions	739,439	1,434,812
Net difference between projected and actual investment earnings on pension plan investments	-	42,091
Changes in proportion	37,564	400,908
	<u>\$ 862,577</u>	<u>\$ 1,900,949</u>
	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 132,096	\$ -
Changes of assumptions	1,130,217	1,126,073
Net difference between projected and actual investment earnings on pension plan investments	38,200	-
Changes in proportion	48,359	249,921
	<u>\$ 1,348,872</u>	<u>\$ 1,375,994</u>

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

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**L. PENSION PLAN (CONTINUED)**

**Actuarial Assumptions**

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	\$ 162,233
2019	(206,751)
2020	(434,208)
2021	(399,692)
2022	(159,954)
	<u>\$ (1,038,372)</u>

The collective total pension liability for the June 30, 2018 and 2017, measurement date, respectively, was determined by an actuarial valuation as of July 1, 2017 and 2016, respectively, which was rolled forward to June 30, 2018 and 2017, respectively, using the following actuarial assumptions:

	<u>2018</u>
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	7.00%
	<u>2017</u>
Inflation rate	2.25%
Salary increases:	
2012-2021, based on age	1.65% - 4.15%
Thereafter, based on age	2.65 - 5.15%
Investment rate of return	7.00%

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 2012 to 2013 using Projection Scale AA and using a generational approach based on the Conduent's, the plan actuary, 2014 projection scale thereafter. 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).

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NOTES TO FINANCIAL STATEMENTS

**L. PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

The actuarial assumptions used in the July 1, 2017, 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, 2018), 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 rates 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, 2018, are summarized in the following tables:

Asset Class	2018	
	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%	11.64%
Buyouts/Venture Capital	8.25%	13.08%
	<u>100.00%</u>	

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NOTES TO FINANCIAL STATEMENTS

**L. PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Asset Class	2017	
	Target Allocation	Long-term Expected Real Rate of Return
Cash	5.00%	5.51%
U.S. Treasuries	5.50%	1.00%
Investment Grade Credit	3.00%	1.87%
Mortgages	10.00%	3.78%
High Yield Bonds	2.50%	6.82%
Inflation-Indexed Bonds	5.00%	7.10%
Broad US Equities	1.00%	6.60%
Developed Foreign Equities	2.00%	10.63%
Emerging Market Equities	1.00%	6.61%
Private Equities	2.50%	11.83%
Hedge Fund/Absolute Return	6.25%	9.23%
Real Estate (Property)	30.00%	8.19%
Commodities	11.50%	9.00%
Global Debt ex US	6.50%	11.65%
REIT	8.25%	13.08%
	<u>100.00%</u>	

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

The discount rate used to measure the total pension liability was 5.66% and 5.00% as of June 30, 2018 and 2017, respectively. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.87% and 3.58% as of June 30, 2018 and 2017, respectively, 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 projection of 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 June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2046, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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NOTES TO FINANCIAL STATEMENTS

**L. PENSION PLAN (CONTINUED)**

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

The following presents the Authority's proportionate share of the collective net pension liability of the participating employers as of June 30, 2018 and 2017, respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

June 30, 2018		
At 1% decrease (4.66%)	At current discount rate (5.66%)	At 1% increase (6.66%)
\$ 5,642,312	\$ 4,487,339	\$ 3,518,391
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

**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. The term of the current contract is January 1, 2017 – December 31, 2020.

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

The Authority participates in a cost sharing multiple-employer defined post-retirement benefit plan (the "Plan"), which is administered by the State of New Jersey. The Plan provides continued health care benefits to employees retiring after twenty-five years of service. Benefits, contributions, funding and the manner of administration are determined by the State of New Jersey Legislature. The Division of Pensions and Benefits charges the Authority for its contributions. The total number of retired participants eligible for benefits was 32, 34, and 34 at December 31, 2018, 2017, and 2016, respectively.

The Authority's contribution to the Plan for the years ended December 31, 2018, 2017, and 2016 was \$150,464, \$149,367 and \$142,579, respectively.

Please refer to the State website, [www.state.nj.us](http://www.state.nj.us), for more information regarding the Plan. The Plan's financial report may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.



**N. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)**

**General Information About the OPEB Plan**

The Authority participates in the State Health Benefit Local Government Retired Employees Plan (the Plan) which is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The Authority adopted a resolution to approve participation in the Plan in fiscal year 2012. The Plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

The Plan provides medical and prescription drug coverage to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Authority. Chapter 48 allows local employers to establish their own age and service eligibility for employer-paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer-paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A. 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire within 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330. The Authority is in a nonspecial funding situation, therefore, coverage under Chapter 330 does not apply.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011, will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

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

NOTES TO FINANCIAL STATEMENTS

**N. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)**

**Allocation Methodology**

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2017 through June 30, 2018.

**Net OPEB Liability**

*Components of Net OPEB Liability*

The components of the Authority's net OPEB liability as of June 30, 2018 and 2017, is as follows:

	June 30, 2018	June 30, 2017
Total OPEB liability	\$ 4,938,001	\$ 6,685,255
Plan Fiduciary Net Position	97,173	69,110
Net OPEB Liability	<u>\$ 4,840,828</u>	<u>\$ 6,616,145</u>
 Plan Fiduciary Net Position as a % of total OPEB liability	 1.97%	 1.03%

**Actuarial Assumptions**

The total OPEB liability as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The total OPEB liability as of June 30, 2017, was determined by an actuarial valuation as of June 30, 2017. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.50%
Salary increases*	
Through 2026	1.65 - 8.98%
Thereafter	2.65 - 9.98%

\* Salary increase are based on the defined benefit plan that the member is enrolled in and his or her age.

**N. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)**

**Mortality Rates**

Preretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Certain actuarial assumptions used in the June 30, 2017, valuation were based on the results of the pension plans' experience studies for which the members are eligible for coverage under this Plan – the Police and Firemen's Retirement System (PFRS) and the Public Employees' Retirement System (PERS). The PFRS and PERS experience studies were prepared for the periods July 1, 2010 to June 30, 2013 and July 1, 2011 to June 30, 2014, respectively.

100% of active members are considered to participate in the Plan upon retirement.

*Health Care Trend Assumptions*

For pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, the trend rate is initially 5.8% and decreases to a 5.0% long-term trend rate after eight years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

**Discount Rate**

The discount rate for June 30, 2018 and 2017, was 3.87% and 3.58%, respectively. This represents the municipal bond return rate as chosen by the State. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

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

NOTES TO FINANCIAL STATEMENTS

**N. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)**

**Sensitivity of Net OPEB Liability to Changes in the Discount Rate**

The following presents the collective net OPEB liability of the participating employers as of June 30, 2018 and 2017, calculated using the discount rate as disclosed above as well as what the collective net OPEB 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:

At June 30, 2018		
At 1% Decrease (2.87%)	At Current Discount Rate (3.87%)	At 1% Increase (4.87%)
\$ 5,679,571	\$ 4,840,828	\$ 4,170,862

  

At June 30, 2017		
At 1% Decrease (2.58%)	At Current Discount Rate (3.58%)	At 1% Increase (4.58%)
\$ 7,803,940	\$ 6,616,145	\$ 5,673,649

**Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate**

The following presents the net OPEB liability as of June 30, 2018 and 2017, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

At June 30, 2018		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 4,038,027	\$ 4,840,828	\$ 5,879,773

  

At June 30, 2017		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 5,498,209	\$ 6,616,145	\$ 8,071,826

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

NOTES TO FINANCIAL STATEMENTS

**N. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (CONTINUED)**

**Deferred Outflows of Resources and Deferred Inflows of Resources**

	Year of Deferral	Amortization Period	Beginning of the year balance	Additions	Deductions	End of the year balance
<b>Deferred Outflows of Resources:</b>						
Differences between projected and actual investment earnings on OPEB plan investments	2017	5 years	\$ 1,081	\$ -	\$ 270	\$ 811
	2018	5 years	-	2,184	437	1,747
Deferred Outflows of Resources			<u>\$ 1,081</u>	<u>\$ 2,184</u>	<u>\$ 707</u>	<u>\$ 2,558</u>
<b>Deferred Inflows of Resources:</b>						
Differences between expected and actual experience	2018	8.04 years	\$ -	\$ 1,120,516	\$ 137,656	\$ 982,861
Changes of assumptions	2017	8.04 years	700,165	-	99,455	600,710
	2018	8.14 years	-	715,077	87,847	627,230
Deferred Inflows of Resources			<u>\$ 700,165</u>	<u>\$ 1,835,594</u>	<u>\$ 324,958</u>	<u>\$ 2,210,800</u>

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPEB
2019	\$ (324,995)
2020	(324,995)
2021	(324,997)
2022	(325,279)
2023	(325,706)
Thereafter	(582,271)
	<u>\$ (2,208,243)</u>

*Changes in Proportion*

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to the changes in proportion. These amounts will be recognized (amortized) by the Authority over the average remaining service lives of all plan members, which is 8.14 years and 8.04 years for the 2018 and 2017 amounts, respectively.

**O. COMMITMENTS**

At December 31, 2018 and 2017, the Authority had uncompleted agreements with contractors to perform various services related to its construction projects. Commitments under contracts in process amounted to \$922,270 and \$20,447,347, at December 31, 2018 and 2017, 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 2018 and 2017, total reimbursements received from both agreements were \$24,552 and \$3,340, respectively.

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

NOTES TO FINANCIAL STATEMENTS

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**O. COMMITMENTS (CONTINUED)**

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 originally due January 27, 2019. The note due date was extended to September 15, 2019.

**P. COUNTY ENVIRONMENTAL HEALTH ACT (the “CEHA”)**

The Authority and the County have entered into inter-local services agreements to jointly provide services and carry out the provisions of the CEHA Work Program, including, primarily enforcing compliance with laws, regulations and standards applicable to the 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.

In 2018 disbursements from the Fund totaled \$8,619.

No disbursements were made from the Fund to the Authority pending necessary agreements and regulations in 2017.

**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, 2018, 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. PRIOR YEAR RESTATEMENT**

In 2018, the Authority adopted new accounting guidance Governmental Accounting Standards Board Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of this implementation, a restatement of the prior year net position was required in order to record the December 31, 2017, net OPEB liability of \$6,616,145, deferred outflows related to OPEB of \$1,134, and deferred inflows related to OPEB of \$1,381,841.

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

NOTES TO FINANCIAL STATEMENTS

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**T. SUBSEQUENT EVENT**

On February 14, 2019, the Authority refunded its Equipment Lease and Open Space Bonds, Series 2005 A and B, and Special Services School District Bonds, Series 2005A. Total amount of refunding bonds, Series 2019 is \$27,550,000.

On August 1, 2019, the Authority refunded its Build America Bonds, Court House, Series 2009 and County Capital, Series 2009. Total amount of refunding Bonds, Series 2019 is \$66,295,000.

**REQUIRED SUPPLEMENTARY INFORMATION**



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

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)**

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of net pension liability	0.0227905158%	0.0240994860%	0.0238281634%	0.023846506%	0.026559977%
Proportionate share of the net pension liability	\$ 4,487,339	\$ 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	1,785,202
Plan fiduciary net position as a percentage of the total pension liability	53.60%	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)**

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 226,692	\$ 223,256	\$ 245,299	\$ 205,016	\$ 218,612
Contribution in relation to the contractually required contribution	226,692	223,256	245,299	205,016	218,612
Covered-employee payroll	1,497,101	1,951,017	1,968,910	1,754,197	1,785,202
Contributions as a percentage of covered-employee payroll	15.14%	11.44%	12.46%	11.69%	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.

**MERCER COUNTY IMPROVEMENT AUTHORITY**

(A Component Unit of the County of Mercer)

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY AND CONTRIBUTIONS (UNAUDITED)**

LAST TEN YEARS

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	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the net OPEB liability	0.030899%	0.032407%	0.035812%
Proportionate share of net OPEB liability	\$ 4,840,828	\$ 6,616,145	\$ 7,777,458
Contributions	\$ 134,798	\$ 149,367	\$ 142,579

\* In accordance with the Governmental Accounting Standards Board, the Authority is required to present ten years of detail in the above Schedule of Authority's Contributions and Schedule of Authority's Proportionate Share of Net Pension Liability, however, only three years of data are available at this time.

## **OTHER SUPPLEMENTARY INFORMATION**

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

SCHEDULE OF OPERATING EXPENSES – BUDGET VS. ACTUAL  
Year Ended December 31, 2018

Budget Items	Budget (Unaudited)	Actual	(Over) Under Budget
Salaries and wages	\$ 2,168,900	\$ 1,921,507	\$ 247,393
Payroll taxes	152,000	125,180	26,820
Pension plan contribution	650,000	265,637	384,363
Health insurance	596,000	520,005	75,995
Other insurance	133,000	78,569	54,431
Professional fees	275,000	202,904	72,096
Telephone	28,000	26,342	1,658
Office expense	563,420	369,012	194,408
Seminars / CPEs	15,500	14,135	1,365
Automobile expenses	41,000	29,153	11,847
Rent expense	205,000	201,404	3,596
Transfer station costs	2,000,000	2,392,692	(392,692)
Recycling contract solid waste tires	50,000	50,400	(400)
Repairs and maintenance	154,198	154,402	(204)
Dues and membership fees	6,000	5,299	701
Advertising and printing	15,500	11,734	3,766
Postage and freight	5,500	3,766	1,734
Outside services, consultants, and temp. staff	201,000	161,642	39,358
Tenant related expenses	22,000	9,964	12,036
Bad debt	-	6,462	(6,462)
Subtotal	7,282,018	6,550,208	731,810
Pension Plan-GASB 68 required adjustment	-	(111,386)	111,386
OPEB Plan-GASB 75 required adjustment	-	(92,276)	92,276
Total	\$ 7,282,018	\$ 6,346,546	\$ 935,472

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

SCHEDULE OF OPERATING EXPENSES – BUDGET VS. ACTUAL (CONTINUED)  
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 / CPEs	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	\$ 6,716,712	\$ 6,289,052	\$ 427,660

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

**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
Year Ended December 31, 2018

State and Local Grantor/Program Title	Program or Award Amount	Grant Period	Current Year's Expenditures	Cumulative Expenditures
New Jersey DEP Clean Community 2016	\$ 69,657	1/1/16-Until Complete	\$ 35,811	\$ 69,657
New Jersey DEP Clean Community 2017	59,242	1/1/17-Until Complete	35,994	35,994
Scrap Tire Management Fund Grant	30,000	7/1/05-Until Complete	-	16,577
Solid Waste REA Tax Grant-2015	199,500	(1)	62,213	171,598
HDSRF Grant	137,793	Until complete	4,907	106,232
Total	\$ 789,409		\$ 138,924	\$ 400,058

(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, 2018

**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, 2018, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated August 2, 2019.

**Internal Control Over Financial Reporting**

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

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

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



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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

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

August 2, 2019

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

SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS  
Year Ended December 31, 2018

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None reported.

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

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
Year Ended December 31, 2018

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None reported.