

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

Basic Financial Statements and  
Supplementary Information

December 31, 2008 and 2007

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

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of  
Mercer County Improvement Authority

We have audited the basic financial statements of Mercer County Improvement Authority, a component unit of the County of Mercer, as of December 31, 2008 and 2007, and for the years then ended. These basic financial statements are the responsibility of Mercer County Improvement Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Mercer County Improvement Authority, a component unit of the County of Mercer, as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2009, on our consideration of Mercer County Improvement Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, bond resolutions, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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45 YEARS OF SERVICE TO THE COMMUNITY

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Mercer County Improvement Authority taken as a whole. The supplementary schedules on pages 39-40 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State of New Jersey's OMB Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Amador, PC*  
*Certified Public Accountants*

April 21, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(REQUIRED SUPPLEMENTARY INFORMATION)

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 year ended December 31, 2008. 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**

Operating income for the Authority was \$8,342,209 for the year ended December 31, 2008, which represents 25% decrease comparing to the prior year due, primarily, to the significant decreases in solid waste tonnage and return on investments in 2008. The Authority's net deficit decreased by \$4,913,485 or 52% in 2008. Refer to "Financial Analysis, Capital Assets and Debt Administration" section for further details or visit the Authority's website [www.mcia-nj.com](http://www.mcia-nj.com) 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 versus actual, a schedule of expenditures of state and local awards and a schedule of findings and questioned costs as required by OMB Circular A-133 and the applicable State of New Jersey laws and regulations.

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

The statement of revenues, expenses and changes in net assets presents information showing how net assets changed during the fiscal year. All changes in net assets 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.

**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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(REQUIRED SUPPLEMENTARY INFORMATION) (CONTINUED)

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the operating expenses and expenditures of state and local awards.

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

Cash balances of \$105,434,771 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. Investments of \$23,263,983 are included in non-current assets and are also held by the trustee on behalf of the Authority in accordance with requirements of bond resolutions. \$24,547,895 in current assets and \$272,037,698 in non-current assets represent leases and loans receivable in conjunction with project bonds issued by the Authority. The Authority's non-current assets also include \$51,156,008 in stranded costs related to the Regional Sludge Facility and the Resource Recovery Facility. In addition, the Authority's non-current assets reflect a significant investment of \$48,204,421 related to the Sovereign Bank 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, 2008, the Authority had a total of \$1,835,115 invested in capital assets, which represents an 8% increase from the prior year. More detailed information about the Authority's capital assets is presented in "Property and Equipment" Note to the basic financial statements.

The Authority has \$85,972,218 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 \$304,197,280, deferred unearned income of \$71,120,897 and escrow funds payable of \$69,272,714 are included in current and long-term liabilities and are secured by bond proceeds and revenues from leases, loans and/or guaranties with the County of Mercer, municipalities, fire districts, boards of education and not-for-profit organizations. In total, at year end, the Authority had \$390,169,498 in bonds outstanding compared to \$426,060,896 at December 31, 2007. This change represents 8% decrease in bonds outstanding. More detailed information about the Authority's long-term debt is presented in "Debt-Long-Term Projects" Note to the basic financial statements.

The following tables contain condensed financial information derived from the December 31, 2008 and 2007 financial statements of the Authority:

**Balance Sheets**

	December 31,		Change-Current vs. Prior year (decrease) increase	% change (decrease) increase
	2008	2007		
Other assets	\$ 437,341,550	\$ 487,064,238	\$ (49,722,688)	-10%
Capital assets	104,536,371	110,648,349	(6,111,978)	-6%
Total assets	<u>\$ 541,877,921</u>	<u>\$ 597,712,587</u>	<u>\$ (55,834,666)</u>	<u>-9%</u>
Current liabilities	\$ 118,796,319	\$ 134,073,011	\$ (15,276,692)	-11%
Long-term liabilities	427,674,956	473,146,415	(45,471,459)	-10%
Total liabilities	<u>546,471,275</u>	<u>607,219,426</u>	<u>(60,748,151)</u>	<u>-10%</u>
Net (deficit) assets:				
Invested in capital assets, net of related debt	(59,399,186)	(66,465,553)	7,066,367	-11%
Restricted	50,963,998	54,167,802	(3,203,804)	-6%
Unrestricted	3,841,834	2,790,912	1,050,922	38%
Net deficit	<u>\$ (4,593,354)</u>	<u>\$ (9,506,839)</u>	<u>\$ 4,913,485</u>	<u>-52%</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(REQUIRED SUPPLEMENTARY INFORMATION) (CONTINUED)

**Statements of Revenues, Expenses, and Changes In Net Deficit**

	Year Ended December 31,		Change-Current vs. Prior year (decrease) increase	% change (decrease) increase
	2008	2007		
Operating revenues	\$ 35,280,005	\$ 36,675,938	\$ (1,395,933)	-4%
Waste disposal costs	23,156,687	23,539,353	(382,666)	-2%
Gross operating profit	12,123,318	13,136,585	(1,013,266)	-8%
Other operating revenues*	3,175,623	4,738,075	(1,562,452)	-33%
Gross operating revenues	15,298,941	17,874,660	(2,575,719)	-14%
Other operating expenses	6,730,259	6,477,656	252,603	4%
Depreciation and amortization	226,473	225,143	1,330	1%
Income from operations	8,342,209	11,171,861	(2,829,653)	-25%
Non-operating expenses, net	4,682,166	4,073,026	609,140	15%
Net income	3,660,043	7,098,835	(3,438,792)	-48%
Change in net assets - Sports Arena	1,253,442	901,786	351,656	39%
Net deficit, beginning of year	(9,506,839)	(17,507,460)	8,000,621	-46%
Net deficit, end of year	<u>\$ (4,593,354)</u>	<u>\$ (9,506,839)</u>	<u>\$ 4,913,485</u>	<u>-52%</u>
<b>*Other operating revenues:</b>				
Project costs reimbursement	\$ 550,535	\$ 437,568	\$ 112,967	26%
Interest on investments	2,625,089	4,300,508	(1,675,419)	-39%
	<u>\$ 3,175,623</u>	<u>\$ 4,738,076</u>	<u>\$ (1,562,453)</u>	<u>-33%</u>

**Significant Events**

As part of the State's ongoing commitment to assist counties with the payment of solid waste liabilities, the Authority received \$7,765,860 and \$8,046,772 in 2008 and 2007, respectively, in subsidy payments from the State of New Jersey to fund debt service payments related to the Authority's solid waste facility bonds. Refer to "Contingencies" Note to financial statements for further details.

The Authority's operating expenses were \$635,688 below the budget primarily due to significant decrease in professional fees category (primarily legal expenses), insurance, office expenses, and outside services and consultants. Refer to "Supplementary Information" section, schedule "Budget vs. Actual" for further details.

Both the Authority's assets and liabilities decreased by 9% and 10%, respectively, primarily due to approximately \$6M redemption of Atlantic Foundation, Series 1998 Bonds and regular debt service payments. The Authority did not issue any significant debt in 2008.

In March 2009 an approximately \$37M of capital financing, authorizing various capital improvements, acquisitions of capital equipment, and acquisitions of real property for open space preservation for and within the County of Mercer, has been approved by Local Finance Board to be financed through the Authority. In addition, the Authority is currently in process of seeking Local Finance Board's approval of approximately \$76M financing of the County of Mercer's Court House project.

**Statements of Cash Flows**

	Year Ended December 31,	
	2008	2007
Net cash provided by operating activities	\$ 8,655,183	\$ 11,865,201
Net cash provided by investing activities	10,700,427	10,518,086
Net cash used in financing activities	(35,601,171)	(36,388,412)
Net decrease in cash	<u>\$(16,245,561)</u>	<u>\$(14,005,125)</u>

**MERCER COUNTY IMPROVEMENT AUTHORITY**  
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**BALANCE SHEETS**

		December 31,	
		2008	2007
<b>ASSETS</b>			
<b>Current Assets</b>			
<b>Unrestricted</b>			
Cash and equivalents	\$	173,160	\$ 408,396
Due from restricted funds		2,115,760	2,166,986
Other assets		1,552,914	215,530
<b>Total Unrestricted</b>		<b>3,841,834</b>	<b>2,790,912</b>
<b>Restricted</b>			
Cash and equivalents		105,261,611	121,271,936
Investments		4,093,866	3,910,870
Accounts receivable - haulers, net		3,765,887	3,850,774
Accounts receivable - recycling		495,660	604,084
Minimum lease payments receivable			
County of Mercer		21,672,539	21,705,565
Other governmental units		1,738,283	1,732,940
Loans receivable		1,137,073	1,098,817
Loan interest receivable		73,375	151,171
Uncollected bond proceeds		553,376	553,376
Other receivables		1,427,123	973,797
Other assets		450,081	515,828
<b>Total Restricted</b>		<b>140,668,873</b>	<b>156,369,158</b>
<b>Total Current Assets</b>		<b>144,510,707</b>	<b>159,160,070</b>
<b>Non-Current Assets</b>			
<b>Unrestricted</b>			
Property and equipment, net		369,146	158,760
<b>Restricted</b>			
Investments		19,170,117	21,276,655
Minimum lease payments receivable			
County of Mercer		222,224,770	244,286,816
Other governmental units		9,694,786	11,048,562
Deferred bond costs		1,373,028	1,720,189
Construction in progress		3,340,827	713,015
Loans receivable		40,118,142	46,981,501
Other receivables		250,000	300,000
Note receivable		-	2,290,445
Sports arena		48,204,421	49,612,371
Sludge facility, net		20,364,595	22,723,460
Resource recovery costs, net		30,791,413	35,894,896
Property and equipment, net		1,465,969	1,545,847
<b>Total Non-Current Restricted Assets</b>		<b>396,998,068</b>	<b>438,393,757</b>
<b>Total Non-Current Assets</b>		<b>397,367,214</b>	<b>438,552,517</b>
<b>Total Assets</b>		<b>\$541,877,921</b>	<b>\$597,712,587</b>

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

BALANCE SHEETS (CONTINUED)

	December 31,	
	2008	2007
<b>LIABILITIES AND NET DEFICIT</b>		
<b>Current Liabilities</b>		
Restricted		
Current portion of project bonds payable	\$ 26,612,800	\$ 25,761,003
Accounts payable and accrued expenses	6,371,705	4,770,259
Due to unrestricted fund	2,115,760	2,166,986
Accrued interest payable	3,202,175	3,397,491
Haulers' deposits	842,092	794,469
Deferred unearned income	8,477,640	9,126,987
Deferred revenues	1,721,962	1,464,995
State grants unearned	179,471	269,190
Escrow funds payable	69,272,714	86,321,631
Total Current Liabilities	118,796,319	134,073,011
<b>Non-Current Liabilities</b>		
Long-term project bonds payable	363,556,698	400,299,893
Deferred unearned income	62,643,258	71,120,897
Deferred revenues	250,000	500,625
Other liability	1,225,000	1,225,000
Total Non-Current Liabilities	427,674,956	473,146,415
Total Liabilities	546,471,275	607,219,426
<b>Net (Deficit) Assets</b>		
Invested in capital assets, net of related debt	(59,399,186)	(66,465,553)
Restricted	50,963,998	54,167,802
Unrestricted	3,841,834	2,790,912
Total Net Deficit	(4,593,354)	(9,506,839)
Total Liabilities and Net Deficit	\$ 541,877,921	\$ 597,712,587

