

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF MORRIS)
COUNTY OF MORRIS, NEW JERSEY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH INDEPENDENT AUDITOR'S REPORT

MORRIS COUNTY IMPROVEMENT AUTHORITY

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MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
ROSTER OF OFFICIALS
DECEMBER 31, 2015

| <u>COMMISSIONERS</u> | <u>POSITION</u> | <u>TERM EXPIRES</u> |
|-------------------------|---------------------|---------------------|
| John Bonanni | Chairperson | February 1, 2017 |
| Christina Ramirez | Vice Chairperson | February 1, 2018 |
| Ellen Sandman | Secretary | February 1, 2019 |
| Joseph A. Kovalcik, Jr. | Treasurer | February 1, 2020 |
| Scott Gallopo | Assistant Secretary | February 1, 2020 |

| | |
|-----------------------------------|----------------------------------|
| McManimon, Scotland & Baumann LLC | General Counsel and Bond Counsel |
|-----------------------------------|----------------------------------|

| | |
|---------------------------|---------|
| Thomas M. Ferry, CPA, RMA | Auditor |
|---------------------------|---------|

| | |
|------------------------------|-------------------|
| Acacia Financial Group, Inc. | Financial Advisor |
|------------------------------|-------------------|

| | |
|-------------------------|-------------------|
| NW Financial Group, LLC | Financial Advisor |
|-------------------------|-------------------|

Ferraioli, Wielkocz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkocz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

Honorable Chairperson and Commissioners
Morris County Improvement Authority
County of Morris
Administration and Records Building
5th Floor
Morristown, New Jersey 07963-0900

Report on the Financial Statements

We have audited the accompanying statement of net position of the Morris County Improvement Authority, in the County of Morris, State of New Jersey as of and for the year ended December 31, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Morris County Improvement Authority, in the County of Morris, State of New Jersey, as of December 31, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis which follows this report 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 the 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Morris County Improvement Authority's financial statements. The supplementary information listed in the table of contents and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents is fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory section and statistical section has not been subject 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of the Morris County Improvement Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Morris County Improvement Authority's internal control over financial reporting and compliance.



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant

Ferraioli, Wielkotz, Cerullo & Cova, PA
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

Newton, New Jersey

November 21, 2016



MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

As management of the Morris County Improvement Authority, we offer the Authority's financial statements, this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2015. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management discussion, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the Authority operations over the past year and can be used to determine whether the Authority has recovered all its costs through its user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as what operational sources provided cash, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. In addition, long-term trends need to be reviewed to best assess the financial health of the Authority. These two statements report net position of the Authority and the changes in those assets. The reader can think of the Authority's net position - the difference between

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2015

FINANCIAL ANALYSIS OF THE AUTHORITY, CONTINUED

assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non - financial factors such as changes in economic conditions, development, and new or changed government regulation.

NET POSITION

A summary of the Authority's Statement of Net Position is presented in the following table:

CONDENSED STATEMENT OF NET POSITION

| | <u>FY</u> <u>2015</u> | <u>FY</u> <u>2014</u> |
|---------------------------------|--|--|
| ASSETS | | |
| Current and Other Assets | \$ <u>425,349</u> | \$ <u>177,145</u> |
| | \$ <u>425,349</u> | \$ <u>177,145</u> |
| LIABILITIES AND RESERVES | | |
| Accounts Payable | \$ <u>207,016</u> | \$ <u>0</u> |
| Total Liabilities | \$ <u>207,016</u> | \$ <u>0</u> |
| NET POSITION | | |
| Unrestricted | \$ <u>218,333</u> | \$ <u>177,145</u> |
| Total Net Position | \$ <u>218,333</u> | \$ <u>177,145</u> |

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2015

**CONDENSED STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION**

| | FY <u>2015</u> | FY <u>2014</u> |
|------------------------------|---------------------------|---------------------------|
| Operating Revenues | \$ 125,619 | \$ 13,860 |
| Non-Operating Revenues | <u>461</u> | <u>250,507</u> |
| Total Revenues | \$ <u>126,080</u> | \$ <u>264,367</u> |
| Operating Expenses | \$ 67,900 | \$ 428,841 |
| Non-Operating Expenses | | |
| Cancellation of Liabilities | 0 | (83,189) |
| US Bank-2011 B Note Interest | <u>16,992</u> | <u>0</u> |
| Total Expenses | \$ <u>84,892</u> | \$ <u>345,652</u> |
| Change in Net Position | \$ <u>41,188</u> | \$ <u>(81,285)</u> |
| Beginning Net Position | \$ <u>177,145</u> | \$ <u>258,430</u> |
| Ending Net Position | \$ <u><u>218,333</u></u> | \$ <u><u>177,145</u></u> |

As can be seen in the above table, net position increased by \$41,188 and decreased \$81,285 in 2015 and 2014, respectively.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2015

BUDGETARY HIGHLIGHTS

The Authority prepares and submits an annual operating budget to the State of New Jersey, which approves the budget for adoption by the Authority prior to the beginning of the fiscal year.

The following table provides the budget highlights for 2015 and 2014, respectively:

Budget vs. Actual
December 31,

| | <u>2015</u> | <u>2015</u> | <u>2014</u> | <u>2014</u> |
|---|----------------------|----------------------|----------------------|----------------------|
| | <u>Budget</u> | <u>Actual</u> | <u>Budget</u> | <u>Actual</u> |
| <u>Revenues</u> | | | | |
| Administrative Fees | \$ 26,000 | \$ 125,619 | \$ 63,500 | \$ 13,860 |
| Participant Contributions for Debt Service | 22,354,677 | 21,137,685 | 21,898,033 | 20,697,856 |
| Other Revenues | 400 | 461 | 251,000 | 250,507 |
| Net Position Anticipated | <u>140,550</u> | <u>140,550</u> | <u>136,400</u> | <u>136,400</u> |
| | <u>\$ 22,521,627</u> | <u>\$ 21,404,315</u> | <u>\$ 22,348,933</u> | <u>\$ 21,098,623</u> |
| <u>Appropriations</u> | | | | |
| Administration Expenses | \$ 166,950 | \$ 67,900 | \$ 450,900 | \$ 428,841 |
| Non-Operating Appropriations: | | | | |
| US Bank-2011 B Note Interest | 16,992 | 16,992 | 0 | 0 |
| Principal Payments on Conduit Debt Service | 15,015,000 | 13,815,000 | 14,215,000 | 13,015,000 |
| Interest on Conduit Debt | <u>7,322,685</u> | <u>7,322,685</u> | <u>7,683,033</u> | <u>7,682,856</u> |
| | <u>\$ 22,521,627</u> | <u>\$ 21,222,577</u> | <u>\$ 22,348,933</u> | <u>\$ 21,126,697</u> |

DEBT ADMINISTRATION

The Authority has been aggressive in attracting conduit debt issues. At December 31, 2015, there is \$177,565,000 of Outstanding Conduit Permanent Debt.

More detailed information about the Authority's long-term debt liabilities is presented in Note 2 of the financial statements.

**MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2015**

CONTACTING THE AUTHORITY

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Morris County Improvement Authority, County of Morris, Administration and Records Building, 5th floor, Morristown, NJ 07963-0900 or call 973-285-6020.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF NET POSITION
DECEMBER 31, 2015

Exhibit A

ASSETS

Current Assets:

| | |
|---------------------------|--------------------------|
| Cash and Cash Equivalents | \$ <u>425,349</u> |
| Total Current Assets | \$ <u>425,349</u> |
| TOTAL ASSETS | \$ <u>425,349</u> |

LIABILITIES

| | |
|------------------|-------------------|
| Accounts Payable | \$ <u>207,016</u> |
|------------------|-------------------|

NET POSITION

| | |
|---------------------------|---------------------------------|
| Unassigned | \$ <u>218,333</u> |
| TOTAL NET POSITION | \$ <u><u>425,349</u></u> |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

MORRIS COUNTY IMPROVEMENT AUTHORITY **Exhibit B**
(A Component Unit of the County of Morris)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
DECEMBER 31, 2015

| | | |
|--|----|----------|
| Operating Revenues | | |
| Administrative Fees | \$ | 125,619 |
| Total Operating Revenues | \$ | 125,619 |
| Operating Expenses | | |
| Administrative | \$ | 67,900 |
| Total Operating Expenses | \$ | 67,900 |
| Operating Income (Loss) | \$ | 57,719 |
| Non-Operating Revenues (Expenses) | | |
| Interest Income | \$ | 369 |
| Proceeds from Other Sources | | 92 |
| US Bank-2011 B Note Interest | | (16,992) |
| Total Non-Operating Revenues (Expenses) | \$ | (16,531) |
| Change in Net Position | \$ | 41,188 |
| Net Position, January 1, | \$ | 177,145 |
| Net Position, December 31, | \$ | 218,333 |

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
STATEMENT OF CASH FLOWS
DECEMBER 31, 2015

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|------------|
| Cash receipts from customers | \$ 125,619 |
| Cash payments to suppliers for goods and services | (67,900) |
| Net cash used for Operating Activities | \$ 57,719 |

CASH FLOW FROM INVESTING ACTIVITIES:

| | |
|---|--------|
| Interest on cash equivalents | \$ 369 |
| Net cash provided by Investing Activities | \$ 369 |

CASH FLOWS FROM NON-OPERATING ACTIVITIES:

| | |
|---|-------------|
| Proceeds from Other Sources | \$ 92 |
| Interest payment on - 2011 B Note Interest | (16,992) |
| Net cash provided by Non-Operating Activities | \$ (16,900) |

| | |
|--|------------------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | \$ 41,188 |
|--|------------------|

| | |
|--|-------------------|
| CASH AND CASH EQUIVALENTS, JANUARY 1, | \$ 177,145 |
|--|-------------------|

| | |
|--|-------------------|
| CASH AND CASH EQUIVALENTS, DECEMBER 31, | \$ 218,333 |
|--|-------------------|

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

| | |
|--|-----------|
| Operating Income (Loss) | \$ 57,719 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities | \$ 0 |

| | |
|---|------------------|
| NET CASH USED FOR OPERATING ACTIVITIES | \$ 57,719 |
|---|------------------|

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Authority Description

The Morris County Improvement Authority (the "Authority") is a public body politic, corporate, organized, and existing under the County Improvement Authorities Law, constituting Chapter 183 of the Pamphlet Laws of 160, as Amended and Supplemented, N.J.S.A. 40:37A-1, et seq., and was created by virtue of an ordinance of the County of Morris, New Jersey (the "County"), adopted April 10, 2002.

B. Component Unit

The Authority is a component unit of the County under Governmental Accounting Standards Boards (GASB) Statement No. 14.

C. Accounting Principles

On August 26, 1983, the State of New Jersey enacted P.L. 1983, Chapter 313 providing for a State review of the financial operations of local authorities. The responsibility for this review was given to the Local Finance Board and the Division of Local Government Services of the Department of Community Affairs (DCA).

The DCA has recognized the National Council on Governmental Accounting (NCGA) Statement 1, "Governmental Accounting and Financial Reporting Principles", and subsequent NCGA statements and interpretations as authoritative on application of generally accepted accounting principles (GAAP) for local authorities. In July of 1984, the Governmental Accounting Standards Board (GASB) became the successor organization to the NCGA as the promulgator of standards of financial accounting and reporting with respect to activities and transactions of State and local governmental entities.

GASB Statement No. 20 recognizes that the accounting and financial reporting activities of authorities are considered to be proprietary activities. In accordance with Statement No. 20, the Authority has applied all GASB pronouncements.

D. Budgets and Budgetary Accounting

An annual budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures. Budget amounts presented in the accompanying financial statements represent amounts adopted by the Authority and approved by the State Division of Local Government Services per N.J.S.A. 40A:4 et seq.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E. Basis of Presentation

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net position reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net position. The classifications of net position are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

F. Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

G. Property, Plant, and Equipment

At December 31, 2015, the Authority did not own any property, plant, or equipment.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. Recent Accounting Pronouncements

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement is effective for periods beginning after June 15, 2015. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. Components of this Statement are effective for periods beginning after June 15, 2015 and 2016. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement is effective for periods beginning after June 15, 2016. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement is effective for periods beginning after June 15, 2017. Management has not yet determined the impact of this Statement on the financial statements.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories wider GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 77, *Tax Abatement Disclosures*, which improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The Authority believes this Statement will have no impact on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition for pension liabilities, expense and expenditures; note disclosures of descriptive information about the plan, benefit terms, and contributions items; and required supplementary information presenting required contribution amounts for the past 10 fiscal years. The Authority is currently reviewing what effect this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participation*, which permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes. The Authority is currently reviewing what effect this Statement might have on future financial statements.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which provides clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The Authority does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Authority does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, *Pension issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets Mat Are Not Within the Scope of GASB Statement 68. and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Authority does not believe this Statement will have any effect on future financial statements.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

2. CONDUIT DEBT OBLIGATIONS

The Authority has issued debt on behalf of third-party entities. The Authority has no obligation for the debt beyond the resources provided by the related leases or loans, and, accordingly, the debt is not reflected as a liability in the accompanying financial statements.

The aggregate principal amounts outstanding on this debt at December 31, 2015 are as follows:

| <u>Bonds:</u> | <u>2015</u> |
|--|-----------------------|
| Loan Revenue Bonds (Refunded) Series 2003 (Note 2A) | \$ 45,000 |
| Lease Revenue Bonds Series 2004 (Note 2B) | 1,940,000 |
| Lincoln Park Series 2009 (Note 2C) | 19,970,000 |
| Newton Series 2009 (Note 2D) | 2,685,000 |
| Renewable Energy 2009A Series. 2009A (Note 2E) | 14,400,000 |
| Refunding Bonds Series 2010 (Note 2F) | 9,885,000 |
| Renewable Energy 2011A Series 2011 (Note 2G) | 27,430,000 |
| Pooled Program Lease Revenue Series 2011 (Note 2H) | 13,325,000 |
| Pooled ERI Refunding Bonds Series 2011 (Note 2I) | 3,730,000 |
| Sussex Renewable Energy Series 2011 (Note 2J) | 22,150,000 |
| School District Revenue Refunding Series 2012 (Note 2K) | 26,810,000 |
| Pooled Program Bonds, 2012A Series 2012A (Note 2L) | 17,835,000 |
| Pooled Program Bonds, 2012B Series 2012B (Note 2M) | 7,125,000 |
| Pooled Program Refunding Bonds, 2013 Series 2013 (Note 2N) | 8,160,000 |
| Lease Revenue Bonds (Refunded) Series 2015 (Note 2O) | 2,075,000 |
| | <u>\$ 177,565,000</u> |

Notes:

| | | |
|-------------------------------------|------------------------|---------------------|
| Renewable Energy Lease Revenue Note | Series 2011B (Note 2G) | <u>\$ 1,200,000</u> |
|-------------------------------------|------------------------|---------------------|

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

A. Loan Revenue Bonds, Series 2003 (County Guaranteed)

On February 1, 2003, the MCIA issued bonds in the amount of \$16,890,000.00, with a final maturity date of March 1, 2021, at an interest rate ranging from 1.75% to 5.75%. On December 20, 2011 \$6,005,000 of these bonds were refunded through issuance of County of Morris Guaranteed Authority Refunding Pooled Program Bonds at an interest rate ranging from .7% to 3.48% with a final maturity of June 30, 2021 (See Note 2J). The amount of bonds not refunded amount to \$2,675,000 and have a final maturity date of March 1, 2016, at interest rates ranging from 4.95% to 5.75%. The bonds are being issued to provide funds to make a loan to each of the local units. The local units will apply the proceeds of the loans to (i) raise funds sufficient to retire the present value of the unit's respective unfunded accrued liability for the early retirement system incentive benefits previously granted by the state to each local unit and (ii) pay certain costs of issuance of the series 2003 bonds, and the refunding bonds. The Loan Revenue Bonds are secured by restricted cash and investments, loan agreements with each local unit and an unconditional and irrevocable guarantee of the County. The local units who participated are as follows:

| | |
|-------------------------------------|-------------------------------------|
| Chester Township Board of Education | Mount Olive Township |
| Morris County | Mount Olive Board of Education |
| Morris Plains Borough | Roxbury Township |
| Morris Township | Roxbury Township Board of Education |

B. Lease Revenue Bonds, Series 2004 (County Guaranteed)

On March 18, 2004, the MCIA issued bonds in the amount of \$4,940,000, with a final maturity date of October 1, 2024, at an interest rate ranging from 1.00% to 4.125%. The Bonds are being issued to (i) finance certain property improvements for the Educational Service Commission of Morris County the (the "ESC"), (ii) to defease and/or refund all of the ESC's outstanding 1996 COPS and 1999 COPS, and (iii) to finance any needed reserves and costs of issuance. The MCIA will acquire a leasehold interest in a portion of the property to be financed and refinancing through issuance of the ESC Bonds and pursuant to a Lease Purchase Agreement between MCIA and the ESC. The MCIA will re-lease such property to the ESC and the ESC will be obligated to make payments sufficient, inter alia, to pay principal of, premium, if any, and interest on the ESC Bonds.

C. Loan Program Bonds, Lincoln Park, Series 2009 (County Guaranteed)

On February 25, 2009 the MCIA issued bonds in the amount of \$20,930,000, with a final maturity date of March 15, 2030, at an interest rate ranging from 2.000% to 5.000%. Lincoln Park shall apply the proceeds of Lincoln Park bond to refund it bond anticipation notes dated February 27, 2008 and maturing February 26, 2009 in the aggregate principal amount of \$21,078,850 issued for the purpose of temporarily financing the costs of the Lincoln Park Projects and to pay a portion of the interest due on the Series 2009 Bonds on September 15, 2009.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

C. Loan Program Bonds, Lincoln Park, Series 2009 (County Guaranteed) (continued)

The Lincoln Park Project consists of (i) the construction and renovation of certain municipal buildings and various other capital projects in and by Lincoln Park, and (ii) the payment of any costs associated with the issuance of the Lincoln Park Bond (the "Lincoln Park Projects").

D. Loan Program Bonds, Town of Newton, Series 2009 (County Guaranteed)

On September 16, 2009 the MCIA issued bonds in the amount of \$4,285,000 with a final maturity date of October 1, 2023, at an interest rate ranging from 2.00% to 5.00%. The proceeds will be issued in (i) refinancing bond anticipation notes originally issued for various purposes including the acquisition of equipment, renovation of buildings and infrastructure and the initial planning expenses for redevelopment planning; and (ii) payment of certain costs of issuance in connection with the issuance of the Newton Local Unit Bond.

E. Renewable Energy Program, Series 2009A (County Guaranteed)

On February 18, 2010 the Morris County Improvement Authority issued bonds in the amount of \$21,600,000 with a final maturity date of August 15, 2025, at an interest rate ranging from 1.223% to 5.200%. The bonds are being issued to (i) finance the Renewable Energy Projects and the Capital Improvement Projects for each of the Series 2009A Local Units, (ii) reimburse certain Renewable Energy Program development costs paid by the County and the Authority, (iii) pay certain fees and costs incurred by or for the Tioga Solar Morris County 1, LLC (the "Company") in connection with the Renewable Energy Program, and (iv) pay the various costs of issuing the Series 2009A Bonds.

F. Refunding Bonds, Series 2010 (County Guaranteed)

On August 11, 2010 the MCIA issued Refunding bonds on behalf of Washington Township Board of Education in the amount of \$12,260,000 with a final maturity date of August 15, 2023, at an interest rate ranging from 2.00% to 4.00%. These bonds were issued to provide for the refunding of 2014-2023 maturities of the outstanding 2003 Bonds of the School District (the Local Unit "Refunding Bond Ordinance"), and resulted in a net present value savings of \$472,332.

G. Renewable Energy Program, Series 2011A (County Guaranteed)

On December 8, 2011 the Morris County Improvement Authority issued bonds in the amount of \$33,100,000 with a final maturity date of June 15, 2027, at an interest rate ranging from 1.062% to 4.705%. On May 15, 2012 a \$1,200,000 note was issued maturing on January 15, 2013 at an interest rate of 1.062%. The purpose of which was to deposit in a capitalized interest account sufficient dollars to pay the interest on the Series 2011A Bonds on June 15, 2012 and December 15, 2012. The \$1,200,000 note was then extended to mature on January 15, 2014 and again extended to mature on January 15, 2015. On January 21, 2015 (notice dated January 14, 2015), a resolution was passed deferring maturity on the

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

G. Renewable Energy Program, Series 2011A (County Guaranteed) (continued)

Series 2011B Note until February 16, 2015. This deferral was further extended to April 15, 2015 and again until June 15, 2015, per resolutions passed on February 11, 2015 and April 1, 2015, respectively. On April 22, 2015, a resolution was passed authorizing a Note Roll, thereby renewing the \$1.2 million Series 2011B Note at a reduced interest rate of 1.03% with a final maturity date of May 15, 2016 (payment expected on Friday, May 13). The bonds were issued to (i) finance a portion of the costs of the Renewable Energy Projects for each of the Series 2011 Local Units, (ii) reimburse certain Renewable Energy Program development costs paid by the County and the Authority, (iii) pay certain fees and costs incurred by or for Sunlight General Morris Solar, LLC (the "Company") in connection with the Renewable Energy Program, and (iv) pay the various costs of issuing the Series 2011A Bonds.

H. Pooled Program Bonds, Series 2011 (County Guaranteed)

On August 30, 2011 the MClA issued bonds in the amount of \$16,490,000 with a final maturity date of August 15, 2036, at an interest rate ranging from 2.00% to 5.00%, and notes in the amount of \$10,930,000 at a rate of 1.5%. The payment of principal and interest on the entire bond and note issuance is secured by a full unconditional irrevocable guarantee by the County. The bonds and notes are being issued to finance the leasing of capital equipment and/or property in accordance with the County Improvement Authorities Law of the following Local Government Units:

Borough of Rockaway
Town of Newton
Morris County

I. Refunding Bonds, Pooled ERI, Series 2011 (County Guaranteed)

On December 20, 2011 the MClA issued Refunding bonds in the amount of \$6,665,000 with a final maturity date of March 1, 2021, at an interest rate ranging from .700% to 3.480%. These bonds were issued to provide funds, together with investment income earned thereon, to (i) advance refund a \$6,005,000 callable portion of the Authority's \$6,230,000 aggregate principal amount of County of Morris Guaranteed Loan Revenue Bonds, Series 2003 (Pooled ERI), maturing on March 1 in the years 2014, 2015 and 2021, (ii) pay interest accrued and to accrue on the Callable Bonds from the date of delivery of the Series 2011 Bonds to and including March 1, 2013, the date fixed for the redemption of the Callable Bonds; and (iii) pay the costs of issuance incurred in connection with the issuance and delivery of the Series 2011 Bonds (See Note 2A).

J. Sussex Renewable Energy Program, Series 2011A&B

On December 14, 2011 the Morris County Improvement Authority issued bonds in the amount of \$26,715,000 with a final maturity date of June 15, 2027, at an interest rate ranging from 1.138% to 4.938% and notes in the amount of \$985,000 maturing January 15, 2013 at an interest rate of 1.50%.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

J. Sussex Renewable Energy Program, Series 2011A&B (continued)

The bonds and notes are being issued to (i) finance a portion of the costs of the Renewable Energy Projects for each of the Series 2011 Local Units, (ii) reimburse certain Renewable Energy Program development costs paid by the County of Sussex and the Authority, (iii) pay certain fees and costs incurred by or for Sunlight General Sussex Solar, LLC (the "Company") in connection with the Renewable Energy Program, and (iv) pay the various costs of issuing the Series 2011A Bonds and the Series 2011B Note.

K. School District Revenue Refunding Bonds, Series 2012 (County Guaranteed)

On March 28, 2012 the Morris County Improvement Authority issued refunding bonds in the amount of \$28,230,000 with a final maturity date of October 1, 2029, at an interest rate ranging from 2.000% to 5.000%. The Bonds consist of (i) the advance refunding of \$30,507,000 of the outstanding callable principal amounts of the \$43,092,000 aggregate principal amounts of the County of Morris Guaranteed School District Revenue Bonds, Series 2004 dated March 31, 2004 maturing on or after October 1, 2015 at par, plus any unpaid accrued interest to October 1, 2014 and (ii) the payment of any costs associated with the issuance of the Series 2012 Local Unit Refunding Bond or the Series 2012 Bonds.

L. Pooled Program Bonds, Series 2012A (County Guaranteed)

On June 28, 2012 the Morris County Improvement Authority issued bonds in the amount of \$20,015,000 with a final maturity date of February 1, 2037, at an interest rate ranging from 2.000% to 3.625%. The payment of principal and interest on the entire bond and note issuance is secured by a full unconditional irrevocable guarantee by the County. The bonds are being issued to finance the leasing of capital improvements, refund outstanding Bond Anticipation Notes issued by the Borough of Chester, refund the 2011 Pooled Program Notes and additional costs for the expansion of the County Public Safety Academy in accordance with the County Improvement Authority law of the following local Governmental Units:

Borough of Chester
County of Morris

M. Pooled Program Bonds, Series 2012B (County Guaranteed)

On June 28, 2012 the Morris County Improvement Authority issued bonds in the amount of \$8,500,000 with a final maturity date of February 1, 2027, at an interest rate ranging from 2.000% to 3.000%. The payment of principal and interest on the entire bond and note issuance is secured by a full unconditional irrevocable guarantee by the County. The bonds are being issued to finance various improvements to the Morris County Community College and are entitled to the benefits of the New Jersey County College Bonds Act, P.L. 1971, C. 12 as amended (the "Chapter 12 Act").

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

N. Pooled Program Refunding Bonds, Series 2013 (County Guaranteed)

On April 18, 2013 the Morris County Improvement Authority issued \$8,160,000 of County of Morris Guaranteed Authority Refunding Pooled Bonds with a final maturity date of September 1, 2023, at an interest rate ranging from 4.00% to 5.00%. The County adopted a guaranty ordinance on February 21, 2013, whereby the payment of principal and interest on the entire bond issuance is secured by a full unconditional irrevocable guarantee by the County. These bonds were issued to refund \$8,590,000 of the 2005 County of Morris Guaranteed Pooled Program Bonds.

O. Lease Revenue Refunding Bonds, Series 2015 (County Guaranteed)

On December 30, 2015, the Morris County Improvement Authority issued \$2,075,000 County Guaranteed Lease Revenue Refunding Bonds with a final maturity date of December 31, 2024 at an interest rate of 2.09%. These bonds were issued to provide the final refunding of the Pooled Program Bonds, Series 2005. The initial \$8,590,000 of the Pooled Program Bonds were refunded through the issuance of County of Morris Guaranteed Authority Refunding Pooled Program Bonds (See Note 2N). The payment of principal and interest on the entire bond issuance is secured by a full unconditional irrevocable guarantee by the County. The Bonds are being issued to finance the leasing of capital equipment and/or property in accordance with the County Improvement Authorities Law of the following Local Government Units:

Township of Denville

Township of Brick

The Educational Services Commission of Morris County

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

Schedule of Annual Debt Service of Principal and Interest for Local Units

Bonds:

| <u>Year</u> | <u>Principal Amount</u> | <u>Interest Amount</u> | <u>Total</u> |
|-------------|--------------------------|-------------------------|--------------------------|
| 2016 | \$ 14,155,000.00 | \$ 6,966,596.69 | \$ 21,121,596.69 |
| 2017 | 13,790,000.00 | 6,560,304.59 | 20,350,304.59 |
| 2018 | 13,780,000.00 | 6,078,564.57 | 19,858,564.57 |
| 2019 | 13,705,000.00 | 5,571,132.03 | 19,276,132.03 |
| 2020 | 14,055,000.00 | 5,057,057.42 | 19,112,057.42 |
| 2021-2025 | 64,260,000.00 | 16,746,448.22 | 81,006,448.22 |
| 2026-2030 | 35,230,000.00 | 5,018,299.56 | 40,248,299.56 |
| 2031-2035 | 6,565,000.00 | 995,015.67 | 7,560,015.67 |
| 2036-2037 | 2,025,000.00 | 76,359.39 | 2,101,359.39 |
| | <u>\$ 177,565,000.00</u> | <u>\$ 53,069,778.14</u> | <u>\$ 230,634,778.14</u> |

| | | |
|---------|------|-------------------|
| Long | Term | |
| Portion | | \$ 163,410,000.00 |
| Short | Term | |
| Portion | | 14,155,000.00 |

Total \$ 177,565,000.00

Notes:

A Guaranteed Renewable Energy Program Lease Revenue Note, Series 2011B was issued for \$1,200,000 on May 15, 2012 maturing on January 15, 2013 at an interest rate of 1.062%. The note was extended to mature on January 15, 2014 and again to January 15, 2015. In 2015, resolutions were passed to defer the note maturity date first until February 16, 2015, then until April 15, 2015, and again until June 15, 2015. In April 2015, a resolution was passed to renew the note with a final maturity date of May 15, 2016 at a reduced rate of 1.03%.

P. County Guaranteed Leasing Program, Series 2004 (County Guaranteed)

On August 4, 2004, the MCIA established a County Guaranteed Leasing Program with the Bank of America Leasing and Capital, LLC, up to a maximum amount of \$10,000,000. On June 12, 2006 this amount was increased to \$20,000,000. On June 11, 2007 it was increased an additional \$10,000,000 to \$30,000,000. The Leasing Program provides low cost, timely and turnkey lease financing to local units desiring to lease finance their equipment needs. The MCIA (Lessee) through a master lease purchase agreement which in 2005 was changed to Commerce Commercial Leasing, LLC (Now TD Equipment Finance) (Lessor), requests lessor to finance the acquisition of equipment on behalf of the local units. Concurrently with or subsequent to the execution and delivery of this Lease, Lessee shall enter into a "Sublease Purchase Agreement", with a political subdivision of the State or a state or local

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

2. CONDUIT DEBT OBLIGATIONS, (continued)

governmental unit within the meaning of 1.103-1(a) of the Treasury Regulations promulgated under the Internal Code of 1986, as amended (“Sublessee”), pursuant to which Lessee will sublease the Equipment to Sublessee. In consideration of Lessor and Lessee entering into this Lease, Lessee intends to issue to Lessor a performance bond in a principal amount up to the Maximum Program Amount, which Bond will be issued directly to Lessor and will be payable to Lessor only upon a deficiency in Rental Payments due and owing under the Sublease, in which case the County of Morris will have fully, unconditionally and irrevocably guaranteed the payment of the principal of the Bond up to the Maximum Program Amount, plus interest thereon.

During the twelve month period ending December 31, 2015, five local units had closed on transactions, they are as follows:

| | |
|--|-----------------|
| Rockaway Township Public Schools | \$ 552,765.63 |
| Randolph Township, Board of Education | 163,226.34 |
| East Hanover Township Board of Education | 130,443.98 |
| West Morris Regional Board of Education | 76,911.69 |
| Hanover Township Board of Education | 203,256.23 |
| | \$ 1,126,603.87 |

Over the life of the County Guaranteed Leasing Program, \$48,568,158.12 of lease financing has been loaned. Payments totaling \$42,445,872.10 have been made and \$23,877,713.98 of the \$30,000,000.00 authorized is available for the program, as of December 31, 2015.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes that are treated as cash equivalents. As of December 31, 2015, \$-0- of the Authority's bank balance of \$462,041.26 is exposed to custodial credit risk.

Investments

Investment Rate Risk

The Authority has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. A formal investment policy was adopted on April 20, 2016.

Credit Risk

New Jersey Statutes limit municipal investments to those specified in the Statutes.

The type of allowed investments are Bonds of the United States of America, bonds or other obligations of the towns or bonds or other obligations of the local unit or units within which the Authority is located; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015
(continued)

4. OTHER MATTERS

A prior dispute has been settled in connection with the solar improvements funded by the MCIA's \$33,100,000 original par amount of County of Morris Guaranteed Renewable Energy Program Lease Revenue Bonds, Series 2011A (Federally Taxable) ("A Bonds"), and the \$1,200,000 original par amount of the County of Morris Guaranteed Renewable Energy Program Lease Revenue Note, Series 2011B (Federally Taxable) ("B Note"), both issued December 8, 2011. The prior dispute was between the MCIA, the developer, and the contractor of the solar improvements. The A Bonds and the hereinafter defined 2009 Bonds are guaranteed by Morris County, and the B Note is held by Morris County. Both the A Bonds and the County of Morris Guaranteed Renewable Energy Program Lease Revenue Bonds, Series 2009A (the "2009 Bonds") are in part reliant on revenues from the sale of SREC's generated by the program. Any deficiency in SREC revenues that result in a debt service insufficiency are also ultimately guaranteed by the County of Morris.

It is not anticipated that there will be a shortfall in revenues to cover the \$2,833,761.10 June 1, 2016 debt service payment in connection with the A Bonds, and the County intends to satisfy any such shortfall in accordance with the County guaranty. It is anticipated that there will be sufficient revenues to cover the \$517,792.50 December 1, 2016 debt service payment in connection with the A Bonds. The B Note is due on May 15, 2016 and has been funded for in the Morris County Improvement Authority Budget. Morris County, as the holder of the B Note, has the option of rolling the B Note, as it has done annually since the B Note was originally due on January 15, 2012, refunding the B Note, setting installment payments in a new agreement or effectively waiving payment by paying to the Authority an amount equal to the principal of and interest due on the B Note on May 15, 2016, for use by the Authority to pay such principal and interest to the County as holder of the B Note. In connection with the 2009 Bonds, it is anticipated there may be a shortfall in revenues available to cover the \$1,776,614.40 August 15, 2016 and \$309,355.20 February 15, 2017 debt service payments. The County intends to satisfy any such shortfall in accordance with the County guaranty.

5. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through November 21, 2016, the date which the financial statements were available to be issued and no other items were noted for disclosure.

6. COMMITMENTS AND CONTINGENT LIABILITIES

We are advised by the Authority Counsel that the Authority is involved in one matter that does not involve a material loss contingency.

SUPPLEMENTARY DATA

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
SCHEDULE OF OPERATING REVENUES AND COSTS
OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED 2015

Schedule 1

GOVERNMENTAL FUND

| | <u>2015</u> <u>Budget</u> | <u>2015</u> <u>Actual</u> |
|--|--|--|
| <u>REVENUES</u> | | |
| Administrative Fees | \$ 26,000 | \$ 125,619 |
| Participant Contributions for Debt Service | 22,354,677 | 21,137,685 |
| Other Revenues | 400 | 461 |
| Net Position Anticipated | <u>140,550</u> | <u>140,550</u> |
| | <u>\$ 22,521,627</u> | <u>\$ 21,404,315</u> |
| <u>APPROPRIATIONS</u> | | |
| Administration: | | |
| Administration Expenses | \$ 166,950 | \$ 67,900 |
| Non-Operating Appropriations: | | |
| US Bank-2011 B Note Interest | 16,992 | 16,992 |
| Principal Payments on Conduit Debt Service | 15,015,000 | 13,815,000 |
| Interest on Conduit Debt | <u>7,322,685</u> | <u>7,322,685</u> |
| | <u>\$ 22,521,627</u> | <u>\$ 21,222,577</u> |

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
FOR THE YEAR ENDED 2015

Schedule 2

| | | |
|--|--------|--------------------|
| Balance, December 31, 2014 | | |
| Cash and Cash Equivalents | \$ | 177,145 |
| Increased by Receipts: | | |
| Administrative Fees | \$ | 125,619 |
| Proceeds from Other Sources | | 207,108 |
| Interest Income | | 369 |
| Total Receipts: | \$ | <u>333,096</u> |
| | \$ | 510,241 |
| Decreased by Disbursements: | | |
| Operating Expenses | \$ | 67,900 |
| US Bank-2011 B Note Interest | | 16,992 |
| Total Disbursements: | \$ | <u>84,892</u> |
| Balance, December 31, 2015 | | |
| Cash and Cash Equivalents | \$ | 425,349 |

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

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PART II

**REPORT ON INTERNAL CONTROL AND ON COMPLIANCE
AND OTHER MATTERS**

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2015

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

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INDEPENDENT AUDITOR'S 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

Honorable Chairperson and Commissioners
Morris County Improvement Authority
County of Morris
Administration and Records Building
Morristown, New Jersey 07963-0900

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Morris County Improvement Authority, a Component Unit of the County of Morris, in the County of Morris, as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morris County Improvement Authority's financial statements are free of material misstatement, 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 Morris County Improvement 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 Morris County Improvement Authority's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant
No. 497

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Certified Public Accountants

Newton, New Jersey

November 21, 2016

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

GENERAL COMMENTS

Contracts and agreements Required to be Advertised for N.J.S.A. 40A:11-4

N.J.S. 40A:11-3 states:

a. "When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1971, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contracts made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A:11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L. 1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, c.198 (C.40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. That adjustment shall become effective on July 1 of the year in which it is made."

N.J.S. 40A:11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsection b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective July 1, 2015, the bid threshold in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) is \$17,500.00 and with a qualified purchasing agent the threshold may be up to \$40,000.00.

MORRIS COUNTY IMPROVEMENT AUTHORITY
(A Component Unit of the County of Morris)

GENERAL COMMENTS (CONTINUED)

Contracts and Agreements Required to be Advertised for N.J.S.A. 40A:11-4 (continued)

The Commissioners of the Authority have the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year and where question arises as to whether any contract or agreement might result in violation of the statute, the Authorities' Attorney's opinion should be sought before a commitment is made.

The minutes indicated the bids were requested by public advertising per N.J.S. 40A:11-4. The minutes also indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S. 40A:11-5 for Auditor, Attorney, Financial Advisor and Bond Counsel.

Inasmuch as the system of records did not provide for the accumulation of payments for categories for the performance of any work or the furnishing or hiring of any material or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violation existed. None were noted.

Our review of the Authority's minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

Our examination of expenditures did not reveal any individual payments, contracts or agreements in excess of the statutory threshold "for the performance of any work or the furnishing or hiring of any materials or supplies," other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provisions of N.J.S.A. 40A:11-6.

**COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2015**

Comments

None

Recommendations

None

STATUS OF PRIOR YEAR'S AUDIT FINDINGS/RECOMMENDATIONS

There were no prior year audit findings/recommendations.

We wish to thank the Morris County Improvement Authority for their cooperation during the performance of our audit.

Respectfully submitted,



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November 21, 2016