

**ATLANTIC CITY
MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE
CITY OF ATLANTIC CITY)**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2016 AND 2015**

AND

INDEPENDENT AUDITORS' REPORT

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Comparative Statements of Net Position	20
Comparative Statements of Revenues, Expenses and Changes in Net Position	22
Comparative Statements of Cash Flows	23
Notes to Basic Financial Statements	24
Other Supplementary Information	
Combining Schedule of Revenues, Expenses and Changes in Net Position	52
Schedule of Appropriations Compared to Budget	53
Required Supplementary Information - Schedules and Notes Related to Accounting and Reporting for Pensions (GASB 68)	
Schedule of the Proportionate Share of the Net Pension Liability	57
Schedule of Pension Contributions	58
Notes to the Required Supplementary Information - GASB 68 Pension Changes	59

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Information Required Under <i>Government Auditing Standards</i> (GAS)	
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 <i>Government Auditing Standards</i>	60
Summary of Auditors' Results and Findings	62
Summary Schedule of Prior Audit Findings	63

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Atlantic City Municipal Utilities Authority

We have audited the accompanying financial statements of the business-type activities of Atlantic City Municipal Utilities Authority (a component unit of the city of Atlantic City, New Jersey), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Atlantic City Municipal Utilities Authority's (the "Authority") 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Atlantic City Municipal Utilities Authority (a component unit of the city of Atlantic City, New Jersey), as of December 31, 2016 and 2015, and the respective 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 Matters

Risks and Uncertainties

As discussed in Note 15 to the financial statements, the current financial crisis affecting the city of Atlantic City is also causing certain challenges and uncertainties for the Authority. 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 4 through 19 and the Schedules and Notes Related to Accounting and Reporting for Pensions (GASB 68) on pages 57 through 59 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplementary information on pages 52 through 56, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, slightly slanted style.

May 26, 2017

MANAGEMENT'S DISCUSSION & ANALYSIS OF THE ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY

OVERVIEW OF ANNUAL FINANCIAL REPORT:

Management's Discussion and Analysis ("MD&A") serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's capital plan, budget bond resolutions and other management tools were used for this analysis.

The basic financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The basic financial statements include statements of net position; statements of revenues, expenses, and changes in net position; statements of cash flows; and notes to the basic financial statements.

The *statements of net position* present the financial position of the Authority on a full accrual historical cost basis. The statements of net position present information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating.

While the statements of net position provide information about the nature and amount of resources and obligations at year-end, the *statements of revenues, expenses and change in net position* present the results of the business activities over the course of the fiscal years and information as to how the net position changed during the years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. These statements also provide certain information about the Authority's recovery of its costs.

The *statements of cash flows* provide information about the Authority's cash receipts, cash payments and net changes in cash resulting from operating, capital and related financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Supplementary information comparing the budget to actual expenses, as well as important debt coverage data, is provided.

MANAGEMENT'S DISCUSSION & ANALYSIS OF THE ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY

MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION:

Financial Highlights

The following are key financial highlights:

- Total assets and deferred outflows at year-end totaled \$71,522,954 and exceeded liabilities and deferred inflows in the amount of \$37,470,898 (i.e., net position). Total assets increased by \$917,456. Total net position increased by \$2,242,436.
- For fiscal year 2016, the Authority pumped approximately 3,826 million gallons of water, compared to 4,133 million gallons of water in 2015.
- Operating revenues were \$16,006,808, an increase from the year 2015 in the amount of \$357,083.
- Operating expenses (excluding depreciation) were \$40,692 higher than last year.
- Operating income for the year was \$1,023,691.
- Connection fee income recognized in 2016 amounted to \$1,626,632 compared to \$252,519 in 2015. Connection fee income for two major constructions (Stockton University and South Inlet Partners Urban Renewal) was recognized at the end of 2016.
- Investment income was \$43,118 higher than budget projections. Actual investment income for 2016 amounted to \$118,455 which was \$15,833 higher than last year.

The Authority's financial condition has not changed materially in the current fiscal year. Despite the declining demand of water usage due to closure of several casinos in the past three years, operating revenues increased partially due to the rate increase which became effective in 2016. Operating expenses increased mainly due to the recording of additional pension expense in 2016 as a result of the implementation of Government Accounting Standard Board ("GASB") Statement 68. In 2015, the Authority implemented GASB Statement 68, which requires state and local governmental entities, who participate in the pension plan sponsored by the State of New Jersey, to disclose their allocable portion of the unfunded pension liability. The Authority recognized \$1,718,168 for pension expense in 2016 compared to \$999,505 in 2015. The Authority is well within the debt covenants and the more stringent financial policies and guidelines set by the Board of Directors ("Board").

**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued):

CONDENSED COMPARATIVE STATEMENTS OF NET POSITION

Explanations for material fluctuations are as follows:

Total Current Assets- Total Current Assets for 2016 totaled \$11,386,020 compared to \$ 9,574,121 in 2015. The increase amounted to \$1,811,899 and resulted primarily from an increase in Accounts Receivable. The increase in Accounts Receivable was primarily due to the increase of connection fee income (approximately \$700,000 expected to be received in early 2017) and an unpaid balance from the city of Atlantic City (the "City") amounting to approximately \$495,000.

Total Restricted Assets- Total Restricted Assets for 2016 totaled \$4,202,700 compared to \$5,971,885 in 2015. The decrease amounted to approximately \$1,769,185 which resulted from the use of funds for capital projects and the deobligation of the Subordinated Water System Revenue Bonds, Series 2009A ("Series 2009A") of \$350,000 and the New Jersey Environmental Infrastructure Bonds, Series 2010A ("Series 2010A") of \$300,000.

Net Capital Assets – Net Capital Assets for 2016 totaled \$50,310,336 compared to \$49,435,594 in 2015. This increase of \$874,742 resulted from an increase of capital additions of \$3,842,375, offset by accumulated depreciation of \$2,967,633.

Total Current Liabilities Payable From Unrestricted Assets - Total Current Liabilities Payable from Unrestricted Assets for 2016 totaled \$2,070,161 compared to \$1,963,413 in 2015. This increase was due primarily to the recognition of additional unearned revenue from an easement agreement in which the Authority granted an easement on their property to a third party for a period of 55 years for the purpose of the third party to operate communications equipment. Increase in advance billings also contributed to the increase in Total Current Liabilities. Offsetting the increases, were declines in payments due to vendors at year-end.

Total Current Liabilities Payable From Restricted Assets - Total Current Liabilities Payable from Restricted Assets for 2016 totaled \$1,878,149 compared to \$1,899,620 in 2015. The decrease was primarily due to a decline in current accrued interest payable related to the deobligation of the Series 2009A and Series 2010A bonds.

Total Long-Term Liabilities Payable from Restricted Assets- Total Long-Term Liabilities Payable from Restricted Assets for 2016 totaled \$29,813,871 compared to \$28,691,249 in 2015. This increase was due primarily to the reporting of the Authority's proportionate share of net pension liability which increased by \$3,760,850 in 2016. Offsetting this increase, was the decrease in Long Term Debt of \$2,469,360 resulting from the annual principal payments made in 2016 and the deobligation of the 2009A Series and 2010A Series bonds. In addition, a decline in the compensated balances was a result of employee retirements which also contributed to offsetting the above mentioned increase.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued):

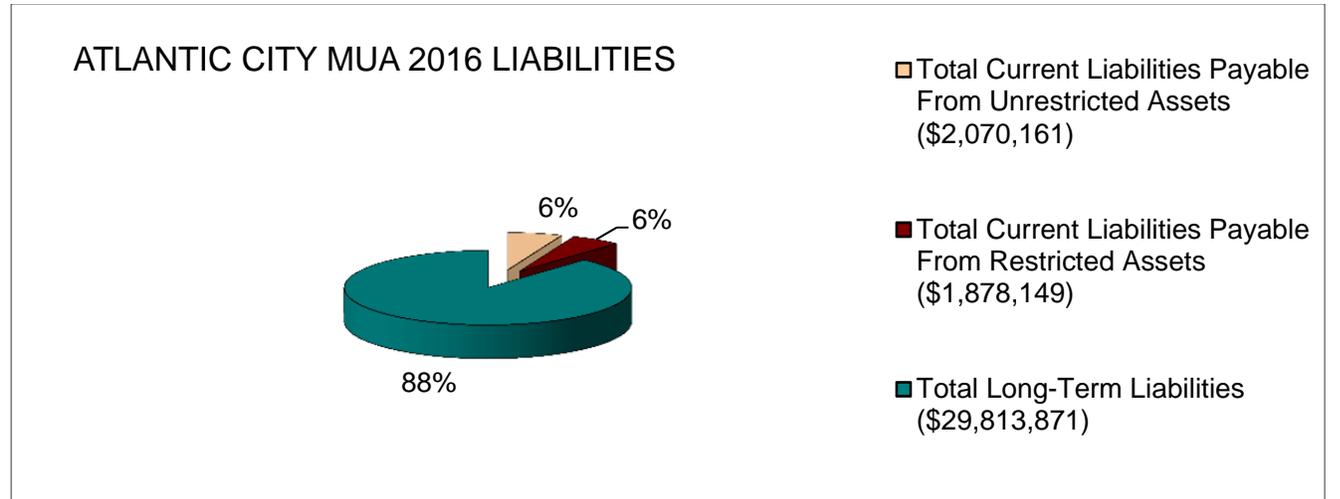
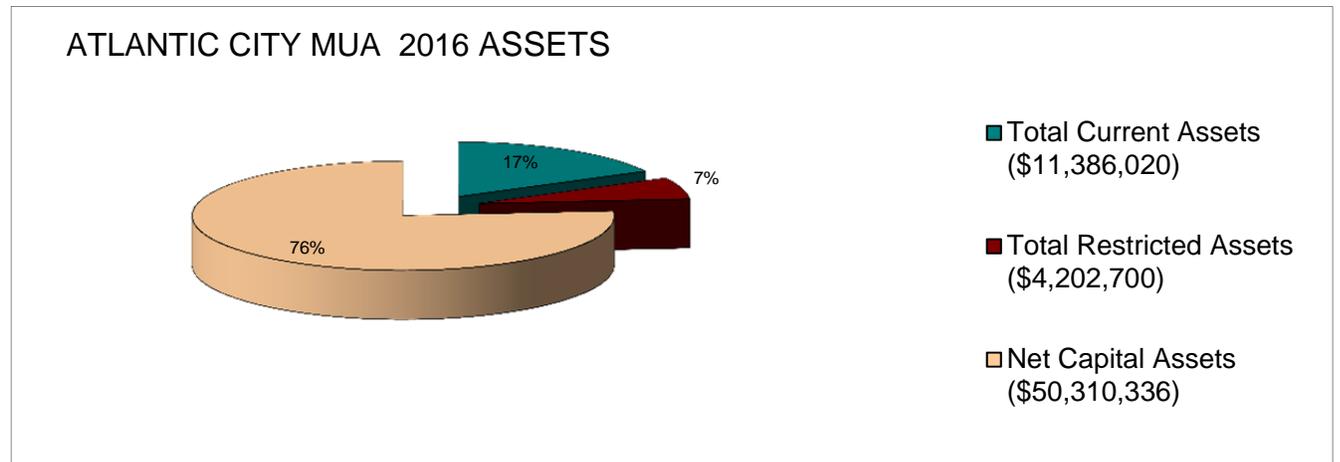
CONDENSED COMPARATIVE STATEMENTS OF NET POSITION (Continued)

	December 31, 2016	December 31, 2015
Total Current Assets	\$ 11,386,020	\$ 9,574,121
Total Restricted Assets	4,202,700	5,971,885
Net Capital Assets	<u>50,310,336</u>	<u>49,435,594</u>
Total Assets	<u>65,899,056</u>	<u>64,981,600</u>
Loss on Refunding of Long-Term Debt	119,666	160,389
Related to Pensions	<u>5,504,232</u>	<u>2,856,612</u>
Total Deferred Outflows of Resources	<u>5,623,898</u>	<u>3,017,001</u>
Total Current Liabilities - Unrestricted	2,070,161	,1,963,413
Total Current Liabilities - Restricted	1,878,149	1,899,620
Total Long-Term Liabilities	<u>29,813,871</u>	<u>28,691,249</u>
Total Liabilities	<u>33,762,181</u>	<u>32,554,282</u>
Related to Pensions	<u>289,875</u>	<u>215,857</u>
Deferred Inflows of Resources	<u>289,875</u>	<u>215,857</u>
Net Position (Deficit):		
Net Investment in Capital Assets	36,292,302	33,803,452
Restricted for Capital Projects and Debt Service	4,162,128	5,145,648
Unrestricted	<u>(2,983,532)</u>	<u>(3,720,638)</u>
Total Net Position	<u>\$ 37,470,898</u>	<u>\$ 35,228,462</u>

**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued):

CONDENSED COMPARATIVE STATEMENTS OF NET POSITION (Continued)



**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued):

CONDENSED COMPARATIVE STATEMENTS OF CASH FLOWS

The following table shows the Authority's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues.

	December 31, 2016	December 31, 2015
Total Operating Revenues	\$16,006,808	\$15,649,725
Net Cash Provided by Operating Activities	\$3,904,158	\$4,314,607
Net Operating Cash as a Percentage of Operating Revenue	24.3%	27.5%

2016 Net Cash Provided by Operating Activities as Compared to 2015

Net cash provided by operating activities decreased by 9.5%. This decrease resulted primarily from an increase in vendor payments throughout 2016. Also contributing to the decrease, was the receipt of less cash from customers due to the overall economic decline in the City. Offsetting the decrease was the decline in cash payments related to payroll expenses due to employee retirements and unfulfilled vacant positions.

MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION:

**CONDENSED COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

Total Revenues (excluding connection fees) for 2016 totaled \$16,125,263 compared to \$15,752,347 in 2015. Despite the various casino closings, total revenue increased by 2.4%. Operating expenses for 2016 totaled \$14,983,117 compared to \$14,770,767 in 2015. Total operating expenses increased by 1.4%. Explanations of the fluctuations are as follows:

Operating Revenues - Operating Revenues for 2016 totaled \$16,006,808 compared to \$15,649,725 in 2015. The revenues increased by \$357,083. The increased revenues recognized during the year resulted partially from the rate increase that went into effect in 2016. In addition, the increase in miscellaneous revenue was primarily due to the receipt of a 2013 insurance claim payment for Well 19 in 2016.

Connection Fee Income - Connection Fee Income for 2016 totaled \$1,626,632 compared to \$252,519 in 2015. This significant increase recognized in 2016 was due to two major new constructions related to the Stockton University and South Inlet Partners Urban Renewal projects.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION (Continued):

**CONDENSED COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (Continued)**

Investment Income – Investment Income for 2016 totaled \$118,455, compared to \$102,622 in 2015. This slight increase was due to the availability of similar amounts of capital for investing and earnings based on slightly higher rates of interest in 2016, as compared to last year.

Salaries Expense - Salaries Expense for 2016 totaled \$3,572,439 compared to \$4,332,644 in 2015. The decrease amounted to \$760,205. Salaries Expense declined due to an increase in vacant positions which resulted primarily from an increase in employee retirements and other vacant positions that were not filled in 2016.

Employee Benefits - Employee Benefits for 2016 totaled \$4,438,990 compared to \$3,715,134 in 2015. The increase in Employee Benefits expense amounted to \$723,856. The increase was primarily due to GASB No. 68. As a result, the Authority recognized pension expense in the amount of \$1,718,168 in 2016 compared to \$999,505 in 2015. Also contributing to the increase was higher health care premiums. A slight decrease in employee contributions were experienced during the year as a result of employee retirements, however this also contributed to the increase in health benefits cost.

Repairs and Maintenance - Repairs and Maintenance expense for 2016 totaled \$498,909 compared to \$557,422 in 2015. The Authority experienced a decrease in Repairs and Maintenance expense due to normal weather during the year.

Miscellaneous Expenses - Miscellaneous Expenses for 2016 totaled \$3,505,146 compared to \$3,369,592 in 2015. The increase for the year was \$135,554 and resulted from fluctuations in various accounts. Professional Fees and Chemicals and Gases expenses primarily contributed to the increase. The increase in Professional Fees was due to the contract awarded to legal and financial firms to assist the Authority in developing and implementing a strategic course of action in response to legislation facing the City. Chemicals and Gases expenses increased compared to last year due to the purchase and replacement of Granular Activated Carbon Filters utilized during the water treatment process. Partially offsetting the increases were decreased expenses for Other Outside Services, General Insurance and Utilities.

Depreciation Expense - Depreciation Expense for 2016 totaled \$2,967,633 compared to \$2,795,975 in 2015. The depreciation expense recorded on assets placed in-service and purchased in 2016 contributed to the increase, partially offset by a decline in expense for assets that were fully depreciated during the year.

Interest Expenses - Expenses for 2016 totaled \$438,415 compared to \$505,775 in 2015. A decline in interest expense was recognized in 2016 due to a decrease in Long-Term Debt Outstanding, which resulted from principal payments made on outstanding bonds and the deobligation of the 2009A Series and 2010A Series bonds.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION (Continued):

**CONDENSED COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (Continued)**

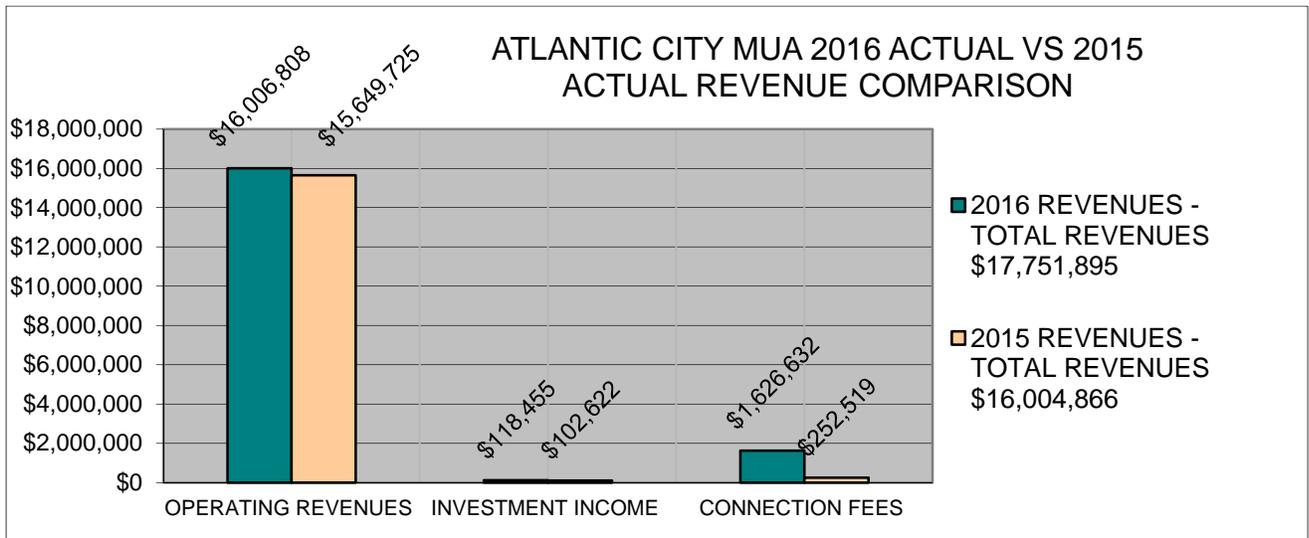
	December 31, 2016	December 31, 2015
Total Operating Revenues	<u>\$ 16,006,808</u>	<u>\$ 15,649,725</u>
Operating Expenses:		
Total Salaries Expenses	3,572,439	4,332,644
Total Employee Benefits	4,438,990	3,715,134
Total Repairs and Maintenance	498,909	557,422
Total Miscellaneous Expenses	3,505,146	3,369,592
Depreciation	<u>2,967,633</u>	<u>2,795,975</u>
Total Operating Expenses	<u>14,983,117</u>	<u>14,770,767</u>
Non-Operating Revenues (Expenses)		
Connection Fees	1,626,632	252,519
Investment Income	118,455	102,622
Bond Interest	(479,139)	(546,499)
Net Change in Fair Value of Investments	3,132	(48,907)
Unused proceeds on bonds	(50,335)	-
Loss on disposal of assets	<u>-</u>	<u>(85)</u>
Total Non-Operating Revenues (Expenses), Net	<u>1,218,745</u>	<u>(240,350)</u>
Change in Net Positon	<u>2,242,436</u>	<u>638,608</u>
Net position, beginning of year	<u>35,228,462</u>	<u>34,589,854</u>
Net position, end of year	<u>\$ 37,470,898</u>	<u>\$ 35,228,462</u>

**MANAGEMENT’S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT’S ANALYSIS OF RESULTS OF OPERATION (Continued):

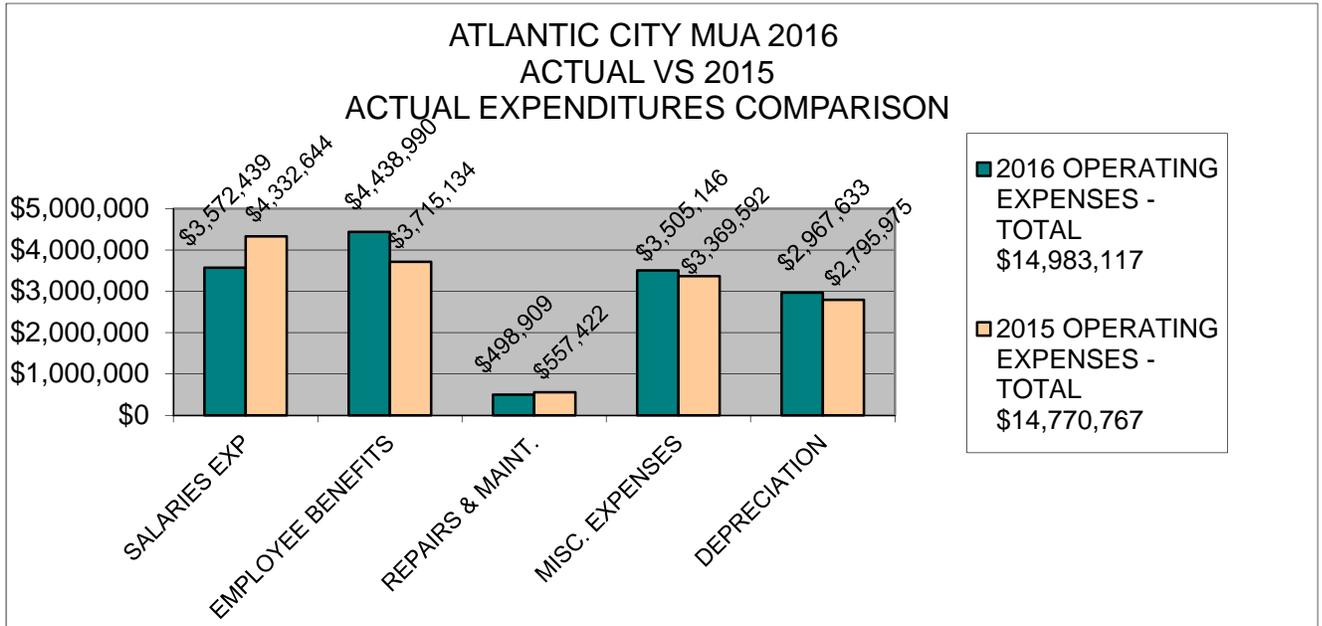
The following table shows the composition of operating expenses by major classification of expense for the last two years:

	2016	%	2015	%
Salaries Expenses	\$ 3,572,439	23.9%	\$ 4,332,644	29.3%
Employee Benefits	4,438,990	29.6	3,715,134	25.2
Repairs and Maintenance	498,909	3.3	557,422	3.8
Miscellaneous Expenses	3,505,146	23.4	3,369,592	22.8
Depreciation	<u>2,967,633</u>	<u>19.8</u>	<u>2,795,975</u>	<u>18.9</u>
Total	<u>\$ 14,983,117</u>	<u>100%</u>	<u>\$ 14,770,767</u>	<u>100%</u>



**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION (Continued):



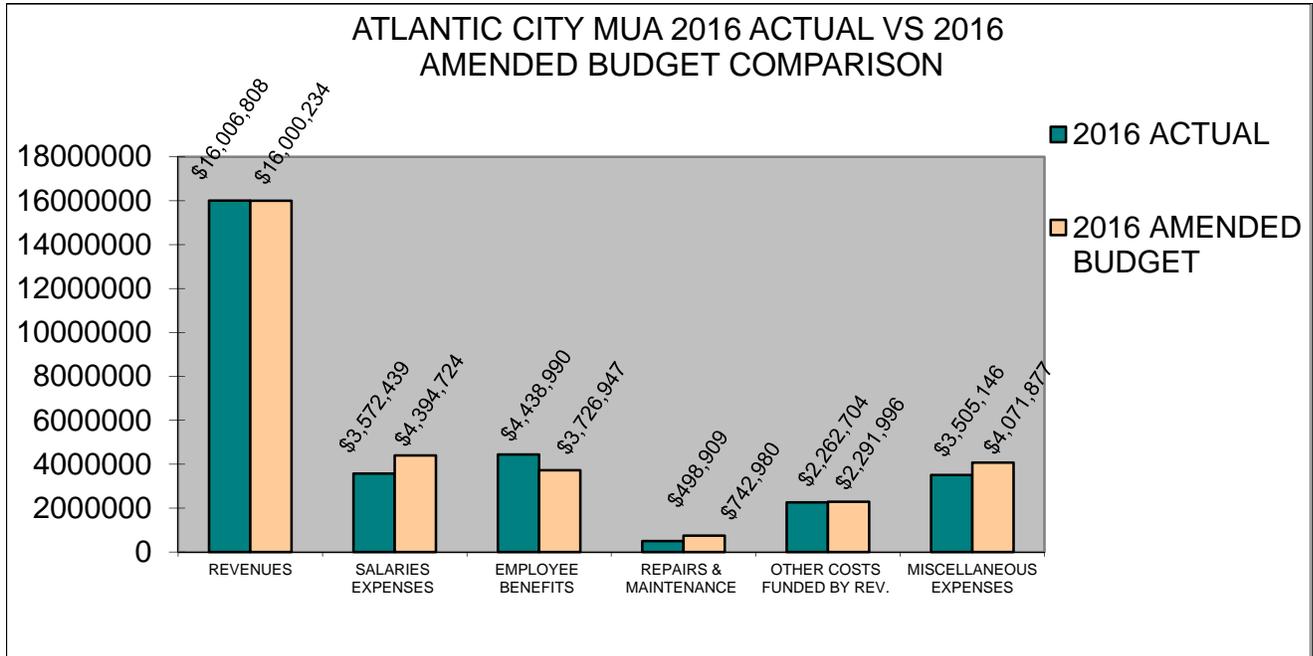
CONDENSED SCHEDULE OF APPROPRIATIONS COMPARED TO AMENDED BUDGET

Total Operating Revenues for 2016 totaled \$16,006,808 compared to Budgeted Revenues of \$16,000,234. Revenues include all revenues, except connection fee revenues and investment income. Actual revenues were \$6,574 more than budgeted revenues. The slight increase compared to budget resulted primarily from the recognition of slightly higher user fees than anticipated. Expenses from Administration and Operations for 2016 totaled \$12,015,484 compared to budgeted expenses of \$12,936,528. Actual expenses for 2016 were \$921,044 lower than the projected expenditures. Some of the larger fluctuations fell in the categories of Salaries, Employee Benefits, Utilities, Chemical and Gases, Repairs and Maintenance and Other Outside Services expenses. Contributing to lower than anticipated Salaries Expense was due to vacant positions that were not filled in 2016. Employee Benefits were higher than anticipated primarily from the recognition of GASB Statement No. 68. Utilities expenses were lower than budget due to the use of less power than anticipated. Chemicals and Gases expense was also lower than budget due to the use of less chemicals than anticipated in the water treatment process. However, Chemicals and Gases expenses were budgeted higher in 2016 compared to prior year due to the purchase and replacement of Granular Activated Carbon Filters utilized during the water treatment process. In addition, due to less severe winter weather than anticipated, Repairs and Maintenance costs, including Street Openings, were lower than projected. Other Outside Services expenses were lower than anticipated due to lower general insurance premium and other miscellaneous services.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION (Continued):

**CONDENSED SCHEDULE OF APPROPRIATIONS COMPARED TO AMENDED BUDGET
(Continued)**



**MANAGEMENT'S ANALYSIS OF 2016 CAPITAL ASSETS & LONG TERM DEBT
ACTIVITY:**

Capital Assets

Total capital assets increased approximately \$3,842,375 during 2016. Property and equipment in-service increased by \$1,893,214 in 2016. Impacting this increase was the 2016 additions and the transfer of assets from construction in progress. Currently, there are three major components of construction in progress; the painting of the 1MG Maryland Avenue Water Storage Tank project, the Water Main Replacement project (currently in its first year of a five year plan) and Mill Road 60" Water Main project. The painting of the 2MG Absecon Boulevard Water Storage Tank project, totaling \$1,429,018, was completed and transferred into service on December 31, 2016.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF THE
ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY**

**MANAGEMENT'S ANALYSIS OF 2016 CAPITAL ASSETS & LONG TERM DEBT
ACTIVITY (Continued):**

Capital Assets (Continued)

	<u>2016</u>	<u>2015</u>
Treatment and Distribution Facilities	\$ 95,275,500	\$ 93,452,030
Land and Land Improvements	1,811,009	1,811,009
Equipment and Vehicles	5,244,599	5,176,504
Office Building	3,877,030	3,877,030
Furniture and Fixtures	459,324	459,324
Construction-in-Progress	<u>3,594,213</u>	<u>1,645,052</u>
 Total	 <u>\$ 110,261,675</u>	 <u>\$ 106,420,949</u>

Long-Term Debt

At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$14,069,147.

	<u>2016</u>	<u>2015</u>
Revenue Bonds	\$ 8,855,000	\$10,120,000
New Jersey EIT Loans	\$ 5,214,147	\$ 6,423,437

OTHER SELECTED INFORMATION:

Selected Data for Analysis	<u>2016</u>	<u>2015</u>	<u>Change Amount</u>	<u>Change %</u>
Employees at Year End	68	78	(10)	(12.8%)
Number of Customers Year End	8,067	8,052	15	0.2%
Water Pumped (millions of gallons)	3,826	4,133	(307)	(7.4%)
Revenues per 1,000 gallons pumped	4.1	3.8	0.3	N/A
Expenses per 1,000 gallons pumped:				
Expenses Excluding Depreciation	3.1	2.8	0.3	N/A
Total Operating Expenses	3.9	3.5	0.4	N/A

MANAGEMENT'S DISCUSSION & ANALYSIS OF THE ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Customer Base and 2017 Budget

Over the last several years, the Authority has seen its expenses rise, however, its water usage since 2006, have shown a steady and continual decline. The Authority attributes the decline to two primary factors. The first significant factor is attributed to water conserving devices. Water conservation is always promoted in order to minimize the wasteful use of resources. Since 1992, the Authority has seen the average gallons (per capita, per day) in Atlantic City for residential customers drop from 97 to 73, almost a 25% percent reduction. The second factor is attributed to the removal of hotels and housing in Atlantic City through demolition. The closure of five casinos (Atlantic Club, Showboat, Revel, Trump Plaza and Taj Mahal) over the past three years had further impacted the continual decline of water usage. The Authority has forecasted in the 2017 Budget that the decline in water usage experienced in 2016 resulting from the closure of five casinos would no longer negatively impact the 2017 Budget. In fact, the budget reflected stabilization of the declining water usage previously recognized.

New Jersey American Water Company ("NJAWC") has been a major customer of the Authority since 2001. The contractual agreement with NJAWC ended in November 2016. Going forward, the Authority will only provide emergency interconnection in the event NJAWC needs additional water. This significant reduction in water sales from NJAWC was taken into consideration in developing the 2017 rate structure.

The loss trends over the past three years are positioned to show growth over the third and fourth quarter of 2017 as certain closed properties have been sold which has created an investment pattern. New owners are developing attractions that depend less on gaming and look to conventions and families. While these projects are expected to start in 2018, other developments are underway that see potential complementary to this trend.

Stockton University purchased the former casino Showboat in the City with the plan to transform the facility into an island campus and hotel in 2014. However, this plan did not move forward due to legal disputes mainly relative to deed restrictions. Therefore, Stockton University sold the former casino to a Philadelphia developer, Bart Blatstein, and the property opened as a non-casino hotel in July of 2016. Stockton University is now under construction for an island campus complex in the sixth ward. The island campus will serve approximately 1,700 students and provide 588 apartment residences. Additionally, the complex features a corporate midrise which will house the offices of South Jersey Gas. Courses are planned to begin in the fall of 2018. The island campus's connection fee revenue was recognized in 2016. Stockton University has established a beachhead for further development in the area, as additional residential and commercial operations are joining with Stockton University serving as a catalyst.

MANAGEMENT'S DISCUSSION & ANALYSIS OF THE ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (Continued):

Customer Base and 2017 Budget (Continued):

Atlantic City's former Revel casino was bought by a Florida developer, Polo North Country Club, Inc., in 2015. Revel, now named Ten, is currently being held in abeyance awaiting licensure. There is optimism the owner will accelerate licensure for approval given the recent purchase of the closed Trump Taj Mahal by Hard Rock, which is the adjacent property. Hard Rock intends to open the former Trump Taj Mahal in 2018 following a total project renovation and utilize its worldwide marketing and customer base. Additionally, the Borgata Casino is building a Conference Center which will increase the visitor component within the City.

The housing market is starting to show signs of growth, particularly with the construction of Boraie's Atlantic Beach project (the South Inlet Partners Urban Renewal project) which started at the end of 2016.

The 2017 Proposed Budget is a fully funded budget, providing for the continuation of all of the Authority's major operations. It was revised and adopted by the Authority by resolution at a special board meeting on November 28, 2016 to account for the significant loss of revenue due to the non-renewal of the wholesale agreement with the Authority's major customer, NJAWC. The proposed appropriations for 2017 are anticipated to be approximately \$1,312,200 less than budgeted appropriations for 2016. This decrease is due primarily to a 98% or \$834,008 decline in the 2017 Renewal and Replacement Reserve of \$13,040. Also, contributing to the decline in the 2017 appropriations, are lower anticipated salary and wages expenses and lower interest payments. Recognizing that the City is in the midst of an economic transition where budget forecasting is a challenge, the Authority has reduced its staff as certain retirees have not been replaced.

MANAGEMENT’S DISCUSSION & ANALYSIS OF THE ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES (Continued):

Rates

The Authority rates are structured to ensure that projected revenues will be sufficient to cover the anticipated appropriations for the year. In 2015, the MUA’s net increase in rates was 1%. The 2% increase was applied to the flat charge for most customers other than residential and an 8% increase in excess charges for all users. The residential rates increased from a flat charge of \$30 a quarter to \$40 a quarter. This increase raised the average residential bill by approximately \$47.42 per year. In 2016, the Authority’s net increase in rates was 4%. A 13% increase was applied as a \$5.00 increase in the quarterly charge for all residential units and a 4% increase in excess charges for all users. This increase raised the average residential bill by approximately \$24.09. Effective January 1, 2017 an additional rate increase was incorporated into the rate structure. The Authority is anticipating a 10% increase in the base and excess rate. The residential rates for residential customers will increase from the flat charge of \$45 to \$50 a quarter. In addition, residential customers that exceed the allowed allotment will be subject to a 10% increase in the excess rate. This increase will raise the average residential bill by approximately \$30.58. Although rates will increase, the Authority is anticipating an overall net decrease in revenues by 8% due to the non-renewal of the NJAWC contract, which ended in November of 2016. The connection fee is recalculated each year as required by State law. For 2017, the connection fee rate will be increased to \$15.4352 per gallon. The increase is a result from the significant decline in demand as a result of various casino closings.

Legislation with Potential Impact to the Authority

At present, the City is operating under “Takeover Legislation” with the New Jersey Department of Community Affairs assuming jurisdiction over all City and agency operations. Recommendations have been made to monetize the Authority by dissolving, leasing or privatizing the Authority to a corporate entity to assist in the City’s fiscal issues as acknowledged by consultants hired under the State of New Jersey. Additionally, citizens of the City have launched a petition drive with the intent to protect the Authority from interference by the present State of New Jersey’s “Takeover Legislation”.

MANAGEMENT'S DISCUSSION & ANALYSIS OF THE ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority, ACMUA, PO BOX 117, ATLANTIC CITY, NJ 08404-0117. The telephone number is 609-345-3315. The Authority's Administration offices are located at 401 N. Virginia Avenue, Atlantic City, NJ.

BASIC FINANCIAL STATEMENTS

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

COMPARATIVE STATEMENTS OF NET POSITION

	December 31,	
	2016	2015
ASSETS		
Current assets		
Cash	\$ 1,579,783	\$ 1,820,960
Accounts receivable, net	2,348,496	1,125,501
Investments	6,918,779	6,092,062
Inventories	426,517	449,993
Prepaid expenses	54,472	41,697
Accrued interest receivable	57,973	43,908
Total current assets	11,386,020	9,574,121
Noncurrent assets		
Restricted assets		
Investments	4,162,128	5,145,648
Receivable - NJ EIT	40,572	826,237
	4,202,700	5,971,885
Capital assets		
Land and land improvements	1,811,009	1,811,009
Construction-in-progress	3,594,213	1,645,052
Other capital assets, net of depreciation	44,905,114	45,979,533
	50,310,336	49,435,594
Total assets	65,899,056	64,981,600
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding of long-term debt	119,666	160,389
Related to pensions (Note 10)	5,504,232	2,856,612
	5,623,898	3,017,001

(Continued)

See notes to financial statements.

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)

COMPARATIVE STATEMENTS OF NET POSITION

	December 31,	
	2016	2015
LIABILITIES AND NET POSITION		
Current liabilities payable from unrestricted assets		
Accounts payable	\$ 555,228	\$ 893,049
Employer pension contributions payable	515,517	514,182
Accrued payroll and payroll liabilities	44,416	44,114
Prepaid user charges	133,212	82,545
Unearned revenue	821,788	429,523
	2,070,161	1,963,413
Current liabilities payable from restricted assets		
Accrued interest payable	58,790	75,331
Current portion of long-term debt	1,819,359	1,824,289
	1,878,149	1,899,620
Noncurrent liabilities		
Compensated absences	377,703	546,571
Long-term debt, net of current portion	12,249,788	14,719,148
Net pension liability	17,186,380	13,425,530
	29,813,871	28,691,249
Total liabilities	33,762,181	32,554,282
DEFERRED INFLOWS OF RESOURCES		
Related to pensions (Note 10)	289,875	215,857
Contingencies		
NET POSITION (DEFICIT)		
Net investment in capital assets	36,292,302	33,803,452
Restricted for capital projects and debt service	4,162,128	5,145,648
Unrestricted	(2,983,532)	(3,720,638)
Total net position	\$ 37,470,898	\$ 35,228,462

See notes to financial statements.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

	Year Ended December 31,	
	2016	2015
Operating revenues		
User charges	\$ 15,893,399	\$ 15,579,370
Rental income	4,000	2,500
Miscellaneous	109,409	67,855
	<u>16,006,808</u>	<u>15,649,725</u>
Operating expenses		
Cost of providing services	8,765,523	8,890,594
General and administrative	3,249,961	3,084,198
Depreciation	2,967,633	2,795,975
	<u>14,983,117</u>	<u>14,770,767</u>
Operating income	<u>1,023,691</u>	<u>878,958</u>
Non-operating revenues (expenses)		
Connection fees	1,626,632	252,519
Investment income	118,455	102,622
Bond interest	(479,139)	(546,499)
Net change in fair value of investments	3,132	(48,907)
Unused proceeds on bonds	(50,335)	-
Loss on disposal of assets	-	(85)
	<u>1,218,745</u>	<u>(240,350)</u>
Change in net position	<u>2,242,436</u>	<u>638,608</u>
Net position, beginning of year	<u>35,228,462</u>	<u>34,589,854</u>
Net position, end of year	<u>\$ 37,470,898</u>	<u>\$ 35,228,462</u>

See notes to financial statements.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

COMPARATIVE STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2016	2015
Cash flows from operating activities		
Receipts from customers	\$ 15,113,336	\$ 15,445,336
Receipts from others	113,409	70,355
Payments to employees and related benefits	(6,494,049)	(7,040,971)
Payments to suppliers and vendors for goods and services	(4,828,538)	(4,160,113)
Net cash provided by operating activities	3,904,158	4,314,607
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(3,842,377)	(1,450,025)
Receipts from NJ EIT	85,330	94,789
Connection fees	1,626,632	252,519
Interest paid on debt	(454,956)	(513,282)
Principal paid on debt	(1,824,289)	(1,814,252)
Net cash used in capital and related financing activities	(4,409,660)	(3,430,251)
Cash flows from investing activities		
Investment income	107,522	101,160
Transferred from (to) investments	156,803	(1,808,022)
Net cash provided by (used in) investing activities	264,325	(1,706,862)
Net decrease in cash	(241,177)	(822,506)
Cash, beginning of year	1,820,960	2,643,466
Cash, end of year	\$ 1,579,783	\$ 1,820,960
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 1,023,691	\$ 878,958
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,967,633	2,795,975
Provision for doubtful accounts	128,592	51,170
GASB 68 adjustment	1,187,248	493,231
(Increase) decrease in assets		
Accounts receivable	(1,351,587)	(218,622)
Inventories	23,476	(20,215)
Prepaid expenses	(12,775)	3,481
Other current assets	-	2,403
Increase (decrease) in liabilities		
Accounts payable	(337,821)	312,527
Employer pension contributions payable	1,335	36,786
Accrued payroll and payroll liabilities	302	27,868
Unearned income	392,265	49,405
Prepaid user charges	50,667	(15,987)
Compensated absences	(168,868)	(82,373)
Net cash provided by operating activities	\$ 3,904,158	\$ 4,314,607

See notes to financial statements.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

1 - NATURE OF ORGANIZATION

The Atlantic City Municipal Utilities Authority (the “Authority”) was created in accordance with the State Municipal Utilities Authorities Law (P.L. 1957, c. 183), by Ordinance No. 63 of 1978 of the City of Atlantic City (the “City”), adopted September 14, 1978.

Pursuant to the provisions of the law, the Authority is authorized to acquire, construct, maintain, operate or improve works for the accumulation, supply or distribution of water.

Under the criteria specified in Government Accounting Standards Board (“GASB”) 14, as amended by GASB 61, the Authority is considered a component unit of the City. The basic criteria for classifying an organization (the Authority) as a component unit of a primary government (the City) is the ability of the primary government to appoint a voting majority of the organization’s governing body, the ability to impose its will on that organization and/or potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. Another important criterion in determining the classification as a component unit is the scope of public service (i.e., whether the activity benefits the primary government and/or its citizens).

The Authority, as a component unit, issues separate financial statements from the City. However, if the City presented its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), these financial statements would be includable with the City’s financial statements on a blended basis.

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of state and local governments. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position, financial position and cash flows. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Authority is a single enterprise fund and maintains its records on the accrual basis of accounting. Enterprise funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by law or regulations that the activity's cost of providing services, including capital cost (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenue resulting from *exchange transactions*, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Water service charges are recognized as revenue when services are provided. Connection fees are paid to the Authority at the time a new property applies for connection, and are recognized as revenue when the funds are received. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage. *Non-exchange transactions*, in which the Authority receives value without directly giving equal value in return, include capital grants and other supplemental support by federal, state and local grants in support of system improvements. Revenue from these transactions is recognized in the year in which all eligibility requirements (e.g., timing, purpose, etc.) have been satisfied.

Expenses are recognized at the time they are incurred.

Budgets and Budgetary Accounting

An annual operating budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures in accordance with NJSA 40A:5A. The annual operating budget covers the general fund activity only. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for the operation, maintenance, certain interest and general functions, and other charges for the fiscal year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds

In accordance with the provisions of the bond resolution authorizing the issuance of the Revenue Bonds (Note 7), revenues and expenses are to be accounted for in the following funds:

General Fund - All revenues, except connection charges and operating expense charges, derived from the operations of the Authority are pledged to secure the payment of principal and interest on the Bonds. Transfers are made to funds in the following order (1) Debt Service Fund; (2) Debt Service Reserve Fund; (3) Renewal and Replacement; and (4) Operating Fund.

Operating Fund - Transfers are made equal to budgeted operating expenses for the current year. At year-end, this fund is adjusted to reflect the actual expenses incurred.

Debt Service Fund - First transfers are made for an amount sufficient to meet the principal and interest requirements for the year. The amount reserved for all issued is \$2,327,533.

Debt Service Reserve Fund - This fund is fully funded. As each series of bonds was issued an amount was transferred to this fund. The amount reserved for each issue is \$1,675,781.

Bond Redemption and Improvement Fund - General Account - A reserve has been established based on a schedule in the 1999 bond documents. The amount varies each year in direct relationship with the debt service for the 1999 bond issue. The fund balance in the improvement fund is derived from budget appropriations. The fund will be used for future capital projects or the costs of extraordinary maintenance and repairs to the extent not provided for in the annual budget.

Capital Fund - The Authority's collection system, property and equipment which was constructed or acquired with the proceeds of the Revenue Bonds, are accounted for herein.

Cash and Cash Equivalents

Cash and cash equivalents include various checking and money market accounts, U.S. obligations and certificates of deposit with maturities of three months or less. For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Allowance for Doubtful Accounts

The Authority's policy is to individually review all accounts as to collectability. Each December, all accounts determined to be delinquent by more than \$100 are turned over to the City as liens to be sold at the City municipal lien sale. Any collection of delinquent account balances by the municipal tax collectors is subsequently forwarded to the Authority. Municipal liens can be foreclosed by the City. If the liens are foreclosed, the Authority will not receive any funds.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts (Continued)

The allowance for doubtful accounts on municipal liens is provided as follows:

	December 31,	
	2016	2015
Municipal Liens	\$ 541,731	\$ 406,372
Approximate uncollectible %	95%	95%
Total Allowance	\$ 514,644	\$ 386,053

Investments

Investments are carried at fair market value with associated premiums and discounts amortized over the term of the investment held. Purchase of investments is limited by N.J.S.A. 40A:5-15.1 to bonds or obligations of or guaranteed by the federal government and to bonds or other obligations of federal or local units. These investments are generally required to have a maturity date not more than 397 days from the date of purchase.

Inventories

Material inventories for the Authority are made up of supplies that are directly related to customer accounts, such as water meters and accessories, and are stated at cost. Material inventories totaled \$426,517 and \$449,993 at December 31, 2016 and 2015, respectively. The inventories are presented using the FIFO method.

Restricted Assets

Restricted assets represent investments maintained in accordance with bond resolutions and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payment, and improvements and extensions to the utility system.

Restricted investments consist of the following:

	December 31,	
	2016	2015
Debt Service Fund	\$ 2,327,533	\$ 2,327,533
Debt Service Reserve Fund	1,675,781	1,675,781
Bond Redemption and Improvement Fund	150,000	150,000
Capital Fund	8,814	992,334
	\$ 4,162,128	\$ 5,145,648

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets (Continued)

The New Jersey Environmental Infrastructure Trust (“NJ EIT”) provided funding for capital improvements, additions, and/or replacements. As these projects are completed, the funds are reimbursed by the NJ EIT and the Authority reduces the remaining receivable.

Capital Assets

Plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Internal engineering costs are capitalized to the extent of direct support and contribution to construction and expansion projects. Maintenance and repairs, which do not significantly extend the value of life of plant and equipment, are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed utilizing the straight-line method, as follows:

Wellfields	50
Office building	40
Pumping station, distribution system, and land improvements	10-50
Filtration Plant	15-40
Vehicles, machinery and equipment, furniture and fixtures	5-15

Deferred Outflows and Inflows of Resources

The accompanying statements of net position report separate sections for deferred outflow of resources and deferred inflow of resources. Deferred outflow of resources, reported after total assets, 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 inflow of resources, reported after total liabilities, 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. Transactions are classified as deferred outflow of resources and deferred inflow of resources only when specifically prescribed by the GASB standards.

The Authority reports the following as deferred outflow of resources:

Loss on Refunding of Long-Term Debt - The loss on refunding arising from the issuance of refunding bonds, which is amortized in a systematic and rational manner over the duration of the related debt as a component of interest expense.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources (Continued)

The Authority is required to report the following as deferred outflow of resources and deferred inflow of resources:

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

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue. The Authority's unearned revenue recorded consists of advance billings and unearned rental income. In July 2016, the Authority entered into an easement agreement with an unrelated third party. Under the terms of the agreement, the Authority granted an easement on their property for a period of 55 years for the purpose of the third party to operate communications equipment. As consideration for the easement, the Authority received \$367,261 which is being amortized over 55 years (approximately \$556 a month). In 2016, rental income recognized was \$2,782.

Compensated Absences

Compensated absences are payments to employees for accumulated time such as paid vacation, paid sick leave, and other compensated time. A liability for compensated absences that is attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as the employees earn the rights to the benefits.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets and deferred outflow of resources, and liabilities and deferred inflow of resources on the Authority's financial statements. Net position is classified in the following categories:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component as the unspent amount.

Restricted - Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues that are generated directly from water services (e.g., user service charges) and other revenue sources (e.g., rental income, scrap metal sold). Non-operating revenues consist of connection fees and investment income.

Operating expenses include expenses associated with the operation, maintenance and treatment of the water facilities and general administrative expenses. Non-operating expenses principally include expenses attributable to the Authority's interest on funded debt and changes in fair value of investments.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Adopted Accounting Pronouncements

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

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. The Statement will become effective for the Authority in 2017. 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 will become effective for the Authority in 2017. 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 will become effective for the Authority in 2018. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of GAAP. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Management adopted Statement No. 76 in 2016.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Adopted Accounting Pronouncements (Continued)

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Statement became effective for the Authority in 2016. This Statement is not applicable to the Authority. As such, this Statement will have no impact on the financial statements.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement excludes the scope and applicability of GASB Statement No. 68 to pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet three defined criteria. The Authority does not meet any of the three criteria and therefore continues to be included within the scope and applicability of GASB Statement No. 68, as discussed previously. This Statement is not applicable to the Authority. As such, this Statement will have no impact on the financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement became effective for the Authority in 2016. This Statement is not applicable to the Authority. As such, this Statement will have no impact on the financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement will become effective for the Authority in 2017. Management has not yet determined the impact of this Statement on the financial statements.

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 Statement will become effective for the Authority in 2017. Management has not yet determined the impact of this Statement on the financial statements.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Adopted Accounting Pronouncements (Continued)

Statement No. 82, Pensions Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73. 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 Statement will become effective for the Authority in 2017. Management has not yet determined the impact of this Statement on the financial statements.

Subsequent Events

These financial statements were approved by management and available for issuance on May 26, 2017. Management has evaluated subsequent events through this date.

3 - CASH

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority'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 the New Jersey Governmental Unit Deposit Protection Act ("GUDPA") or in qualified investments established in New Jersey Statutes 40A:5-151(a) that are treated as cash equivalents. The first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation ("FDIC"). Public funds owned by the Authority in excess of FDIC insured amounts are protected.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

4 - INVESTMENTS

As of December 31, 2016 and 2015, the Authority had the following investments and maturities:

Investment	Maturity Date	Interest Rate	Moody's/S&P Credit Rating	2016 Fair Value	2015 Fair Value
Federated treasury obligations	N/A	N/A	N/A	\$ 4,883,380	\$ 6,048,313
United States Treasury					
Inflation Indexed Bond	01/15/2018	1.63%	Aaa	1,876,754	1,845,039
Municipal Bond	08/15/2018	5.00	AA-	965,773	994,358
Certificate of Deposit	02/02/2016	0.65	N/A	-	1,500,000
Certificate of Deposit	02/10/2016	0.60	N/A	-	150,000
Certificate of Deposit	03/20/2016	0.65	N/A	-	700,000
Certificate of Deposit	02/02/2017	0.90	N/A	2,500,000	-
Certificate of Deposit	02/10/2017	0.90	N/A	150,000	-
Certificate of Deposit	03/21/2017	0.90	N/A	705,000	-
Total Investments				\$ 11,080,907	\$ 11,237,710

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. All of the Authority's investments in treasury obligations, certificates of deposit and municipal bonds are held in the name of the Authority.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, it is the Authority's general policy not to purchase investments with terms greater than one year.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. N.J.S.A. 40A:5-15.1 limits the investments that the Authority may purchase such as Treasury securities in order to limit the exposure of governmental units to credit risk. The Authority has no investment policy that would further limit its investment choices.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

4 - INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority's investment policies place no limit on the amount the Authority may invest in any one issuer.

5 - CAPITAL ASSETS

Capital asset balances and activities for the year ended December 31, 2016 were as follows:

	Balance, January 1, 2016	Additions	Reclass/ Reductions	Balance, December 31, 2016
Capital assets not being depreciated				
Land and land improvements	\$ 1,811,009	\$ -	\$ -	\$ 1,811,009
Construction-in-progress	1,645,052	3,486,522	(1,537,361)	3,594,213
Capital assets not being depreciated	3,456,061	3,486,522	(1,537,361)	5,405,222
Capital assets being depreciated				
Treatment and distribution facilities	93,452,030	1,823,470	-	95,275,500
Equipment and vehicles	5,176,504	69,744	(1,649)	5,244,599
Office building	3,877,030	-	-	3,877,030
Furniture and fixtures	459,324	-	-	459,324
Capital assets being depreciated	102,964,888	1,893,214	(1,649)	104,856,453
Accumulated depreciation	(56,985,355)	(2,967,633)	1,649	(59,951,339)
Capital assets, net of depreciation	45,979,533	(1,074,419)	-	44,905,114
Total capital assets, net	\$ 49,435,594	\$ 2,412,103	\$ (1,537,361)	\$ 50,310,336

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

5 - CAPITAL ASSETS (Continued)

Capital asset balances and activity for the year ended December 31, 2015 were as follows:

	Balance, January 1, 2015	Additions	Reclass/ Reductions	Balance, December 31, 2015
Capital assets not being depreciated				
Land and land improvements	\$ 1,811,009	\$ -	\$ -	\$ 1,811,009
Construction-in-progress	3,613,403	421,407	(2,389,758)	1,645,052
Capital assets not being depreciated	5,424,412	421,407	(2,389,758)	3,456,061
Capital assets being depreciated				
Treatment and distribution facilities	90,254,705	3,217,539	(20,214)	93,452,030
Equipment and vehicles	5,057,118	135,360	(15,974)	5,176,504
Office building	3,877,030	-	-	3,877,030
Furniture and fixtures	459,324	-	-	459,324
Capital assets being depreciated	99,648,177	3,352,899	(36,188)	102,964,888
Accumulated depreciation	(54,205,268)	(2,795,975)	15,888	(56,985,355)
Capital assets, net of depreciation	45,442,909	556,924	(20,300)	45,979,533
Total capital assets, net	\$ 50,867,321	\$ 978,331	\$ (2,410,058)	\$ 49,435,594

6 - DEFERRED LOSS ON REFUNDING ISSUES

The 2007 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old bonds of \$193,907. The difference, reported in the accompanying financial statements as a Deferred Outflows of Resources, is being charged to operations through the year 2029 using the straight-line method. Amounts charged in both 2016 and 2015 were \$8,816. The balance as of December 31, 2016 and 2015 was \$109,030 and \$117,846, respectively.

The 2012 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old bonds of \$151,116. The difference, reported in the accompanying financial statements as a Deferred Outflows of Resources, is being charged to operations through the year 2017 using the straight-line method. Amounts charged in both 2016 and 2015 were \$31,907. The balance as of December 31, 2016 and 2015 was \$10,636 and \$42,543, respectively.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

7 - LONG-TERM DEBT

Long-term debt consists of the following:

\$1,510,000 Subordinated Water System Revenue Bonds, Series 2005A, dated 11/10/05, payable in annual installments through 8/1/25. Interest is paid semi-annually at varying interest rates ranging from 4.00% to 5.00%. The balance at December 31, 2016 and 2015 was \$905,000 and \$985,000, respectively.

\$4,033,215 Subordinated Water System Revenue Bonds, Series 2005B, dated 11/10/05. The bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/25. The balance at December 31, 2016 and 2015 was \$2,026,376 and \$2,248,813, respectively.

\$660,000 Subordinated Water System Revenue Bonds, Series 2006A, dated 11/9/06, payable in annual installments through 9/1/26. Interest is paid semi-annually at varying interest rates ranging from 4.00% to 5.00%. The balance at December 31, 2016 and 2015 was \$410,000 and \$445,000, respectively.

\$1,489,065 Subordinated Water System Revenue Bonds, Series 2006B, dated 11/9/06. The original amount issued of \$1,798,103 was reduced by \$309,038 in 2014. The New Jersey Department of Environmental Protection authorized the deobligation of the 2006B bond series in the amount of \$309,038 as a result of the Authority having excess funds remaining related to the project funded by this bond series. The deobligated funds were transferred to the escrow funds established for the 2010 New Jersey Environmental Infrastructure Bonds, where funds will be applied to debt service. The 2006B bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/26. The balance at December 31, 2016 and 2015 was \$628,975 and \$727,844, respectively.

\$2,500,000 Water System Revenue Bonds, Series 2012, dated 7/19/12, payable in annual installments through 5/1/21. Interest is paid semi-annually at varying interest rates ranging from 2.44% to 3.60%. The balance at December 31, 2016 and 2015 was \$1,650,000 and \$2,050,000, respectively.

\$350,000 Subordinated Water System Revenue Bonds, Series 2009A, dated 12/2/09, payable in annual installments through 8/1/29. Interest is paid semi-annually at varying interest rates ranging from 2.00% to 5.00%. \$350,000 of debt was deobligated by the NJ EIT as the full amount of funding of the related capital projects was not fully utilized. The principal payments were adjusted for the years 2023 through 2029 to reflect the deobligation. The balance at December 31, 2016 and 2015 was \$270,000 and \$655,000, respectively.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

7 - LONG-TERM DEBT (Continued)

\$774,039 Subordinated Water System Revenue Bonds, Series 2009B, dated 12/2/09. The bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/29. The balance at December 31, 2016 and 2015 was \$539,064 and \$580,530, respectively.

\$205,000 New Jersey Environmental Infrastructure Bonds, Series 2010A, dated 9/01/10, payable in annual installments through 8/1/29. Interest is paid semi-annually at varying interest rates ranging from 3.00% to 5.00%. \$300,000 of debt was deobligated by the NJ EIT as the full amount of funding of the related capital projects was not fully utilized. The principal payments were adjusted for the years 2020 through 2029 to reflect the deobligation. The balance at December 31, 2016 and 2015 was \$90,000 and \$410,000, respectively.

\$495,000 New Jersey Environmental Infrastructure Bonds, Series 2010B, dated 3/10/10. The bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/29. The balance at December 31, 2016 and 2015 was \$344,732 and \$371,250, respectively.

The Authority issued \$8,830,000 of Refunding Bonds, dated 5/15/07, payable in annual installments through 2/15/24. The purpose was to redeem \$8,455,000 of the 6/1/99 revenue bonds. The funds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$8,455,000 general obligation bonds. As a result, the refunding bonds are considered to be defeased and the liability has been removed from the accompanying statements of net position. This advance refunding was undertaken to reduce total debt service payments over the next 21 years by \$435,574 and resulted in an economic gain of \$579,132. Interest is paid semiannually at varying rates ranging from 4.00% to 5.00%. The balance as of December 31, 2016 and 2015 was \$6,705,000 and \$7,085,000, respectively.

The Authority issued \$4,530,000 of Refunding Bonds, dated 7/19/12, payable in annual installments through 5/1/17. The purpose was to redeem \$4,885,000 of the 3/26/02 revenue refunding bonds. The funds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$4,885,000 general obligation bonds. As a result, the refunding bonds are considered to be defeased and the liability has been removed from the accompanying statements of net position. \$435,447 of Debt Service Reserve Funds were used to partially fund the transaction. This advance refunding was undertaken to reduce total debt service payments over the next 6 years by \$674,699 and resulted in an economic gain of \$642,051. Interest is paid semiannually at varying rates ranging from 1.30% to 3.00%. The balance as of December 31, 2016 and 2015 was \$500,000 and \$985,000, respectively.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

7 - LONG-TERM DEBT (Continued)

Principal and interest requirements until maturity are as follows:

Year	Principal	Interest	Total
2017	\$ 1,819,359	\$ 390,881	\$ 2,210,240
2018	1,290,619	347,381	1,638,000
2019	1,325,580	314,069	1,639,649
2020	1,359,301	279,559	1,638,860
2021	1,382,692	241,238	1,623,930
2022-2026	4,812,644	753,981	5,566,625
2027-2029	2,078,952	119,925	2,198,877
	<u>\$ 14,069,147</u>	<u>\$ 2,447,034</u>	<u>\$ 16,516,181</u>

	Balance 12/31/15	Increase/ Adjustment	Decrease/ Adjustment	Balance 12/31/16	Due within one year
Revenue Bonds	\$ 10,120,000	\$ -	\$ 1,265,000	\$ 8,855,000	\$ 1,250,000
NJ EIT	6,423,437	-	1,209,290	5,214,147	569,359
Compensated absences	546,571	-	168,868	377,703	-
Totals	\$ 17,090,008	\$ -0-	\$ 2,643,158	\$ 14,446,850	\$ 1,819,359

	Balance 12/31/14	Increase/ Adjustment	Decrease/ Adjustment	Balance 12/31/15	Due within one year
Revenue Bonds	\$ 11,395,000	\$ -	\$ 1,275,000	\$ 10,120,000	\$ 1,265,000
NJ EIT	6,962,689	-	539,252	6,423,437	559,289
Compensated absences	628,944	-	82,373	546,571	-
Totals	\$ 18,986,633	\$ -0-	\$ 1,896,625	\$ 17,090,008	\$ 1,824,289

8 - ARBITRAGE

The Tax Reform Act of 1986 (“Act”) imposed additional restrictive regulations, reporting requirements, and an arbitrage rebate liability on issuers of tax-exempt debt. This Act requires the remittance to the IRS of 90% of the cumulative rebatable arbitrage within 60 days of the end of each five-year reporting period following the issuance of governmental bonds. The Authority’s policy is to annually record a liability representing the estimated amount owed. The Authority actively manages its invested bond proceeds to minimize any arbitrage liability. The Authority had no cumulative arbitrage rebate liability for the years ended December 31, 2016 and 2015.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

9 - NET POSITION

Net position consists of the following:

	December 31,	
	2016	2015
Net investment in capital assets		
Capital assets, net	\$ 50,310,336	\$ 49,435,594
Receivable - NJ EIT	40,572	826,237
Loss on refunding of long-term debt	119,666	160,389
Unused proceeds on bonds	(50,335)	-
Debt	(14,069,147)	(16,543,437)
Accrued interest payable	(58,790)	(75,331)
	<u>36,292,302</u>	<u>33,803,452</u>
Restricted for capital projects and debt service		
Restricted investments	4,162,128	5,145,648
Unrestricted deficit	<u>(2,983,532)</u>	<u>(3,720,638)</u>
Total net position	<u>\$ 37,470,898</u>	<u>\$ 35,228,462</u>

10 - PENSION PLAN

Description of Plan and Benefits Provided

The State of New Jersey Division of Pensions and Benefits (the "Division") administers the Public Employees' Retirement System of New Jersey (the "Plan"), a governmental cost-sharing multiple employer defined benefit pension plan. The general responsibility for the proper operation of the Plan is vested in the Board of Trustees and the pension committees established pursuant to Chapter 78 P.L. 2011.

Under the terms of Chapter 71, P.L. 1966, most public employees in New Jersey not required to become members of another contributory retirement program are required to enroll in the Plan. The Division issues a separate publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295 or online at <http://www.state.nj.us/treasury/pensions>.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

10 - PENSION PLAN (Continued)

Description of Plan and Benefits Provided (Continued)

Chapter 78, P.L. 2011 grants the authority to amend the benefit terms of the Plan to the pension committees. The pension committees have the discretionary authority to modify the member contribution rate, formula for calculation of final compensation and the fraction of compensation applied to service credited after the modification age at which a member may be eligible and the benefits for service and special retirement and benefits provided for disability benefit. The pension committees have the authority to reactivate the cost of living adjustment and set the duration and extent of the activation. The pension committees must give priority consideration to the reactivation of the cost of living adjustment. No decision of the pension committees shall be implemented if the direct or indirect result of the decision will be that the Plan's funded ratio falls below the target funded ratio in any valuation period during the 30 years following the implementation of the decision.

The vesting and benefit provisions are set by N.J.S.A.43:15A. The Plan provides retirement, death and disability benefits. 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 the Plan.

The membership tiers for the Plan are as follows: (a) Tier 1 – Members who are enrolled prior to July 1, 2007; (b) Tier 2 – Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008; (c) Tier 3 - Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010; (d) Tier 4 - Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011; and (e) Tier 5 – Members who were eligible to enroll on or after June 28, 2011.

Service retirement benefits of 1/55th of final average salary for each year of service credit are available to Tier 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit are 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 members before age 62 with 25 or more years of service credit, and Tier 5 with 30 or more years 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 for his/her respective tier. Tier 1 members can receive an unreduced benefit from age 55 to 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.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

10 - PENSION PLAN (Continued)

Contributions

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate.

Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over seven years beginning in July 2012. Further, beginning in July 2012, the member contribution rate will increase 1/7th of 1% each July until a 7.5% member contribution rate is reached in July 2018. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The Authority's contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability.

The Authority's contractually required contribution rate as of December 31, 2016 and 2015 was 7.20% and 7.06%, respectively, of the Authority's covered-employee payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$754,779 and \$797,999, respectively, for the years ended December 31, 2016 and 2015. Employee contributions were \$239,282 and \$283,817, respectively, for the years ended December 31, 2016 and 2015.

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

At December 31, 2016, the Authority reported a liability of \$17,186,380 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. The Authority's proportion 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 employers, actuarially determined. At June 30, 2016, the Authority's proportion was 0.0580285106%, which was a decrease of 0.0017787453% from its proportion measured as of June 30, 2015.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

10 - PENSION PLAN (Continued)

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

At December 31, 2015, the Authority reported a liability of \$13,425,530 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. The Authority's proportion 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 employers, actuarially determined. At June 30, 2015, the Authority's proportion was 0.0598072559%, which was an increase of 0.0018979458% from its proportion measured as of June 30, 2014.

For the years ended December 31, 2016 and 2015, the Authority recognized \$1,718,168 and \$999,505, respectively, for pension expense.

The Authority reported the deferred outflows and inflows of resources related to the Plan from the following sources as of December 31, 2016:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 319,615	\$ -
Changes of assumptions	3,560,100	-
Net difference between projected and actual earnings on pension plan investments	655,332	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	453,668	289,875
Authority contributions subsequent to the measurement date*	515,517	-
	<u>\$ 5,504,232</u>	<u>\$ 289,875</u>

*\$515,517 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the year ending December 31, 2017.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

10 - PENSION PLAN (Continued)

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

The Authority reported the deferred outflows and inflows of resources related to the Plan from the following sources as of December 31, 2015:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 320,286	\$ -
Changes of assumptions	1,441,795	-
Net difference between projected and actual earnings on pension plan investments	-	215,857
Changes in proportion and differences between Authority contributions and proportionate share of contributions	580,349	-
Authority contributions subsequent to the measurement date*	514,182	-
	\$ 2,856,612	\$ 215,857

*\$514,182 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the year ending December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	
2017	\$ 1,123,164
2018	1,123,164
2019	1,301,223
2020	1,093,218
2021	347,946
	\$ 4,988,715

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

10 - PENSION PLAN (Continued)

Actuarial Assumptions

The net pension liability measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.08%
Salary increases:	
Through 2026	1.65% - 4.15%, based on age
Thereafter	2.65% - 5.15%, based on age
Investment rate of return	7.65%
Mortality rate table	RP-2000
Period of actuarial experience study upon which actuarial assumptions were based	July 1, 2011 - June 30, 2014

The mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 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 accordance with the State of New Jersey statute, the long-term expected rate of return on plan investments is determined by the State of New Jersey's Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

10 - PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

Best estimates of arithmetic real rates of returns for each major asset class included in the pension's target asset allocation as of June 30, 2016 are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.87%
U.S. treasuries	1.50	1.74
Investment grade credit	8.00	1.79
Mortgages	2.00	1.67
High yield bonds	2.00	4.56
Inflation-indexed bonds	1.50	3.44
Broad U.S. equities	26.00	8.53
Developed foreign equities	13.25	6.83
Emerging market equities	6.50	9.95
Private equity	9.00	12.40
Hedge funds/absolute return	12.50	4.68
Real estate (property)	2.00	6.91
Commodities	0.50	5.45
Global debt exchange U.S.	5.00	(0.25)
Real estate investment trusts	5.25	5.63
	100.00%	

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

10 - PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 4.90%, respectively, as of June 30, 2016 and 2015. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.65% and 7.90%, respectively, and a municipal bond rate of 2.85% and 3.80%, respectively, as of June 30, 2016 and 2015 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 rates assumes 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 average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of Authority's Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability at June 30, 2016 calculated using a discount rate of 3.98% for PERS, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Authority's proportionate share of the net pension liability	\$ 21,059,903	\$ 17,186,380	\$ 13,988,451

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued New Jersey Division of Pension and Benefits financial report. Information on where to obtain the report is indicated at the beginning of this note.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

10 - PENSION PLAN (Continued)

The following presents the Authority’s proportionate share of the net pension liability at June 30, 2015 calculated using a discount rate of 4.90% for PERS, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
Authority’s proportionate share of the net pension liability	\$16,686,291	\$13,425,530	\$10,691,731

11 - POST RETIREMENT BENEFITS

Plan Description

The Authority contributes to the State Health Benefits Program (“SHBP”), a cost-sharing, multi-employer defined post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pension/gasb-43-sept2008.pdf>.

The Authority is a member of the SHBP and provides that its retirees will be covered if they have 25 years participation in PERS and have been employed by the Authority for 10 years. During 2016, 2015 and 2014, the Authority paid the SHBP \$2,242,107, \$2,230,982 and \$2,075,500, respectively, for health care of employees and retirees. The amount paid for retirees was \$703,857, \$602,020 and \$569,523, respectively.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

12 - DEFERRED COMPENSATION

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan, which is administered by the Valic Retirement Services Company, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are not included in the books and accounts of the Authority in accordance with GAAP.

13 – MAJOR CUSTOMER

In each of the years ended December 31, 2016 and 2015, 12% of the Authority’s revenue was derived from water usage services for NJAWC. In November 2016, the contractual agreement between the Authority and NJAWC ended. Going forward, the Authority will only provide emergency interconnection in the event NJAWC needs additional water. The significant water sales reduction from NJAWC was taken into consideration in developing the 2017 rate structure.

14 - CONTINGENCIES

In the normal course of business, the Authority may periodically be named as a defendant in litigation. In the opinion of management, supported by legal counsel, the impact of any such matters, if adversely determined, would not have a material effect on the financial statement or operations of the Authority. From time to time, the Authority may be a defendant in legal proceedings relating to its operations as a utility authority.

15 - RISK MANAGEMENT

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Authority purchases commercial insurance policies on an annual basis to handle risks of loss associated with property, auto, liability, workers’ compensation, flood damage, and employee crime coverage. Any potential liability of the Authority with respect to loss claims would be equal to the deductibles associated with the policies and an event, which may exceed policy coverage limits.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

16 - RISKS AND UNCERTAINTIES

Property, and Liability Insurance - The Authority maintains commercial insurance for property, liability and surety bonds.

The Authority made no payments in excess of the insurance coverage during the fiscal year. Also, there was no decrease in insurance coverage.

The financial challenges facing the City remain, however, significant investment undertakings suggest that a rebound is underway. As various development projects get underway, implementation of state takeover actions are ongoing in tandem, creating an uncharted complex landscape.

With construction beginning on Stockton University's island campus and Hard Rock's purchase of the closed Trump Taj Mahal Casino, a number of other start-ups have injected new life into the City. In an effort to right size the City's budget, the State of New Jersey has signaled deep cuts into firefighter and police contracts and benefits. Each of these has resulted in litigation which has the potential to be long term.

The legislative solution (the "Pilot Bill") to remedy the City's casino property taxes appears headed to court also. Atlantic County gained unanimous approval from its constituent municipalities to sue over the proposed shortfall of its tax portion. In each case, these lawsuits will necessarily strike at the constitutionality of the takeover legislation itself.

More recently, the State of New Jersey engaged Squire Patton Boggs, a nationally recognized law firm that headed the bankruptcy restructuring of Detroit. With this development, the long forbidden prospect of bankruptcy seems to emerge.

Within these entanglements, the residents of the City have coordinated a petition drive with the assistance of attorneys from the American Civil Liberties Union ("ACLU"), Food and Water Watch and the National Association for the Advancement of Colored People ("NAACP"). The petitions seek to place any effort to dissolve and sell the Authority to the public in an Initiative and Referendum. This effort is city-wide and has engaged all elected officials and media coverage across the country.

The State of New Jersey's "Takeover Bill" (the Municipal Stabilization Act) set the date of May 27, 2017 when the Department of Community Affairs could begin a process of dissolving and monetizing the Authority. As of this date, there is no credible indication of what may or may not happen. Efforts to address the City's debt continue to generate conflict among affected parties, which mitigate against any clear or dependable path toward recovery.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

NOTES TO BASIC FINANCIAL STATEMENTS

16 - RISKS AND UNCERTAINTIES (Continued)

The Authority continues its stellar record of service with its customers. Indeed, Food and Water Watch did a study which concluded the Authority's cost of water service is within the lowest 25 systems in the nation. Its operations will continue in routine fashion which under these circumstances, risk and uncertainty forecasting is for the most part, unattainable.

17 - SUBSEQUENT EVENT

New Jersey Statutes Annotated ("N.J.S.A.") 40:14B-54 provides that a municipality (City of Atlantic City) shall promptly pay to any municipal utility authority (Atlantic City Municipal Utilities Authority) all service charges due to said authority. For the period 2015 through May 8, 2017, the City has unpaid drinking water service charges due to the Authority totaling \$689,560. At December 31, 2016, the amount owed to the Authority from the City, and included in accounts receivable in the accompanying financial statements, totaled \$497,155. At the Authority's May 17, 2017 board meeting, the Authority's Board of Director's approved Resolution No. 80 which developed a plan to alleviate the City's significant delinquency and its effect upon the Authority's 2017 budget and operations. Pursuant to N.J.S.A 40A:5A-12.1, an amount constituting the unreserved retained earnings of its annual budget held by a public authority may be appropriated for use for the local municipal budget which created the authority. In accordance with this statute, the Authority transferred \$702,658 of their 2016 unreserved retained earnings to the City. The revenue pressure upon the Authority as a result of the City's delinquency presents unusual circumstances for 2017. Resolution No. 80 approved the Authority's continued support to the City and recognized that another unreserved retained earnings payment to the City for 2017 will require critical analysis and adjustment during this unprecedented period of uncertainty.

OTHER SUPPLEMENTARY INFORMATION

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
with Summarized Totals for 2015**

	Year Ended December 31, 2016						2016 Total	2015 Summarized Total
	General Fund	Debt Service Fund	Debt Service Reserve Fund	Bond Redemption and Improvement Fund	Capital Fund	Net Investment in Capital Assets		
Operating revenues								
User charges	\$ 15,893,399	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,893,399	\$ 15,579,370
Rental income	4,000	-	-	-	-	-	4,000	2,500
Miscellaneous	109,409	-	-	-	-	-	109,409	67,855
	16,006,808	-	-	-	-	-	16,006,808	15,649,725
Operating expenses								
Cost of providing services	8,765,523	-	-	-	-	-	8,765,523	8,890,594
General and administrative	3,249,961	-	-	-	-	-	3,249,961	3,084,198
Depreciation	-	-	-	-	-	2,967,633	2,967,633	2,795,975
	12,015,484	-	-	-	-	2,967,633	14,983,117	14,770,767
Operating income (loss)	3,991,324	-	-	-	-	(2,967,633)	1,023,691	878,958
Non-operating revenues (expenses)								
Connection fees	1,626,632	-	-	-	-	-	1,626,632	252,519
Investment income	118,455	-	-	-	-	-	118,455	102,622
Bond interest	(438,415)	-	-	-	-	(40,724)	(479,139)	(546,499)
Bond payments	(1,824,289)	-	-	-	-	1,824,289	-	-
Deobligated debt	(650,000)	-	-	-	-	650,000	-	-
Net change in fair value of investments	3,132	-	-	-	-	-	3,132	(48,907)
Unused proceeds on bonds	-	-	-	-	-	(50,335)	(50,335)	-
Loss on disposal of assets	-	-	-	-	-	-	-	(85)
	(1,164,485)	-	-	-	-	2,383,230	1,218,745	(240,350)
Net increase (decrease) before transfers	2,826,839	-	-	-	-	(584,403)	2,242,436	638,608
Transfers between funds	(2,089,733)	-	-	-	(983,520)	3,073,253	-	-
Net increase (decrease) in net position	737,106	-	-	-	(983,520)	2,488,850	2,242,436	638,608
Net position (deficit), beginning of year	(3,720,638)	2,327,533	1,675,781	150,000	992,334	33,803,452	35,228,462	34,589,854
Net position (deficit), end of year	(2,983,532)	2,327,533	1,675,781	150,000	8,814	36,292,302	37,470,898	35,228,462
Analysis of net position (deficit), end of year								
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,292,302	\$ 36,292,302	\$ 33,803,452
Restricted for capital projects and debt service	-	2,327,533	1,675,781	150,000	8,814	-	4,162,128	5,145,648
Unrestricted	(2,983,532)	-	-	-	-	-	(2,983,532)	(3,720,638)
	\$ (2,983,532)	\$ 2,327,533	\$ 1,675,781	\$ 150,000	\$ 8,814	\$ 36,292,302	\$ 37,470,898	\$ 35,228,462

See Independent Auditors' Report.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET

YEARS ENDED DECEMBER 31,

	2016 Budget (unaudited)	2016 Actual	Over/(Under) (unaudited)	2015 Actual
Revenues				
User charges	\$ 15,946,039	\$ 15,893,399	\$ (52,640)	\$ 15,579,370
Rental income	2,500	4,000	1,500	2,500
Miscellaneous	51,695	109,409	57,714	67,855
Investment	75,337	118,455	43,118	102,622
	<u>16,075,571</u>	<u>16,125,263</u>	<u>49,692</u>	<u>15,752,347</u>
Cost of Providing Services				
Personnel expenses				
Salaries - regular	\$3,306,830	2,574,605	(732,225)	3,175,307
Salaries - overtime	179,071	144,618	(34,453)	131,041
	<u>3,485,901</u>	<u>2,719,223</u>	<u>(766,678)</u>	<u>3,306,348</u>
Employee benefits				
Health benefits	2,009,328	1,727,051	(282,277)	1,689,176
Pension	406,578	1,279,899	873,321	747,197
Social security	276,617	207,596	(69,021)	247,783
Unemployment	27,950	22,867	(5,083)	25,898
Workers compensation	240,000	196,433	(43,567)	175,766
	<u>2,960,473</u>	<u>3,433,846</u>	<u>473,373</u>	<u>2,885,820</u>
Plant				
Chemicals and gases	575,000	444,106	(130,894)	373,406
Fuel oil	18,725	11,609	(7,116)	14,147
Gasoline	73,000	27,244	(45,756)	38,429
Miscellaneous	40,000	25,870	(14,130)	31,018
	<u>706,725</u>	<u>508,829</u>	<u>(197,896)</u>	<u>457,000</u>
Utilities				
Electricity	960,985	823,213	(137,772)	838,499
Gas	7,700	4,137	(3,563)	5,112
Sewerage	2,000	1,188	(812)	1,187
Telephone	23,500	16,904	(6,596)	19,488
	<u>994,185</u>	<u>845,442</u>	<u>(148,743)</u>	<u>864,286</u>
Taxes				
Real estate	127,409	123,440	(3,969)	119,407
State water	38,500	26,667	(11,833)	27,875
	<u>165,909</u>	<u>150,107</u>	<u>(15,802)</u>	<u>147,282</u>

(Continued)

See Independent Auditors' Report.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET

YEARS ENDED DECEMBER 31,

	2016 Budget (unaudited)	2016 Actual	Over/(Under) (unaudited)	2015 Actual
Repairs and maintenance				
Building and grounds	\$ 141,255	\$ 92,439	\$ (48,816)	\$ 134,216
Electrical	30,000	21,660	(8,340)	12,589
Machinery and equipment	55,000	28,510	(26,490)	41,673
Miscellaneous	21,925	1,048	(20,877)	9,567
Motor vehicle	52,300	48,135	(4,165)	47,702
Plumbing	33,000	16,803	(16,197)	14,640
Street opening	368,000	271,460	(96,540)	283,526
Uniforms	20,000	6,850	(13,150)	5,432
	721,480	486,905	(234,575)	549,345
Rental				
Construction equipment	8,200	471	(7,729)	720
Other	39,200	30,130	(9,070)	11,583
	47,400	30,601	(16,799)	12,303
Outside services				
Advertising	2,500	1,575	(925)	1,734
Engineering fees	12,000	260	(11,740)	10,640
General insurance	365,000	302,967	(62,033)	350,115
Laboratory	92,000	77,440	(14,560)	73,258
New Jersey Department of Environmental Protection	40,000	35,148	(4,852)	34,951
Other	200,000	153,387	(46,613)	169,107
	711,500	570,777	(140,723)	639,805
Training, travel, and education				
Employee travel	7,000	46	(6,954)	37
Training	19,000	11,018	(7,982)	15,102
	26,000	11,064	(14,936)	15,139
Dues and subscriptions				
Books and publications	3,300	-	(3,300)	-
Dues	5,000	3,110	(1,890)	4,363
	8,300	3,110	(5,190)	4,363
Office supplies				
Office	6,900	4,478	(2,422)	7,185
Miscellaneous	1,700	-	(1,700)	1,001
Postage	1,400	1,141	(259)	717
Printing	700	-	(700)	-
	10,700	5,619	(5,081)	8,903
Total cost of providing services	9,838,573	8,765,523	(1,073,050)	8,890,594

(Continued)

See Independent Auditors' Report.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET

YEARS ENDED DECEMBER 31,

	2016 Budget (unaudited)	2016 Actual	Over/(Under) (unaudited)	2015 Actual
General and Administrative				
Personnel expenses				
Salaries - regular	\$ 864,823	\$ 809,581	\$ (55,242)	\$ 986,982
Salaries - overtime	2,000	1,635	(365)	509
Board salaries	42,000	42,000	-	38,805
	<u>908,823</u>	<u>853,216</u>	<u>(55,607)</u>	<u>1,026,296</u>
Employee benefits				
Health benefits	542,315	496,408	(45,907)	495,158
Pension	135,141	438,269	303,128	252,308
Social security	80,364	62,743	(17,621)	73,462
Unemployment	8,654	7,724	(930)	8,386
	<u>766,474</u>	<u>1,005,144</u>	<u>238,670</u>	<u>829,314</u>
Operations				
Data processing	15,000	14,797	(203)	11,457
Janitorial	24,500	13,247	(11,253)	15,662
Office	19,000	12,927	(6,073)	10,753
Outside services	12,000	5,063	(6,937)	50,566
Postage	25,000	20,809	(4,191)	21,274
Printing	10,000	7,803	(2,197)	3,339
Professional fees	348,000	299,879	(48,121)	182,313
Telephone	26,000	24,515	(1,485)	22,700
Training	9,000	4,792	(4,208)	6,472
Travel	3,000	36	(2,964)	36
Utilities	64,500	48,582	(15,918)	53,879
	<u>556,000</u>	<u>452,450</u>	<u>(103,550)</u>	<u>378,451</u>
Repairs and maintenance				
Building and grounds	7,000	5,337	(1,663)	3,272
Machinery and equipment	12,000	6,667	(5,333)	4,388
Miscellaneous	1,000	-	(1,000)	-
Motor vehicles	1,500	-	(1,500)	417
	<u>21,500</u>	<u>12,004</u>	<u>(9,496)</u>	<u>8,077</u>

(Continued)

See Independent Auditors' Report.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET

YEARS ENDED DECEMBER 31,

	2016 Budget (unaudited)	2016 Actual	Over/(Under) (unaudited)	2015 Actual
Miscellaneous				
Administrative fees	\$ 65,500	\$ 50,109	\$ (15,391)	\$ 48,556
Advertisement	4,500	802	(3,698)	1,236
Books and periodicals	3,500	2,278	(1,222)	1,602
Computer equipment maintenance	30,000	25,349	(4,651)	22,774
Insurance deductibles	-	-	-	3,500
Membership dues	9,500	7,948	(1,552)	8,315
Miscellaneous	20,000	7,459	(12,541)	10,580
Municipal appropriation	702,658	702,658	-	690,857
Provision for doubtful accounts	5,000	128,592	123,592	51,170
Rentals	1,500	-	(1,500)	-
Software license fee	3,000	1,952	(1,048)	3,470
	845,158	927,147	81,989	842,060
Total general and administrative	3,097,955	3,249,961	152,006	3,084,198
Total cost of providing services and general and administrative expenses	12,936,528	12,015,484	(921,044)	11,974,792
Other costs funded by revenues				
Debt service				
Principal	1,824,289	1,824,289	-	1,814,252
Interest	467,707	438,415	(29,292)	505,775
	2,291,996	2,262,704	(29,292)	2,320,027
Total costs funded by operating revenues	\$ 15,228,524	\$ 14,278,188	\$ (950,336)	\$ 14,294,819

See Independent Auditors' Report.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES AND NOTES RELATED TO ACCOUNTING AND
REPORTING FOR PENSIONS (GASB 68)

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY - PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

	Measurement Date Ended June 30, 2016	Measurement Date Ended June 30, 2015
Authority's proportion of the net pension liability	0.0580285106%	0.0598072559%
Authority's proportionate share of the net pension liability	\$ 17,186,380	\$ 13,425,530
Authority's covered-employee payroll	3,800,042	4,126,964
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	452.27%	325.31%
Plan fiduciary net position as a percentage of the total pension liability	40.14	47.93

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

See Independent Auditors' Report.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

SCHEDULE OF PENSION CONTRIBUTIONS

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Contractually required contribution	\$ 754,799	\$ 797,999
Contributions in relation to the contractually required contribution	(754,799)	(797,999)
<u>Contribution deficiency (excess)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Authority's covered-employee payroll	\$ 3,336,897	\$ 4,043,269
Contributions as a percentage of the Authority's covered-employee payroll	22.62%	19.74%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

See Independent Auditors' Report.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

**NOTES TO THE REQUIRED SUPPLEMENTARY
INFORMATION - GASB 68 PENSION CHANGES**

Changes in Benefit Terms

None.

Changes in Assumptions

The discount rate changed from 4.90% as of June 30, 2015, to 3.98% as of June 30, 2016, in accordance with Paragraph 44 of GASB Statement No. 67.

See Independent Auditors' Report.

**INFORMATION REQUIRED UNDER
*GOVERNMENT AUDITING STANDARDS (GAS)***

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 Directors
Atlantic City Municipal Utilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Atlantic City Municipal Utilities Authority (a component unit of the City of Atlantic City, New Jersey), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Atlantic City Municipal Utilities Authority's basic financial statements, and have issued our report thereon dated May 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Atlantic City Municipal Utilities Authority's (the "Authority") internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose 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.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 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.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, slightly slanted style.

Linwood, New Jersey
May 26, 2017

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)**

SUMMARY OF AUDITORS' RESULTS AND FINDINGS

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- | | | |
|---|----------|--------------------------|
| 1) Material weakness(es) identified? | _____yes | _____X_____no |
| 2) Significant deficiency(ies) identified? | _____yes | _____X_____none reported |
| Noncompliance material to general-purpose financial statements noted? | _____yes | _____X_____no |

Section II - Financial Statement Findings

{This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. }

None noted.

**ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

{ This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. }

None.