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

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

AND

INDEPENDENT AUDITORS' REPORT

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

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Comparative Statements of Net Position	19
Comparative Statements of Revenues, Expenses and Changes in Net Position	21
Comparative Statements of Cash Flows	22
Notes to Basic Financial Statements	23
Other Supplementary Information	
Combining Schedule of Revenues, Expenses and Changes in Net Position	55
Schedule of Appropriations Compared to Budget	56
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	60
Schedule of Authority's Pension Contributions	61
Notes to the Required Supplementary Information - GASB 68 Pension Changes	62

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

TABLE OF CONTENTS (Continued)

	Page
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*	63
Summary of Auditors' Results and Findings	65
Summary Schedule of Prior Audit Findings	66

FRIEDMAN LLP®
ACCOUNTANTS AND ADVISORS

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, 2017 and 2016, 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)

327 Central Avenue, Linwood, NJ 08221 p 609.927.2222 f 609.653.0675 friedmanllp.com

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, 2017 and 2016, 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.

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 18 and the Schedules and Notes Related to Accounting and Reporting for Pensions (GASB 68) on pages 60 through 62 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplementary information on pages 55 through 59, 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 audits 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 audits 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 June 7, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

June 7, 2018

MANAGEMENT’S DISCUSSION & ANALYSIS

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

<u>OVERVIEW OF ANNUAL FINANCIAL REPORT:</u>

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 supplemental information. The MD&A represents management's examination and analysis of the Atlantic City Municipal Utilities Authority's (the "Authority") 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 in similar business activities by the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The basic financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and notes to the basic financial statements.

The ***statement of net position*** presents the financial position of the Authority on a full accrual historical cost basis. The statement of net position presents 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 statement of net position provides information about the nature and amount of resources and obligations at year-end, the ***statement of revenues, expenses and changes in net position*** presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The ***statement of cash flows*** provides information about the Authority's cash receipts, cash payments and net changes in cash resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or the 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 ANALYSIS OF FINANCIAL POSITION:

Financial Highlights

Management believes the Authority's financial condition is strong. The Authority is well within the debt covenants and the more stringent financial policies and guidelines set by the Board. The following are key financial highlights:

- Total assets and deferred outflows at year-end totaled $69,169,376 and exceeded liabilities and deferred inflows in the amount of $39,047,117 (i.e., net position). Total assets decreased by $372,152. Total net position increased by $1,576,219.
- For fiscal year 2017, the Authority pumped approximately 3,027 million gallons of water, compared to 3,826 million gallons of water in 2016.
- Operating revenues were $14,994,561, a decrease from the year 2016 in the amount of $1,012,247. The decrease was primarily due to the loss of a major bulk customer, New Jersey American Water Company Inc. ("NJAWC").
- Operating expenses (excluding depreciation) were $1,664,355 less than last year, due primarily to an increase in vacant positions remaining unfilled, a reduction in electricity expenses due to lower contracted rates and lower pension expense.
- Operating income for the year was $1,849,472. While operating revenues decreased in 2017, operating expenses were reduced more significantly, resulting in an increase in operating net income.
- Connection fee income was $19,088 compared to $1,626,632 in 2016. In 2016, two new major construction projects were completed, while no new major projects occurred in 2017.
- Actual investment income was $149,473, which was $83,389 higher than budgeted projections and a $31,018 increase over 2016.

The Authority's financial condition has not changed materially in the current fiscal year. Operating revenues decreased by 6% due primarily to the loss of NJAWC, the Authority's major customer. The contract between the Authority and NJAWC ended on November 22, 2016. The rate increase which became effective in 2017 partially offset the decrease in revenue. Operating expenses decreased mainly due to the recording of a lower pension expense in 2017 as required under Government Accounting Standard Board Statement 68 ("GASB Statement 68"). GASB Statement 68 requires state and local government 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 $676,483 in pension expense in 2017 compared to $1,718,168 in 2016. The cut back in general and administrative expenses and cost of providing services by the Authority due to the midst of an economic transition in the City also resulted in the decline in operating expenses.

MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued):

CONDENSED COMPARATIVE STATEMENT OF NET POSITION

Explanations for material fluctuations are as follows:

Total Current Assets- Total current assets for 2017 totaled $11,124,246 compared to $ 11,386,020 in 2016. The decrease amounted to $261,774 and resulted primarily from a decline in accounts receivables offset by an increase in cash and investments.

Total Restricted Assets- Total restricted assets for 2017 totaled $4,181,828 compared to $4,202,700 in 2016. The decrease amounted to $20,872 and resulted from a decline in the receivable due from the New Jersey Environmental Infrastructure Trust ("NJ EIT") and from the use of construction fund assets to fund capital projects.

Net Capital Assets – Net capital assets for 2017 totaled $50,220,830 compared to $50,310,336 in 2016. This decrease of $89,506 resulted from an increase in accumulated depreciation that amounted to $2,793,960, largely offset by 2017 additions.

Total Current Liabilities Payable From Unrestricted Assets - Total current liabilities payable from unrestricted assets for 2017 totaled $1,759,453 compared to $2,070,161 in 2016. This decrease was due primarily to a decline in liabilities owed to vendors at year end. A decline in employer pension contribution payable and customer overpayment also contributed to the decrease.

Total Current Liabilities Payable From Restricted Assets - Total current liabilities payable from restricted assets for 2017 totaled $1,340,780 compared to $1,878,149 in 2016. This decrease of $537,369 was primarily due to principal payments made in 2018 for the outstanding bond issues.

Total Long-Term Liabilities Payable from Restricted Assets- Total long-term liabilities payable from restricted assets for 2017 totaled $23,140,346 compared to $29,813,871 in 2016. This significant decrease was in large part due to the reporting of the Authority's proportionate share of net pension liability in 2016, which decreased by $5,348,884 in 2017. Also, in the prior year, $650,000 of principal was deobligated, thereby lowering overall principal and interest expense payments going forward. In addition, compensated balances payable declined by $34,022, which also contributed to the decrease.

MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued):

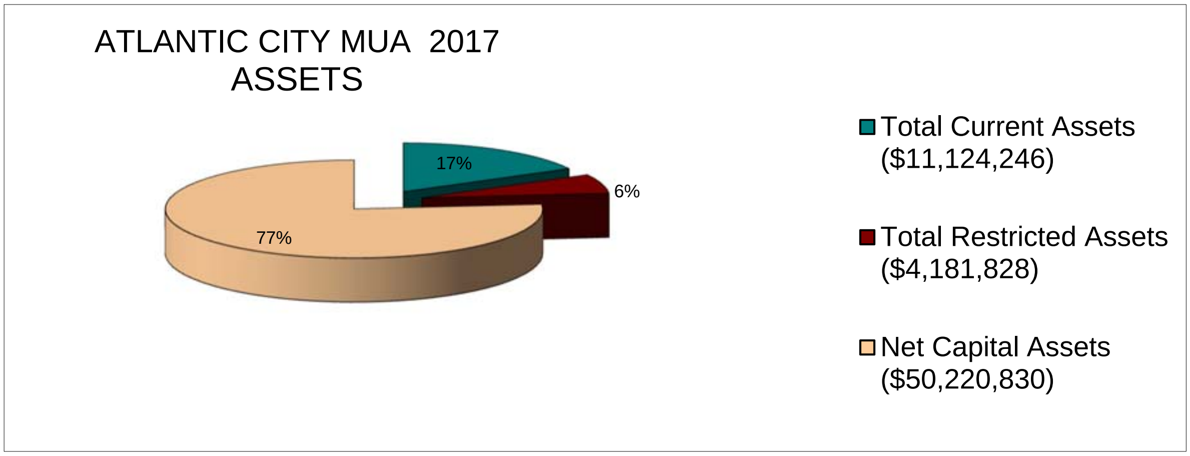
CONDENSED COMPARATIVE STATEMENT OF NET POSITION (Continued)

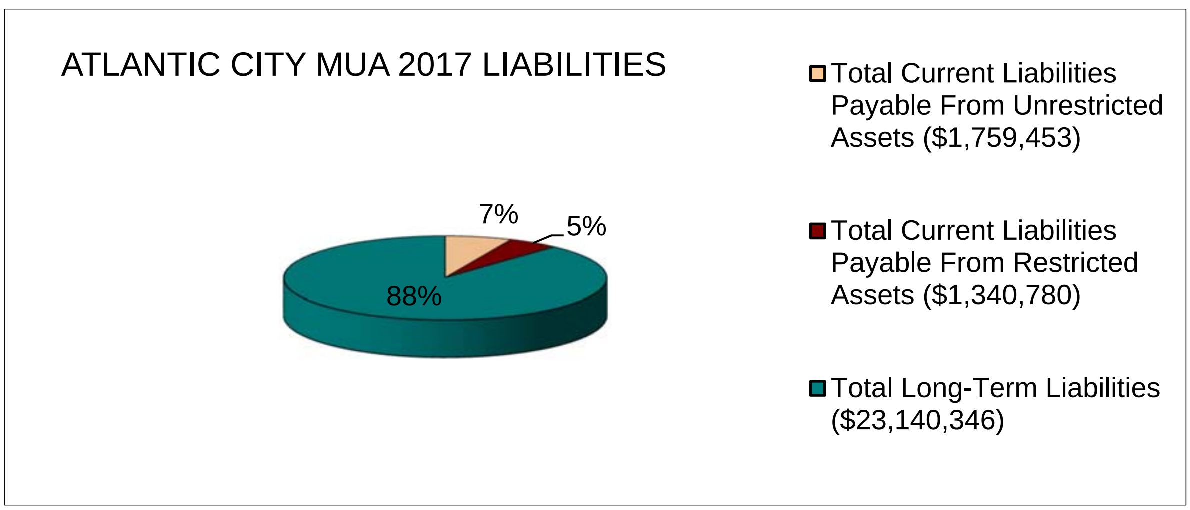
	December 31, 2017	December 31, 2016
Total Current Assets	$11,124,246	$11,386,020
Total Restricted Assets	4,181,828	4,202,700
Net Capital Assets	50,220,830	50,310,336
Total Assets	65,526,904	65,899,056
Loss on Refunding of Long-Term Debt	100,213	119,666
Related to Pensions	3,542,259	5,504,232
Total Deferred Outflows of Resources	3,642,472	5,623,898
Total Current Liabilities - Unrestricted	1,759,453	2,070,161
Total Current Liabilities - Restricted	1,340,780	1,878,149
Total Long-Term Liabilities	23,140,346	29,813,871
Total Liabilities	26,240,579	33,762,181
Related to Pensions	3,881,680	289,875
Deferred Inflows of Resources	3,881,680	289,875
Net Position (Deficit):		
Net Investment in Capital Assets	38,049,608	36,292,302
Restricted for Capital Projects and Debt Service	4,153,314	4,162,128
Unrestricted	(3,155,805)	(2,983,532)
Total Net Position	$ 39,047,117	$ 37,470,898

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

MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued)**:**

CONDENSED COMPARATIVE STATEMENT OF NET POSITION (Continued)





MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued):

CONDENSED COMPARATIVE STATEMENT OF CASH FLOWS

The following table illustrates 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, 2017	December 31, 2016
Total Operating Revenues	$14,994,561	$16,006,808
Net Cash Provided by Operating Activities	$6,012,853	$3,904,158
Net Operating Cash as a Percentage of Operating Revenue	40.0%	24.3%

2017 Net Cash Provided by Operating Activities as Compared to 2016

Net cash provided by operating activities increased by 54%. This increase occurred in part as a result of receiving a large customer payment from the City of Atlantic City of approximately $772,000 for its unpaid 2015, 2016 and 2017 water bills. In addition, the Authority received $400,000 from the Federal Air Aviation to supplement the costs incurred to enhance the Authority's carbon filtration program. Finally, there was a decrease in payments to vendors and employees and related benefit payments throughout 2017.

MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION:

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

Total Revenues (excluding connection fees) for 2017 totaled $15,144,034 compared to $16,125,263 in 2016. Total revenues decreased by 6%. Operating expenses for 2017 totaled $13,145,089 compared to $14,983,117 in 2016. Total operating expenses decreased by 12%. Explanations of the fluctuations are as follows:

Operating Revenues - Operating revenues for 2017 totaled $14,994,561 compared to $16,006,808 in 2016. The revenues decreased by $1,012,247. This decrease in revenue recognized during the year resulted primarily from the loss of a major customer, NJAWC. The contract between the Authority and NJAWC was not renewed as a result of the Authority not agreeing to the new contract terms proposed by the NJAWC due to the possible legal ramifications. The contract ended on November 22, 2016. Also contributing to the decreased revenue was a decline in billings, partially offset by the rate increase that went into effect in 2017.

Connection Fee Income - Connection fee income for 2017 totaled $19,088 compared to $1,626,632 in 2016. There were no new major constructions in 2017, as had been experienced in 2016.

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

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

Investment Income **–** Investment income for 2017 totaled $149,473, compared to $118,455 in 2016. 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 2017, as compared to last year.

Salaries Expense - Salaries expense for 2017 totaled $3,369,845 compared to $3,572,439 in 2016. The decrease amounted to $202,594. Salaries expense declined due to an increase in employee retirements and resignations. Vacant positions were replaced with new employees starting at entry level salaries.

Employee Benefits - Employee benefits for 2017 totaled $3,341,668 compared to $4,438,990 in 2016. The decrease in employee benefits expense amounted to $1,097,322. The decrease was primarily due to the recognition of pension expense in accordance with GASB No. 68. As a result, the Authority recognized pension expense in the amount of $676,483 in 2017 compared to $1,718,168 in 2016. Also contributing to the decrease were slight decreases in employee health benefits and social security. Partially offsetting the decreases noted was an increase in workers compensation.

Repairs and Maintenance - Repairs and maintenance expense for 2017 totaled $491,780 compared to $498,909 in 2016. The Authority experienced a very slight decrease in repairs and maintenance expense during the year.

Miscellaneous Expenses - Miscellaneous expenses for 2017 totaled $3,147,836 compared to $3,505,146 in 2016. The decrease for the year was $357,310 and resulted from fluctuations in various accounts including Professional Fees, Electricity and recovery of doubtful accounts. The Authority did not experience the high legal fees during the year as it had experienced in the previous year, nor as had been anticipated, because of professional services associated with the partnership between the Authority and the City of Atlantic City. Electricity expenses decreased due to a lower electric supply rate that went into effect in 2017. Less electricity consumption due to less water pumpage also contributed to the decrease in its cost. In 2017, the Authority recognized a recovery of doubtful accounts due to tax lien sales occurring twice in 2017 (April 2017 and December 2017) which contributed to a decline in the municipal liens balance. The tax lien sales did not occur in 2016.

Depreciation Expense - Depreciation expense for 2017 totaled $2,793,960 compared to $2,967,633 in 2016. The decline in depreciation expense resulted from assets that became fully depreciated during the year. The decline was partially offset by the depreciation expense recognized for the assets purchased and placed in service in 2017.

Interest Expenses - Expenses for 2017 totaled $382,252 compared to $438,415 in 2016. In the prior year, $650,000 of principal was deobligated relative to the 2009A and 2010A bonds, and a new amortization schedule was provided, lowering both principal and interest expense payments going forward.

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

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

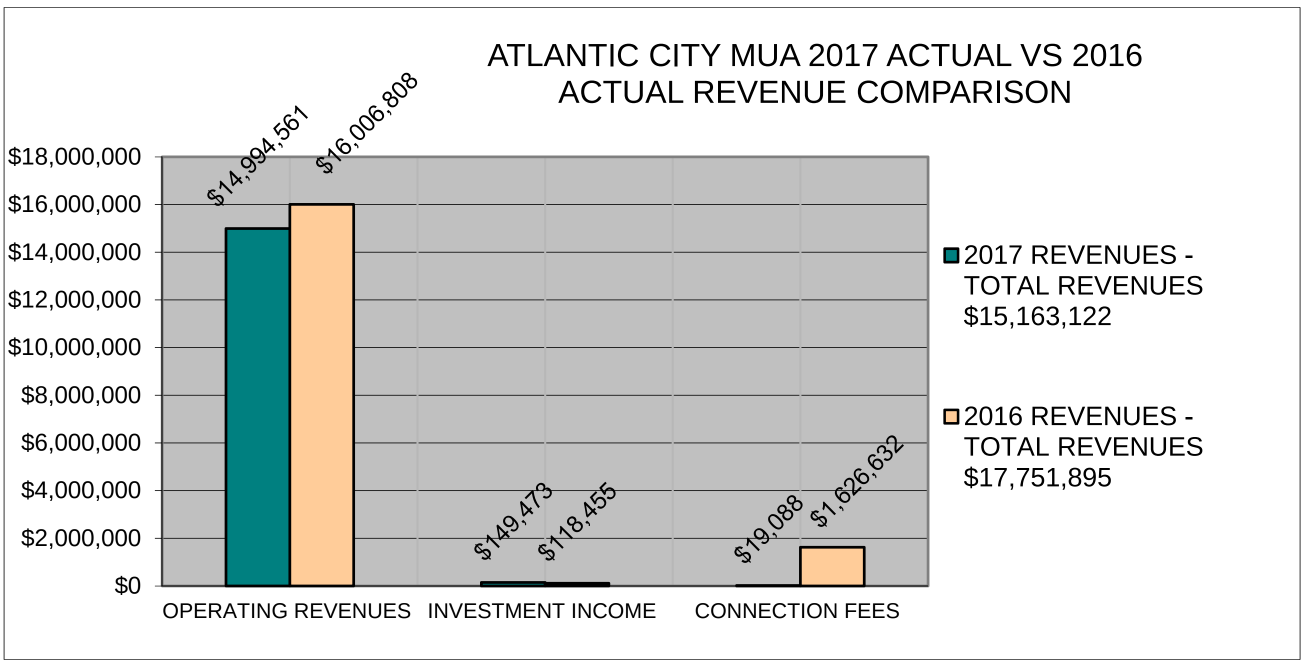
CONDENSED COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)

	December 31, 2017	December 31, 2016
Total Operating Revenues	$ 14,994,561	$ 16,006,808
Operating Expenses:		
Total Salaries Expenses	3,369,845	3,572,439
Total Employee Benefits	3,341,668	4,438,990
Total Repairs and Maintenance	491,780	498,909
Total Miscellaneous Expenses	3,147,836	3,505,146
Depreciation	2,793,960	2,967,633
Total Operating Expenses	13,145,089	14,983,117
Non-Operating Revenues (Expenses)		
Connection Fees	19,088	1,626,632
Investment Income	149,473	118,455
Bond Interest	(401,704)	(479,139)
Net Change in Fair Value of Investments	(40,110)	3,132
Unused Proceeds on Bonds	-	(50,335)
Total Non-Operating Revenues (Expenses), Net	(273,253)	1,218,745
Change in Net Positon	1,576,219	2,242,436
Net position, beginning of year	37,470,898	35,228,462
Net position, end of year	$ 39,047,117	$ 37,470,898

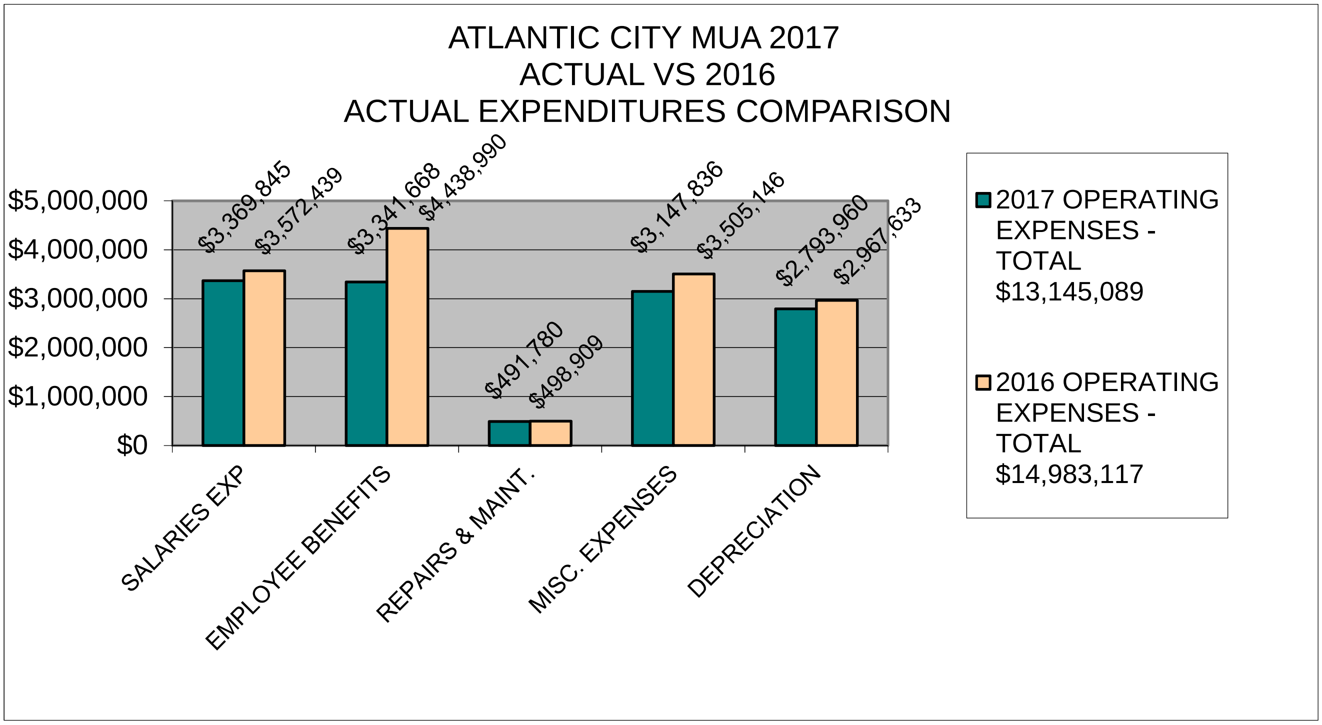
MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION (Continued)**:**

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

	2017	**%**	**2016**	**%**
Salaries Expenses	$ 3,369,845	25.6%	$ 3,572,439	23.9%
Employee Benefits	3,341,668	25.4	4,438,990	29.6
Repairs and Maintenance	491,780	3.7	498,909	3.3
Miscellaneous Expenses	3,147,836	23.9	3,505,146	23.4
Depreciation	2,793,960	21.4	2,967,633	18.8
Total	$ 13,145,089	100%	$14,983,117	100%



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

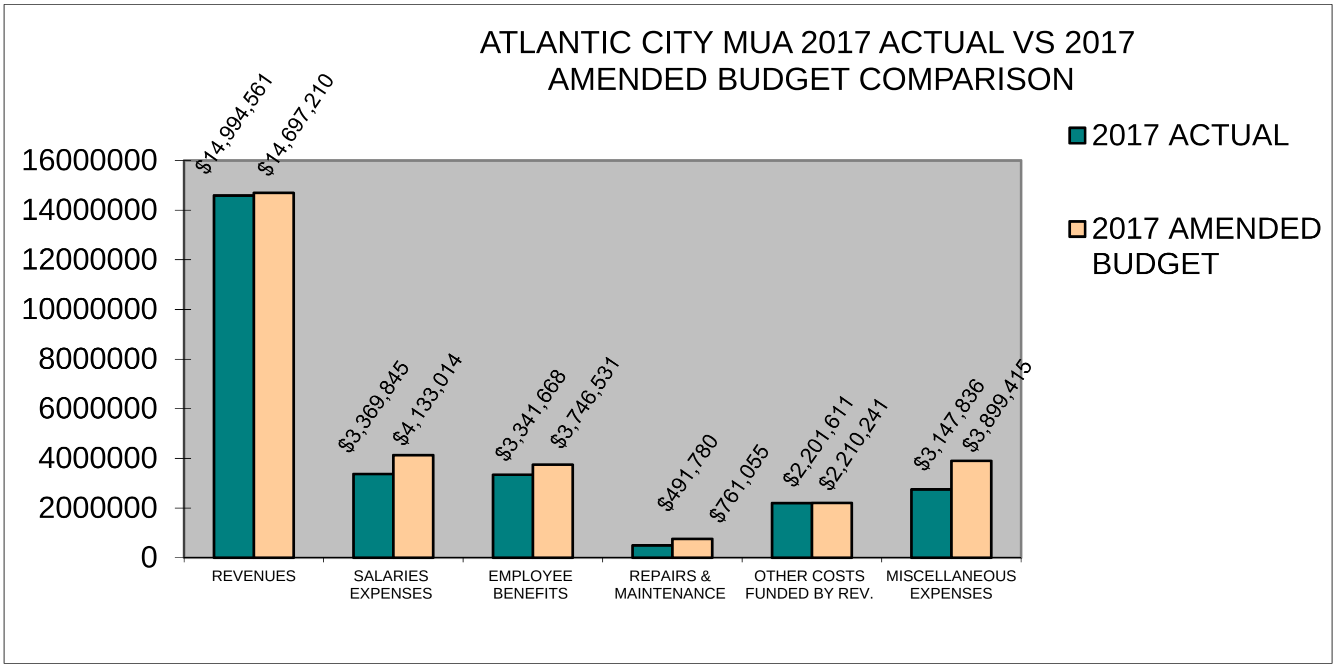


CONDENSED SCHEDULE OF APPROPRIATIONS COMPARED TO AMENDED BUDGET

Total operating revenues for 2017 totaled $14,994,561 compared to budgeted revenues of $14,697,210. Revenues include those from all sources, except connection fees revenues and investment income. Actual revenues were $297,351 more than the budgeted amount as a result of a $400,000 reimbursement from the Federal Air Aviation to supplement the costs to enhance the Authority’s carbon filtration program. Expenses from administration and operations for 2017 totaled $10,351,129 compared to budgeted expenses of $12,540,015. Actual expenses for 2017 were $2,188,886 less than projected expenditures. Some of the larger fluctuations fell in the categories of salaries, employee benefits, utilities, repairs and maintenance, professional fees and other outside services expenses. Contributing to lower than anticipated salaries expense were the vacant positions that were filled at lower starting salaries (entry level). Employee benefits were lower than anticipated primarily from the decrease in health benefits cost, as the State of New Jersey health benefits cost did not increase as anticipated. Utilities expenses were lower than the budgeted amount due to lower contracted rates. The Authority had anticipated additional legal and other professional service fees associated with the partnership between the Authority and the City of Atlantic City to assist the City in their local recovery effort, however in 2017 these additional costs were not incurred. In addition, winter weather during the year was less severe than expected, thus repairs and maintenance costs, including street openings, were lower than projected. Other outside services expenses were lower than anticipated due to a lower general insurance premium and other miscellaneous service expenses.

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

CONDENSED SCHEDULE OF APPROPRIATIONS COMPARED TO AMENDED BUDGET (Continued)



MANAGEMENT'S ANALYSIS OF 2017 CAPITAL ASSETS & LONG TERM DEBT ACTIVITY:

Capital Assets

Total capital assets increased approximately $2,564,499 during 2017. Property and equipment in-service increased by $4,871,099 in 2017. Impacting this increase were the 2017 additions and the transfer of assets from construction in progress. The painting of the 1MG Maryland Avenue Water Storage Tank project, the Water Main Replacement project (first year of a five year plan) and Mill Road 60" Water Main project were completed and transferred into service on December 31, 2017. Currently, the only major component of construction in progress is the Water Main Replacement project (second year of a five year plan).

MANAGEMENT'S ANALYSIS OF 2017 CAPITAL ASSETS & LONG TERM DEBT ACTIVITY (Continued):

Capital Assets (Continued)

	2017	2016
Treatment and Distribution Facilities	$ 100,146,599	$ 95,275,500
Land and Land Improvements	1,811,009	1,811,009
Equipment and Vehicles	5,244,599	5,244,599
Office Building	3,877,030	3,877,030
Furniture and Fixtures	459,324	459,324
Construction-in-Progress	1,287,613	3,594,213
Total	$ 112,826,174	$ 110,261,675

Long-Term Debt
At the end of the current fiscal year, the Authority had total bonded debt outstanding of $12,249,788.

	2017	2016
Revenue Bonds	$ 7,605,000	$8,855,000
New Jersey EIT Loans	$ 4,644,788	$5,214,147

OTHER SELECTED INFORMATION:

Selected Data for Analysis	2017	2016	Change Amount	Change %
Employees at Year End	68	68	-	-
Number of Customers Year End	8,114	8,067	47	0.58%
Water Pumped (Millions of Gallons)	3,027	3,826	(799)	(20.88%)
Revenues per 1,000 Gallons Pumped	4.8	4.1	0.7	17.07%
Expenses per 1,000 Gallons Pumped:				
Expenses Excluding Depreciation	3.1	3.1	-	-
Total Operating Expenses	4.0	3.9	0.1	2.56%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Customer Base and 2018 Budget

Since 2006, the Authority has seen its water sales show a steady and continual decline. The Authority attributes the decline to two primary factors. The first significant factor in the Authority's revenue decline is 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 that has contributed to the decline of water sales is 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 several years has further impacted the continual decline of water sales. As the only bulk customer, NJAWC purchased water from the Authority with a contractual minimum average daily purchase of 1.5 mgd from 2001 until November 22, 2016. The non-renewal of that contract caused a significant decline in 2017 usage. Currently, the Authority provides only an emergency interconnection should NJAWC need additional water. However, the Authority has forecasted in the 2018 budget that the decline in sales experienced in 2017, resulting from the closure of casinos and the non-renewal of NJAWC's contract, would no longer negatively impact the Authority in 2018. In fact, the 2018 budget reflects a stabilization of the declining sales previously recognized in the 2017 budget.

The NJ Water Quality Accountability Act (the "Act") announced a broad range of mandates upon NJ water purveyors to be implemented during 2019. The Act requires the Authority to replace 1/150th of its underground pipes, conduct flushing and repairs on all street valves, mark and paint all fire hydrants, and implement both an Asset Management and Cyber Security Program. The costs to comply with the Act requires the Authority to seek bond funding which is currently underway. In recognition of the costs to water systems statewide, the State of New Jersey has approved the Water Infrastructure Bond Act of 2018 to support this statewide utility undertaking.

The Authority expects to initiate negotiations with its labor unions in the near future. The bargaining units have been without any changes to its contracts for three years. Negotiations are expected to be resolved in both an amicable and reasonable manner. As always, labor and healthcare costs are expected to rise.

The Authority has embarked upon a major energy savings project which is expected to lower associated fixed costs significantly by 2019. The anticipated savings will provide resources to address cost increases and upgrade the Authority's motor pool and other mechanical systems.

The Authority's Atlantic City customer base is undergoing a rapid advance which will impact both the daily water volume demand and revenues. Two new casino hotel properties are expected to open in 2018. These properties will be staffed by over 6,000 new employees, many of whom are residents of Atlantic City and increasing their disposable income. Stockton University will open its Atlantic City campus in fall 2018 with both student and faculty residential facilities. South Jersey Industries,

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

Customer Base and 2018 Budget (Continued):

a parent company of South Jersey Gas, will assume new corporate headquarters in Atlantic City this fall, bringing its professional workforce to the City. New housing complexes (Borie and Tennessee Green) will offer new urban residential options, as Atlantic City recognizes the potential to attract young professionals to the community. The Authority is prepared to react and respond quickly to the emerging features of this shifting financial landscape.

The Authority recognizes the considerable percentage of Atlantic City residents who are living at or under the poverty line (approximately 38%) and strives to keep rates stable. However, the likely condition that a nominal rate increase will be installed to address both ongoing maintenance and to provide for strategic reserves is always a possibility.

The 2018 proposed budget is a fully funded budget, providing for the continuation of all of the Authority’s major operations. The proposed appropriations for 2018 are anticipated to be approximately $342,548 higher than budgeted appropriations for 2017. This increase is due primarily to an increase in the 2018 Renewal and Replacement Reserve of $592,477. The additional reserves will be utilized to help fund the 2018 Capital Budget.

Rates

The Authority has four major customer categories: Residential, Commercial, Industrial and Government. The water service charge for each customer is the sum of the customer base rate and excess water rate. The Authority rates are structured to ensure that projected revenues will be sufficient to cover the anticipated appropriations for the 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. In 2017, the Authority experienced a net decrease in rates by 8%. Although 2017 gross rates increased, this decrease in the net rate was due to the non-renewal of the NJAWC contract. A 10% increase was applied in the 2017 base and excess rate. The residential 2017 rates for residential customers increased from the flat charge of $45 to $50 per quarter. This increase raised the average residential bill by approximately $30.58. Effective January 1, 2018, an additional rate increase was approved and incorporated into the rate structure. A net increase of 3% in rates is anticipated in 2018. The Authority is anticipating an increase of 2% in flat and 4% in excess rates for all customers. The residential rates for residential customers will be increasing from the flat charge of $50.00 a quarter to $51.00 a quarter. Residential customers that will exceed the allowed allotment will be subject to a 4% increase in the excess rate. The Authority anticipates that the average annual bill for a residential customer will be $310.25 in 2018 as compared to $302.16 in 2017, a net annual increase of $8.09.The connection fee is recalculated each year as required by State law. For 2018, the connection fee rate will remain at $15.4352 per gallon and is subject to review by Bond Counsel.

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

Legislation with Potential Impact to the Authority

During the year, two events combined to sustain the Authority from the pressure to privatize the Authority in order to assist the budget shortfalls of the City of Atlantic City. First, the City managers under the State of New Jersey implemented a "Pilot" program to stabilize property taxes to be paid by the casino properties. Second, the citizens of Atlantic City mobilized a campaign with national support groups to protect the Authority and its quality water services from any takeover efforts. Together with the opening of two new casino properties in 2018, a new university campus, corporate center and housing developments, the City of Atlantic City's financial recovery under a new state administration is proceeding with promise.

New legislation to enhance renewable energy projects has opened the potential of the Authority to revisit its Floating Solar Project. This undertaking will allow the Authority to significantly reduce its approximate $1,000,000 annual electricity costs to operate its treatment and pumping station. Moreover, the Authority will propose entering into shared services agreements with the cities of Pleasantville and Atlantic City to capture additional electric savings with these municipalities. The new state administration has publically supported shared services as a key agenda item during this term.

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,	
	2017	2016
ASSETS		
Current assets		
Cash	$ 2,099,972	$ 1,579,783
Accounts receivable, net	884,734	2,348,496
Investments	7,641,700	6,918,779
Inventories	386,715	426,517
Prepaid expenses	48,780	54,472
Accrued interest receivable	62,345	57,973
Total current assets	11,124,246	11,386,020
Noncurrent assets		
Restricted assets		
Investments	4,153,314	4,162,128
Receivable - NJ EIT	28,514	40,572
	4,181,828	4,202,700
Capital assets		
Land and land improvements	1,811,009	1,811,009
Construction-in-progress	1,287,613	3,594,213
Other capital assets, net of depreciation	47,122,208	44,905,114
	50,220,830	50,310,336
Total assets	65,526,904	65,899,056
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding of long-term debt	100,213	119,666
Related to pensions (Note 10)	3,542,259	5,504,232
	3,642,472	5,623,898

(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,	
	2017	2016
LIABILITIES AND NET POSITION		
Current liabilities payable from unrestricted assets		
Accounts payable	$ 344,094	$ 555,228
Employer pension contributions payable	471,088	515,517
Accrued payroll and payroll liabilities	40,465	44,416
Prepaid user charges	57,125	133,212
Unearned revenue	846,681	821,788
	1,759,453	2,070,161
Current liabilities payable from restricted assets		
Accrued interest payable	50,161	58,790
Current portion of long-term debt	1,290,619	1,819,359
	1,340,780	1,878,149
Noncurrent liabilities		
Compensated absences	343,681	377,703
Long-term debt, net of current portion	10,959,169	12,249,788
Net pension liability	11,837,496	17,186,380
	23,140,346	29,813,871
Total liabilities	26,240,579	33,762,181
DEFERRED INFLOWS OF RESOURCES		
Related to pensions (Note 10)	3,881,680	289,875
Contingencies		
NET POSITION (DEFICIT)		
Net investment in capital assets	38,049,608	36,292,302
Restricted for capital projects and debt service	4,153,314	4,162,128
Unrestricted	(3,155,805)	(2,983,532)
Total net position	$ 39,047,117	$ 37,470,898

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,	
	2017	2016
Operating revenues		
User charges	$ 14,537,223	$ 15,893,399
Rental income	2,500	4,000
Miscellaneous	454,838	109,409
	14,994,561	16,006,808
Operating expenses		
Cost of providing services	7,692,767	8,765,523
General and administrative	2,658,362	3,249,961
Depreciation	2,793,960	2,967,633
	13,145,089	14,983,117
Operating income	1,849,472	1,023,691
Non-operating revenues (expenses)		
Connection fees	19,088	1,626,632
Investment income	149,473	118,455
Bond interest	(401,704)	(479,139)
Net change in fair value of investments	(40,110)	3,132
Unused proceeds on bonds	-	(50,335)
	(273,253)	1,218,745
Change in net position	1,576,219	2,242,436
Net position, beginning of year	37,470,898	35,228,462
Net position, end of year	$ 39,047,117	$ 37,470,898

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, 2017	2016
Cash flows from operating activities		
Receipts from customers	$ 15,949,791	$ 15,113,336
Receipts from others	457,338	113,409
Payments to employees and related benefits	(6,097,234)	(6,494,049)
Payments to suppliers and vendors for goods and services	(4,297,043)	(4,828,538)
Net cash provided by operating activities	6,012,852	3,904,158
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(2,704,452)	(3,842,377)
Receipts from NJ EIT	12,058	85,330
Connection fees	19,088	1,626,632
Interest paid on debt	(390,882)	(454,956)
Principal paid on debt	(1,819,359)	(1,824,289)
Net cash used in capital and related financing activities	(4,883,547)	(4,409,660)
Cash flows from investing activities		
Investment income	104,991	107,522
Transferred from (to) investments	(714,107)	156,803
Net cash provided by (used in) investing activities	(609,116)	264,325
Net increase (decrease) in cash	520,189	(241,177)
Cash, beginning of year	1,579,783	1,820,960
Cash, end of year	$ 2,099,972	$ 1,579,783
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 1,849,472	$ 1,023,691
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,793,960	2,967,633
Provision for (recovery of) doubtful accounts	(60,538)	128,592
GASB 68 adjustment	204,894	1,187,248
(Increase) decrease in assets		
Accounts receivable	1,524,300	(1,351,587)
Inventories	39,802	23,476
Prepaid expenses	5,692	(12,775)
Increase (decrease) in liabilities		
Accounts payable	(211,134)	(337,821)
Employer pension contributions payable	(44,429)	1,335
Accrued payroll and payroll liabilities	(3,951)	302
Unearned income	24,893	392,265
Prepaid user charges	(76,087)	50,667
Compensated absences	(34,022)	(168,868)
Net cash provided by operating activities	$ 6,012,852	$ 3,904,158

See notes to 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.

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.

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.

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,	
	2017	2016
Municipal Liens	$ 478,007	$ 541,731
Approximate uncollectible %	95%	95%
Total Allowance	$ 454,106	$ 514,645

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 $386,715 and $426,517 at December 31, 2017 and 2016, 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,	
	2017	2016
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
	$ 4,153,314	$ 4,162,128

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.

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 easement 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). Easement income recognized as of December 31, 2017 and 2016 was $6,672 and $2,782, respectively, and is recognized as miscellaneous income in the accompanying comparative statements of revenues, expenses, and changes in net position.

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.

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.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Adopted Accounting Pronouncements

The following GASB Statements became effective for year ending December 31, 2017:

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 adoption of this Statement had no significant impact on the basic financial statements of the Authority.

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. This Statement is not applicable to the Authority. As such, this Statement had 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 had 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. This Statement is not applicable to the Authority. As such, this Statement had no impact 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. This Statement is not applicable to the Authority. As such, this Statement had no impact on the 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 was effective for the Authority in 2017. The adoption of this Statement had no significant impact on the basic financial statements of the Authority.

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

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. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations, including obligations that may not have been previously reported. This Statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those asset retirement obligations. The Statement will become effective for the Authority in 2019. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The Statement will become effective for the Authority in 2019. Management has not yet determined the impact of this Statement on the financial statements.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Adopted Accounting Pronouncements (Continued)

Statement No. 85, *Omnibus 2017*. The primary objective of this Statement is to enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. 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. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. 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. 87, *Leases*. The primary objective of this Statement is to increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The Statement will become effective for the Authority in 2020. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The Statement will become effective for the Authority in 2019. Management has not yet determined the impact of this Statement on the financial statements.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

These financial statements were approved by management and available for issuance on June 7, 2018. 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.

4 - INVESTMENTS

As of December 31, 2017 and 2016, the Authority had the following investments and maturities:

Investment	Maturity Date	Interest Rate	Moody's/S&P Credit Rating	2017 Fair Value	2016 Fair Value
Federated treasury obligations	N/A	N/A	N/A	$ 5,582,595	$ 4,883,380
United States Treasury					
Inflation Indexed Bond	01/15/2018*	1.63%	Aaa	1,867,106	1,876,754
Municipal Bond	08/15/2018	5.00	AA-	935,313	965,773
Certificate of Deposit	02/02/2018*	1.05	N/A	2,550,000	2,500,000
Certificate of Deposit	02/10/2018*	1.05	N/A	150,000	150,000
Certificate of Deposit	03/22/2018*	1.05	N/A	710,000	705,000
Total Investments				$ 11,795,014	$ 11,080,907

* - Renewed at maturity date

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.

4 - INVESTMENTS (Continued)

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.

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, 2017 were as follows:

	Balance, January 1, 2017	Additions	Reclass/ Reductions	Balance, December 31, 2017
Capital assets not being depreciated				
Land and land improvements	$ 1,811,009	$ -	$ -	$ 1,811,009
Construction-in-progress	3,594,213	2,164,844	(4,471,444)	1,287,613
Capital assets not being depreciated	5,405,222	2,164,844	(4,471,444)	3,098,622
Capital assets being depreciated				
Treatment and distribution facilities	95,275,500	4,871,099	-	100,146,599
Equipment and vehicles	5,244,599	139,955	(7,369)	5,377,185
Office building	3,877,030	-	-	3,877,030
Furniture and fixtures	459,324	-	-	459,324
Capital assets being depreciated	104,856,453	5,011,054	(7,369)	109,860,138
Accumulated depreciation	(59,951,339)	(2,793,960)	7,369	(62,737,930)
Capital assets, net of depreciation	44,905,114	2,217,094	-	47,122,208
Total capital assets, net	$ 50,310,336	$ 4,381,938	$ (4,471,444)	$ 50,220,830

5 - CAPITAL ASSETS (Continued)

Capital asset balances and activity 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

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 2017 and 2016 were $8,816. The balance as of December 31, 2017 and 2016 was $100,214 and $109,030, 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 2017 and 2016 were $10,636 and $31,907, respectively. The balance as of December 31, 2017 and 2016 was $0 and $10,636, respectively.

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, 2017 and 2016 was $820,000 and $905,000, 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, 2017 and 2016 was $1,800,668 and $2,026,376, 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, 2017 and 2016 was $375,000 and $410,000, 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, 2017 and 2016 was $533,308 and $628,975, 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, 2017 and 2016 was $1,300,000 and $1,650,000, respectively.

$460,000 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%. The original amount issued of $810,000 was reduced by $350,000 in 2016. The NJ EIT authorized the deoboligation of the debt as the full amount of funding of the related capital projects were not fully utilized. The principal payments were adjusted for the years 2023 through 2029 to reflect the deobligation. The balance at December 31, 2017 and 2016 was $235,000 and $270,000, respectively.

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, 2017 and 2016 was $497,598 and $539,064, 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%. The original amount issued of $505,000 was reduced by $300,000 in 2016. The NJ EIT authorized the deoboligation of the debt as the full amount of funding of the related capital projects were not fully utilized. The principal payments were adjusted for the years 2020 through 2029 to reflect the deobligation. The balance at December 31, 2017 and 2016 was $65,000 and $90,000, 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, 2017 and 2016 was $318,214 and $344,732, 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, 2017 and 2016 was $6,305,000 and $6,705,000, 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, 2017 and 2016 was $0 and $500,000, respectively. The bond was paid off in 2017.

7 - LONG-TERM DEBT (Continued)

Principal and interest requirements until maturity are as follows:

Year	Principal	Interest	Total
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	1,065,809	208,100	1,273,909
2023-2027	4,414,820	611,731	5,026,551
2028-2029	1,410,967	54,075	1,465,042
	$ 12,249,788	$ 2,056,153	$ 14,305,941

	Balance 12/31/16	Increase/ Adjustment	Decrease/ Adjustment	Balance 12/31/17	Due within one year
Revenue Bonds	$ 8,855,000	$ -	$ 1,250,000	$ 7,605,000	$ 725,000
NJ EIT	5,214,147	-	569,359	4,644,788	565,619
Compensated absences	377,703	-	34,022	343,681	-
Totals	$ 14,446,850	$ -0-	$ 1,853,381	$ 12,593,469	$ 1,290,619

	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

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, 2017 and 2016.

9 - NET POSITION

Net position consists of the following:

	December 31,	
	2017	2016
Net investment in capital assets		
Capital assets, net	$ 50,220,830	$ 50,310,336
Receivable - NJ EIT	28,514	40,572
Loss on refunding of long-term debt	100,213	119,666
Unused proceeds on bonds	-	(50,335)
Debt	(12,249,788)	(14,069,147)
Accrued interest payable	(50,161)	(58,790)
	38,049,608	36,292,302
Restricted for capital projects and debt service		
Restricted investments	4,153,314	4,162,128
Unrestricted deficit	(3,155,805)	(2,983,532)
Total net position	$ 39,047,117	$ 37,470,898

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.

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 and 43:3B. 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.

10 - PENSION PLAN (Continued)

Description of Plan and Benefits Provided (Continued)
Service retirement benefits of l/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.

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, 2017 and 2016 was 23.04% and 22.62%, 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 $697,390 and $754,799, respectively, for the years ended December 31, 2017 and 2016. Employee contributions were $226,302 and $239,282, respectively, for the years ended December 31, 2017 and 2016.

10 - PENSION PLAN (Continued)

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

At December 31, 2017, the Authority reported a liability of $11,837,496 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2017. 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, 2017, the Authority's proportion was 0.0508518420%, which was a decrease of 0.0071766686% from its proportion measured as of June 30, 2016.

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.

For the years ended December 31, 2017 and 2016, the Authority recognized $676,483 and $1,718,168, respectively, for pension expense.

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, 2017:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 278,732	$ -
Changes of assumptions	2,384,847	2,376,104
Net difference between projected and actual earnings on pension plan investments	80,605	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	326,987	1,505,576
Authority contributions subsequent to the measurement date*	471,088	-
	$ 3,542,259	$ 3,881,680

*$471,088 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, 2018.

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, 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	-
	$ 5,504,232	$ 289,875

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

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,	
2018	$ 63,595
2019	205,442
2020	39,738
2021	(553,968)
2022	(565,316)
	$ (810,509)

10 - PENSION PLAN (Continued)

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

The amortization of the above other deferred outflows of resources and deferred inflows of resources related to pensions will be over the following number of years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Year of pension Plan Deferral:		
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of assumptions		
Year of Pension Plan Deferral:		
June 30, 2016	5.57	-
June 30, 2017	5.48	5.48
Net difference between projected and actual earnings on pension plan investments		
Year of Pension Plan Deferral:		
June 30, 2016	5.00	-
June 30, 2017	5.00	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions		
Year of Pension Plan Deferral:		
June 30, 2016	5.57	5.57
June 30, 2017	5.48	5.48

10 - PENSION PLAN (Continued)

Actuarial Assumptions

The net pension liability measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases:	
Through 2026	1.65% - 4.15%, based on age
Thereafter	2.65% - 5.15%, based on age
Investment rate of return	7.50%
Mortality rate table	RP-2000, Conduent Modified MP-2014
Period of actuarial experience study upon which actuarial assumptions were based	July 1, 2011 - June 30, 2014

Mortality rates for male and female active participants are based on the RP-2000 Employee Preretirement Mortality Table. For employees of local employers, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on Conduent Modified MP-2014.

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.

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.

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, 2017 are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50	1.00
U.S. treasuries	3.00	1.87
Investment grade credit	10.00	3.78
Public high yield	2.50	6.82
Global diversified credit	5.00	7.10
Credit oriented hedge funds	1.00	6.60
Debt related private equity	2.00	10.63
Debt related real estate	1.00	6.61
Private real asset	2.50	11.83
Equity related real estate	6.25	9.23
U.S. equity	30.00	8.19
Non-U.S. developed markets equity	11.50	9.00
Emerging markets equity	6.50	11.64
Buyouts/venture capital	8.25	13.08
	100.00%	

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%	

Discount Rate
The discount rate used to measure the total pension liability was 5.00% and 3.98%, respectively, as of June 30, 2017 and 2016. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.00% and 7.65%, respectively, and a municipal bond rate of 3.58% and 2.85%, respectively, as of June 30, 2017 and 2016 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.

10 - PENSION PLAN (Continued)

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, 2017 calculated using a discount rate of 5.00% 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 (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Authority's proportionate share of the net pension liability	$ 14,685,217	$ 11,837,496	$ 9,464,991

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.

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 2017, 2016 and 2015, the Authority paid the SHBP $2,225,116, $2,242,107 and $2,230,982, respectively, for health care of employees and retirees. The amount paid for retirees was $827,672, $703,857and $602,020, respectively.

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 the year ended December 31, 2016, 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. No major customers existed in 2017.

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.

At December 31, 2017 and 2016, 67% and 65%, respectively, of the Authority's employees are represented by unions, whose existing labor agreements are subject to renegotiation during 2018. Management anticipates renewing agreements without service disruptions.

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.

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 notion of "risk uncertainty" facing the Authority's continuation or disruption of operations has subsided significantly during 2017 and into 2018. While the State of New Jersey's Department of Community Affairs ("NJ DCA") designee exercised its authority to remedy Atlantic City finances, the citizens of Atlantic City mobilized with national public interest associations to petition the City of Atlantic City to protect the Authority. Their door to door petition drive collected more signatures in support of the Authority than the number of voters in the City of Atlantic City's last election. On December 18, 2017 the NJ DCA released the following statement: "The State of New Jersey will not sell or lease the Atlantic City Municipal Utilities Authority to a private company. After speaking with community members and listening to their concerns about a potential privatization of the Atlantic City Municipal Utilities Authority, the State recognizes the important role the Atlantic City Municipal Utilities Authority plays in the community at large and the visible pride that citizens and businesses have in their water system….". Moreover, the Authority's Executive Director met on April 25, 2018 with the new State of New Jersey's Governor's representative assigned to report on the transition of supervision of the City of Atlantic City. The representative provided assurance there was no discussion going forward of the Authority being considered as an asset to assist Atlantic City finances.

Notwithstanding the above, the City of Atlantic City's financial condition remains a key local and regional issue and certain undertakings have now emerged. First, the casino PILOT tax structure has been finalized, which provides fiscal certainty with Atlantic City's core industry. Second, two additional casino-hotel properties will open this spring with the promise of expanding the visitor market. Each of these properties will increase the daily demand for water from the Authority. Third, the United States Supreme Court approved "Sports Betting" across the country. While not in itself a "game changer" for the City of Atlantic City, it will provide an additional attraction for the visitor market.

Complementing the above is the opening this fall of Stockton University and South Jersey Industries corporate center. Stockton University will operate a full campus with lodging facilities for both students and staff. The influx of these new installations has already manifested in new business start-ups surrounding this complex to support this venture.

16 - RISKS AND UNCERTAINTIES

Finally, there are three new major workforce housing developments showing promise to attract a newer, younger demographic, changing significantly the static population of the City of Atlantic City that has endured since the 1970's. With the ongoing investments underway, the risk needle in the City of Atlantic City appears to be receding further to the background.

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 2016

	Year Ended December 31, 2017							
	General Fund	Debt Service Fund	Debt Service Reserve Fund	Bond Redemption and Improvement Fund	Capital Fund	Net Investment in Capital Assets	2017 Total	2016 Summarized Total
Operating revenues								
User charges	$ 14,537,223	$ -	$ -	$ -	$ -	$ -	$ 14,537,223	$ 15,893,399
Rental income	2,500	-	-	-	-	-	2,500	4,000
Miscellaneous	454,838	-	-	-	-	-	454,838	109,409
	14,994,561	-	-	-	-	-	14,994,561	16,006,808
Operating expenses								
Cost of providing services	7,692,767	-	-	-	-	-	7,692,767	8,765,523
General and administrative	2,658,362	-	-	-	-	-	2,658,362	3,249,961
Depreciation	-	-	-	-	-	2,793,960	2,793,960	2,967,633
	10,351,129	-	-	-	-	2,793,960	13,145,089	14,983,117
Operating income (loss)	4,643,432	-	-	-	-	(2,793,960)	1,849,472	1,023,691
Non-operating revenues (expenses)								
Connection fees	19,088	-	-	-	-	-	19,088	1,626,632
Investment income	149,473	-	-	-	-	-	149,473	118,455
Bond interest	(382,252)	-	-	-	-	(19,452)	(401,704)	(479,139)
Bond payments	(1,819,359)	-	-	-	-	1,819,359	-	-
Net change in fair value of investments	(40,110)	-	-	-	-	-	(40,110)	3,132
Unused proceeds on bonds	-	-	-	-	-	-	-	(50,335)
	(2,073,160)	-	-	-	-	1,799,907	(273,253)	1,218,745
Net increase (decrease) before transfers	2,570,272	-	-	-	-	(994,053)	1,576,219	2,242,436
Transfers between funds	(2,742,545)	-	-	-	(8,814)	2,751,359	-	-
Net increase (decrease) in net position	(172,273)	-	-	-	(8,814)	1,757,306	1,576,219	2,242,436
Net position (deficit), beginning of year	(2,983,532)	2,327,533	1,675,781	150,000	8,814	36,292,302	37,470,898	35,228,462
Net position (deficit), end of year	(3,155,805)	2,327,533	1,675,781	150,000	-	38,049,608	39,047,117	37,470,898
Analysis of net position (deficit), end of year								
Net investment in capital assets	$ -	$ -	$ -	$ -	$ -	$ 38,049,608	$ 38,049,608	$ 36,292,302
Restricted for capital projects and debt service	-	2,327,533	1,675,781	150,000	-	-	4,153,314	4,162,128
Unrestricted	(3,155,805)	-	-	-	-	-	(3,155,805)	(2,983,532)
	$ (3,155,805)	$ 2,327,533	$ 1,675,781	$ 150,000	$ -	$ 38,049,608	$ 39,047,117	$ 37,470,898

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,

	2017 Budget (unaudited)	2017 Actual	Over/(Under) (unaudited)	2016 Actual
Revenues				
User charges	$ 14,663,038	$ 14,537,223	$ (125,815)	$ 15,893,399
Rental income	2,500	2,500	-	4,000
Miscellaneous	31,672	454,838	423,166	109,409
Investment	66,084	149,473	83,389	118,455
	14,763,294	15,144,034	380,740	16,125,263
Cost of Providing Services				
Personnel expenses				
Salaries - regular	$3,059,495	2,396,093	(663,402)	2,574,605
Salaries - overtime	162,464	147,218	(15,246)	144,618
	3,221,959	2,543,311	(678,648)	2,719,223
Employee benefits				
Health benefits	1,995,000	1,680,642	(314,358)	1,727,051
Pension	409,483	500,519	91,036	1,279,899
Social security	251,643	188,793	(62,850)	207,596
Unemployment	26,565	21,805	(4,760)	22,867
Workers compensation	300,000	216,074	(83,926)	196,433
	2,982,691	2,607,833	(374,858)	3,433,846
Plant				
Chemicals and gases	535,000	500,072	(34,928)	444,106
Fuel oil	18,725	3,508	(15,217)	11,609
Gasoline	65,000	29,904	(35,096)	27,244
Miscellaneous	35,000	30,171	(4,829)	25,870
	653,725	563,655	(90,070)	508,829
Utilities				
Electricity	883,102	655,242	(227,860)	823,213
Gas	7,700	837	(6,863)	4,137
Sewerage	2,000	1,188	(812)	1,188
Telephone	23,000	18,526	(4,474)	16,904
	915,802	675,793	(240,009)	845,442
Taxes				
Real estate	133,846	133,466	(380)	123,440
State water	38,500	25,004	(13,496)	26,667
	172,346	158,470	(13,876)	150,107

(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,

	2017 Budget (unaudited)	2017 Actual	Over/(Under) (unaudited)	2016 Actual
Repairs and maintenance				
Building and grounds	$ 141,255	$ 89,046	$ (52,209)	$ 92,439
Electrical	30,000	13,816	(16,184)	21,660
Machinery and equipment	50,000	31,897	(18,103)	28,510
Miscellaneous	17,500	2,050	(15,450)	1,048
Motor vehicle	52,300	47,227	(5,073)	48,135
Plumbing	35,000	11,933	(23,067)	16,803
Street opening	400,000	275,195	(124,805)	271,460
Uniforms	15,000	8,377	(6,623)	6,850
	741,055	479,541	(261,514)	486,905
Rental				
Construction equipment	8,200	-	(8,200)	471
Other	45,700	26,165	(19,535)	30,130
	53,900	26,165	(27,735)	30,601
Outside services				
Advertising	2,500	625	(1,875)	1,575
Engineering fees	12,000	10,389	(1,611)	260
General insurance	365,000	304,115	(60,885)	302,967
Laboratory	87,000	75,243	(11,757)	77,440
New Jersey Department of Environmental Protection	40,000	32,765	(7,235)	35,148
Other	225,000	190,858	(34,142)	153,387
	731,500	613,995	(117,505)	570,777
Training, travel, and education				
Employee travel	4,000	28	(3,972)	46
Training	19,500	13,441	(6,059)	11,018
	23,500	13,469	(10,031)	11,064
Dues and subscriptions				
Books and publications	2,000	-	(2,000)	-
Dues	5,000	3,301	(1,699)	3,110
	7,000	3,301	(3,699)	3,110
Office supplies				
Office	5,700	4,534	(1,166)	4,478
Miscellaneous	1,500	1,386	(114)	-
Postage	2,000	1,314	(686)	1,141
Printing	1,000	-	(1,000)	-
	10,200	7,234	(2,966)	5,619
Total cost of providing services	9,513,678	7,692,767	(1,820,911)	8,765,523

(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,

	2017 Budget (unaudited)	2017 Actual	Over/(Under) (unaudited)	2016 Actual
General and Administrative				
Personnel expenses				
Salaries - regular	$ 867,055	$ 783,289	$ (83,766)	$ 809,581
Salaries - overtime	2,000	1,405	(595)	1,635
Board salaries	42,000	41,840	(160)	42,000
	911,055	826,534	(84,521)	853,216
Employee benefits				
Health benefits	546,030	492,756	(53,274)	496,408
Pension	138,535	175,964	37,429	438,269
Social security	70,880	57,440	(13,440)	62,743
Unemployment	8,395	7,675	(720)	7,724
	763,840	733,835	(30,005)	1,005,144
Operations				
Data processing	16,000	15,878	(122)	14,797
Janitorial	23,500	14,444	(9,056)	13,247
Office	16,000	12,445	(3,555)	12,927
Outside services	10,000	5,092	(4,908)	5,063
Postage	25,000	21,928	(3,072)	20,809
Printing	10,000	8,265	(1,735)	7,803
Professional fees	285,400	206,779	(78,621)	299,879
Telephone	29,500	25,430	(4,070)	24,515
Training	9,000	3,624	(5,376)	4,792
Travel	1,500	25	(1,475)	36
Utilities	67,500	49,574	(17,926)	48,582
	493,400	363,484	(129,916)	452,450
Repairs and maintenance				
Building and grounds	8,000	7,079	(921)	5,337
Machinery and equipment	10,000	5,155	(4,845)	6,667
Miscellaneous	1,000	-	(1,000)	-
Motor vehicles	1,000	5	(995)	-
	20,000	12,239	(7,761)	12,004

(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,

	2017 Budget (unaudited)	2017 Actual	Over/(Under) (unaudited)	2016 Actual
Miscellaneous				
Administrative fees	$ 65,500	$ 54,735	$ (10,765)	$ 50,109
Advertisement	4,000	939	(3,061)	802
Books and periodicals	3,500	1,603	(1,897)	2,278
Computer equipment maintenance	36,000	26,045	(9,955)	25,349
Insurance deductibles	-	-	-	-
Membership dues	9,500	7,560	(1,940)	7,948
Miscellaneous	25,000	5,008	(19,992)	7,459
Municipal appropriation	683,542	683,542	-	702,658
Provision for (recovery of) doubtful accounts	5,000	(60,538)	(65,538)	128,592
Rentals	1,500	464	(1,036)	-
Software license fee	4,500	2,912	(1,588)	1,952
	838,042	722,270	(115,772)	927,147
Total general and administrative	3,026,337	2,658,362	(367,975)	3,249,961
Total cost of providing services and general and administrative expenses	12,540,015	10,351,129	(2,188,886)	12,015,484
Other costs funded by revenues				
Debt service				
Principal	1,819,359	1,819,359	-	1,824,289
Interest	390,882	382,252	(8,630)	438,415
	2,210,241	2,201,611	(8,630)	2,262,704
Total costs funded by operating revenues	$ 14,750,256	$ 12,552,740	$ (2,197,516)	$ 14,278,188

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 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

	Measurement Date Ending June 30,		
	2017	2016	2015
Authority's proportion of the net pension liability	0.0508518420%	0.0580285106%	0.0598072559%
Authority’s proportionate share of the net pension liability	$ 11,837,496	$ 17,186,380	$ 13,425,530
Authority’s covered payroll (Plan measurement period)	3,089,543	3,800,042	4,126,964
Authority’s proportionate share of the net pension liability as a percentage of covered payroll	383.15%	452.27%	325.31%
Plan fiduciary net position as a percentage of the total pension liability	48.10%	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.

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

SCHEDULE OF AUTHORITY'S PENSION CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

	Fiscal Year Ended June 30,		
	2017	2016	2015
Contractually required contribution	$ 697,390	$ 754,799	$ 797,999
Contributions in relation to the contractually required contribution	(697,390)	(754,799)	(797,999)
Contribution deficiency (excess)	$ -	$ -	$ -
Authority's covered payroll	$ 3,026,339	$ 3,336,897	$ 4,043,269
Contributions as a percentage of the Authority's covered payroll	23.04%	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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - GASB 68 PENSION CHANGES

Changes in Benefit Terms

None.

Changes in Assumptions

For 2017, the discount rate changed to 5.00% and the long-term expected rate of return changed to 7.50%. For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65%, demographic assumptions were revised in accordance with the results of the July 1, 2011 – June 30, 2014 experience study and the mortality improvement scale incorporated the plan actuary's modified MP-2014 projection scale using a generational approach relative to future improvements in mortality rates starting from the base year of 2013. Further, salary increases were assumed to increase between 1.65% and 4.15% (based on age) through fiscal year 2026 and 2.65% and 5.15% (based on age) for each fiscal year thereafter. For 2015, the discount rate changed to 4.90%. In addition, the social security wage base was set at $118,500 for 2015, increasing 4.00% per annum, compounded annually and the 401(a)(17) pay limit was set at $265,000 for 2015, increasing 3.00% per annum, compounded annually.

INFORMATION REQUIRED UNDER
GOVERNMENT AUDITING STANDARDS (GAS)

FRIEDMAN LLP®
ACCOUNTANTS AND ADVISORS

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, 2017 and 2016, 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 June 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits 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 audits 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)

327 Central Avenue, Linwood, NJ 08221 p 609.927.2222 f 609.653.0675 friedmanllp.com

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.

Friedman LLP

Linwood, New Jersey
June 7, 2018

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
(A COMPONENT UNIT OF THE CITY OF ATLANTIC CITY)

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.