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

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2018 AND 2017

AND

INDEPENDENT AUDITORS' REPORT

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

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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, 2018 and 2017, 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)

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, the Schedules and Notes Related to Accounting and Reporting for Pensions (GASB 68) on pages 68 through 70, and the Schedules and Notes Related to Accounting and Reporting for OPEB (GASB 75) on pages 71 through 73 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 63 through 67, 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. Such 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 August 27, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Friedman LLP

August 27, 2019

MANAGEMENT’S DISCUSSION & ANALYSIS

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

OVERVIEW OF ANNUAL FINANCIAL REPORT:

Management's Discussion and Analysis ("MD&A") serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and 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 has 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 DISCUSSION & ANALYSIS OF THE ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY

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 $71,237,932 and exceeded liabilities and deferred inflows in the amount of $17,689,264 (i.e., net position). Total assets increased by $1,450,812. Total net position decreased by $21,357,853.
- The Authority's net pension liability at year-end under Government Accounting Standard Board (GASB) Statement 68 was $8,570,190, a decrease of $3,267,306 from the year 2017.
- As the Authority participates in postemployment benefits other than pensions (OPEB), as similar to GASB Statement 68, the Authority recognized a liability for OPEB obligations under GASB Statement 75 on its financial statements. The cumulative effect of the Authority's adoption of GASB 75 resulted in an adjustment to unrestricted net assets as of January 1, 2018 of $24,124,881. At December 31, 2018, the Authority's Net OPEB liability was $16,942,821, a decrease of $4,267,550 from the year 2017.
- For fiscal year 2018, the Authority pumped approximately 3,364 million gallons of water, compared to 3,027 million gallons of water in 2017.
- Operating revenues were $15,616,578, an increase from the year 2017 in the amount of $622,017.
- Operating expenses (excluding depreciation) were $332,250 less than last year.
- Operating income for the year was $2,848,855.
- Connection fee income was $61,571 compared to $19,088 in 2017.
- Actual investment income was $236,204, which was $168,002 higher than budgeted projections and an $86,731 increase over 2017.

The Authority's net position changed significantly in 2018 as a result of the implementation of new accounting standards for public sector postretirement benefit programs under GASB Statement 75. Per GASB 75 New Jersey state's report, the Authority's net OPEB liability were $24,476,451 as of June 30, 2016, $21,210,371 as of June 30, 2017 and 16,942,821 as of June 30, 2018. Operating revenues increased due to the rate increase which became effective in 2018. Operating expenses decreased mainly due to the recording of a lower pension expense in 2018 as required under GASB 68.

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 2018 totaled $14,675,095 compared to $ 12,098,971 in 2017. The increase amounted to $2,576,124 and resulted primarily from an increase in cash and investments. A significant decline in the 2018 debt service payments reduced established reserves for Debt Service, thus allowing for an increase in available cash and investments. Available cash will be utilized to assist in the funding of the Authority's future capital projects.

Total Restricted Assets- Total Restricted Assets totaled $2,805,283 in 2018 compared to $3,178,589 in 2017. The decrease amounted to $373,306 and resulted from lower debt reserve requirement. A decline in the receivable due from the New Jersey Business and Industry Association (NJBIA) also contributed to the decrease.

Net Capital Assets – Net Capital Assets for 2018 totaled $49,481,078 compared to $50,220,830 in 2017. This decrease of $739,752 resulted from an increase in accumulated depreciation that amounted to $2,748,844, largely offset by 2018 additions.

Total Current Liabilities Payable From Unrestricted Assets - Total Current Liabilities Payable from Unrestricted Assets for 2018 totaled $2,150,667 compared to $1,759,453 in 2017. This increase of $391,214 was primarily due to the recognition of Blue Collar union employees' retro settlement and higher payment owed to vendors at year-end. The Blue Collar union settled their retro increases for 2015 through 2018. The 2015 and 2016 retro increases were paid in 2018. The 2017 and 2018 retro increases amounting to $139,542 were accrued at year-end and paid in January 2019. An increase in customer overpayments also contributed to the increase, partially offset by a decline in employer pension contribution payable.

Total Current Liabilities Payable From Restricted Assets - Total Current Liabilities Payable from Restricted Assets for 2018 totaled $1,369,974 compared to $1,340,780 in 2017. This increase of $29,194 was primarily due to an increase in principal payments due in 2019 for the outstanding bond issues.

Total Long-Term Liabilities Payable from Restricted Assets- Total Long-Term Liabilities Payable from Restricted Assets for 2018 totaled $35,472,378 compared to $23,140,346 in 2017. This significant decrease was in large part due to the reporting of the Authority's proportionate share of net pension liability and OPEB liability. The net pension and the OPEB liabilities decreased by $3,267,306 and $4,267,550 respectively as of December 31, 2018 compared to January 1, 2018. The Authority had a net pension liability of $8,570,190 and OPEB liability of $16,942,821 in 2018. A decrease of $1,325,580 in Long Term Debt was due primarily to the annual principal payments made in 2018. In addition, compensated balances payable declined by $17,903, which also contributed to the decrease.

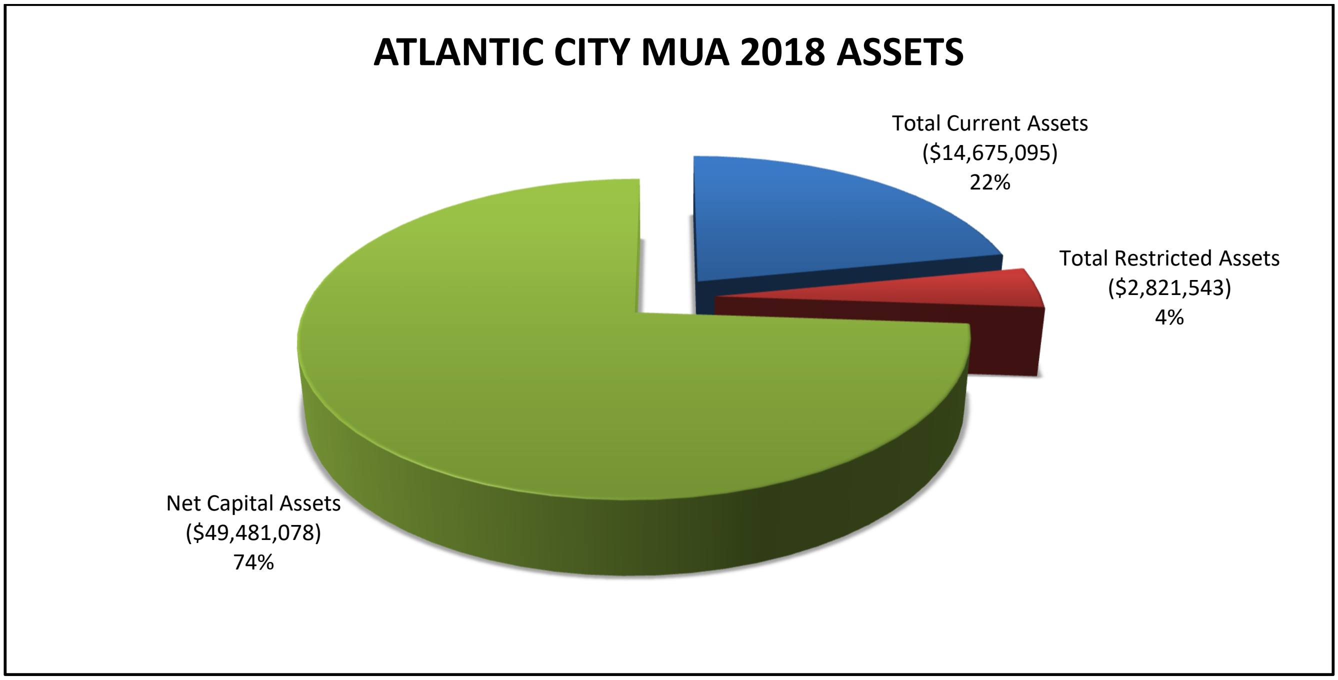
MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION (Continued)**:**

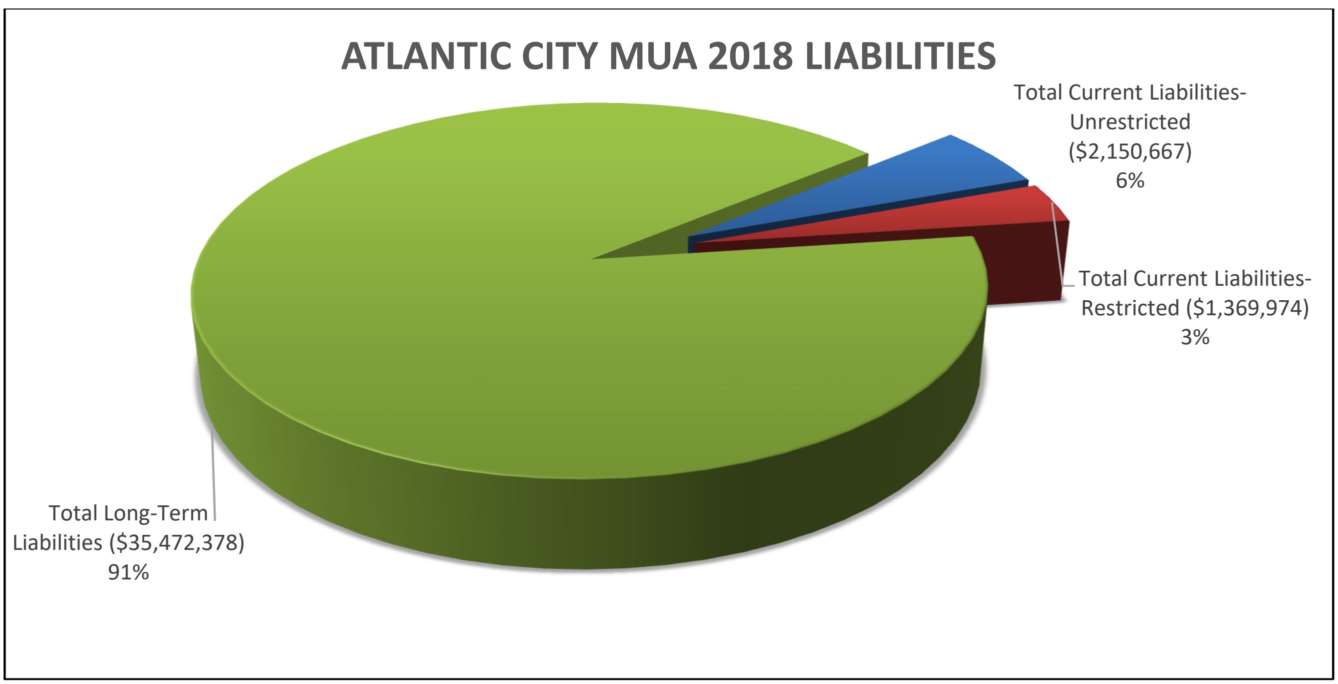
CONDENSED COMPARATIVE STATEMENT OF NET POSITION (Continued)

	December 31, 2018	**December 31, 2017**
Total Current Assets	$14,675,095	$12,098,971
Total Restricted Assets	2,821,543	3,207,103
Net Capital Assets	49,481,078	50,220,830
Total Assets	66,977,716	65,526,904
Loss on Refunding of Long-Term Debt	91,397	100,213
Related to Pensions	2,208,916	3,542,259
Related to other post-employment benefit (OPEB)	1,959,903	-
Total Deferred Outflows of Resources	4,260,216	3,642,472
Total Current Liabilities - Unrestricted	2,150,667	1,759,453
Total Current Liabilities - Restricted	1,369,974	1,340,780
Total Long-Term Liabilities	35,472,378	23,140,346
Total Liabilities	38,993,019	26,240,579
Related to Pensions	5,380,197	3,881,680
Related to other post-employment benefit (OPEB)	9,175,452	-
Deferred Inflows of Resources	14,555,649	3,881,680
Net Position (Deficit):		
Net Investment in Capital Assets	38,585,170	38,049,608
Restricted for Capital Projects and Debt Service	2,805,283	3,178,589
Unrestricted	(23,701,189)	(2,181,080)
Total Net Position	$ 17,689,264	$ 39,047,117

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, 2018	December 31, 2017
Total Operating Revenues	$15,616,579	$14,994,561
Net Cash Provided by Operating Activities	$5,472,603	$6,012,853
Net Operating Cash as a Percentage of Operating Revenue	35.04%	40.0%

2018 Net Cash Provided by Operating Activities as Compared to 2016

Net cash provided by operating activities decreased by 8.9%. This decrease resulted primarily from the receipt of less cash from customers and others. In 2017, the Authority received approximately $772,000 from the City of Atlantic City for its unpaid water bills and $400,000 from the Federal Air Aviation to supplement the costs incurred to enhance the Authority's carbon filtration program. Thus, the receipt of cash from customers and others were higher in 2017 compared to 2018. The payment of additional payroll for the settlement of outstanding Blue union employees' 2015 and 2016 contracts, also contributed the decrease. The remaining payment for the settlement of outstanding Blue union employees 'contracts for 2017 and 2018 were accrued at year-end but paid in January 2019. Offsetting the decrease was the decline in vendor payments in 2018.

MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION:

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

Total Revenues (excluding connection fees) for 2018 totaled $15,852,782 compared to $15,144,034 in 2017. Total revenues increased by 5%. Operating expenses for 2018 totaled $12,767,723 compared to $13,145,089 in 2017. Total operating expenses decreased by 3%. Explanations of the fluctuations are as follows:

Operating Revenues - Operating Revenues for 2018 totaled $15,616,578 compared to $14,994,561 in 2018. The revenues increased by $622,017. This increase in revenue recognized during the year resulted primarily from the rate increase that went into effect in 2018. The re-openings of two closed casinos (Hard Rock and Ocean Resorts) at the end of the 2nd quarter of 2018 also contributed the increased revenues. The decrease in miscellaneous income by $404,000 partially offset the increased operating revenues. In 2017, the Authority received a onetime payment of $400,000 from the Federal Air Aviation to supplement the costs incurred to enhance the Authority's carbon filtration program.

Connection Fee Income - Connection Fee income for 2018 totaled $61,571 compared to $19,088 in 2017. There were more new smaller constructions during the year as compared to prior year.

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 2018 totaled $236,204, compared to $149,743 in 2017. This increase was due to the availability of similar amounts of capital for investing and earnings based on slightly higher rates of interest in 2018, as compared to last year.

Salaries Expense - Salaries Expense for 2018 totaled $3,628,717 compared to $3,369,845 in 2017. The increase amounted to $258,872. Salaries expense increased mainly due to retroactive wage increases for Blue Union employees. Wage increases include the years 2015, 2016, 2017 and 2018. The 2017 and 2018 wage increases were accrued at year-end, but paid in January 2019.

Employee Benefits - Employee Benefits for 2018 totaled $2,727,519 compared to $3,341,668 in 2017. The decrease in employee benefits expense amounted to $614,149. The decrease was primarily due to the decline in unfunded pension liability. The Authority's pension expense decreased by $473,584 as a result of the recognition of pension expense in accordance with GASB No. 68. The Authority recognized pension expense in the amount of $676,483 in 2017. Also contributing to the decrease was a slight decrease in employee health benefits and workers compensation.

Repairs and Maintenance - Repairs and Maintenance expense for 2018 totaled $562,071 compared to $491,780 in 2017. The Authority experienced an increase of $70,291 in repair and maintenance during the year due to an increase in street openings and repairs as a result of colder temperatures.

Miscellaneous Expenses - Miscellaneous Expenses for 2018 totaled $3,100,572 compared to $3,147,836 in 2017. The decrease for the year was $47,264 and resulted from fluctuations in various accounts including Chemical and Gases, Electricity and recovery of doubtful accounts. Electricity expenses decreased due to less consumption because of less water pumpage during the year.

Depreciation Expense - Depreciation Expense for 2018 totaled $2,748,844 compared to $2,793,960 in 2017. The decrease in the depreciation expense was primarily from assets that became fully depreciated during the year, partially offset by the depreciation expense recognized for the assets purchased and placed in service in 2018.

Interest Expenses – Interest Expenses for 2018 totaled $341,615 compared to $382,252 in 2017. A decline in Interest Expense was recognized for the year due to a decrease in Long-Term Debt Outstanding. The deobligated New Jersey Business and Industry Association (NJBIA) loan, formerly known as New Jersey Infrastructure Bank (NJEIT) relative to the 2009A and 2010A bonds lowered both principal and interest expense payments starting in 2016.

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

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

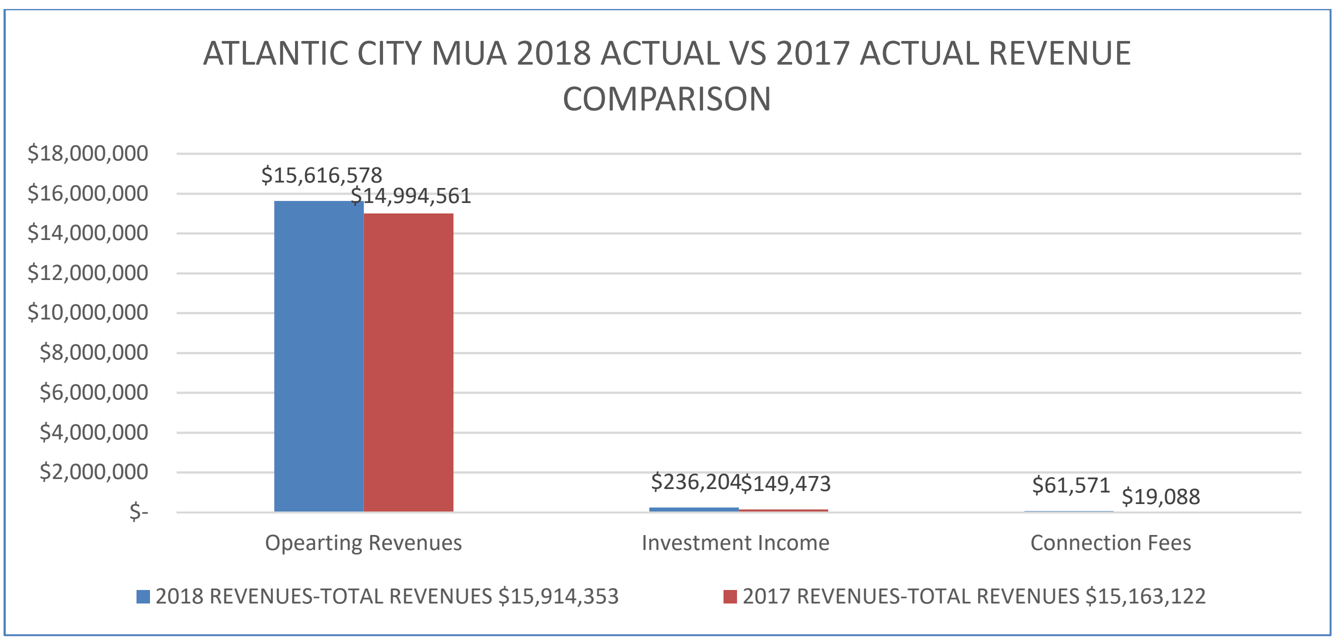
CONDENSED COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)

	December 31, 2018	December 31, 2017
Total Operating Revenues	$ 15,616,578	$ 14,994,561
Operating Expenses:		
Total Salaries Expenses	(3,628,717)	(3,369,845)
Total Employee Benefits	(2,727,519)	(3,341,668)
Total Repairs and Maintenance	(562,071)	(491,780)
Total Miscellaneous Expenses	(3,100,572)	(3,147,836)
Depreciation	(2,748,844)	(2,793,960)
Total Operating Expenses	(12,767,723)	13,145,089
Non-Operating Revenues (Expenses)		
Connection Fees	61,571	19,088
Investment Income	236,204	149,473
Bond Interest	(350,432)	(401,704)
Net Change in Fair Value of Investments	(34,159)	(40,110)
Gain on disposal of assets	4,989	-
Total Non-Operating Revenues (Expenses), Net	(81,827)	(273,253)
Change in Net Positon	2,767,028	1,576,219
Net position, beginning of year	39,047,117	37,470,898
Cumulative effect of GASB 75	(24,124,881)	-
Net position, end of year	$ 17,689,264	$ 39,047,117

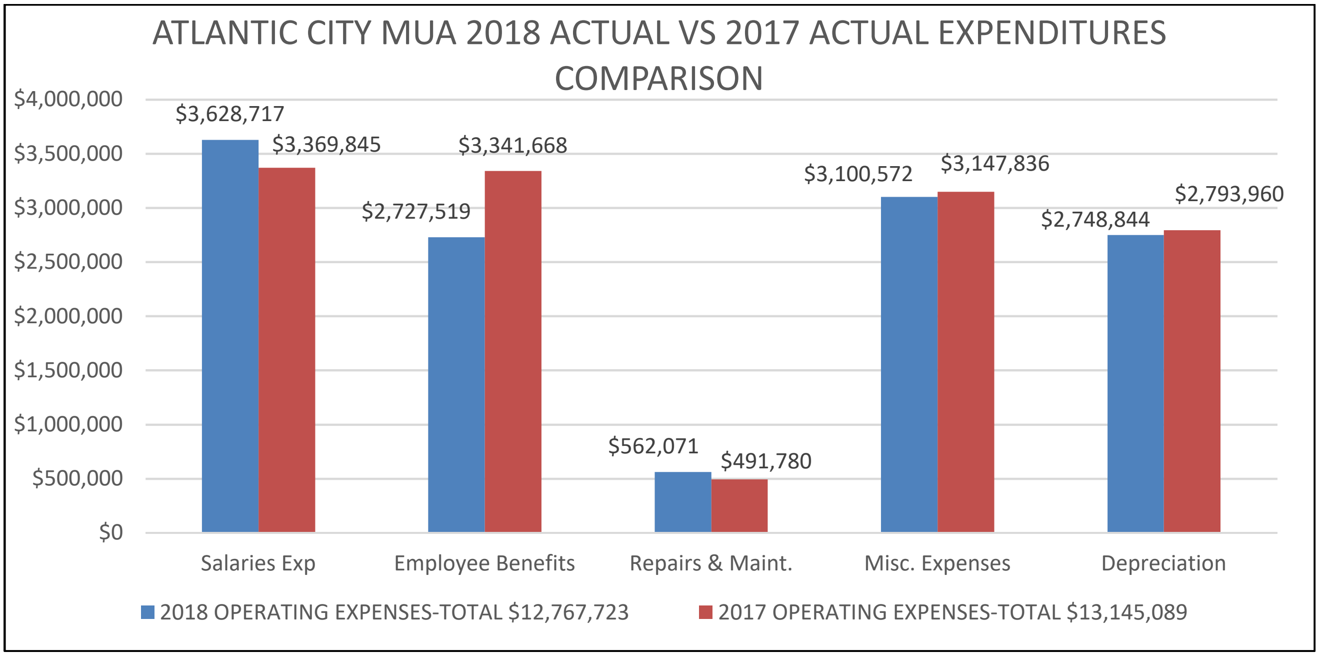
MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION (Continued)**:**

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

	2018	%	2017	%
Salaries Expenses	$ 3,628,717	28.4%	$ 3,369,845	25.6%
Employee Benefits	2,727,519	21.4	3,341,668	25.4
Repairs and Maintenance	562,071	4.4	491,780	3.7
Miscellaneous Expenses	3,100,572	24.3	3,147,836	23.9
Depreciation	2,748,844	21.5	2,793,960	21.4
Total	$ 12,767,723	100%	$13,145,089	100%



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

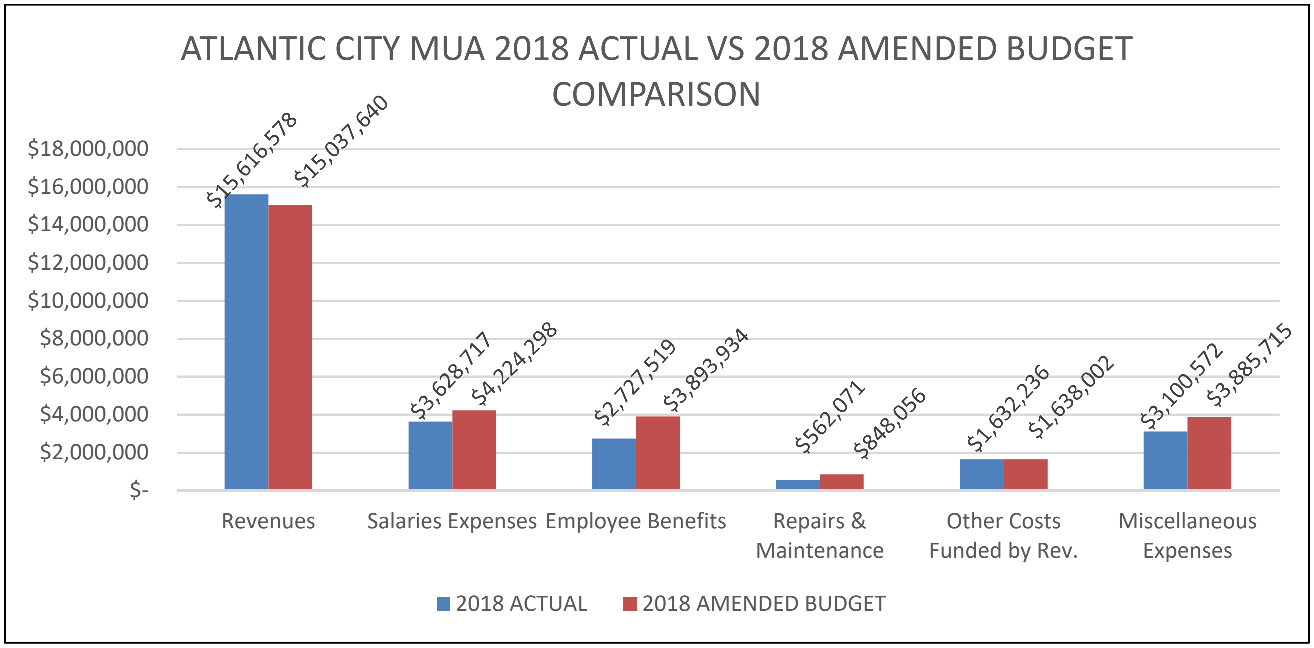


CONDENSED SCHEDULE OF APPROPRIATIONS COMPARED TO AMENDED BUDGET

Total operating revenues for 2018 totaled $15,616,578 compared to budgeted revenues of $15,037,640. Revenues include those from all sources, except connection fees revenues and investment income. Actual revenues were $578,938 more than the anticipated budget amount as a result of the recognition of higher user fees primarily from the openings of two newly renovated casinos (Hard Rock and Ocean Resort) at the end of 2nd quarter of 2018. Expenses from administration and operations for 2018 totaled $10,018,879 compared to budgeted expenses of $12,852,003. Actual expenses for 2018 were $2,833,124 less than projected expenditures. Some of the larger fluctuations fell in the categories of Salaries, Employee Benefits, Utilities, Chemical and Gases, Repairs and Maintenance, and Other Outside Services expenses. Salaries Expense was lower than the projected budget. The Authority did not replace a few positions that were left vacant during the year and prior years. In addition, the settlement of White Collar and Supervisor employees' retro increases did not occur or settle in 2018 as anticipated. Employee Benefits were lower than the projected budget primarily from the recognition of the decrease in the net pension liability related to GASB 68. Health Benefits and Workers Compensation premium during the year were also lower than the projected budget. Utilities expenses were less than the budgeted amount due to lower than expected consumption of electricity. Repairs and Maintenance, including street openings costs were lower than projected as the winter weather was not as severe as forecasted. A lower general insurance premium and expenditure in expenses such as laboratory, New Jersey Department of Protection (NJDEP) fees and other miscellaneous services contributed to lower than expected other outside services expenses.

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

CONDENSED SCHEDULE OF APPROPRIATIONS COMPARED TO AMENDED BUDGET (Continued)



MANAGEMENT'S ANALYSIS OF 2018 CAPITAL ASSETS & LONG TERM DEBT ACTIVITY:

Capital Assets

Total capital assets increased by approximately $1,896,627 during 2018. Property and equipment in-service increased by $1,600,832 in 2018. Impacting this increase were the 2018 additions and the transfer of assets from construction in progress. Currently, the major components of construction in progress are the Water Main Replacement project (third-year of a five-year plan) and Pre-Fabricated Post lime House Rehabilitation project.

MANAGEMENT'S ANALYSIS OF 2018 CAPITAL ASSETS & LONG TERM DEBT ACTIVITY (Continued):

Capital Assets (Continued)

	2018	2017
Treatment and Distribution Facilities	$ 101,680,715	$ 100,146,598
Land and Land Improvements	1,811,009	1,811,009
Equipment and Vehicles	5,445,746	5,377,185
Office Building	3,877,030	3,877,030
Furniture and Fixtures	457,479	459,324
Construction-in-Progress	1,583,408	1,287,613
Total	$ 114,855,387	$ 112,958,759

Long-Term Debt

At the end of the current fiscal year, the Authority had total bonded debt outstanding of $10,959,168.

	2018	2017
Revenue Bonds	$ 6,880,000	$7,605,000
New Jersey EIT Loans	$ 4,079,168	$4,644,788

OTHER SELECTED INFORMATION:

Selected Data for Analysis	2018	2017	Change Amount	Change %
Employees at Year End	63	68	(5)	(7.3%)
Number of Customers Year End	8,152	8,114	38	0.46%
Water Pumped (Millions of Gallons)	3,364	3,027	337	11.13%
Revenues per 1,000 Gallons Pumped	4.6	4.8	(0.2)	(4.16%)
Expenses per 1,000 Gallons Pumped:				
Expenses Excluding Depreciation	3.1	3.1	-	-
Total Operating Expenses	3.9	4.0	(0.1)	(2.50%)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Customer Base and 2019 Budget

The Authority's water demand shows a steady and continual decline over the last two decades. 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.

The second factor that contributed to the decline of water sales was the closing of underperforming hotels and the removal of many housing units in Atlantic City through demolition. The closure of casinos over the past several years and non-renewal of bulk purchases from New Jersey American Water have further impacted the decline in water sales.

The decline pattern over the past several years slightly appears to have subsided slightly. The former shuttered Taj Mahal Casino has been re-commissioned as the Hard Rock Casino. As a worldwide brand, this destination has performed successfully in its first nine months of operations. Moreover, the Ocean Resort (former Revel) has re-opened and is now looking forward to its first full summer season. While gaming profits have dipped slightly, these two repurposed properties have increased water demand from the Authority. While all figures are not in, the approval of Sports Betting at the casinos has witnessed a sharp rise in visitor ship, particularly around major playoff events such as the Super Bowl and NCAA Final Four. The 2019 budget reflected a stabilization of the declining sales recognized during past years, however, the notable development trend presently observed appears promising. Stockton University opened its Atlantic City campus in fall 2018 with both student and faculty residential facilities. The University is at full capacity with a campus expansion on the horizon. South Jersey Industries, the parent company of South Jersey Gas, has now located its new headquarters within the "University District." A number of new businesses have opened, close to the University that were vacant in prior years.

New housing complexes (Borie and Tennessee Green) offer new working class residential options, as Atlantic City recognizes the potential to attract young professionals to the community. A new upscale residential facility "North Beach" offers first class amenities to attract new urban residents. A notable component of the upswing in development is the installations known as the "Orange Loop." This collaboration of independent investors seek to create a "walkable entertainment district" out of a previously distressed beach block in the Downtown District. A group of shops and offerings include; coffee shop, gourmet chocolate, beer hall, yoga studio, and restaurants. Moreover, Stockton University has green lighted an expansion of its campus to provide an additional 430 student residence units as the University continues to attract a waiting list of students who wish to study in the City. These emerging features of a shifting financial landscape will further assist in boosting the Authority's declining water sales.

The Authority has embarked upon major energy savings projects which are expected to lower associated fixed costs significantly by 2020. The anticipated savings will provide resources to address cost increases and upgrade the Authority's motor pool and other mechanical systems.

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

The 2019 proposed budget is a fully funded budget, providing for the continuation of all of the Authority's major operations. The proposed appropriations for 2019 are anticipated to be approximately $2,426,474 higher than budgeted appropriations for 2018. This increase is due primarily to an increase in the 2019 Renewal and Replacement Reserve of $1,742,358. The additional reserves are needed and will be utilized to help fund the 2019 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 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. In 2018, the Authority experienced a net increase of 3% in rates. The Authority increased the flat by 2% and the excess rate by 4% for all customers. The residential rates for residential customers increased from the flat charge of $50.00 a quarter to $51.00 a quarter. Effective January 1, 2019, an additional rate increase was approved and incorporated into the rate structure. A net increase of 16% in rates is anticipated in 2019. This rate increase is needed to assist in the funding of capital projects as specified in the Authority's Capital Improvement Program. The Authority is anticipating an increase of 19% in flat and 10% in excess rates for all customers. The rates for residential customers will be increasing from the flat charge of $51.00 a quarter to $61.00 a quarter. Residential customers exceeding the allowed allotment will be subject to a 10% increase in the excess rate. The Authority anticipates that the average annual bill for a residential customer will be $375.13 as compared to $323.21, a net annual increase of $51.92. The connection fee is recalculated each year as required by State law. The 2018 connection fee rate remained at $15.4352 per gallon although there was a significant decline in demand as a result of non-renewal of New Jersey American Water's bulk purchases. For 2019, the connection fee rate was increased to $20.9025.

Legislation with Potential Impact to the Authority

Over the preceding two years, 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 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 (Community Solar) designed 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.

The NJ Water Quality Accountability Act (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. 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 is currently seeking to borrow funding from the Water Infrastructure Bond Act to cover costs to comply with the Act.

The New Jersey Department of Environmental Protection announced another new legislation that presents a significant challenge to the Authority to achieve compliance. The legislation will establish a Maximum Contaminant Level (MCL) of Perfluoroalkyl Substances (PFAS) at 13 Parts Per Trillion (PPT) in the drinking water delivered to customers statewide. The Authority established production wells at the US Federal Aviation Administration Testing Center in Pomona, NJ in 1984. Since the 1960s, the Test Center conducted fire suppression exercises using flame retardant foam which contains the PFAS substances. The substances have been detected in the groundwater from which the Authority extracts at levels above the announced legislation's allowance. The Authority has engaged a nationally recognized environmental law firm (Sher Edling, LLP) to sue the manufacturers of these substances and the federal government. The lawsuit is a federal multi-district action in which similarly situated plaintiffs seek to recover damages to recover losses.

The proposed new standards for PFAS chemicals set by New Jersey Department of Environmental Protection (NJDEP) in September 2018 is not regulated yet and the Authority is not aware of the future implementation date. There may be a lot of oppositions on the new regulation because of the significant cost involved. The Authority has engaged the consulting firm Geosyntec, who recommended two treatment platforms (Calgon Carbon Vessels - CAG / Purolite IX Resin) that would be adequate to treat ACMUA raw water to achieve compliance. The estimated costs of either of these technologies is $29 million to $30 million. Further, the necessary screen replacement and regeneration of these systems on a minimum annual basis is estimated at $1 million annually. There are lots of unknown regarding this new proposed regulation including available funding/grant by the state and NJDEP approval. The Authority will do further study and explore on other options available as more information become available by the State about the new proposed regulations for PFAS.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have 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, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,649,152	$ 2,099,972
Accounts receivable, net	1,016,367	884,734
Investments	11,518,989	8,616,425
Inventories	342,281	386,715
Prepaid expenses	58,026	48,780
Accrued interest receivable	90,280	62,345
Total current assets	14,675,095	12,098,971
Noncurrent assets		
Restricted assets		
Investments	2,805,283	3,178,589
Receivable - NJ EIT	16,260	28,514
	2,821,543	3,207,103
Capital assets		
Land and land improvements	1,811,009	1,811,009
Construction-in-progress	1,583,408	1,287,613
Other capital assets, net of depreciation	46,086,661	47,122,208
	49,481,078	50,220,830
Total assets	66,977,716	65,526,904
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding of long-term debt	91,397	100,213
Related to pensions (Note 10)	2,208,916	3,542,259
Related to other post-employment benefit (Note 11)	1,959,903	-
	4,260,216	3,642,472

(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, 2018	December 31, 2017
LIABILITIES AND NET POSITION		
Current liabilities payable from unrestricted assets		
Accounts payable	$ 540,247	$ 344,094
Employer pension contributions payable	432,950	471,088
Accrued payroll and payroll liabilities	187,159	40,465
Prepaid user charges	138,874	57,125
Unearned revenue	851,437	846,681
Total current liabilities payable from unrestricted assets	2,150,667	1,759,453
Current liabilities payable from restricted assets		
Accrued interest payable	44,395	50,161
Current portion of long-term debt	1,325,579	1,290,619
Total current liabilities payable from restricted assets	1,369,974	1,340,780
Noncurrent liabilities		
Compensated absences	325,778	343,681
Long-term debt, net of current portion	9,633,589	10,959,169
Net pension liability	8,570,190	11,837,496
Other post-employment benefits liability	16,942,821	-
	35,472,378	23,140,346
Total liabilities	38,993,019	26,240,579
DEFERRED INFLOWS OF RESOURCES		
Related to pensions (Note 10)	5,380,197	3,881,680
Related to other postemployment benefit (Note 11)	9,175,452	-
	14,555,649	3,881,680
Contingencies		
NET POSITION (DEFICIT)		
Net investment in capital assets	38,585,170	38,049,608
Restricted for capital projects and debt service	2,805,283	3,178,589
Unrestricted	(23,701,189)	(2,181,080)
Total net position	$ 17,689,264	$ 39,047,117

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, 2018	2017
Operating revenues		
User charges	$ 15,563,274	$ 14,537,223
Rental income	2,500	2,500
Miscellaneous	50,804	454,838
	15,616,578	14,994,561
Operating expenses		
Cost of providing services	7,351,518	7,692,767
General and administrative	2,667,361	2,658,362
Depreciation	2,748,844	2,793,960
	12,767,723	13,145,089
Operating income	2,848,855	1,849,472
Non-operating revenues (expenses)		
Connection fees	61,571	19,088
Investment income	236,204	149,473
Bond interest	(350,432)	(401,704)
Net change in fair value of investments	(34,159)	(40,110)
Gain on disposal of assets	4,989	-
	(81,827)	(273,253)
Change in net position	2,767,028	1,576,219
Net position, beginning of year	39,047,117	37,470,898
Cumulative effect of adoption of GASB 75 (Note 11)	(24,124,881)	-
Net position, end of year	$ 17,689,264	$ 39,047,117

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,	
	2018	2017
Cash flows from operating activities		
Receipts from customers	$ 15,518,146	$ 15,949,791
Receipts from others	53,304	457,338
Payments to employees and related benefits	(6,162,138)	(6,097,234)
Payments to suppliers and vendors for goods and services	(3,936,709)	(4,297,043)
Net cash provided by operating activities	5,472,603	6,012,852
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(2,010,723)	(2,704,452)
Receipts from sale of capital assets	6,625	-
Receipts from NJ EIT	12,254	12,058
Connection fees	61,571	19,088
Interest paid on debt	(347,382)	(390,882)
Principal paid on debt	(1,290,620)	(1,819,359)
Net cash used in capital and related financing activities	(3,568,275)	(4,883,547)
Cash flows from investing activities		
Investment income	174,110	104,991
Transferred to investments	(2,529,258)	(714,107)
Net cash used in investing activities	(2,355,148)	(609,116)
Net increase (decrease) in cash and cash equivalents	(450,820)	520,189
Cash and cash equivalents, beginning of year	2,099,972	1,579,783
Cash and cash equivalents, end of year	$ 1,649,152	$ 2,099,972
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 2,848,855	$ 1,849,472
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,748,844	2,793,960
Provision for (recovery of) doubtful accounts	17,388	(60,538)
GASB 68 adjustment	(435,446)	204,894
GASB 75 adjustment	33,489	-
(Increase) decrease in assets		
Accounts receivable	(149,021)	1,524,300
Inventories	44,434	39,802
Prepaid expenses	(9,251)	5,692
Increase (decrease) in liabilities		
Accounts payable	196,153	(211,134)
Employer pension contributions payable	(38,138)	(44,429)
Accrued payroll and payroll liabilities	146,694	(3,951)
Unearned income	4,756	24,893
Prepaid user charges	81,749	(76,087)
Compensated absences	(17,903)	(34,022)
Net cash provided by operating activities	$ 5,472,603	$ 6,012,852

See notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1 - NATURE OF ORGANIZATION

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

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

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

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

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

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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 bonds is $1,639,649.

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 $1,015,634.

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, 2018	December 31, 2017
Municipal Liens	$ 496,310	$ 478,007
Approximate uncollectible %	95%	95%
Total Allowance	$ 471,494	$ 454,106

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 $342,281 and $386,715 at December 31, 2018 and 2017, 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, 2018	December 31, 2017
Debt Service Fund	$ 1,639,649	$ 1,638,000
Debt Service Reserve Fund	1,015,634	1,390,589
Bond Redemption and Improvement Fund	150,000	150,000
	$ 2,805,283	$ 3,178,589

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 and Other Post-Employment Benefit Plans - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension/other post-employment benefit plan investments, changes in the Authority's proportion of expenses and liabilities to the pension as a whole, differences between the Authority's pension/other post-employment benefit contribution and its proportionate share of contributions, and the Authority's pension/other post-employment benefit 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 for the years ended December 31, 2018 and 2017 was $6,672 for each year, 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.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions and Other Postemployment Benefits

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.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), establishes accounting and financial reporting for other post-employment benefits ("OPEB") that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive disclosures and required supplementary information. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (e.g., life insurance) when provided separately from a pension plan (Note 11).

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.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

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 and gain/loss on disposal of assets.

Recently Issued Accounting Pronouncements
The following GASB Statements became effective for year ending December 31, 2018:

The Authority adopted GASB 75 in 2018. This statement addresses accounting and financial reporting for OPEB that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive disclosures and required supplementary information (see further discussion in Note 11). With the adoption of GASB 75, the Authority determined that it was not practicable to restate its January 1, 2017 net position. As a result of the implementation of GASB 75, beginning unrestricted net position as of January 1, 2018 decreased by $24,124,881 with a cumulative effect of adoption adjustment.

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 was effective for the Authority in 2018. The adoption of this Statement had no significant impact on the basic financial statements of the Authority.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)
The GASB has issued the following Statements which will become effective in future fiscal years.

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.

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)

Recently Issued Accounting Pronouncements (Continued)
Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The primary objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. 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. 91, *Conduit Debt Obligations*. The primary objectives of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required disclosures. The Statement will become effective for the Authority in 2021. Management has not yet determined the impact of this Statement on the financial statements.

Reclassifications
Certain prior period financial statement amounts have been reclassified to conform to the current period presentation.

Subsequent Events
These financial statements were approved by management and available for issuance on August 27, 2019. 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 by GUDPA.

4 - INVESTMENTS

As of December 31, 2018 and 2017, the Authority had the following investments and maturities:

Investment	Maturity Date	Interest Rate	Moody's/S&P Credit Rating	2018 Fair Value	2017 Fair Value
Federated treasury obligations	N/A	N/A	N/A	$ 8,104,272	$ 5,582,595
United States Treasury					
Inflation Indexed Bond	01/15/2018	1.63%	Aaa	-	1,867,106
Municipal Bond	08/15/2018	5.00	AA-	-	935,313
Certificate of Deposit	02/07/2019*	1.70	N/A	2,570,000	2,550,000
Certificate of Deposit	02/13/2019*	1.70	N/A	150,000	150,000
Certificate of Deposit	03/22/2019*	1.80	N/A	1,000,000	-
Certificate of Deposit	03/23/2019*	1.80	N/A	2,500,000	710,000
Total Investments				$ 14,324,272	$ 11,795,014

* - 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, 2018 were as follows:

	Balance, January 1, 2018	Additions	Reclass/ Reductions	Balance, December 31, 2018
Capital assets not being depreciated				
Land and land improvements	$ 1,811,009	$ -	$ -	$ 1,811,009
Construction-in-progress	1,287,613	1,512,383	(1,216,588)	1,583,408
Capital assets not being depreciated	3,098,622	1,512,383	(1,216,588)	3,394,417
Capital assets being depreciated				
Treatment and distribution facilities	100,146,599	318,378	1,215,738	101,680,715
Equipment and vehicles	5,377,185	177,693	(109,132)	5,445,746
Office building	3,877,030	-	-	3,877,030
Furniture and fixtures	459,324	2,269	(4,114)	457,479
Capital assets being depreciated	109,860,138	498,340	1,102,492	111,460,970
Accumulated depreciation	(62,737,930)	(2,748,844)	112,465	(65,374,309)
Capital assets, net of depreciation	47,122,208	(2,250,504)	1,214,957	46,086,661
Total capital assets, net	$ 50,220,830	$ (738,121)	$ (1,631)	$ 49,481,078

5 - CAPITAL ASSETS (Continued)

Capital asset balances and activity 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	399,655	4,471,444	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	539,610	4,464,075	109,860,138
Accumulated depreciation	(59,951,339)	(2,793,960)	7,369	(62,737,930)
Capital assets, net of depreciation	44,905,114	(2,254,350)	4,471,444	47,122,208
Total capital assets, net	$ 50,310,336	$ (89,506)	$ -	$ 50,220,830

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 2018 and 2017 were $8,816. The balance as of December 31, 2018 and 2017 was $91,397 and $100,213, 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, was being charged to operations through the year 2017 using the straight-line method. The amount charged in 2017 was $10,636, this bond was fulfilled in 2017.

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, 2018 and 2017 was $735,000 and $820,000, 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, 2018 and 2017 was $1,581,140 and $1,800,668, 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, 2018 and 2017 was $340,000 and $375,000, 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, 2018 and 2017 was $440,200 and $533,308, 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, 2018 and 2017 was $990,000 and $1,300,000, 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, 2018 and 2017 was $195,000 and $235,000, 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, 2018 and 2017 was $456,132 and $497,598, 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, 2018 and 2017 was $40,000 and $65,000, 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, 2018 and 2017 was $291,696 and $318,214, 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, 2018 and 2017 was $5,890,000 and $6,305,000, 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 were 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 a 6 year period by $674,699 and resulted in an economic gain of $642,051. Interest was paid semiannually at varying rates ranging from 1.30% to 3.00%. 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
2019	$ 1,325,579	$ 314,069	$ 1,639,648
2020	1,359,301	279,559	1,638,860
2021	1,382,692	241,238	1,623,930
2022	1,065,810	208,100	1,273,910
2023	1,052,500	180,281	1,232,781
2024-2028	4,055,302	471,876	4,527,178
2029	717,984	13,650	731,634
	$ 10,959,168	$ 1,708,773	$ 12,667,941

	Balance 12/31/17	Increase/ Adjustment	Decrease/ Adjustment	Balance 12/31/18	Due within one year
Revenue Bonds	$ 7,605,000	$ -	$ 725,000	$ 6,880,000	$ 755,000
NJ EIT	4,644,788	-	565,620	4,079,168	570,579
Compensated absences	343,681	-	17,903	325,778	-
Totals	$ 12,593,469	$ -0-	$ 1,308,523	$ 11,284,946	$ 1,325,579

	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

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 as of December 31, 2018 and 2017.

9 - NET POSITION

Net position consists of the following:

	December 31, 2018	December 31, 2017
Net investment in capital assets		
Capital assets, net	$ 49,481,076	$ 50,220,830
Receivable - NJ EIT	16,260	28,514
Loss on refunding of long-term debt	91,397	100,213
Debt	(10,959,168)	(12,249,788)
Accrued interest payable	(44,395)	(50,161)
	38,585,170	38,049,608
Restricted for capital projects and debt service		
Restricted investments	2,805,283	3,178,589
Unrestricted net positions (deficit)	(23,701,189)	(2,181,080)
Total net position	$ 17,689,264	$ 39,047,117

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.

10 - PENSION PLAN (Continued)

Description of Plan and Benefits Provided (Continued)

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 https://www.nj.gov/treasury/pensions/financial-reports.shtml.

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)

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 increased 1/7th of 1% each July until a 7.5% member contribution rate was 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, 2018 and 2017 was 22.00% and 23.04%, 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 $667,152 and $697,390, respectively, for the years ended December 31, 2018 and 2017. Employee contributions were $234,202 and $226,302, respectively, for the years ended December 31, 2018 and 2017.

10 - PENSION PLAN (Continued)

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

At December 31, 2018, the Authority reported a liability of $8,570,190 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2018. 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, 2018, the Authority's proportion was 0.0435266986%, which was a decrease of 0.0073251434% from its proportion measured as of June 30, 2017.

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.

For the years ended December 31, 2018 and 2017, the Authority recognized $1,954 and $676,483, respectively, for pension expense.

10 - PENSION PLAN (Continued)

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

The Authority reported the deferred outflows and inflows of resources related to the Plan from the following sources as of December 31, 2018:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 163,435	$ 44,191
Changes of assumptions	1,412,225	2,740,291
Net difference between projected and actual earnings on pension plan investments	-	80,389
Changes in proportion and differences between Authority contributions and proportionate share of contributions	200,306	2,515,326
Authority contributions subsequent to the measurement date*	432,950	-
	$ 2,208,916	$ 5,380,197

*$432,950 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, 2019.

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 was included as a reduction of the net pension liability in the year ending December 31, 2018.

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,	
2019	$ (351,712)
2020	(493,547)
2021	(1,001,732)
2022	(923,082)
2023	(834,157)
	$(3,604,230)

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, 2017	5.48	-
June 30, 2018	-	5.63
Changes of assumptions		
Year of Pension Plan Deferral:		
June 30, 2017	-	5.48
June 30, 2018	-	5.63
Net difference between projected and actual earnings on pension plan investments		
Year of Pension Plan Deferral:		
June 30, 2017	5.00	5.00
June 30, 2018	5.00	5.00
Changes in proportion and differences between Authority contributions and proportionate share of contributions		
Year of Pension Plan Deferral:		
June 30, 2017	5.48	5.48
June 30, 2018	5.63	5.63

10 - PENSION PLAN (Continued)

Actuarial Assumptions
The net pension liability measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2018. 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	7.00%
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, 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
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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 (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, 2018 are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Risk mitigation strategies	5.00%	5.51%
Cash equivalents	5.50	1.00
U.S. treasuries	3.00	1.87
Investment grade credit	10.00	3.78
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, 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%	

Discount Rate
The discount rate used to measure the total pension liability was 5.66% and 5.00%, respectively, as of June 30, 2018 and 2017. These single blended discount rates were each based on the long-term expected rate of return on pension plan investments of 7.00%, respectively, and a municipal bond rate of 3.87% and 3.58%, respectively, as of June 30, 2018 and 2017 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 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2046, 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, 2018 calculated using a discount rate of 5.66% 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 (4.66%)	Current Discount Rate (5.66%)	1% Increase (6.66%)
Authority's proportionate share of the net pension liability	$ 10,776,026	$ 8,570,190	$ 6,719,634

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

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 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The Authority contributes to the State Health Benefit Local Government Retired Employees Plan (the "Plan"), a cost-sharing, multi-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. For additional information about the Plan, refer to the State of New Jersey (the "State"), Division of Pension and Benefits' (the "Division") Comprehensive Annual Financial Report ("CAFR"), which can be found at https://www.state.nj.us/treasury/pensions/financial-reports.shtml.

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

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

The Authority provides that its retirees will be covered if they have 25 years participation in the other post-employment benefits ("OPEB") and have been employed by the Authority for 10 years. The Plan meets the definition of a qualified trust under GASB 75. The Authority's participation in the Plan does not meet the criteria as a special funding situation.

11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Contribution Requirements and Benefit Provisions
The funding policy for the Plan is pay-as-you-go; therefore, there is no prefunding of the liability. However, due to premium rates being set each calendar year, there is a minimal amount of net positon available to cover benefits in future years. Contributions to pay for the health benefit premiums of participating employees in the Plan are collected form the State, participating local employers and retired members. The Authority remits employer contributions on a monthly basis. Retired member contributions are generally received on a monthly basis by the State. Contributions, made by the Authority, to the Plan for the year-ended December 31, 2018 was $2,212,776.

Total OPEB Liability

With the adoption of GASB 75, the Authority determined that it was not practicable to restate its January 1, 2017 net position. As a result of the implementation of GASB 75, beginning unrestricted net position as of January 1, 2018 decreased by $24,124,881 with a cumulative effect of adoption adjustment. The total decrease of $24,124,881 encompassed the $21,210,371 recognition of net pension liability and $2,914,510 related to the net change of deferred outflows and inflows of resources as of June 30, 2017. 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 June 30, 2016.

At December 31, 2018, the Authority reported a liability of $16,942,821 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. For the June 30, 2018 measurement date, the Authority's proportionate share of the OPEB Plan liability was 0.108146%.

The net change in total OPEB liability for the year ended December 31, 2018 was $4,267,550. The difference between expected and actual experience decreased the total OPEB liability by $3,053,301 due to changes in the census, claims and premiums experience. Valuation assumption changes decreased the total OPEB Liability by $2,502,759. This was due to the increase in the assumed discount rate from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018 and a decrease in the assumed heath care cost trend and excise tax assumptions.

11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Total OPEB Liability (Continued)

Actuarial Assumptions and Other Inputs
The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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

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

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

Discount Rate
The discount rate for June 30, 2018 was 3.87%. This ~presents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa *or* higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Total OPEB Liability (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Expected Investment Rate of Return
Based on guidance provided by the State, the Plan Fiduciary Net Position consists of assets in the general fund. As a result, the expected investment rate of return on these asset amounts is less than the 20-Year Municipal Bond Index. Since the expected investment rate of return is less than the 20-Year Municipal Bond Index, it is assumed that the expected investment rate of return is equal to the 20-Year Municipal Bond Index rate {i.e. - the discount rate). Additionally, the assets in the general fund as of June 30, 2018 are less than the expected benefit payments in the first year; therefore, the crossover period is assumed to be in the first year. which provides additional support for continuing the discount rate at the 20-Year Municipal Bond Index rate. The expected investment rate of return as of June 30, 2018 was 3.87%.

Investments
The OPEB plan only invests in the State of New Jersey Cash Management Fund ("CMF"), the long-term expected rate of return on OPEB investments are based off the best-estimate ranges of future real rates of return (expected returns, net of OPEB plan investment expense and inflation) for cash equivalents, which is 1.00%. CMF is considered to be an investment trust fund as defined in GASB Statement No. 31, *Certain Investments and External Investment Pools*. Units of ownership in CMF may be purchased or redeemed on any given business day (excluding State holidays) at the unit cost or value of $1.00. Participant shares are valued on a fair value basis.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate
The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Authority's proportionate share of the net OPEB liability	$ 19,878,408	$ 16,942,821	$ 14,597,951

11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Total OPEB Liability (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Sensitivity of the Total OPEB liability to Changes in the Healthcare Cost Trend Rates
The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using health care cost trend rates that are 1% lower or 1% higher than the current healthcare cost trends,

	1% Decrease	Current Health Care Cost Trend Rate	1% Increase
Authority's proportionate share of the net OPEB liability	$ 14,133,029	$ 16,942,821	$ 20,579,109

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Authority recognized OPEB expense of $33,489. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Difference between expected and actual experience in the total OPEB liability	$ -	$ 3,439,997
Changes of assumptions	-	4,297,768
Net difference between projected and actual earnings on OPEB plan investments	8,954	-
Changes in proportion *	846,216	1,437,687
Employee health benefit contributions made subsequent to the measurement date	1,104,733	-
Total	$ 1,959,903	$ 9,175,452

* Changes in proportion should be recognized (amortized) by each employer over the average of the expected remaining lives of all plan members, which is 8.14 years for 2018.

11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

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

	2018
Year ended December 31,	
2019	(1,207,535)
2020	(1,207,535)
2021	(1,207,535)
2022	(1,208,481)
2023	(1,210,010)
Thereafter	(2,279,186)
Total	$ (8,320,282)

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

No major customers existed in 2018 or 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, 2018 and 2017, 64% and 67%, respectively, of the Authority's employees are represented by unions, whose existing labor agreements expire on December 31, 2020.

In December 2018, the Authority reached an agreement in principal with the Government Workers Union ("GWU") on a collective bargaining agreement to replace the previous agreement which expired in 2014. The Authority and the GWU signed a memorandum of agreement regarding retroactive wages and payments to certain current union employees from 2015 through 2018. The retroactive payments representing annual wage increases of 2%, uniform allowance payments, pension and health contributions, and payroll taxes, totaled $207,744, of which $68,203 was paid during 2018. The remaining payments of $139,542 are reflected in the 2018 accrued expenses total on the accompanying balance sheet.

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.

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 a slight decrease in insurance coverage in 2018 compared to 2017.

15 - RISK MANAGEMENT (Continued)

Many forecasters predicted the 2018 entry of two new properties (Hard Rock and Ocean Resort) into the market would cause the immediate closure of two or more of the older properties. No such decline has happened. In fact, two of the former properties that remain unlicensed have taken off in new directions. The Showboat has applied to retrofit one of its towers into a condominium residence while the other tower continues to welcome hotel guests. The former Atlantic Club Casino has announced an offer to sell the property by demolishing and providing additional development site around the Stockton University District.

Other keynotes of new development reveals an investment energy toward resurgence. North Beach (NOBE), a new 250 unit apartment complex flush with total accommodations is completed and now open to the public. For entertainment, a new group of millennials entered the City to create the “Orange Loop.” Orange is the color of Tennessee Avenue on the Monopoly Board and this group has taken over this beach block to create a series of walkable venues, from the Beer Garden, to Hayday, and to Boorie, where guests can experience gourmet chocolate, Cajun fare, yoga and other offerings within steps. This site is continuing to add new venues in favor of a potential street closing in order to accommodate pedestrian traffic.

Stockton University in Atlantic City is at full capacity and has a lengthy waiting list. Its staff and students, both resident and commuter, have enjoyed a presence at their down beach site as well as the new supporting businesses that have emerged. Within the University complex, the South Jersey Gas company has moved its corporate headquarters inside the new facilities.

16 - RISKS AND UNCERTAINTIES

Underlying the climate for growth and investment is the close supervision of Atlantic City by the State of New Jersey. Drawing recommendations from Atlantic City: Building a Foundation for a shared Prosperity, a report to the Governor, realignment for Planning and Permitting have been streamlined between City Districts. The Casino Reinvestment Development Authority (“CRDA”) has been directed to invest all of its funding into Atlantic City. More recently, with CRDA assistance, the City has welcomed a new Arena Football Team that has begun to play at the Boardwalk Convention Center. In addition, the CRDA has announced that live concerts will continue to be held throughout the summer.

16 - RISKS AND UNCERTAINTIES (Continued)

Hotel occupancy in Atlantic City remains at 83%, while the nationwide percentage is near 60%. In addition, the number of Air B&B type rental properties in the area has surged to over 300. With the weather being a major factor in attracting guests to the city, winter and shoulder season events have maintained visitor traffic during the colder months. Major shows such as the Atlantic City Boat Show, Beer & Music Fest, NJ State High School Wrestling Championships and the Antique Auto Show continue to entice new visitors to come to Atlantic City.

Tanger Outlets, the outdoor shopping mall at the entrance to the City is feeling the pain of declining sales within traditional brick and mortar retail outlets encumbered by the upswing of online shopping. The Outlets along with the Pier at Caesars is burdened with considerable vacancies within their complexes. There is a new developer who has amassed a number of properties near Tanger that proposes to develop a village type non “big box” shopping experience, one where small businesses will likely locate.

The Authority is moving forward with an aggressive Solar Energy program. A ground based solar system of approximately three-quarters of an acre will be completed within a year, providing approximately $47,000 in annual energy savings for the next 15 years. In addition, with the new Bureau of Public Utilities rules for Community Aggregate Metering, the ACMUA will revisit its Floating Solar project to be installed on its Lower Reservoir. Both of these projects will significantly reduce the energy costs for water treatment and pumping processes.

Atlantic City’s horizon shows promise with development on the mainland such as the National Aviation Research Park, which is currently under construction. It is the hope that a new and younger workforce will move to the region to join this technical pursuit with some choosing to reside in the City. This region has much to offer given its location and airport, such that any new non-vacation type development will serve to diversify and sustain its robust tourist sector for years to come.

Legislation with Potential Impact to the Authority

Over the preceding two years, two events combined to sustain the Authority from the pressure to privatize the Authority in order to assist with the budget shortfalls of the City of Atlantic City. First, the City, 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.

16 - RISKS AND UNCERTAINTIES (Continued)

New legislation (Community Solar) designed 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 service 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.

The NJ Water Quality Accountability Act (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. 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 is currently seeking to borrow funding from the Water Infrastructure Bond Act to cover costs to comply with the Act.

17 – POLLUTION REMEDIATION OBLIGATION

The New Jersey Department of Environmental Protection ("DEP") announced new legislation that will significantly affect the Authority. The legislation establishes a maximum contaminant level ("MCL") of Perfluoroalkyl Substances ("PFAS") at 13 parts per trillion in the drinking water delivered to customers statewide. The Authority contracted with engineering consultants, to report on their compliance with these standards. According to the results of the study, they found levels of PFAS that exceed the MCL proposed level standards at production wells established in 1984 at the US Federal Aviation Administration ("FAA") Testing Center ("Technical Center") in Pomona, NJ. The MCL levels were found to be approximately 37 parts per trillion, far exceeding the 13 parts per trillion.

17 – POLLUTION REMEDIATION OBLIGATION (Continued)

The Authority accounts for any pollution remediation obligations ("PRO") in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* ("GASB 49"). Under GASB 49, the issue noted above would qualify as an "obligating event", as the levels are considered such that they can result in an "imminent endangerment" and thus compel the Authority to take pollution remediation action. In accordance with GASB 49, the Authority has included in its estimated liability those portions of the PRO that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique. Estimated outlays are based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed for the PRO based on data available at the time of estimation and will be adjusted for changes in circumstances as they become known.

Cost scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; however, as new information becomes available, estimates may vary significantly due to price fluctuations, technological advances, or applicable laws or regulations.

In accordance with GASB 49, expected recoveries from other parties and expected insurance recoveries should be included in the measurement of the liability. Accordingly, the expense amount should be reduced by any expected recovery. If any expected recoveries are not yet realized or realizable, the estimated recovery should reduce the amount of the liability. Thus, if a responsible party has not acknowledged or accepted responsibility for its portion of the cost, an estimate of the recovery should still reduce the remediation expense and liability. The Authority is aggressively pursuing other third parties that may have contributed to the contamination of the site noted. The Authority's estimate for not yet realized recoveries that should offset the Authority's' estimated environmental liability is $40 million.

As of December 31, 2018, the total PRO, before any recoveries equaled $39,999,364. This amount consists of the sum of (1) the total of estimated outlays for capital, indirect and post-remediation operation and maintenance costs of $29,903,000; (2) 25% of the legal fees to be retained out of the expected recovery of $40 million, or $10,000,000; (3) estimated total consulting contract costs of $25,000; and (4) actual incurred costs (paid in 2019, accrued for as part of PRO) of $71,364.

17 – POLLUTION REMEDIATION OBLIGATION (Continued)

As noted previously, GASB 49 allows for estimated but not yet realized recoveries to offset the estimated environmental lability. The $40 million estimated recoveries offset the expected total outlays of $39,999,364, therefore, as of December 31, 2018 the PRO, net of recovery is $0.

GASB 49 also requires the disclosure of the nature of any outlays that are not reasonably estimable. Per management, the following alternatives that are currently not reasonably estimable are as follows:

- The Authority may consider relocating the entire wellfield presently established at the Technical Center to a new location or locations. The costs of relocating the wells has not been quantified. Some of the costs would include NJ DEP approvals, engineering, test drills, final production wells and extensive piping to move water from the new locations into the Authority's treatment plant.
- The Authority currently uses a mixture of raw water (80% well and 20% reservoir) to prepare finished water for its customers. Compliance with new PFAS regulations could possibly be achieved by increasing the percentage of reservoir raw water, which contains reduced detections of PFAS as compared to the well supply. The costs of treatment and or chemical upgrades to prepare higher percentages of reservoir water for drinking is unknown, but a preliminary analysis should be explored.
- The sole known source of PFAS contamination affecting the Authority water is the Technical Center in Pomona, NJ. A majority of ACMUA's production wells were relocated to the grounds of the Technical Center in 1984 to avoid contamination from Price's Pit, a Superfund Site. However, for decades, products containing PFAS were used at the Technical Center during the course of the FAA's firefighting training exercises. The resulting PFAS contamination has migrated from the Technical Center into ACMUA's raw water supply. The FAA has been conducting clean-up activities at the Technical Center for decades and continues to extract and monitor areas of concern. Accordingly, there is a remote possibility that, as part of its cleanup activities, the FAA could locate and extract a major underground plume of PFAS, thereby reducing or eliminating the costs of treatment enhancements.

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 2017

	Year Ended December 31, 2018						
	General Fund	Debt Service Fund	Debt Service Reserve Fund	Bond Redemption and Improvement Fund	Net Investment in Capital Assets	2018 Total	2017 Summarized Total
Operating revenues							
User charges	$ 15,563,274	$ -	$ -	$ -	$ -	$ 15,563,274	$14,537,223
Rental income	2,500	-	-	-	-	2,500	2,500
Miscellaneous	50,804	-	-	-	-	50,804	454,838
	15,616,578	-	-	-	-	15,616,578	14,994,561
Operating expenses							
Cost of providing services	7,351,518	-	-	-	-	7,351,518	7,692,767
General and administrative	2,667,361	-	-	-	-	2,667,361	2,658,362
Depreciation	-	-	-	-	2,748,844	2,748,844	2,793,960
	10,018,879	-	-	-	2,748,844	12,767,723	13,145,089
Operating income (loss)	5,597,699	-	-	-	(2,748,844)	2,848,855	1,849,472
Non-operating revenues (expenses)							
Connection fees	61,571	-	-	-	-	61,571	19,088
Investment income	236,204	-	-	-	-	236,204	149,473
Bond interest	(341,616)	-	-	-	(8,816)	(350,432)	(401,704)
Bond payments	(1,290,620)	-	-	-	1,290,620	-	-
Net change in fair value of investments	(34,159)	-	-	-	-	(34,159)	(40,110)
Unused proceeds on bonds	-	-	-	-	-	-	-
Gain on disposal of assets	4,989	-	-	-	-	4,989	-
	(1,363,631)	-	-	-	1,281,804	(81,827)	(273,253)
Net increase (decrease) before transfers	4,234,068	-	-	-	(1,467,040)	2,767,028	1,576,219
Transfers between funds	(1,629,296)	1,649	(374,955)	-	2,002,602	-	-
Net increase (decrease) in net position	2,604,772	1,649	(374,955)	-	535,562	2,767,028	1,576,219
Net position (deficit), beginning of year, prior to adoption of GASB 75	(2,181,080)	1,638,000	1,390,589	150,000	38,049,608	39,047,117	37,470,898
Cumulative effect of adoption of GASB 75 (Note 11)	(24,124,881)	-	-	-	-	(24,124,881)	-
Net position (deficit), beginning of year, after adoption of GASB 75	(26,305,961)	1,638,000	1,390,589	150,000	38,049,608	14,922,236	37,470,898
Net position (deficit), end of year	(23,701,189)	1,639,649	1,015,634	150,000	38,585,170	17,689,264	39,047,117
Analysis of net position (deficit), end of year							
Net investment in capital assets	$ -	$ -	$ -	$ -	$ 38,585,170	$ 38,585,170	$38,049,608
Restricted for capital projects and debt service	-	1,639,649	1,015,634	150,000	-	$ 2,805,283	3,178,589
Unrestricted	(23,701,189)	-	-	-	-	(23,701,189)	(2,181,080)
	$ (23,701,189)	$ 1,639,649	$ 1,015,634	$ 150,000	$ 38,585,170	$ 17,689,264	$39,047,117

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,

	2018 Budget (unaudited)	2018 Actual	Over/(Under) (unaudited)	2017 Actual
Revenues				
User charges	$ 15,002,418	$ 15,563,274	$ 560,856	$ 14,537,223
Rental income	2,500	2,500	-	2,500
Miscellaneous	32,722	50,804	18,082	454,838
Investment	68,202	236,204	168,002	149,473
	15,105,842	15,852,782	746,940	15,144,034
Cost of Providing Services				
Personnel expenses				
Salaries - regular	$3,003,301	2,519,028	(484,273)	2,396,093
Salaries - overtime	203,071	188,938	(14,133)	147,218
	3,206,372	2,707,966	(498,406)	2,543,311
Employee benefits				
Health benefits	2,093,829	1,734,978	(358,851)	1,680,642
Pension	450,000	473	(449,527)	500,519
Social security	252,631	196,899	(55,732)	188,793
Unemployment	30,233	23,549	(6,684)	21,805
Workers compensation	295,000	209,440	(85,560)	216,074
	3,121,693	2,165,339	(956,354)	2,607,833
Plant				
Chemicals and gases	460,000	307,434	(152,566)	500,072
Fuel oil	18,725	13,111	(5,614)	3,508
Gasoline	70,000	35,650	(34,350)	29,904
Miscellaneous	45,000	38,985	(6,015)	30,171
	593,725	395,180	(198,545)	563,655
Utilities				
Electricity	885,000	633,647	(251,353)	655,242
Gas	7,700	5,350	(2,350)	837
Sewerage	2,000	1,188	(812)	1,188
Telephone	24,000	19,390	(4,610)	18,526
	918,700	659,575	(259,125)	675,793
Taxes				
Real estate	146,812	139,053	(7,759)	133,466
State water	38,500	26,464	(12,036)	25,004
	185,312	165,517	(19,795)	158,470

(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,

	2018 Budget (unaudited)	2018 Actual	Over/(Under) (unaudited)	2017 Actual
Repairs and maintenance				
Building and grounds	$ 141,256	$ 79,357	$ (61,899)	$ 89,046
Electrical	30,000	10,873	(19,127)	13,816
Machinery and equipment	55,000	51,183	(3,817)	31,897
Miscellaneous	14,500	2,195	(12,305)	2,050
Motor vehicle	72,300	64,763	(7,537)	47,227
Plumbing	35,000	9,994	(25,006)	11,933
Street opening	450,000	328,186	(121,814)	275,195
Uniforms	20,000	6,255	(13,745)	8,377
	818,056	552,806	(265,250)	479,541
Rental				
Construction equipment	8,200	1,540	(6,660)	-
Other	50,000	31,084	(18,916)	26,165
	58,200	32,624	(25,576)	26,165
Outside services				
Advertising	2,500	1,104	(1,396)	625
Engineering fees	12,000	6,728	(5,272)	10,389
General insurance	365,000	301,810	(63,190)	304,115
Laboratory	100,000	87,837	(12,163)	75,243
New Jersey Department of Environmental Protection	50,000	39,875	(10,125)	32,765
Other	240,000	213,220	(26,780)	190,858
	769,500	650,574	(118,926)	613,995
Training, travel, and education				
Employee travel	4,000	16	(3,984)	28
Training	22,500	15,565	(6,935)	13,441
	26,500	15,581	(10,919)	13,469
Dues and subscriptions				
Books and publications	2,000	-	(2,000)	-
Dues	5,000	638	(4,362)	3,301
	7,000	638	(6,362)	3,301
Office supplies				
Office	5,700	4,608	(1,092)	4,534
Miscellaneous	1,500	746	(754)	1,386
Postage	1,500	305	(1,195)	1,314
Printing	1,000	59	(941)	-
	9,700	5,718	(3,982)	7,234
Total cost of providing services	9,714,758	7,351,518	(2,363,240)	7,692,767

(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,

	2018 Budget (unaudited)	2018 Actual	Over/(Under) (unaudited)	2017 Actual
General and Administrative				
Personnel expenses				
Salaries - regular	$ 973,926	$ 879,941	$ (93,985)	$ 783,289
Salaries - overtime	2,000	575	(1,425)	1,405
Board salaries	42,000	40,235	(1,765)	41,840
	1,017,926	920,751	(97,175)	826,534
Employee benefits				
Health benefits	545,922	485,185	(60,737)	492,756
Pension	141,035	1,481	(139,554)	175,964
Social security	75,570	67,004	(8,566)	57,440
Unemployment	9,714	8,510	(1,204)	7,675
	772,241	562,180	(210,061)	733,835
Operations				
Data processing	16,000	12,475	(3,525)	15,878
Janitorial	23,500	18,214	(5,286)	14,444
Office	20,000	13,847	(6,153)	12,445
Outside services	10,000	6,928	(3,072)	5,092
Postage	27,000	22,789	(4,211)	21,928
Printing	13,000	7,768	(5,232)	8,265
Professional fees	275,758	208,076	(67,682)	206,779
Telephone	32,100	29,962	(2,138)	25,430
Training	9,000	6,758	(2,242)	3,624
Travel	1,500	63	(1,437)	25
Utilities	63,500	53,780	(9,720)	49,574
	491,358	380,660	(110,698)	363,484
Repairs and maintenance				
Building and grounds	18,000	1,975	(16,025)	7,079
Machinery and equipment	10,000	6,327	(3,673)	5,155
Miscellaneous	1,000	-	(1,000)	-
Motor vehicles	1,000	963	(37)	5
	30,000	9,265	(20,735)	12,239

(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,

	2018 Budget (unaudited)	2018 Actual	Over/(Under) (unaudited)	2017 Actual
Miscellaneous				
Administrative fees	$ 65,500	$ 59,196	$ (6,304)	$ 54,735
Advertisement	1,000	443	(557)	939
Books and periodicals	3,500	2,075	(1,425)	1,603
Computer equipment maintenance	35,000	24,031	(10,969)	26,045
Membership dues	12,500	9,230	(3,270)	7,560
Miscellaneous	25,000	5,369	(19,631)	5,008
Municipal appropriation	673,220	673,220	-	683,542
Provision for (recovery of) doubtful accounts	5,000	17,388	12,388	(60,538)
Rentals	1,500	114	(1,386)	464
Software license fee	3,500	3,439	(61)	2,912
	825,720	794,505	(31,215)	722,270
Total general and administrative	3,137,245	2,667,361	(469,884)	2,658,362
Total cost of providing services and general and administrative expenses	12,852,003	10,018,879	(2,833,124)	10,351,129
Other costs funded by revenues				
Debt service				
Principal	1,290,620	1,290,620	-	1,819,359
Interest	347,382	341,616	(5,766)	382,252
	1,638,002	1,632,236	(5,766)	2,201,611
Total costs funded by operating revenues	$ 14,490,005	$ 11,651,115	$ (2,838,890)	$ 12,552,740

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,			
	2018	2017	2016	2015
Authority's proportion of the net pension liability	0.0435266986%	0.0508518420%	0.0580285106%	0.0598072559%
Authority’s proportionate share of the net pension liability	$ 8,570,190	$ 11,837,496	$ 17,186,380	$ 13,425,530
Authority’s covered payroll (Plan measurement period)	2,996,692	3,089,543	3,800,042	4,126,964
Authority’s proportionate share of the net pension liability as a percentage of covered payroll	285.99%	383.15%	452.27%	325.31%
Plan fiduciary net position as a percentage of the total pension liability	53.60%	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)

	For the Year Ended December 31,			
	2018	2017	2016	2015
Contractually required contribution	$ 667,152	$ 697,390	$ 754,799	$ 797,999
Contributions in relation to the contractually required contribution	(667,152)	(697,390)	(754,799)	(797,999)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 3,032,253	$ 3,026,339	$ 3,336,897	$ 4,043,269
Contributions as a percentage of the Authority's covered payroll	22.00%	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 is available.

See Independent Auditors' Report.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - GASB 68 PENSION CHANGES

Changes in Benefit Terms

None.

Changes in Assumptions

For 2018, the discount rate changed to 5.66% and the long-term expected rate of return changed to 7.00%. For 2017, the discount rate changed to 5.00%, the long-term expected rate of return changed to 7.50%, 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.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES AND NOTES RELATED TO ACCOUNTING AND REPORTING FOR OPEB (GASB 75)

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

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MEASUREMENT DATE ENDING JUNE 30, 2018

Authority's proportion of the net OPEB liability		0.108146%
Authority’s proportionate share of the net OPEB liability	$	16,942,821
Authority’s covered payroll (Plan measurement period)	$	3,116,194
Authority’s proportionate share of the net OPEB liability as a percentage of covered payroll		543.70%
Plan fiduciary net position as a percentage of the total pension liability		1.97%

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 OPEB CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

Contractually required contribution	$	2,219,784
Contributions in relation to the contractually required contribution		(2,219,784)
Contribution deficiency (excess)	$	-
Authority's covered payroll	$	3,089,305
Contributions as a percentage of the Authority's covered payroll		71.85%

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)

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - GASB 75 OPEB CHANGES

Changes in Benefit Terms

None.

Changes in Assumptions

The discount rate changed from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

See Independent Auditors' Report.

INFORMATION REQUIRED UNDER
GOVERNMENT AUDITING STANDARDS (GAS)

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

To the Board of Directors
Atlantic City Municipal Utilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Atlantic City Municipal Utilities Authority (a component unit of the City of Atlantic City, New Jersey), as of and for the year ended December 31, 2018, 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 August 27, 2019.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Atlantic City Municipal Utilities Authority's (the "Authority") internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

(Continued)

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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

August 27, 2019

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.