

ATLANTIC COUNTY UTILITIES AUTHORITY
(A Component Unit of the County of Atlantic, New Jersey)

Financial Statements and Supplementary Information

For the years ended December 31, 2017 and 2016

(With Independent Auditor's Report thereon)

ATLANTIC COUNTY UTILITIES AUTHORITY
(A Component Unit of the County of Atlantic, New Jersey)

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(A Component Unit of the County of Atlantic, New Jersey)
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June 7, 2018

Chairman Embry, Authority Board Members and President Dovey:

Presented to you are the audited financial statements for the 2017-year. There are separate financial statements for the Wastewater Division and Solid Waste Division, as has been done in prior years. The financial statements are presented separately for each division because the Divisions are separate and distinct for ratemaking, operating, and public financing purposes. There are also combined statements as required by accounting standards for the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses, and Changes in Net Position, and Comparative Statement of Cash Flows.

Government Auditing Standards and State law requires that the Atlantic County Utilities Authority publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. The financial statements for the 2017-year are presented as required.

In addition, and for the purpose of evaluating budget performance, a Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget Rate Basis have been completed. This is more commonly referred to as the "Budget to Actual" statement, and has been completed for both the Wastewater and Solid Waste Divisions. Similar statements are also prepared and presented to you during the year, and utilized by the operations and management staff to evaluate operating performance as it relates to budget.

Also included are statements prepared on a Modified GAAP Basis, and relates more to the "Budget to Actual" statements. In addition there are statements done in accordance with the bond indenture.

The justification and differences related to these statements are discussed more thoroughly in the Management Discussion and Analysis (MD&A) report provided herein. All of the additional statements mentioned and not in compliance with GAAP have been reconciled to the required GAAP statements.

The MD&A report consists of management's representations concerning the finances of the Wastewater Division and the Solid Waste Division. Management assumes full responsibility for the completeness and reliability of all the information presented in the MD&A.

Regarding the reliability of the statements presented, a reasonable internal control framework and procedures exist to protect the Atlantic County Utility Authority's assets from loss, theft or misuse. This internal control framework provides a basis that allows staff to compile sufficient and reliable information for the preparation of the Authority's financial statements in conformity with GAAP and for the audit by the Authority's independent auditor. Because the cost of internal controls should not outweigh their benefits, the internal controls cannot provide an absolute assurance, but can provide reasonable assurance as to the credibility and accuracy of the financial statements.

The staff of the Finance Department prepared the basic financial statements and the supplemental financial statements and schedules discussed above. Holman Frenia Allison, PC, a firm of licensed certified public accountants, has audited and opined on the Authority's financial statements. The goal of an independent audit is to provide reasonable assurance as to the validity of the financial statements. This involves examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing any estimates and calculations utilized, assessing supplemental information provided or gathered by the auditors, and assessing the overall financial statement presentation. The auditors have opined that the basic financial statements which were prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards present fairly, in all material respects, the financial position of the Atlantic County Utilities Authority at December 31, 2017 and 2016. There are no recommendations noted.

Sincerely,

Linda Bazemore

Linda Bazemore
Vice President of Finance & Administration/CFO

Katherine Vesey

Katherine Vesey
Director of Finance, Research & Development



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INDEPENDENT AUDITOR'S REPORT

The Chairman and Members of the
Atlantic County Utilities Authority
6700 Delilah Road
Egg Harbor Township, New Jersey 08234

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of the Atlantic County Utilities Authority, a component unit of the County of Atlantic, State of New Jersey, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in compliance with audit standards prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Atlantic County Utilities Authority, County of Atlantic, State of New Jersey, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof 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 and other required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Atlantic County Utilities Authority's basic financial statements. The introductory section and supplementary information contained in schedules I through XII are presented for purposes of additional analysis as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and are not a required part of the basic financial statements. The accompanying schedule of expenditures of state financial assistance, is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and New Jersey OMB's Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information contained in schedules I through XII and the schedule of expenditures of state financial assistance are the responsibility of management and were 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting 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 supplementary information contained in schedules I through XII and the schedule of expenditures of state financial

assistance are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2018 on our consideration of the Atlantic County Utilities 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 Atlantic County Utilities Authority's internal control over financial reporting and compliance.

Respectfully Submitted,

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 2, 2018
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Atlantic County Utilities Authority's (the Authority or the ACUA) annual financial report, the management of the Authority provides narrative discussion and analysis of the financial activities of the Authority for the audit year ending December 31, 2017.

The Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

The Atlantic County Utilities Authority consists of three divisions. The three divisions are Administration, Solid Waste and Wastewater. The latter two are the operational divisions of the ACUA. Administrative expenses are allocated between the two operational Divisions based on percentages deemed appropriate by management. These expenses are included in the financial statements of the two divisions. The two operating divisions are discussed in this section separately where appropriate. The two divisions are separate and distinct from each other for rate making and operating purposes. The Bondholders, if applicable, of each Division do not have claims on the revenues or assets of the other Division.

Discussion of Financial Statements Included in Annual Audit

The Authority prepares and presents its financial statements on several different bases because of accounting requirements and for internal use purposes.

The first set of statements for each respective Division, which consist of the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, is prepared on an accrual basis and is in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governments. These statements are the official financial statements of the Atlantic County Utilities Authority.

After the first set of statements and the "Notes to the Financial Statements" that follow, is the second set of statements for each respective Division. These statements are considered "Supplemental Information" and also consist of the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses and Changes in Net Position. They are prepared on a "Modified Accrual Basis".

There are two differences between the statements. The first is the recording and reporting of accounts payable. On the "Modified Accrual Basis" statements, all encumbrances as of December 31, 2017 are reported as Accounts Payable or Construction Contracts Payable, and as Property, Plant and Equipment. On the "GAAP Basis" statements, only those encumbrances where goods or services have been received as of December 31, 2017 are reported as Accounts Payable or Construction Contracts Payable, and as

Property, Plant and Equipment. The second difference relates to pensions. The Authority adopted *GASB 68 – Accounting and Financial Reporting for Pensions* effective December 31, 2015. The financial impact of GASB 68 is only on the GAAP statements. See Note 7 for further explanation of GASB 68 and its impact on the Authority’s financial statements.

The difference between the two statements and methodologies presents itself in Net Position-Unrestricted and is shown on the Modified Accrual Statement for each Division.

The Authority has historically presented its financial statements on a “Modified Accrual Basis” and continues to do so because it relates more fairly to the annual budget for the same period. The annual budget records all encumbrances as charges against the adopted appropriation even if the items or services have not been received.

Also contained in the supplemental information are statements for each Division that reports the “Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget-Rate Basis”. This statement compares the “Budget” revenues and expenses to “Actual” revenues and expenses. This includes operating revenues and expenses, non-operating revenues, and non-operating expenses. Principal and Interest are reported in this statement as Debt Service Expense, and Depreciation is not reported as an expense. On the “GAAP” and “Modified Accrual” statements, Depreciation Expense is included as an expense, and only the Interest Expense component of the Debt Service Expense is reported.

The Budget to Actual statement is a very important statement to the Authority management staff because it is how financial performance is measured, particularly as it compares to the approved and adopted annual budget and how it relates to operational performance.

Finally there is a “Special Purpose Statement of Revenues and Expenses to Comply with Revenue Bond Resolution” for the Wastewater Division. This statement is done as defined and in accordance with the Bond Resolution. This statement essentially includes the same revenues and same expenses as reported on the “GAAP Basis” statements, except for Depreciation. Depreciation is not included on the statement which complies with the Wastewater Bond Resolution.

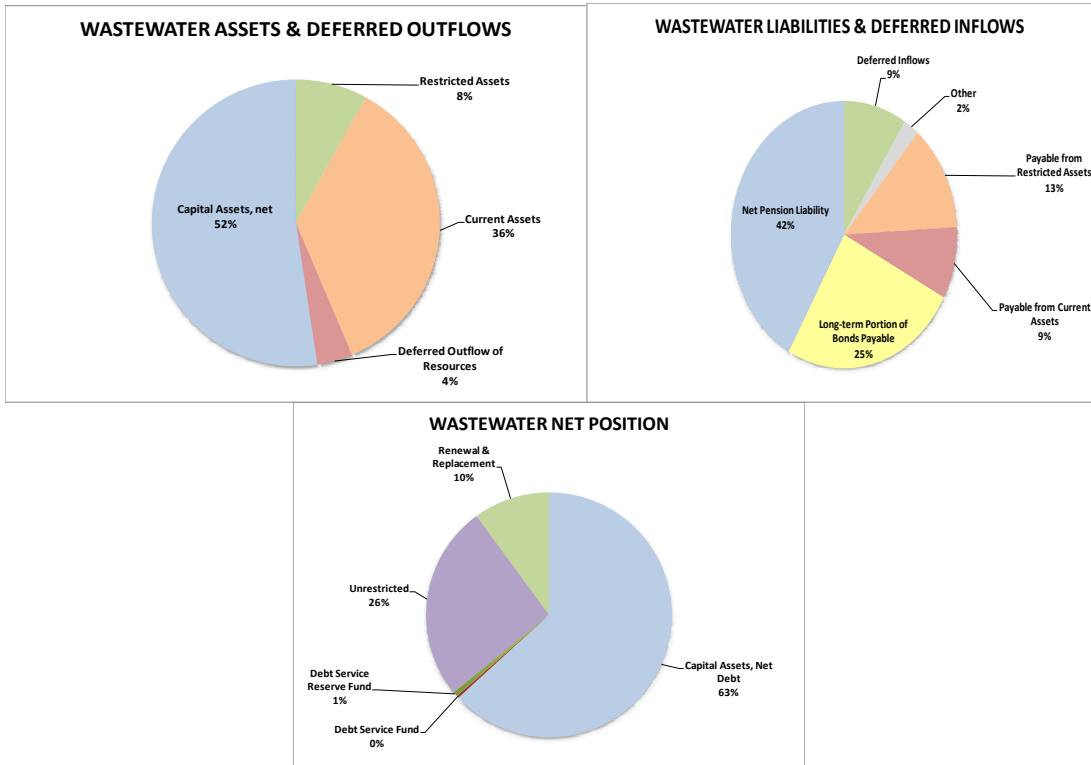
For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the official statements of the Atlantic County Utilities Authority, those prepared in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governments. This is the first set of statements included in the annual audit report. Throughout the MD&A discussion certain numbers are rounded are represent approximate amounts. Exact amounts are in the numerical charts.

Wastewater Division

Comparative Balance Sheet

Below is a synopsis of the Wastewater Division's 2017 Balance Sheet with a comparison to last year:

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Total Current Assets	\$ 40,424,232	\$ 37,284,134	\$ 3,140,098	8%
Total Restricted & Noncurrent Assets	9,127,849	8,614,492	513,357	6%
Capital Assets, Net of Depreciation	59,474,664	58,888,969	585,695	1%
Deferred Outflow Related to Pensions	4,554,203	6,653,724	(2,099,521)	-32%
TOTAL ASSETS & DEFERRED OUTFLOWS	\$113,580,948	111,441,319	2,139,629	2%
Total Current Payable from Current	3,831,397	2,947,323	884,074	30%
Total Current Payable from Restricted	5,644,587	2,306,540	3,338,047	145%
Total Noncurrent Liabilities	30,546,703	36,045,597	(5,498,894)	-15%
Deferred Inflows Related to Pensions	3,960,594	41,109	3,919,485	9534%
TOTAL LIABILITIES & DEFERRED INFLOWS	43,983,281	41,340,569	2,642,712	6%
Invested in Capital Assets, Net Debt	43,984,595	45,956,152	(1,971,557)	-4%
Total Restricted	7,638,195	7,289,962	348,233	5%
Unrestricted	17,974,877	16,854,636	1,120,241	7%
TOTAL NET POSITION	\$ 69,597,667	\$ 70,100,750	\$ (503,083)	-1%
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$113,580,948	\$111,441,319	\$ 2,139,629	2%



The Wastewater Division's Total Assets and Deferred Outflows increased \$2.1 million and 2%. Current Assets were up by \$3.1 million due to more cash and investments on hand partly because December 2017 payments to vendors were not released until January 2018, leaving more cash on hand and more Accounts Payable due at year end. Accrued Interest Receivable increased \$133,000 because interest rates rose steadily in 2017 and because the Authority invested available Cash in US Treasury bonds, notes and in bank-issued Certificates of Deposit. Accounts Receivable decreased \$466,000 which is mostly due to a \$1.6 million decrease in the User Fee planned for 2017.

Restricted Noncurrent Assets increased about \$513,000 to \$9.1 million. The increase was caused by a \$495,000 increase in the Renewal and Replacement Fund, \$131,000 decrease in the Debt Service Fund, both of which were anticipated in 2017, and a \$146,000 Loan Receivable related to the 2017 Long-Term Loan discussed in more detail in the Bonds Payable section of the MD&A. Capital Assets increased \$6 million for Construction-In-Progress which represents projects that began in 2016 and 2017 but will not be complete until 2018 or beyond, and for an improvement to one of the Authority's force mains in Atlantic City to address a leak that occurred in September. Accumulated Depreciation increased by about \$5.4 million resulting in a net increase in Net Capital Assets of \$586,000. Depreciation is calculated straight line over the life of the asset with a half year of depreciation taken in the first and last years of the asset's life.

Deferred Outflows Related to Pensions decreased \$2.1 million to \$4.6 million. The decrease is due to the actuarial assumptions used to calculate pension obligations. The discount rate increased causing a significant decrease in the Deferred Outflow for all participating units.

Total Liabilities and Deferred Inflows increased by \$2.6 million and 6%. Significant increases were seen in Accounts Payable, Construction Contracts Payable, New Jersey Environmental Infrastructure Loan Payable (NJEIT) and Deferred Inflows Related to Pensions. Significant decreases were seen in Debt and Net Pension Liability.

Accounts Payable increased \$834,000 because December 2017 payments to vendors were not released until January 2018. Deferred Revenue increased in total by about \$122,000 due to a prepayment from American Tower, Inc. for rent. The prepayment will be recognized as rental income over the next three years. Pension Payable represents the amount owed to the New Jersey Public Employee's Retirement System for the current year and remained at about \$733,000.

Construction Contracts Payable increased to \$1.2 million and represent the amount owed to vendors for the portion of capital projects that were complete but not yet paid as of December 31, 2017. Construction projects are initially funded through the New Jersey Environmental Infrastructure Trust (NJEIT) Construction Loan Program which increased \$2.7 million. The Authority closed on an interim construction loan for four projects that include improvements to the incinerator's ash handling system, emergency power initiatives, treatment plant resiliency initiatives and removable flood protection barriers

for certain pump stations. As of December 31st the Authority had drawn down \$3.2 million for these projects. The interim loans are at 0% interest.

Accrued Absences decreased \$283,000 and 43% because the Authority no longer accrues for sick time since no sick time is due or payable to employees upon termination. Post Retirement Benefit costs remained the same at \$535,000. The Authority has set aside additional funds for Other Post-Employment Benefits.

Deferred Inflows Related to Pensions increased \$3.9 million due to changes in actuarial assumptions used to calculate pension obligations.

Current and Long-Term Bonds Payable went from \$12.5 million in 2016 to \$12.2 million in 2017 due to a combination of new long-term debt and principal payments made in accordance with debt service schedules. In 2017 the Authority converted a construction loan to replace the bar screens at the treatment plant to a long-term loan for \$1.5 million. The Authority expects to draw down the final balance remaining on this loan of \$146,000 in 2018, presented as Loans Receivable in the Asset section of the MD&A. Debt paid down during 2017 totaled \$1.75 million, for a net decrease of \$250,000. Accrued Interest Expense decreased \$16,000 and is also in accordance with debt service schedules. The Authority is authorized to borrow up to an additional \$25.4 million in New Jersey Environmental Infrastructure Trust (NJEIT) loans and will close on a majority of these in 2018 and the remainder in 2019. Capital projects include emergency power replacement and resiliency, improvements to the incinerator's ash handling system, new bar screens, force main improvements, flood resiliency initiatives and a seawall to be constructed around the wastewater treatment plant in Atlantic City. The Net Pension Liability is required as part of the implementation of GASB 68 and represents an actuarial estimate of the current liability for future pension expenses. The Net Pension Liability decreased \$5.7 million and 24% to \$18.4 million in 2017. The decrease is almost entirely attributable to changes in actuarial assumptions used to calculate pension obligations. The discount rate of return increased causing a significant decrease in the Net Pension Liability for all participating units.

Assets and Deferred Outflow of Resources exceed Liabilities and Deferred Inflow of Resources by \$69.6 million. This compares to 2016 where the division's Assets and Deferred Outflow of Resources exceeded its Liabilities and Deferred Inflow of Resources by \$70.1 million. The net change represents a net loss for the 2017-year of \$503,083.

The Division's Net Position of \$69,597,667 is comprised of the following:

- (1) Capital Assets, Net of Related Debt of \$43,984,595, include property, plant and equipment, net of accumulated depreciation, and net of long-term debt and short-term debt related to the purchase or construction of capital assets.
- (2) Net Position of \$7,000,000 restricted for the purpose of Renewal and Replacement of "the System" and restricted as the "System Improvement

Requirement”, which is determined each year by an independent consulting engineer.

(3) Net Position of \$208,437 restricted for the purpose of forthcoming debt service payments.

(4) Net Position of \$429,758 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority’s debt covenants.

(5) Unrestricted Net Position of \$17,974,877 represents the portion available to maintain the Authority’s continuing obligations to the contractual customers of its service area, its creditors and current liabilities.

Restricted Net Position increased \$348,000 due to an increase of \$1.2 million in the Renewal and Replacement fund combined with decreases in the Debt Service and Debt Service Reserve funds of \$852,000. Unrestricted Net Position increased \$1.1 million which is a function of changes in Restricted Net Assets and Net Income for the year.

Comparative Statement of Revenues, Expenses and Changes in Net Position:

Below is a synopsis of the Wastewater Division’s 2017 Statement of Revenues, Expenses and Changes in Net Position with a comparison to last year:

WW Revenue	2017	2016	\$ Change	% Change
User Fee	\$ 23,343,921	\$ 24,918,555	\$ (1,574,634)	-6%
Sludge	2,211,839	2,204,097	7,742	0%
Septage & Lechate	337,919	904,548	(566,629)	-63%
Other	1,287,659	1,337,455	(49,796)	-4%
Total Revenue	27,181,338	29,364,655	(2,183,317)	-7%
WW Operating Expenses				
Salaries	6,082,556	6,132,440	(49,884)	-1%
Employee Benefits	4,374,861	5,696,943	(1,322,082)	-23%
Power & Utilities	2,343,096	2,687,946	(344,850)	-13%
Chemicals	703,980	831,329	(127,349)	-15%
Fuel	1,094,207	1,087,511	6,696	1%
Supplies & Miscellaneous Maintenance	4,581,479	2,619,424	1,962,055	75%
Contractual Services	557,651	841,588	(283,937)	-34%
Indirect Operating Expenses	631,173	639,740	(8,567)	-1%
Administrative	1,454,347	1,380,497	73,850	5%
Licenses & Permits	179,153	188,357	(9,204)	-5%
Depreciation	5,394,719	5,387,115	7,604	0%
Total Operating Expenses	27,397,222	27,492,890	(95,668)	0%
Operating (Loss)/Income	(215,884)	1,871,765	(2,087,649)	-112%
WW Non-Operating Revenue/(Expenses)				
County Appropriation	(360,425)	(373,549)	13,124	100%
Interest Income	284,554	163,340	121,214	74%
Interest Expense	(211,328)	(248,637)	(37,309)	-15%
	(287,199)	(458,846)	(171,647)	-37%
NET (LOSS)/INCOME	\$ (503,083)	\$ 1,412,919	\$ (1,916,002)	-136%

Net Income decreased \$1.9 million due to a \$2.2 million decrease in Operating Revenue, a \$96,000 decrease in Operating Expenses and \$172,000 decrease in Non-Operating Expenses. The decrease in Operating Revenue is primarily due to a \$1.6 million planned decrease in the User Fee charged to participants. Flows have decreased significantly in recent years and the reduced user fee more accurately reflects the cost of treating current flows. Leachate Revenue decreased \$567,000 because in 2016 there was a one-time, price adjustment revenue recognized for \$610,000. Other income decreased \$50,000 and 4% due to several factors as shown below. Changes greater than \$10,000 are explained below the chart:

	<u>2017</u>		<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Service	\$ 801,504	\$	899,915	\$ (98,411)	-11%
Rental	139,874		126,759	13,115	10%
Lab	132,017		108,700	23,317	21%
Solar Renewable Energy Credits	126,807		128,270	(1,463)	-1%
Miscellaneous	53,164		41,231	11,933	29%
Truck Wash Revenue	34,293		32,580	1,713	5%
Total Other Income	\$ 1,287,659	\$	1,337,455	\$ (49,796)	-4%

Operating Service Revenue decreased by \$98,000 and 11%. This revenue includes pump station maintenance and repairs for customers, fuel sales, grease inspections and hauling revenue. The decrease is due to a reduction in pump station maintenance fees charged to one of the Authority's customers. Rental Income increased \$13,000 due to increased revenue charged to one of the Authority's tenants coupled with a decrease in revenue on the house in Smithville that was demolished in 2016. Lab Revenue increased \$23,000 and 21% due to a full year of service provided to the Atlantic City Municipal Utilities Authority in 2017 versus six months in 2016 coupled with additional services provided to other customers. Miscellaneous income increased \$12,000 and includes insurance reimbursements, FEMA reimbursements, vendor refunds and grant income.

The user fee is the primary revenue source of the Authority and supports the expenses as follows: \$22,318,899 for operating expenses, and \$1,025,022 for annual debt service. Sludge, Septage and Leachate disposal services are considered "outside income", and as such are utilized to reduce or stabilize the user fee charged to the Authority's fourteen direct participants. Income for these outside services was \$2.5 million in 2017, down from \$3.1 million in 2016. The revenue adjustment for Leachate Rates as described above is the primary reason for this decrease.

Operating expenses decreased by \$96,000 from the prior year. The decrease is due to a combination of increases and decreases among significant operating items. The Division experienced modest increases in Fuel, Administrative Expenses and Depreciation. The Division experienced modest decreases in Salaries, Indirect Operating Expenses and Licenses and Permits.

The only significant increase in Operating Expenses was seen in Supplies and Miscellaneous Maintenance. Supplies & Maintenance Expense increased almost \$2 million mostly due to the net impact of the annual GAAP adjustment. In 2016 Supplies and Miscellaneous Maintenance Expenses decreased \$766,000 from the GAAP adjustment and in 2017 the impact was an increase of \$752,000 which represents \$1.5 million of the increase. The remaining increase was due to anticipated spending on equipment and infrastructure improvements and additional maintenance work done on the furnace in 2017.

Significant decreases were realized in Employee Benefits, Power and Utilities, Chemicals and Contractual Services. Employee Benefits decreased \$1.3 million which is a combination of an increase in health benefits expense combined with a decrease in the Unbudgeted Pension Expense of \$1.7 million. Unbudgeted Pension Expense is calculated in accordance with GASB 68. This expense is an actuarial calculation and is not related to the dollar amount contributed to the pension plan by the ACUA. It is only presented on the GAAP statements, as required. The decrease in Unbudgeted Pension Expense is attributed to a change in assumptions used in the actuarial calculation. Power and Utilities decreased \$345,000 and 13% mostly due to a 12% decrease in electricity commodity prices from \$0.06189 per kilowatt to \$0.05417 per kilowatt beginning in December 2016. Chemicals decreased \$127,000 and 15% because there were one-time expenses in 2016 related to chemical handling and detection not seen in 2017. Contractual Services decreased \$284,000 and 34% due to reduced engineering expenses in 2017 for required compliance testing done in 2016 and because a Director of Operations was hired in 2017 whereas an outside consultant was utilized in 2016 to act as interim Director of Operations.

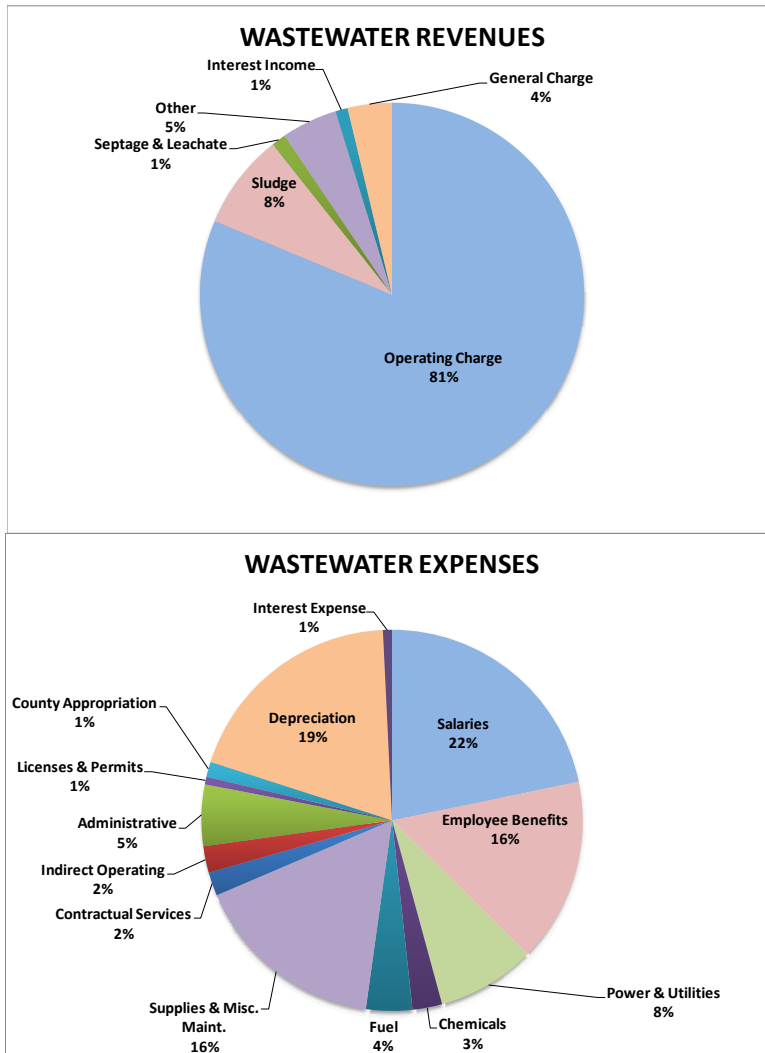
Total Operating Expenses exceeded Total Operating Revenues by \$215,884. The Unbudgeted Pension Expense of \$313,204 contributed to this Operating Deficit.

Non-Operating Expenses, which is comprised of County Appropriation, Interest Income and Interest Expense, decreased \$172,000 and 37%.

In 2014, the County of Atlantic exercised its right to request that up to five percent (5%) of the Authority's operating budget appropriations be transferred to the County for economic development initiatives. The County requested the maximum amount of 5% be transferred and the budget was amended to appropriate this expense for the full 5%, calculated to be \$1,387,635 for the Wastewater Division. The County did not request any funds in 2015, but did request contributions from the ACUA for 2016-2020. The County requested a total of \$500,000 per year for five years be paid towards Economic Development initiatives to be split pro-rata between Wastewater and Solid Waste. In addition the County requested a total of \$300,000 per year for three years be paid towards the Stockton Aviation Research and Technology Park, also to be split pro-rata between Wastewater and Solid Waste. In 2017 the Wastewater Division was responsible for \$360,000 of the \$800,000 due for both initiatives.

Interest income had an increase of \$121,000 because interest rates paid on investments increased during the year and because the Authority invested more of its available cash in 2017. Interest expense decreased \$37,000 in accordance with debt service schedules.

Total 2017 Expenses exceeded Revenues by \$503,083, the Net Loss for the year.



Statement of Cash Flows:

	<u>2017</u>	<u>2016</u>	<u>Cash Flow</u> <u>Incr/(Decr)</u>	<u>% Change</u>
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 27,769,375	\$ 26,794,346	\$ 975,029	4%
Payments to Employees	(6,082,556)	(6,132,440)	49,884	1%
Payments to Suppliers	(13,117,430)	(13,514,496)	397,066	3%
Net Cash Provided by Operating Activities	<u>8,569,389</u>	<u>7,147,410</u>	<u>1,421,979</u>	<u>20%</u>
Cash Flows from Noncapital Financing Activities				
Transfers to Other Funds	<u>(1,350,875)</u>	<u>384,905</u>	<u>(1,735,780)</u>	<u>-451%</u>
Cash Flows from Capital and Related Financing Activities				
Purchase of Capital Assets	(5,980,414)	(647,328)	(5,333,086)	-824%
Principal Paid on Debt	(1,752,306)	(1,703,770)	(48,536)	-3%
Interest Paid on Debt	(227,433)	(263,782)	36,349	14%
Proceeds from Issuance of Debt	1,504,928	-	1,504,928	100%
Net Cash Used by Capital and Financing	<u>(6,455,225)</u>	<u>(2,614,880)</u>	<u>(3,840,345)</u>	<u>-147%</u>
Cash Flows from Investing Activities				
Interest Income	124,264	171,255	(46,991)	-27%
County Appropriation	(360,425)	(373,549)	13,124	4%
Transferred to Investments	(27,493,645)	9,453,068	(36,946,713)	-391%
Net Cash Provided/(Used) by Investing Activities	<u>(27,729,806)</u>	<u>9,250,774</u>	<u>(36,980,580)</u>	<u>-400%</u>
Net Increase in Cash and Cash Equivalents	(26,966,517)	14,168,209	(41,134,726)	-290%
Cash and Cash Equivalents, January 1	<u>39,555,783</u>	<u>25,387,574</u>	<u>14,168,209</u>	<u>56%</u>
Cash and Cash Equivalents, December 31	<u>\$ 12,589,266</u>	<u>\$ 39,555,783</u>	<u>\$ (26,966,517)</u>	<u>-68%</u>

Net Cash Provided by Operating Activities increased 20%, an increase of \$1.4 million. Receipts from Customers and Users increased \$975,000 due to a combination of \$2.2 million 2016 user fee payments received in January 2017 combined with a decrease in the user fee of \$1.5 million. There were no significant changes in Payments to Employees or Payments to Suppliers.

Net Cash Used by Capital and Related Financing Activities decreased by \$3.8 million. The Purchase of Capital Assets was \$6 million in 2017 as compared to \$647,000 in 2016. The Capital projects are described in the Balance Sheet portion of the report. Principal Paid on Debt increased \$49,000 and Interest Paid on Debt decreased \$36,000, both in accordance with debt service schedules. Proceeds from Issuance of Debt increased \$1.5 million because the Authority closed on a long-term loan in 2017 to finance the replacement of bar screens at the treatment plant.

Net Cash Used by Investment Activities was \$28 million as compared to \$9.3 million Net Cash Provided by Investment Activities in 2016, representing a cash flow decrease of \$37 million. Cash provided from Interest Income decreased \$47,000 due to CDs and US Government investments held at December 31, 2017 that will pay interest in 2018. Cash transferred to investments increased \$37 million because the Authority hired an investment manager in 2017 to assist with investment strategy, to maximize returns on available funds and to keep the Authority apprised of market conditions. A majority of the Authority's available funds are now fully invested with laddered maturities. The county appropriation did not change significantly.

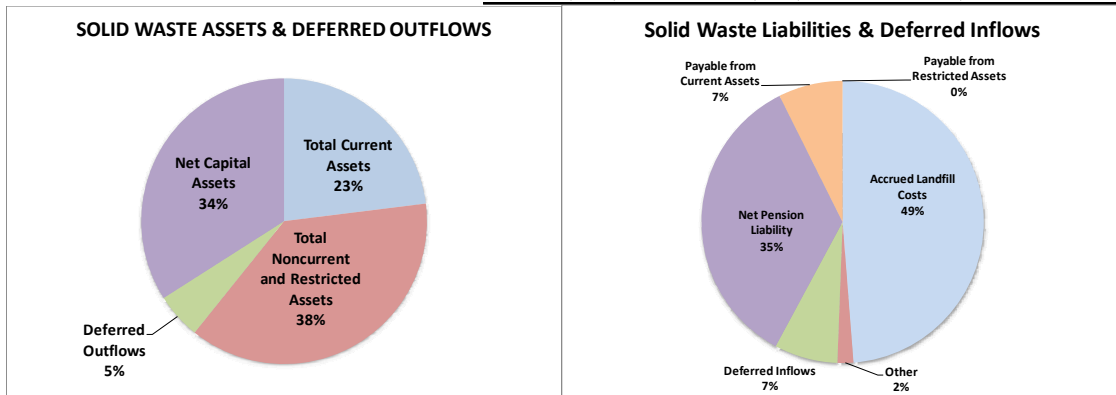
The Net Decrease in Cash and Cash Equivalents for the 2017 year is \$26,966,517 leaving a balance of \$12,589,266 on December 31, 2017.

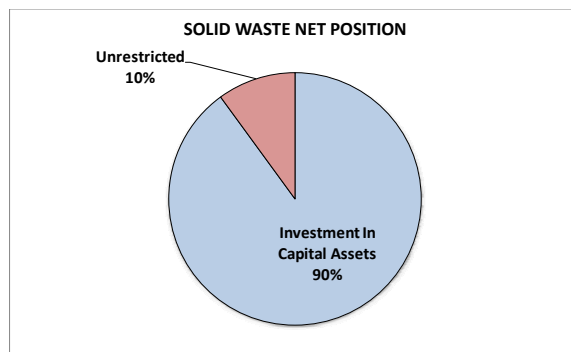
Solid Waste Division

Comparative Balance Sheet

Below is a synopsis of the Solid Waste Division's 2017 Balance Sheet with a comparison to last year:

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Total Current Assets	\$ 24,920,121	\$ 22,072,322	\$ 2,847,799	13%
Total Noncurrent & Restricted Assets	40,893,833	38,646,920	2,246,913	6%
Capital Assets, Net of Depreciation	36,834,531	39,125,883	(2,291,352)	-6%
Deferred Outflows Related to Pensions	5,611,168	8,197,957	(2,586,789)	-32%
TOTAL ASSETS & DEFERRED OUTFLOWS	108,259,653	108,043,082	216,571	0%
Total Liabilities Payable from Current Assets	4,935,388	3,791,740	1,143,648	30%
Total Liabilities Payable from Restricted Assets	33,885	435,731	(401,846)	-92%
Accrued Landfill Closure and Post-Closure Costs	32,837,954	32,993,037	(155,083)	0%
Other Non-Current Liabilities	1,229,715	1,311,572	(81,857)	-6%
Net Pension Liability	23,395,647	29,710,654	(6,315,007)	-21%
Deferred Inflows Related to Pensions	4,879,791	50,649	4,829,142	9535%
TOTAL LIABILITIES & DEFERRED INFLOWS	67,312,380	68,293,383	(981,003)	-1%
Invested in Capital Assets, Net Debt	36,834,531	39,125,883	(2,291,352)	-6%
Unrestricted	4,112,742	623,816	3,488,926	559%
TOTAL NET POSITION	\$ 40,947,273	\$ 39,749,699	\$ 1,197,574	3%
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 108,259,653	\$ 108,043,082	\$ 216,571	0%





The Solid Waste Division reports Total Assets and Deferred Outflows of \$108,260,000, an increase of \$217,000 from 2016.

Current Assets increased \$2.8 million and 13% primarily due to \$4.2 million more cash and investments on hand which resulted in additional Accrued Interest Receivable, combined with a \$1.4 million reduction in Intercompany Accounts Receivable. The additional Cash is partly attributable to December 2017 payments to vendors not being released until January 2018 which also increased Accounts Payable.

Restricted and Noncurrent Assets increased \$2.2 million and 6%. Cash and investments increased due to monthly deposits made to fund a mechanically stabilized earth (MSE) wall around the landfill to increase capacity. MSE construction is planned for the fourth quarter of 2018. Amounts held by the state of New Jersey decreased \$526,000 and 2% and represents a combination of deposits made to the ACUA escrow account equal to \$1 per ton of certain waste types received, interest income earned on the accounts and withdrawals from the Pinelands Park Landfill (PPL) escrow accounts for post-closure care and maintenance costs. Accrued Interest Receivable decreased by 77% to \$37,000 in 2017 as compared to \$156,000 in 2016 because CDs matured in 2017 that had Accrued Interest as of December 31, 2016.

Capital Assets increased \$1.5 million and 1% and include the acquisition of equipment, vehicles, landfill improvements and building improvements in addition to the removal of equipment and vehicles sold on GovDeals.com. Accumulated Depreciation increased \$3.8 million and 4% and is a combination of \$4.5 million depreciation expense and \$728,000 removed when assets were sold. Depreciation is calculated straight line over the life of the asset with a half year of depreciation taken in the first and last years of an asset's life.

Deferred Outflows Related to Pensions decreased \$2.6 million to \$5.6 million. The decrease is primarily due to the actuarial assumptions used to calculate pension obligations. The discount rate increased causing a significant decrease in the Deferred Outflow for all participating units.

Total Liabilities and Deferred Inflows remained flat at \$108 million. Current Liabilities Payable from Unrestricted Assets increased by \$1.1 million and 30% primarily due to increased Accounts Payable. December payments to vendors were not released until

January 2018 which also increased Cash. Customer Deposits did not change significantly. Pension Payable increased approximately \$40,000 to \$931,000 and represents the amount owed to the New Jersey Public Employee's Retirement System for the current year.

Current Liabilities Payable from Restricted Assets consists only of Construction Contracts Payable which represents the amount owed to vendors for the portion of capital projects and purchases that were complete but not yet paid as of December 31, 2017. The amount owed decreased by \$402,000 to \$34,000.

Accrued Landfill Closure and Post-Closure costs decreased \$155,000. The ACUA owns two landfills, the active ACUA landfill and the closed Pinelands Park Landfill that was acquired in 2012. The ACUA closure liability is calculated by the Authority's consulting engineer and includes total costs for closure and post-closure care of \$15.9 million, an increase of \$1 million from 2016. The PPL Closure Liability is \$17 million and decreased more than \$1.1 million due to closure expenses incurred in 2017 which are partially offset by interest income earned in the escrow accounts.

The amount accrued for ACUA's landfill is in accordance with the consulting Engineer's findings as reported. Total anticipated closure cost as of December 31, 2017 is \$15,872,225. The percent of cumulative landfill capacity utilized as of December 31, 2017 according to the consulting engineer report is 64.2%, up from 61.7% in 2016. This increase is the result of 467,304 current year tons of waste accepted and associated cover material used and buried in the landfill. The Authority's independent consulting engineer performs the necessary calculation to determine the estimated liability in accordance with provisions of Statement No. 18 of the Government Accounting Standards Board, Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs.

The Pinelands Park Landfill Post-Closure Costs assumed are \$17 million and are fully funded. The ACUA Landfill Post-Closure Costs are estimated to be \$15.9 million and \$10.2 million is funded. Both are shown in the Noncurrent Assets of the Authority.

Accrued Absences decreased \$82,000 and 16% because the Authority no longer accrues for sick time since no sick time is due or payable to employees upon termination. Other Non-Current Liabilities include an accrual for expected future Post Retirement Benefit costs in the amount of \$800,000. The Authority has set aside additional funds for Other Post-Employment Benefits.

The Net Pension Liability is required as part of the implementation of GASB 68 and represents an actuarial estimate of the current liability for future pension expenses. The Net Pension Liability decreased \$6.3 million and 21% to \$23.4 million in 2017. The decrease is attributable to changes in actuarial assumptions used to calculate pension obligations. The discount rate increased causing a significant decrease in the Net Pension Liability for all participating units.

Deferred Inflows Related to Pensions is \$4.9 million as compared to \$51,000 in 2016. The significant increase is also attributable to the actuarial assumptions used to calculate pension obligations.

The Division's Net Position of \$40,947,273 is comprised of the following:

- (1) Capital Assets, Net of Related Debt of \$0, are \$36,834,531 and include Property, Plant and Equipment, net of Accumulated Depreciation.
- (2) Unrestricted Net Position increased \$3.5 million to \$4,112,742 and represents the Net Position available to maintain the Authority's continuing obligations to the Authority's service area, certain creditors, current liabilities and other post-employment benefits.

Comparative Statement of Revenues, Expenses, and Changes in Net Position

Below is a synopsis of the Solid Waste Division's 2017 Statement of Revenues, Expenses and Changes in Net Position with a comparison to last year:

SW Revenue	2017	2016	\$ Change	% Change
Tipping Fee	\$ 23,307,196	\$ 23,585,818	\$ (278,622)	-1%
Collections & Recycling	8,845,058	8,149,345	695,713	9%
Grant Income	211,927	42,559	169,368	398%
Composting & Eco Product Income	1,060,366	1,082,209	(21,843)	-2%
Other	991,646	1,294,202	(302,556)	-23%
Total Revenue	34,416,193	34,154,133	262,060	1%
SW Operating Expenses				
Salaries	9,185,061	8,911,347	273,714	3%
Employee Benefits	7,380,272	7,423,709	(43,437)	-1%
Power & Utilities	626,591	583,800	42,791	7%
Fuel	863,182	774,312	88,870	11%
Supplies & Miscellaneous Maintenance	2,521,496	2,525,808	(4,312)	0%
Indirect Operating Expenses	2,909,240	3,499,552	(590,312)	-17%
Administrative	1,012,524	1,059,344	(46,820)	-4%
Community Benefit	2,384,381	2,405,932	(21,551)	-1%
Recycling & Other Taxes	1,065,815	1,079,585	(13,770)	-1%
Depreciation	4,513,118	5,143,326	(630,208)	-12%
Total Operating Expenses	32,461,680	33,406,715	(945,035)	-3%
Operating Income	1,954,513	747,418	1,207,095	162%
SW Non-Operating Revenue/(Expenses)				
County Appropriation	(439,575)	(426,451)	(13,124)	100%
Interest Income	504,886	1,760,303	(1,255,417)	-71%
Gain on Sale of Fixed Asset	146,227	(19,875)	166,102	100%
Adjustment to landfill closure and post-closure care cost	(968,477)	(1,093,704)	125,227	-11%
	(756,939)	220,273	(977,212)	-444%
NET INCOME	\$ 1,197,574	\$ 967,691	\$ 229,883	24%

Solid Waste Net Income is \$1.2 million compared to a \$968,000 in 2016, a \$230,000 increase. There had been a significant downturn in the local and regional economy primarily due to five casino properties closing since 2014, leaving only seven active casino properties in an economy heavily reliant on the casino industry. Atlantic County

has seen high unemployment and foreclosure rates and ACUA has suffered financially from the downturn as well. There was some improvement in 2016 and 2017 and with two new casinos opening in June 2018 the outlook continues to improve. Operating Expenses decreased \$945,000 and 3% while Net Non-Operating Expenses increased \$977,000.

Tip Fees decreased modestly by \$279,000 and 1% primarily due to less industrial waste received in 2017 because a large landfill excavation project brought significant industrial waste to ACUA in 2016. Recycling Market Revenue and Revenue from Collection Contracts increased 9% and \$696,000. The increase is due to higher recycling market rates in 2017 compared to 2016. Grant income increased about \$169,000 due to two Clean Community reimbursements received in 2017 as compared to only one in 2016 and because the Authority received a grant from the South Jersey Transportation Planning Organization for \$78,000 to cover the additional cost to purchase two compressed natural gas collection trucks versus similar diesel fuel-powered trucks. Compost and Eco-Product Revenue decreased \$22,000 and 2% due in part to running out of Eco Soil in 2017. Other Income decreased \$303,000 and 23% due to several factors as shown below. Significant changes are explained following the chart:

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Landfill Gas to Energy	250,245	323,212	\$ (72,968)	-23%
Rental Income	239,142	234,688	4,454	2%
PPL Reimbursement	217,248	219,915	(2,667)	-1%
CNG Tax Rebate	101,870	82,556	19,315	23%
Miscellaneous	59,557	59,498	59	0%
Clean Energy	58,944	59,046	(102)	0%
Fuel Sales	36,536	27,687	8,849	32%
Waste Flow Settlement	15,000	60,000	(45,000)	-75%
Insurance Refunds	13,104	57,775	(44,671)	-77%
Atlantic City Writeoff Paid in 2017	-	146,519	(146,519)	-100%
FEMA Reimbursement	-	23,307	(23,307)	-100%
Total Other Income	\$ 991,646	\$ 1,294,201	\$(302,555)	-23%

The Landfill Gas to Energy (LFG) project that converts methane from the landfill to electricity has experienced major difficulties. The project was designed to have three engines to maximize the amount of methane gas collected and converted to electricity. In 2013 two of the three engines started to perform poorly and were subsequently taken off line by the Authority's partner, AC Landfill Energy, LLC (ACLE). The Authority renegotiated the lease agreement in 2016 and it was agreed that only two engines would run going forward. ACUA shares in total project revenue and earned \$52,000 in 2017 which is \$41,000 less than the prior year. The ACUA also receives rental income from the project which also decreased from \$230,000 in 2016 to \$198,000 in 2017 which was anticipated as part of a contract renegotiation. The CNG tax rebate is a 50 cent per gallon equivalent rebate from the IRS for CNG dispensed by the station owner. The rebate increased as CNG fuel use by ACUA increased with additional CNG trucks deployed in 2017 as well as for increased fuel dispensed to customers of the station. Bio-diesel and unleaded fuel sales also increased due to more fuel purchased by the City of Absecon.

The Authority continues to enforce waste flow and was paid \$15,000 on waste flow violation settlements in 2017. Insurance refunds decreased \$45,000 due to two larger claims experienced in 2016 including an excavator that flipped on the landfill and a fire in the recycling center bag house.

Operating Expenses decreased \$945,000 and 3%, which is the net result of increases and decreases among significant operating items. The Division experienced modest changes in most Operating Expense categories. Those with more significant increases and decreases are explained below.

Salaries increased \$274,000 and 3% due to a combination of vacancies being filled in 2017, employees retuning from injuries that were paid by the worker's compensation carrier, new hire employees and additional overtime paid in 2017 as compared to 2016. Fuel increased \$89,000 and 11% due to increases in the commodity prices for biodiesel and unleaded fuel.

Indirect Operating expenses decreased \$590,000 and 17% primarily due to less cover material and more landfill amendment used on the landfill in 2017. Also landfill well cleaning was scheduled and done in 2016 which was not necessary in 2017. Depreciation Expense decreased \$630,000 because a significant amount of infrastructure assets were placed into service in 1991 and were fully depreciated in 2016. No depreciation expense was taken on these assets in 2017 which accounts for approximately \$500,000 of the decrease.

Total Operating Revenue exceeded Total Operating Expenses resulting in operating income of \$1,955,000 for 2017 versus \$747,000 in 2016. Net income, if available, normally funds the capital improvements of the Authority which include the construction of new cells, the purchase of collection vehicles and other equipment, infrastructure improvements and landfill closure responsibilities.

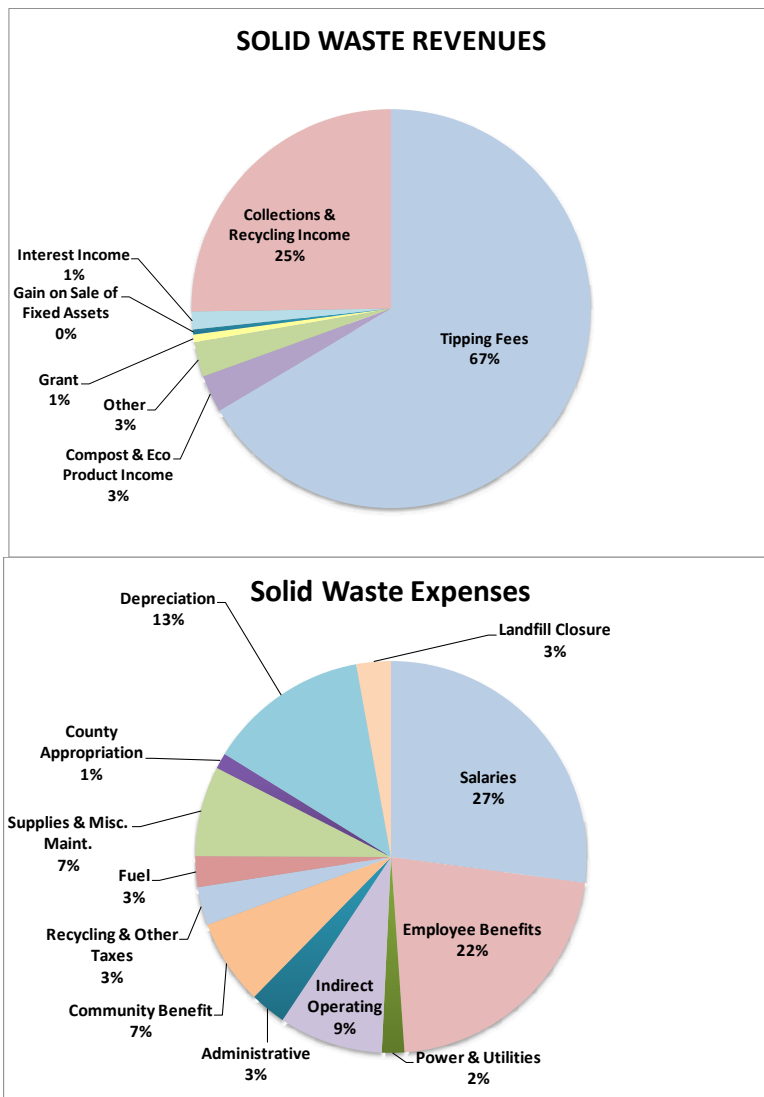
Total Non-Operating Expense is \$757,000 compared Non-Operating Income of \$220,000 in 2016, a decrease of \$977,000.

In 2014, the County of Atlantic exercised its right to request that up to five percent (5%) of the Authority's operating budget appropriations be transferred to the County. The County did not request any funds in 2015, but did request contributions from the ACUA for 2016-2020. The County requested a total of \$500,000 per year for five years be paid towards Economic Development initiatives to be split pro-rata between Wastewater and Solid Waste. In addition, the County requested a total of \$300,000 per year for three years be paid towards the Stockton Aviation Research and Technology Park, also to be split pro-rata between Wastewater and Solid Waste. In 2017 the Solid Waste Division was responsible for \$440,000 of the \$800,000 due for both initiatives.

In 2016 Interest Income was unusually high and increased \$916,000 primarily in the ACUA Standard escrow account. An investment in a US Treasury Strip matured in 2016 generating interest income of \$1.1 million. In 2017 Interest Income was \$505,000

because interest rates paid on investments increased during the year and because the Authority invested more of its available cash. In 2017 some old equipment and vehicles were sold which resulted in a net gain of \$146,000. In 2016 similar sales took place that resulted in a net loss of \$20,000. The revenue generated from the sale of the asset, as well as the remaining depreciation to be taken, if any, are the two factors that generate a gain or loss. Finally, the estimated landfill closure and post-closure liability decreased \$125,000 in 2017 and is calculated by an independent engineer on an annual basis.

Net Income for the 2017 year is \$1,197,574 compared to \$967,691 in 2016, a \$230,000 improvement.



Statement of Cash Flows

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 34,493,832	\$ 33,422,882	\$ 1,070,950	3%
Payments to Employees	(9,185,061)	(8,911,347)	(273,714)	-3%
Payments to Suppliers	(15,729,120)	(18,130,895)	2,401,775	-13%
Net Cash Provided by Operating Activities	<u>9,579,651</u>	<u>6,380,640</u>	<u>3,199,011</u>	<u>50%</u>
Cash Flows from Noncapital Financing Activities				
Transfers to Other Funds	<u>1,350,875</u>	<u>(384,905)</u>	<u>1,735,780</u>	<u>451%</u>
Cash Flows from Capital and Related Financing Activities				
Purchase of Capital Assets	(2,532,910)	(2,058,082)	(474,828)	-23%
Gain on Sale of Fixed Assets	146,227	(19,875)	166,102	836%
Net Cash Used by Capital and Financing	<u>(2,386,683)</u>	<u>(2,077,957)</u>	<u>(308,726)</u>	<u>-15%</u>
Cash Flows from Investing Activities				
Interest Income	414,100	1,769,878	(1,355,778)	-77%
County Appropriation	(439,575)	(426,451)	(13,124)	-3%
Transferred to Investments	(17,689,404)	(585,320)	(17,104,084)	-2922%
Net Cash Provided (Used) by Investing Activities	<u>(17,714,879)</u>	<u>758,107</u>	<u>(18,472,986)</u>	<u>-2437%</u>
Net Increase (decrease) in Cash and Cash Equivalents	(9,171,036)	4,675,885	(13,846,921)	-296%
Cash and Cash Equivalents, January 1	<u>15,666,343</u>	<u>10,990,458</u>	<u>4,675,885</u>	<u>43%</u>
Cash and Cash Equivalents, December 31	<u>\$ 6,495,307</u>	<u>\$ 15,666,343</u>	<u>\$ (9,171,036)</u>	<u>-59%</u>

Net Cash Provided by Operating Activities increased 50% and \$3.2 million. Receipts from Customers and Users increased \$1.1 million due to increased revenue in 2017 and better collection rates. Payments to Employees were flat. Payments to Suppliers decreased 13% and \$2.4 million which is partly due to December 2017 payments to vendors not being released until January 2018.

Net Cash Used by Capital and Related Financing Activities increased \$309,000 due to more capital asset additions in 2017 which was offset by the 2017 Gain on Sale of Fixed Assets.

Net Cash Used by Investment Activities increased by \$18.5 million due to an outflow of \$17.7 million compared to an inflow of \$758,000 in 2016. In 2016, Interest Income increased by \$926,000 due to a \$1.1 million investment maturity in the ACUA standard escrow fund which was a one-time only revenue not realized in 2017. The County Appropriation increased slightly and represents the Solid Waste Division's portion of the total appropriation as described earlier in the report. Net transfers from cash to investments were \$17.1 million and were a combination of investment maturities that were subsequently reinvested and new investments purchased with the investment advisor hired in 2017 to allow us access to higher yielding investments.

Total Cash and Cash Equivalents at December 31, 2017 are \$6,945,307, a Net Decrease in 2017 of \$9,171,036.

Core Competencies

Wastewater Division

The Wastewater Division provides wastewater conveyance and treatment (the System) under contracts with 14 municipalities and authorities within Atlantic County and one State-regulated public utility that services Atlantic City, NJ, also within Atlantic County. The System consists of a wastewater treatment plant, a wastewater collection system of approximately 60 miles of gravity interceptor and force mains, 20 pumping stations and an ocean outfall line discharging into the Atlantic Ocean through a diffuser system. The wastewater treatment plant provides primary and secondary wastewater treatment and is situated on about 300 acres located on the western outskirts of Atlantic City, NJ. The treatment plant has a capacity of 40 million gallons per day. The Atlantic County Utilities Authority owns and operates the regional piping and pumping systems that receive, meter, and transport the municipal wastewater to the Authority's Regional Plant on City Island for treatment and discharge.

The User Fee charged to the fourteen municipalities and Municipal Utilities Authorities within Atlantic County and the one State-regulated public utility that services Atlantic City, is the main source of revenue for the Wastewater Division. This is shown on the Comparative Statement of Revenues, Expenses and Changes in Net Position as "User Service Agreements: Operating and General" and reported as Operating Revenues. Other services provided include sludge, septage, leachate, and scum disposal, representing the next primary source of revenue to the Authority after User Fees. Lab services, such as water testing, are provided as needed for other governmental entities as well as private businesses. The Wastewater Division also provides certain maintenance services on a contractual basis for a local municipal utility and other governmental agencies.

Solid Waste Division

In 1981 the Authority was designated by the Board of Chosen Freeholders of Atlantic County as the implementing agency for the County Solid Waste Management Plan, thereby empowering the division as the implementing agency to plan, design, construct and acquire all facilities for the implementation of a County-wide solid waste management program. The Atlantic County Utilities Authority operates an extensive solid waste management system that consists of a transfer station, landfill, recycling center, composting facility and maintenance center.

Tip fees are the primary source of income for the Solid Waste Division. Atlantic County has Flow Control which means all waste generated in Atlantic County must be processed at the ACUA. Waste brought to the ACUA includes municipal, commercial, construction, and industrial waste. In 2017 approximately 309,000 tons of waste came in compared to approximately 313,000 tons in 2016.

Collection of municipal solid waste, bulk waste and yard waste is also provided to municipalities who elect to contract with the Authority for such services.

Collection contracts are the second highest revenue stream for the Authority. Recycling collection is provided to twenty-two municipalities and trash and yard waste collection are provided to fifteen municipalities in Atlantic County. Approximately 52,000 tons of recyclable materials were collected in 2017 as compared to 55,000 in 2016.

The Authority's compost operation processes leaves, grass clippings, tree branches, clean wood, brush and Christmas trees. In 2017 about 22,000 tons of yard waste were processed, about the same as in 2016 and in line with historical tonnages. The branches, brush, and trees are processed into EcoSoil and sold to the public, providing additional income to support the Solid Waste system.

Centralized Maintenance

The ACUA has a 17,000 square foot Maintenance Center where a fleet of over 120 vehicles and 30 pieces of specialized heavy equipment is maintained and serviced. In addition to a CNG fueling station open to the public, the Authority now has twenty-four CNG refuse collection trucks, four CNG roll off trucks, eight CNG utility trucks, a CNG street sweeper and eight bi-fuel trucks in its fleet.

Accountability

The Atlantic County Utilities Authority's mission statement is:

“The Atlantic County Utilities Authority is responsible for enhancing the quality of life through the protection of waters and lands from pollution by providing responsible waste management services. The Authority is an environmental leader and will continue to use new technologies, innovations and employee ideas to provide the highest quality and most cost effective environmental services.”

The Authority's accountability, first and foremost, is to protect the environment. The goal is to provide a cost effective and reliable service, and at the same time to protect the environment. Equally important to the Authority is the ACUA's bondholders, ratepayers, customers, the local governments, agencies and people served, and the employees of the ACUA. Excellent customer service is a top priority. Fair and reasonable fees is another top priority. Excellent employee relations and striving to be “a best place to work” is another priority. Embracing technology and innovation is high on the ACUA's list of objectives, as is community service, volunteering, and fundraising for community causes.

As an environmental utility, the Authority is also guided by and accountable to state government and the applicable rules and regulations that govern the Atlantic County Utilities Authority. The Authority is financially accountable to the Department of Community Affairs, Division of Local Government Services. As an environmental utility, the Authority is accountable to the U.S Environmental Protection Agency and the New Jersey Department of Environmental Protection.

The Atlantic County Utilities Authority is accountable to the governing body of the Authority, the Atlantic County Utilities Authority Board of Commissioners, and as such, accountable to other government officials.

Governing Body

The governing body of the Atlantic County Utilities Authority consists of a seven-member board that is appointed for five-year terms by the County Executive, with the advice and consent of the Freeholders. The County Executive is a non-voting, ex-officio member of the Authority.

Actions taken at the meetings of the Authority are not effective until approved by the County Executive or until ten days after the minutes of the meeting of the Authority Board have been delivered to the County Executive.

The Authority Board Members are:

Marvin E. Embry, Chairman
Michael C. Epps, Vice Chairman
Peter A. Sarkos, Treasurer
Fred Akers, Assistant Treasurer
Andrew Berenato, III, Member
Paul A. Rosenberg, Member
John E. Lyons, Member
Dennis Levinson, County Executive

Management of the Authority

Richard S. Dovey, President
Linda Bazemore, VP of Administration and Finance/CFO
Brian Lefke, Senior VP – Solid Waste Division and Board Secretary
Joseph Pantalone, VP – Wastewater Division
Eugene L. Petitt, Chief Engineer (retired 12/31/17)
Thomas Ganard, Chief Engineer
Matthew DeNafo, VP of Centralized Maintenance and Asset Management

Funding of Infrastructure and Debt Management

It is the current policy of the Atlantic County Utilities Authority Board of Commissioners and President that funding for capital improvements, additions or replacements, is to be accomplished using one or more of the following methods:

Borrowings from the New Jersey Environmental Infrastructure Trust
Short-Term Loan Agreements (usually averaging 1 to 3 years)
Lease with Option to Purchase Financing (usually averaging 3 to 5 years)
Funding incrementally or annually from the Operating Budget

Auditors

The Authority has a policy of changing Auditors every 3 to 5 years to encourage any new or fresh reviews of the Atlantic County Utilities Authority financial operations and reporting of financial status, and to eliminate any perceived or potential conflicts of interest that may develop due to long-term relationships.

Prior audits and additional information can be obtained by contacting the Atlantic County Utilities Authority or on the web site at www.acua.com.

ATLANTIC COUNTY UTILITIES AUTHORITY
Statement of Net Position
December 31, 2017 and 2016

	2017			2016
	Wastewater Division	Solid Waste Division	Total	
ASSETS				
Unrestricted current assets:				
Cash and cash equivalents	\$ 9,444,859	\$ 4,587,616	\$ 14,032,475	\$ 43,116,922
Investments	28,618,942	16,784,693	45,403,635	10,000,000
Accrued interest receivable	142,531	132,424	274,955	50,763
Accounts receivable (net of allowance \$52,240 and \$52,240 in 2017 and 2016, respectively)	2,853,009	2,780,279	5,633,288	6,188,771
Internal accounts	(635,109)	635,109	-	-
Total unrestricted current assets	<u>40,424,232</u>	<u>24,920,121</u>	<u>65,344,353</u>	<u>59,356,456</u>
Restricted noncurrent assets:				
Cash and cash equivalents	3,144,407	1,907,691	5,052,098	12,105,204
Investments	5,810,166	9,056,187	14,866,353	4,700,000
Amounts held by State of New Jersey	-	29,774,409	29,774,409	30,300,118
Accrued interest receivable	27,428	155,546	182,974	156,090
Loans receivable	145,848	-	145,848	-
Total restricted noncurrent assets	<u>9,127,849</u>	<u>40,893,833</u>	<u>50,021,682</u>	<u>47,261,412</u>
Capital assets, gross	231,904,726	141,892,435	373,797,161	366,316,818
Accumulated depreciation	<u>(172,430,062)</u>	<u>(105,057,904)</u>	<u>(277,487,966)</u>	<u>(268,301,966)</u>
Capital assets, net	<u>59,474,664</u>	<u>36,834,531</u>	<u>96,309,195</u>	<u>98,014,852</u>
TOTAL ASSETS	<u>109,026,745</u>	<u>102,648,485</u>	<u>211,675,230</u>	<u>204,632,720</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred outflows related to pensions	<u>4,554,203</u>	<u>5,611,168</u>	<u>10,165,371</u>	<u>14,851,681</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>113,580,948</u>	<u>108,259,653</u>	<u>221,840,601</u>	<u>219,484,401</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Statement of Net Position
December 31, 2017 and 2016

	2017			2016
	Wastewater Division	Solid Waste Division	Total	
LIABILITIES				
Current liabilities payable from current assets:				
Accounts payable and accrued expenses	3,057,945	3,830,409	6,888,354	4,938,938
Customer deposits	-	173,920	173,920	185,615
Unearned revenue, current	40,870	-	40,870	-
Pension payable	732,582	931,059	1,663,641	1,614,510
Total current liabilities payable from current assets	<u>3,831,397</u>	<u>4,935,388</u>	<u>8,766,785</u>	<u>6,739,063</u>
Current liabilities payable from restricted assets:				
Construction contracts payable	1,224,330	33,885	1,258,215	454,535
Current portion of long-term debt	1,096,302	-	1,096,302	1,752,306
NJBIT loan payable, net	3,245,296	-	3,245,296	440,666
Accrued interest	78,659	-	78,659	94,764
Total current liabilities payable from restricted assets	<u>5,644,587</u>	<u>33,885</u>	<u>5,678,472</u>	<u>2,742,271</u>
Noncurrent liabilities payable from restricted assets:				
Accrued landfill closure and post-closure care cost	-	32,837,954	32,837,954	32,993,037
Noncurrent liabilities:				
Unearned revenue, non-current	81,018	-	81,018	-
Accrued compensated absences	373,883	429,715	803,598	1,168,191
Post retirement benefits payable	535,019	800,000	1,335,019	1,335,019
Long-term portion of bonds payable	11,148,471	-	11,148,471	10,739,845
Net pension liability	18,408,312	23,395,647	41,803,959	53,824,768
Total noncurrent liabilities	<u>30,546,703</u>	<u>24,625,362</u>	<u>55,172,065</u>	<u>67,067,823</u>
TOTAL LIABILITIES	<u>40,022,687</u>	<u>62,432,589</u>	<u>102,455,276</u>	<u>109,542,194</u>
DEFERRED INFLOW OF RESOURCES				
Deferred inflows related to pensions	3,960,594	4,879,791	8,840,385	91,758
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>43,983,281</u>	<u>67,312,380</u>	<u>111,295,661</u>	<u>109,633,952</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Statement of Net Position
December 31, 2017 and 2016

	2017			2016
	Wastewater Division	Solid Waste Division	Total	
NET POSITION				
Investment in capital assets, net of related debt	43,984,595	36,834,531	80,819,126	85,082,035
Restricted for:				
Wastewater:				
Renewal and replacement	7,000,000	-	7,000,000	5,800,000
Debt service fund	208,437	-	208,437	339,205
Debt service reserve fund	429,758	-	429,758	1,150,757
Unrestricted	17,974,877	4,112,742	22,087,619	17,478,452
TOTAL NET POSITION	69,597,667	40,947,273	110,544,940	109,850,449
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 113,580,948	\$ 108,259,653	\$ 221,840,601	\$ 219,484,401

ATLANTIC COUNTY UTILITIES AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the years ended December 31, 2017 and 2016

	2017			2016
	Wastewater Division	Solid Waste Division	Total	
Operating revenues:				
Wastewater:				
User service agreements:				
Operating	\$ 22,318,899	\$ -	\$ 22,318,899	\$ 22,960,225
General	1,025,022	-	1,025,022	1,958,329
Sludge	2,211,839	-	2,211,839	2,204,097
Septage and leachate	337,919	-	337,919	904,548
Other	1,287,659	-	1,287,659	1,337,456
Solid Waste:				
Tipping fees	-	23,307,196	23,307,196	23,585,818
Collections and recycling income	-	8,845,058	8,845,058	8,149,345
Grant income	-	211,927	211,927	42,559
Composting income	-	1,060,366	1,060,366	1,082,209
Other	-	991,646	991,646	1,294,202
Total operating revenues	<u>27,181,338</u>	<u>34,416,193</u>	<u>61,597,531</u>	<u>63,518,788</u>
Operating expenses:				
Salaries	6,082,556	9,185,061	15,267,617	15,043,787
Employee benefits	4,374,861	7,380,272	11,755,133	13,120,652
Power and utilities	2,343,096	626,591	2,969,687	3,271,746
Chemicals	703,980	-	703,980	831,329
Fuel	1,094,207	863,182	1,957,389	1,861,823
Supplies and miscellaneous maintenance	4,581,479	2,521,496	7,102,975	5,145,232
Contractual services	557,651	-	557,651	841,588
Indirect operating expenses	631,173	2,909,240	3,540,413	4,139,292
Administrative	1,454,347	1,012,524	2,466,871	2,439,841
Community benefit	-	2,384,381	2,384,381	2,405,932
Recycling and other taxes	-	1,065,815	1,065,815	1,079,585
Licenses and permits	179,153	-	179,153	188,357
Depreciation	5,394,719	4,513,118	9,907,837	10,530,441
Total operating expenses	<u>27,397,222</u>	<u>32,461,680</u>	<u>59,858,902</u>	<u>60,899,605</u>
Operating (loss)/income	<u>(215,884)</u>	<u>1,954,513</u>	<u>1,738,629</u>	<u>2,619,183</u>
Non-operating revenues / (expenses):				
County appropriation	(360,425)	(439,575)	(800,000)	(800,000)
Interest income	284,554	504,886	789,440	1,923,643
Interest expense	(211,328)	-	(211,328)	(248,637)
Gain on sale of fixed assets	-	146,227	146,227	(19,875)
Adjustment to landfill closure and post-closure care cost	-	(968,477)	(968,477)	(1,093,704)
Total non-operating revenues / (expenses)	<u>(287,199)</u>	<u>(756,939)</u>	<u>(1,044,138)</u>	<u>(238,573)</u>
Net (loss)/income	(503,083)	1,197,574	694,491	2,380,610
Net position, January 1,	<u>70,100,750</u>	<u>39,749,699</u>	<u>109,850,449</u>	<u>107,469,839</u>
Net position, December 31,	<u>\$ 69,597,667</u>	<u>\$ 40,947,273</u>	<u>\$ 110,544,940</u>	<u>\$ 109,850,449</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Statement of Cash Flows
For the years ended December 31, 2017 and 2016

	2017			2016
	Wastewater Division	Solid Waste Division	Total	
Cash flows from operating activities:				
Receipts from customers and users	\$ 27,769,375	\$ 34,493,832	\$ 62,263,207	\$ 60,217,228
Payments to employees	(6,082,556)	(9,185,061)	(15,267,617)	(15,043,787)
Payments to suppliers	(13,117,430)	(15,729,120)	(28,846,550)	(31,645,391)
Net cash flows from operating activities	<u>8,569,389</u>	<u>9,579,651</u>	<u>18,149,040</u>	<u>13,528,050</u>
Cash flows from non-capital financing activities:				
Operating subsidies and transfers to other funds	(1,350,875)	1,350,875	-	-
Net cash flows from non-capital financing activities	<u>(1,350,875)</u>	<u>1,350,875</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(5,980,414)	(2,532,910)	(8,513,324)	(2,705,410)
Principal paid on debt	(1,752,306)	-	(1,752,306)	(1,703,770)
Proceeds from issuance of debt	1,504,928	-	1,504,928	-
Interest paid on debt	(227,433)	-	(227,433)	(263,782)
Gain on sale of fixed assets	-	146,227	146,227	(19,875)
Net cash flows from capital and related financing activities	<u>(6,455,225)</u>	<u>(2,386,683)</u>	<u>(8,841,908)</u>	<u>(4,692,837)</u>
Cash flows from investing activities:				
Interest income	124,264	414,100	538,364	1,941,133
County appropriation	(360,425)	(439,575)	(800,000)	(800,000)
Transferred from/(to) investments	(27,493,645)	(17,689,404)	(45,183,049)	8,867,748
Net cash flows from investing activities	<u>(27,729,806)</u>	<u>(17,714,879)</u>	<u>(45,444,685)</u>	<u>10,008,881</u>
Net change in cash and cash equivalents	(26,966,517)	(9,171,036)	(36,137,553)	18,844,094
Cash and cash equivalents, January 1	<u>39,555,783</u>	<u>15,666,343</u>	<u>55,222,126</u>	<u>36,378,032</u>
Cash and cash equivalents, December 31,	<u>\$ 12,589,266</u>	<u>\$ 6,495,307</u>	<u>\$ 19,084,573</u>	<u>\$ 55,222,126</u>
Reconciliation of Statements of Net Positions:				
Unrestricted cash and cash equivalents	\$ 9,444,859	\$ 4,587,616	\$ 14,032,475	\$ 43,116,922
Restricted cash and cash equivalents	<u>3,144,407</u>	<u>1,907,691</u>	<u>5,052,098</u>	<u>12,105,204</u>
Total cash and cash equivalents	<u>\$ 12,589,266</u>	<u>\$ 6,495,307</u>	<u>\$ 19,084,573</u>	<u>\$ 55,222,126</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Statement of Cash Flows
For the year ended December 31, 2017

	2017			2016
	Wastewater Division	Solid Waste Division	Total	
Reconciliation of operating income to net cash flows from operating activities:				
Operating (loss)/income	\$ (215,884)	\$ 1,954,513	\$ 1,738,629	\$ 2,619,183
Items which did not use/(provide) cash:				
Depreciation expense	5,394,719	4,513,118	9,907,837	10,530,441
Unbudgeted pension expense	313,204	1,100,924	1,414,128	3,672,500
Working capital changes which provided/(used) cash:				
Accounts receivable	466,149	89,334	555,483	(3,157,309)
Accrued landfill post-closure costs	-	(155,083)	(155,083)	351,221
Accounts and other payables	2,489,313	1,562,831	4,052,144	690,112
Unearned revenues	121,888	-	121,888	(167,489)
Customer deposits	-	(11,695)	(11,695)	23,238
Amounts held by the State	-	525,709	525,709	(1,033,847)
Net cash flows from operating activities	<u>\$ 8,569,389</u>	<u>\$ 9,579,651</u>	<u>\$ 18,149,040</u>	<u>\$ 13,528,050</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Atlantic County Utilities Authority (the “Authority”) have been prepared to conform with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Reporting Entity

The Atlantic County Utilities Authority (the “Authority”) is a public body corporate and politic of the State of New Jersey and was organized as a sewerage authority having the name “The Atlantic County Sewerage Authority” by a resolution of the Board of Chosen Freeholders of the County of Atlantic (the “County”) adopted on May 14, 1969, pursuant to the New Jersey Sewerage Authorities Law of 1946 and a Regional Sewerage Feasibility Study recommending division of the County into regions on the basis of natural drainage features. On August 19, 1981, the Freeholders filed with the State an ordinance reorganizing the Authority as a county authority pursuant to the New Jersey Municipal and County Utilities Authorities Law, Chapter 183 of the Laws of 1957 of the State of New Jersey, as amended and supplemented, and changed the Authority’s name to “Atlantic County Utilities Authority”. By such reorganization, the Act largely superseded the 1946 Act as the Authority’s governing legislation.

The Authority was created for the purpose, among other things, of acquiring, constructing, maintaining, and operating sewage facilities (the “Wastewater System”) for the relief from pollution or threatened pollution of the waters, bordering, or entering the areas within the territorial boundaries of the County and for the improvement of conditions affecting the public health. The Authority’s Wastewater Division operates the Wastewater System. In 1986, the Authority was designated by Atlantic County as its implementing agency for solid waste management pursuant to the Solid Waste Management Act of the State of New Jersey. The Solid Waste Division operates a regional landfill, transfer station, recycling center, composting site, and collection operations.

The Solid Waste and Wastewater Divisions are separate and distinct for ratemaking and operating purposes. Accordingly, the holders of bonds or notes of each division have no claims on the revenues or assets of the other Division.

The Solid Waste Division commenced operations in August of 1990 with the opening of a transfer station for waste disposal. The Solid Waste Division’s recycling activities were still considered to be in a construction state as of December 31, 1991. Recycling operations commenced January 1, 1992, the date when recycling activities were initially included in rates charged to customers.

In the opinion of management, revenues of the Wastewater and Solid Waste Divisions are adequate to cover all operating expenses, debt service and current capital costs.

Component Unit

The Authority’s financial statements include all the accounts of all the Authority’s operations.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Component Unit (continued)

The primary criterion for including activities within a reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is whether:

- the primary government holds the corporate powers of the organization;
- the primary government appoints a voting majority of the organization's board;
- the primary government is able to impose its will on the organization;
- the organization has the potential to impose a financial benefit/burden on the primary government;
- there is a fiscal dependency by the organization on the primary government;

Based on the above criterion, the Authority is a component unit of the County. The Authority does issue separate financial statements from the County. However, if the County presented its financial statements in accordance with GAAP, these financial statements would be included with the County's on a blended basis.

Basis of Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of State and Local Governments on a going concern basis.

All activities of the Authority are accounted for within proprietary (enterprise) funds. Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, accountability or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflow or outflow of resources associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt and unrestricted components.

Basis of Accounting

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.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

Revenues -- Exchange and Non-Exchange Transactions - 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. Sewer service charges are recognized as revenue when services are provided.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Expenses - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Budgets and Budgetary Accounting

The Authority must adopt an annual budget in accordance with *N.J.A.C. 5:31-2*. *N.J.A.C. 5:31-2* requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt no later than the beginning of the Authority's fiscal year.

The governing body may amend the budget at any point during the year by resolution of the Board of Commissioners. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included.

The legal level of budgetary control is established at the detail shown on the Comparative Statements of Revenues, Expenses and Changes in Net Position. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended.

The Authority records encumbrances. An encumbrance represents a commitment related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance does not represent an expenditure for the period, only a commitment to expend resources. At year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Wastewater Service Contract

The Authority has a Wastewater Service Contract with the Atlantic City Sewerage Company, the Cities of Absecon, Brigantine, Egg Harbor, Linwood, Margate, Northfield, Pleasantville, Somers Point, Ventnor, the Borough of Longport, the Township of Galloway, the Township of Hamilton Municipal Utilities Authority, and the Egg Harbor Township Municipal Utilities Authority, collectively referred to as the “Participants”. Presently, Participants make up the Atlantic County Coastal Region.

The Service Contract provides for the determination of an annual charge to each Participant, which consists of an operating charge and a general charge. The service contract further provides that the operating charge shall, at times, be sufficient to provide annually for the expenses of operating, repairing, and maintaining the Wastewater System and the costs of all enlargements and alterations to the System not otherwise provided for, and the general charge shall, at times, be sufficient annually to pay the principal and interest on all bonds or other obligations of the Authority as they become due, to provide for any deficits of the Authority resulting from the failure to receive sums payable to the Authority, and to provide and maintain such reserves and sinking funds for any of the foregoing purposes as may be required by the terms of any contract or other obligation of the Authority.

Wastewater Bond Resolutions

The Sewer Revenue Refunding and Sewer Revenue Bonds were issued pursuant to a general bond resolution of the Authority. The general bond resolution, as supplemented, is hereinafter referred to as the “Resolution.”

Revenue Fund – All cash receipts attributable to the operations, maintenance and repair of the Wastewater System are deposited in this fund and are used to pay for the cost of such. On a monthly basis, the Trustee shall retain in the Revenue Fund, a reserve for operations, the amount shown by the Authority’s annual budget to be required for operating expenses, less other sources of revenue, for the next succeeding period of three consecutive calendar months and transfer the remaining balance to satisfy the requirements of the following funds, listed in order of priority.

Restricted Funds:

Construction Fund – All costs pertaining to the acquisition or construction of a designated project shall be paid from this Fund and capitalized herein. The proceeds from the sale of bonds and certain receipts are deposited herein to pay for all such construction costs. Interest earned on investments in this fund is credited to project costs. At December 31, 2017 and 2016, the Construction Fund and Wastewater Trust Fund cash equivalents amounted to \$10 and \$0, respectively.

Rebate Fund – The balance in this fund shall be maintained in an amount sufficient to make payments to the United States Treasury for investment earnings above levels permitted by Section 148(f) of the Internal Revenue Code of 1986, as amended. At December 31, 2017 and 2016, the Rebate Fund amounted to \$0.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Wastewater Bond Resolutions (continued)

Debt Service Fund – The Debt Service Fund is to accumulate a balance sufficient to pay the interest and principal to become due at or before the January 15th next ensuing, plus any unpaid principal and interest then due. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. In addition, a sinking fund is included which shall equal the aggregate amount of all sinking fund installments required to redeem bonds on the next January 15th for the Sewer Revenue Refunding Bonds. At December 31, 2017 and 2016, the Debt Service Fund cash amounted to \$208,437 and \$339,205, respectively.

Debt Service Reserve Fund (1997, 2001, 2004, 2009 and 2013 Series) – The balance in this Reserve Fund shall be maintained equal to the maximum amount of principal and interest payable in any one year on the Wastewater Revenue Bonds (1997, 2001, 2004, 2009 and 2013 Series) less any surety. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. At December 31, 2017 and 2016, the market value of the Debt Service Reserve Fund cash and investments amounted to \$1,149,027 and \$1,151,370, respectively.

Renewal and Replacement Fund – The balance in this fund shall be maintained equal to 3% of gross revenues or such larger amount as determined by the Consulting Engineer. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. With approval of the Consulting Engineer, this fund may be used to meet reasonable and necessary expenses for major repairs, renewals, replacements or maintenance items of a type not recurring annually. At December 31, 2017 and 2016, the Renewal and Replacement Fund balances totaled \$7,597,099 and \$7,123,917, respectively. The System Reserve Fund, a component of the Renewal and Replacement Fund, cash requirement at December 31, 2017 and 2016 was \$7,000,000 and \$5,800,000, respectively.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash in banks and may include petty cash and change funds. It may also include all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey Authorities are required by *N.J.S.A. 40A:5-14* to deposit public funds into a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States of America or State of New Jersey or the New Jersey Cash Management Fund. *N.J.S.A. 40A:5-15.1* provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required by *N.J.S.A. 17:9-41* to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash, Cash Equivalents and Investments (continued)

Additionally, the Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

Capital Assets

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased are stated at cost. Assets contributed by developer's are valued at estimated fair market value as of the date of contribution. Costs incurred for construction projects are recorded as construction in progress. In the year that the project is completed, these costs are transferred to capital assets.

Depreciation is determined on a straight-line basis for all capital assets. Depreciation was provided over the following estimated useful lives:

	<u>Years</u>
Sewer mains and interceptors	50
Buildings and improvements	40
Incinerator facility	40
Pump stations	35
Machinery and equipment	5-10
Vehicles	5-10

Landfill cells are depreciated on the basis of capacity utilized.

The cost and related accumulated depreciation of all capital assets retired or otherwise disposed of are removed from the accounts and any resulting gain or loss is included in income.

Restricted Assets

Restricted cash and investments are for future construction, debt service requirements and system reserve requirements.

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Compensated absences represent amounts to which employees are entitled, based on accumulated vacation leave earned in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated vacation leave in the event of termination or retirement from service at their current salary.

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.

Wastewater Revenues

Charges imposed with respect to sewage or other wastes delivered into the System by anyone who is not a Participant are included in other operating revenues.

Allocation of Common Costs

Certain administrative salaries and other administrative costs are allocated between the Wastewater and Solid Waste Division based on management's estimates.

Pensions Section

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 the PERS's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Net Position

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the Authority has classified its net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position (continued)

Restricted Net Position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Income Taxes

The Authority operates as defined by Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amount.

Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The adoption this Statement had no impact on the Authority's financial statements.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adopted Accounting Pronouncements (continued)

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The adoption this Statement had no impact on the Authority's financial statements.

Recently Issued Accounting Pronouncements

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

Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting requirements for certain asset retirement obligations and establishes the timing and pattern of recognition of a liability and corresponding deferred outflow of resources. This Statement will be effective for the year ended December 31, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will be effective for the year ended December 31, 2019. Management does not expect this Statement to impact the Authority's financial statements.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements (continued)

Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement will become effective for the Authority in the fiscal year ending December 31, 2018. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement will become effective for the Authority in the fiscal year ending December 31, 2020. Management has not yet determined the impact of this Statement on the financial statements.

Fair Value Measurement

The Authority categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level I – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement (continued)

Level II – Inputs that include quoted market prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised values.

Subsequent to initial recognition, the Authority may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Subsequent Events

Atlantic County Utilities Authority has evaluated subsequent events occurring after December 31, 2017 through June 2, 2018, which is the date the financial statements were available to be issued. See subsequent event in Note 12.

NOTE 2: CASH AND CASH EQUIVALENTS

This Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits held at December 31, 2017 and 2016, reported at fair value, are as follows:

	2017	2016
Deposits:		
Demand deposits	<u>\$19,084,573</u>	<u>\$55,222,126</u>
Total deposits	<u>\$19,084,573</u>	<u>\$55,222,126</u>
 Reconciliation to Statements of Net Position:		
Current unrestricted assets:		
Cash and cash equivalents	\$14,032,475	\$43,116,922
Current restricted assets:		
Cash and cash equivalents	<u>5,052,098</u>	<u>12,105,204</u>
Total deposits	<u>\$19,084,573</u>	<u>\$55,222,126</u>

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority’s deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, *N.J.S.A. 17:9-41 et seq.* requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, 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.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 2: CASH AND CASH EQUIVALENTS (continued)

However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as Uninsured and Uncollateralized in the schedule below. As of December 31, 2017 and 2016, the Authority's bank balances were insured or exposed to credit risk as follows:

	2017	2016
Insured by FDIC	\$ 908,081	\$ 888,100
Collateralized in the Authority's name under GUDPA	17,807,828	54,833,778
Total	\$ 18,715,909	\$ 55,721,878

NOTE 3: INVESTMENTS

Custodial Credit Risk

For investments, custodial credit risk is a 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 are held in the name of the Authority and are collateralized by GUDPA.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Other than the rules and regulations promulgated by N.J.S.A. 40A:5-15.1, the Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure; however, investments are matched with anticipated cash flows to minimize interest rate risk.

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. Other than the rules and regulations promulgated by *N.J.S.A. 40A:5-15.1*, the Authority's investment policies place no limit on the amount the Authority may invest in any one issuer.

Investment Credit Risk

New Jersey authorities are limited as to the types of investments and types of financial institutions they may invest in. *N.J.S.A. 40A:5-15.1* provides a list of permissible investments that may be purchased by New Jersey authorities. These permissible investments generally include bonds or other obligations of the United States of America or obligations guaranteed by the United States of America, government money market mutual funds, any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, bonds or other obligations of the

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 3: INVESTMENTS (continued)

Investment Credit Risk (continued)

local unit or other obligations of the local unit or units within which the Authority is located, bonds or other obligations approved by the Division of Investment in the Department of Treasury for investment by authorities, local government investment pools, deposits with the State of New Jersey Cash Management Fund, and agreements for the purchase of fully collateralized securities with certain provisions.

The Authority has also adopted a cash management plan stating that “Authority funds may be invested in Investment Obligations, which shall mean and include any security that is legal for the investment of funds of the Authority, at the time of such investment, as authorized by applicable law including, without limitation, N.J.S. 40A:5-15.1, provided, however that such Investment Obligations must be authorized investments pursuant to any applicable Bond Documents.”

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

	2017		2016	
	<u>Face Value</u>	<u>Market</u>	<u>Face Value</u>	<u>Market</u>
Wastewater:				
Unrestricted				
Certificates of Deposit - Various Issuers	\$ 6,800,000	\$ 6,783,283	\$ -	\$ -
New Jersey ARM	-	-	5,000,000	5,000,000
US Treasury Bills	1,586,162	1,590,871	-	-
US Treasury Notes	20,422,783	20,244,788	-	-
Restricted				
US Treasury Bills	1,437,459	3,969,155	-	-
US Treasury Notes	4,398,461	1,841,011	-	-
Solid Waste:				
Unrestricted				
Certificates of Deposit - Various Issuers	5,040,000	5,021,821	-	-
New Jersey ARM	-	-	5,000,000	5,000,000
US Treasury Bills	768,297	770,579	-	-
US Treasury Notes	11,052,995	10,992,293	-	-
Restricted				
New Jersey ARM	-	-	4,700,000	4,700,000
US Treasury Bills	3,757,813	3,766,164	-	-
US Treasury Notes	5,298,371	5,290,023	-	-
Total	<u>\$60,562,341</u>	<u>\$ 60,269,988</u>	<u>\$ 14,700,000</u>	<u>\$ 14,700,000</u>

Fair Value of Investments

Investments are shown at fair value on the statement of net position. Fair value and face value of investments at December 31, 2017 and 2016 are summarized above.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 4: ACCOUNTS RECEIVABLE

Consumer accounts receivable, net of allowance for doubtful accounts of \$52,240, totaled \$5,633,288 at December 31, 2017. Consumer accounts receivable, net of allowance for doubtful accounts of \$52,240, totaled \$6,188,771 at December 31, 2016. Consumer accounts receivable consisted of unrestricted receivables entirely from customer accounts.

NOTE 5: CAPITAL ASSETS

The activity in capital assets for the year ended December 31, 2017 is as follows:

<u>Wastewater Division</u>	Balance December 31, <u>2016</u>	<u>Additions</u>	Retirements and Transfers	Balance December 31, <u>2017</u>
Capital Assets not being depreciated:				
Land	\$ 12,691,336	\$ -	\$ -	\$ 12,691,336
Construction in Progress	647,328	4,651,421	-	5,298,749
Total Capital Assets not being depreciated	<u>13,338,664</u>	<u>4,651,421</u>	<u>-</u>	<u>17,990,085</u>
Capital Assets being depreciated:				
Sewer Mains and Interceptors	78,054,066	1,043,421	-	79,097,487
Buildings and Improvements	51,150,440	-	-	51,150,440
Equipment and Vehicles	40,398,043	285,572	-	40,683,615
Incinerator Facility	16,353,524	-	-	16,353,524
Atlantic Coastal Alternative	26,629,575	-	-	26,629,575
Total Capital Assets being depreciated	<u>212,585,648</u>	<u>1,328,993</u>	<u>-</u>	<u>213,914,641</u>
Less: Accumulated Depreciation:	(167,035,343)	(5,394,719)	-	(172,430,062)
Total Capital Assets being depreciated, net	<u>45,550,305</u>	<u>(4,065,726)</u>	<u>-</u>	<u>41,484,579</u>
Total Capital Assets, net	<u>\$ 58,888,969</u>	<u>\$ 585,695</u>	<u>\$ -</u>	<u>\$ 59,474,664</u>

<u>Solid Waste</u>	Balance December 31, <u>2016</u>	<u>Additions</u>	Retirements and Transfers	Balance December 31, <u>2017</u>
Capital Assets not being depreciated:				
Land	\$ 14,758,845	\$ -	\$ -	\$ 14,758,845
Construction in Progress	303,651	9,442	(303,651)	9,442
Total Capital Assets not being depreciated	<u>15,062,496</u>	<u>9,442</u>	<u>(303,651)</u>	<u>14,768,287</u>
Capital Assets being depreciated:				
Buildings and Improvements	31,666,499	-	-	31,666,499
Equipment and Vehicles	26,994,776	1,861,325	(729,332)	28,126,769
Landfill Design and Implementation	63,292,904	662,144	-	63,955,048
Planning and Design	3,375,832	-	-	3,375,832
Total Capital Assets being depreciated	<u>125,330,011</u>	<u>2,523,469</u>	<u>(729,332)</u>	<u>127,124,148</u>
Less: Accumulated Depreciation:	(101,266,624)	(4,513,118)	721,838	(105,057,904)
Total Capital Assets being depreciated, net	<u>24,063,387</u>	<u>(1,989,649)</u>	<u>(7,494)</u>	<u>22,066,244</u>
Total Capital Assets, net	<u>\$ 39,125,883</u>	<u>\$ (1,980,207)</u>	<u>\$ (311,145)</u>	<u>\$ 36,834,531</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 5: CAPITAL ASSETS (continued)

The activity in capital assets for the year ended December 31, 2016 is as follows:

<u>Wastewater Division</u>	Balance December 31, <u>2015</u>	<u>Additions</u>	Retirements and Transfers	Balance December 31, <u>2016</u>
Capital Assets not being depreciated:				
Land	\$ 12,691,336	\$ -	\$ -	\$ 12,691,336
Construction in Progress	-	647,328	-	647,328
Total Capital Assets not being depreciated	<u>12,691,336</u>	<u>647,328</u>	<u>-</u>	<u>13,338,664</u>
Capital Assets being depreciated:				
Sewer Mains and Interceptors	78,054,066	-	-	78,054,066
Buildings and Improvements	51,150,440	-	-	51,150,440
Equipment and Vehicles	40,398,043	-	-	40,398,043
Incinerator Facility	16,353,524	-	-	16,353,524
Atlantic Coastal Alternative	26,629,575	-	-	26,629,575
Total Capital Assets being depreciated	<u>212,585,648</u>	<u>-</u>	<u>-</u>	<u>212,585,648</u>
Less: Accumulated Depreciation:	(161,648,228)	(5,387,115)	-	(167,035,343)
Total Capital Assets being depreciated, net	<u>50,937,420</u>	<u>(5,387,115)</u>	<u>-</u>	<u>45,550,305</u>
Total Capital Assets, net	<u>\$ 63,628,756</u>	<u>\$ (4,739,787)</u>	<u>\$ -</u>	<u>\$ 58,888,969</u>
<u>Solid Waste</u>	Balance December 31, <u>2015</u>	<u>Additions</u>	Retirements and Transfers	Balance December 31, <u>2016</u>
Capital Assets not being depreciated:				
Land	\$ 14,758,845	\$ -	\$ -	\$ 14,758,845
Construction in Progress	-	303,651	-	303,651
Total Capital Assets not being depreciated	<u>14,758,845</u>	<u>303,651</u>	<u>-</u>	<u>15,062,496</u>
Capital Assets being depreciated:				
Buildings and Improvements	31,420,881	245,618	-	31,666,499
Equipment and Vehicles	26,893,686	1,255,528	(1,154,438)	26,994,776
Landfill Design and Implementation	63,019,744	273,160	-	63,292,904
Planning and Designs	3,375,832	-	-	3,375,832
Total Capital Assets being depreciated	<u>124,710,143</u>	<u>1,774,306</u>	<u>(1,154,438)</u>	<u>125,330,011</u>
Less: Accumulated Depreciation:	(97,180,060)	(5,143,326)	1,056,762	(101,266,624)
Total Capital Assets being depreciated, net	<u>27,530,083</u>	<u>(3,369,020)</u>	<u>(97,676)</u>	<u>24,063,387</u>
Total Capital Assets, net	<u>\$ 42,288,928</u>	<u>\$ (3,065,369)</u>	<u>\$ (97,676)</u>	<u>\$ 39,125,883</u>

The Atlantic County Coastal Alternative project comprises the force mains and pumping stations necessary to connect Hamilton and Egg Harbor Township into the Authority's Wastewater System.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: LIABILITIES

During the years ended December 31, 2017 and 2016, the following changes occurred in long-term obligations:

	Balance			Balance	
	<u>December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2017</u>	<u>Balance Due Within One Year</u>
Bonds Payable	\$ 12,492,151	\$ 1,504,928	\$ 1,752,306	\$ 12,244,773	\$ 1,096,302
Compensated Absences	1,168,191	-	364,593	803,598	-
Net Pension Liability	53,824,768	-	12,020,809	41,803,959	-
NJEIT Loan Payable, net	440,666	2,804,630	-	3,245,296	3,245,296
	<u>\$ 67,925,776</u>	<u>\$ 4,309,558</u>	<u>\$ 14,137,708</u>	<u>\$ 58,097,626</u>	<u>\$ 4,341,598</u>

	Balance			Balance	
	<u>December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>	<u>Balance Due Within One Year</u>
Bonds Payable	\$ 14,195,921	\$ -	\$ 1,703,770	\$ 12,492,151	\$ 1,752,306
Compensated Absences	1,131,516	36,675	-	1,168,191	-
Net Pension Liability	40,804,441	13,020,327	-	53,824,768	-
NJEIT Loan Payable, net	-	440,666	-	440,666	440,666
	<u>\$ 56,131,878</u>	<u>\$ 13,497,668</u>	<u>\$ 1,703,770</u>	<u>\$ 67,925,776</u>	<u>\$ 2,192,972</u>

Bonds Payable

At December 31, 2017, bonds payable consisted of the following issues:

\$1,972,543 New Jersey Wastewater Trust Fund Loan dated 2001, due in semiannual installments for principal and interest through August 1, 2021, bearing interest at various rates from 0.00% to 5.50% per annum. The balance remaining as of December 31, 2017 is \$475,847.

\$4,919,402 New Jersey Environmental Infrastructure Trust Fund Loan dated 2004, due in semiannual installments for principal and interest through August 1, 2024, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2017 is \$1,943,551.

\$2,551,272 New Jersey Environmental Infrastructure Trust Fund Loan dated 2006, due in semiannual installments for principal and interest through August 1, 2026, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2017 is \$1,128,670.

\$3,008,252 New Jersey Environmental Infrastructure Trust Fund Loan dated 2007, due in semiannual installments for principal and interest through August 1, 2027, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2017 is \$1,627,426.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: LIABILITIES (continued)

Bonds Payable (continued)

\$3,987,500 New Jersey Environmental Infrastructure Trust Fund Loan Series 2010A, dated February 2010, due in semiannual installments for principal and interest through August 1, 2029, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2017 is \$2,726,250.

\$1,710,000 New Jersey Environmental Infrastructure Trust Fund Loan Series 2010B, dated December 2010, due in semiannual installments for principal and interest through September 1, 2030, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2017 is \$1,258,930.

\$2,065,563 New Jersey Environmental Infrastructure Trust Fund Loan Series 2012, dated January 2012, due in semiannual installments for principal and interest through August 1, 2031, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2017 is \$1,579,171.

\$1,504,928 New Jersey Environmental Infrastructure Trust Fund Loan Series 2017, dated November 2017, due in semiannual installments for principal and interest through August 1, 2037, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2017 is \$1,504,928.

The following is a summary of remaining long-term revenue bond payments:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,096,302	\$ 199,059	\$ 1,295,361
2019	1,147,364	184,095	1,331,459
2020	1,179,115	165,895	1,345,010
2021	1,170,168	145,683	1,315,851
2022	1,065,528	126,420	1,191,948
2023-2027	4,481,190	377,356	4,858,546
2028-2031	1,692,837	74,435	1,767,272
2033-2037	412,269	11,156	423,425
	<u>\$ 12,244,773</u>	<u>\$ 1,284,099</u>	<u>\$ 13,528,872</u>

Compensated Absences

The estimated liability for vested compensated absences is recorded as a noncurrent liability. The current portion of the compensated absences balance is not considered material and therefore is not shown separately from the long-term liability of compensated absences.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: LIABILITIES (continued)

Net Pension Liability

For details on the net pension liability, see Pension Obligations in Note 7. The Authority’s annual required contribution to the Public Employees' Retirement System is budgeted and paid on an annual basis.

NJEIT Loans Payable

The Authority closed on four interim financing loans with the NJEIT that act as construction loans until total project costs are available and long-term financing can be scheduled. The loans totaled \$6,141,305. As of December 31, 2017, \$1,058,204 was borrowed, leaving \$5,083,101 available to fund remaining project costs. Additionally, the Authority had one remaining 2016 NJEIT interim financing loan outstanding with \$2,187,092 borrowed, leaving an available balance of \$2,514,595 at December 31, 2017.

Post-Retirement Benefits

The Authority participates in the New Jersey State Health Benefits Program (“the SHBP”), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* (“OPEB”). The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pension and Benefits.

Under the SHBP, retirees may continue the health benefits programs in which they are enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at group rates) for themselves and their eligible dependents.

A retiree may also receive Authority-paid health benefits in accordance with labor agreements if they have twenty-five (25) or more years enrolled in the pension system.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The SHBP is established under the authority of N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. The required contribution rate is determined on an annual pay as you go basis. The following table illustrates annual contributions:

		Authority Required Contributions		Employee Contributions		Total Contributions
2017	\$	6,038,961	\$	787,945	\$	6,826,906
2016	\$	5,728,605	\$	751,311	\$	6,479,916
2015	\$	5,358,728	\$	721,435	\$	6,080,163

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 7: PENSION OBLIGATIONS

Public Employees' Retirement System (PERS)

Plan Description - The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR), which can be found at <http://www.nj.gov/treasury/pensions/financial-reports.shtml>.

The vesting and benefit provisions are set by *N.J.S.A. 43:15A*. PERS 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 PERS.

The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 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 is 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 with 25 or more years of service credit before age 62 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 at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 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.

Basis of Presentation - The schedules of employer allocations and the schedules of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Contributions - The contribution policy for PERS is set by *N.J.S.A. 43:15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For the fiscal year 2017, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. For the year ended December 31, 2017, the Authority's contractually required contribution to PERS plan was \$1,663,641.

Components of Net Pension Liability - At December 31, 2017, the Authority's proportionate share of the PERS net pension liability was \$1,663,641. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017. The Authority's proportion measured as of June 30, 2017, was 0.17958% which was a decrease of 0.00216% from its proportion measured as of June 30, 2016.

Collective Balances at December 31, 2017 and December 31, 2016

	<u>12/31/2017</u>	<u>12/31/2016</u>
Actuarial valuation date (including roll forward)	June 30, 2017	June 30, 2016
Deferred Outflows of Resources	\$ 10,165,371	\$ 14,851,681
Deferred Inflows of Resources	8,840,385	91,758
Net Pension Liability	41,803,959	53,824,768
Authority's portion of the Plan's total net pension Liability	0.17958%	0.18174%

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Pension Expense and Deferred Outflows/Inflows of Resources - At December 31, 2017, the Authority's proportionate share of the PERS expense, calculated by the plan as of the June 30, 2017 measurement date is \$3,080,783. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 984,339	\$ -
Changes of Assumptions	8,422,057	8,391,180
Net Difference between Projected and Actual Earnings on Pension Plan Investments	284,657	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	474,318	449,205
	\$ 10,165,371	\$ 8,840,385

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

The Authority will amortize the above sources of deferred outflows and inflows related to PERS over the following number of years:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
June 30, 2017	5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57
June 30, 2017	5.48	5.48

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

The following is a summary of the deferred outflows of resources and deferred inflows of resources related to PERS that will be recognized in future periods:

Year Ending	Amount
<u>Dec 31,</u>	
2018	\$ 1,084,759
2019	1,577,350
2020	953,269
2021	(1,368,042)
2022	<u>(922,350)</u>
	<u>\$ 1,324,986</u>

Actuarial Assumptions - The total pension liability for the June 30, 2017 measurement date was determined by using an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

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
Period of Actuarial Experience	
Study upon which Actuarial Assumptions were Based	July 1, 2011 - June 30, 2014

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, 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 the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long-Term Expected Rate of Return - In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash	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%
	<u>100.00%</u>	

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Discount Rate - The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 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 rate assumed 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 contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Authority's proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as disclosed above, 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-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

	1% Decrease <u>(4.00%)</u>	Current Discount Rate <u>(5.00%)</u>	1% Increase <u>(6.00%)</u>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 51,860,648</u>	<u>\$ 41,803,959</u>	<u>\$ 33,425,490</u>

NOTE 8: LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Authority adopted the provisions of Statement No. 18 of the Government Accounting Standards Board, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, in 1993. This Standard requires the Authority to recognize an expense and a liability in each period it accepts solid waste for a portion of the landfill closure and postclosure costs expected to be incurred in future periods. The estimated current cost is based on use of landfill capacity rather than passage of time. The estimated liability as of December 31, 2017 and 2016 totaled \$32,837,954 and \$32,993,037, respectively. For the years ended December 31, 2017 and 2016 landfill closure capacity used was 64.2% and 61.7% respectively.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 9: AMOUNTS HELD BY THE STATE OF NEW JERSEY

The State of New Jersey holds the Landfill Closure Escrow Account in the name of the Atlantic County Utilities Authority. These cash and investments consisted of the following at December 31, 2017:

United States Treasury	\$ 29,405,241
Cash	<u>369,168</u>
 Total	 <u>\$ 29,774,409</u>

NOTE 10: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

NOTE 11: DEFERRED COMPENSATION

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible regular employees, permits them to defer a portion of their salary until future years. The deferred compensation is 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 have been removed from the books and accounts of the Authority as they are not the property or rights of the Authority.

NOTE 12: SUBSEQUENT EVENT

New Jersey Environmental Infrastructure Trust

On March 15, 2018, the Authority closed on permanent financing with the New Jersey Environmental Infrastructure Trust for Series 2018A. The total original loan amount was \$996,396. The Authority received \$252,420 of principal forgiveness on this loan resulting in a final loan amount of \$743,976.

On March 15, 2018, the Authority closed on permanent financing with the New Jersey Environmental Infrastructure Trust for Series 2018B. The total original loan amount was \$4,852,159. The Authority received \$1,213,040 of principal forgiveness on this loan resulting in a final loan amount of \$3,639,119.

On May 22, 2018, the Authority closed on permanent financing with the New Jersey Environmental Infrastructure Trust for Series 2018C. The total loan amount was \$330,000. No principal forgiveness was received on this loan.

ATLANTIC COUNTY UTILITIES AUTHORITY
Wastewater Division
Statement of Net Position
Modified Accrual Basis
December 31, 2017 and 2016

	2017	2016
ASSETS		
Unrestricted current assets:		
Cash and cash equivalents	\$ 9,444,859	\$ 30,941,291
Investments	28,618,942	5,000,000
Accrued interest receivable	142,531	9,669
Accounts receivable	2,853,009	3,319,158
Total unrestricted current assets	41,059,341	39,270,118
Restricted noncurrent assets:		
Cash and cash equivalents	3,144,407	8,614,492
Investments	5,810,166	-
Accrued interest receivable	27,428	-
Loans receivable	145,848	-
Total restricted noncurrent assets	9,127,849	8,614,492
Capital assets, gross	231,904,726	225,924,312
Accumulated depreciation	(172,430,062)	(167,035,343)
Capital assets, net	59,474,664	58,888,969
TOTAL ASSETS	109,661,854	106,773,579

ATLANTIC COUNTY UTILITIES AUTHORITY
Wastewater Division
Statement of Net Position
Modified Accrual Basis
December 31, 2017 and 2016

	2017	2016
LIABILITIES		
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	4,202,698	4,121,465
Unearned revenue, current	40,870	-
Due to Solid Waste Division	635,109	1,985,984
Pension payable	732,582	723,319
Total current liabilities payable from current assets	5,611,259	6,830,768
Current liabilities payable from restricted assets:		
Construction contracts payable	1,224,330	18,804
Current portion of long-term debt	1,096,302	1,752,306
NJEIT loan payable, net	3,245,296	440,666
Accrued interest	78,659	94,764
Total current liabilities payable from restricted assets	5,644,587	2,306,540
Noncurrent liabilities:		
Accrued compensated absences	373,883	656,619
Post retirement benefits payable	535,019	535,019
Unearned revenue, non-current	81,018	-
Long-term portion of bonds payable	11,148,471	10,739,845
Total noncurrent liabilities	12,138,391	11,931,483
TOTAL LIABILITIES	23,394,237	21,068,791
NET POSITION		
Investment in capital assets, net of related debt	43,984,595	45,956,152
Restricted for:		
Renewal and replacement	7,000,000	5,800,000
Debt service fund	208,437	339,205
Debt service reserve fund	429,758	1,150,757
Unrestricted	34,644,827	32,458,674
TOTAL NET POSITION	86,267,617	85,704,788
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 109,661,854	\$ 106,773,579

ATLANTIC COUNTY UTILITIES AUTHORITY
Wastewater Division
Statement of Revenues, Expenses and Changes in Net Position
Modified Accrual Basis
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
User service agreements:		
Operating	\$ 22,318,899	\$ 22,960,225
General	1,025,022	1,958,329
Sludge	2,211,839	2,204,097
Septage and leachate	337,919	904,548
Other	1,287,659	1,337,456
Total operating revenues	<u>27,181,338</u>	<u>29,364,655</u>
Operating expenses:		
Salaries	6,082,556	6,132,440
Employee benefits	4,061,657	3,725,794
Power and utilities	2,343,096	2,687,946
Chemicals	703,980	831,329
Fuel	1,094,207	1,087,511
Supplies and miscellaneous maintenance	3,828,771	3,385,911
Contractual services	557,651	841,588
Indirect operating expenses	631,173	639,740
Administrative	1,454,347	1,380,497
Licenses and permits	179,153	188,357
Depreciation	5,394,719	5,387,115
Total operating expenses	<u>26,331,310</u>	<u>26,288,228</u>
Operating income	<u>850,028</u>	<u>3,076,427</u>
Non-operating revenues/(expenses):		
County appropriation	(360,425)	(373,549)
Interest income	284,554	163,340
Interest expense	(211,328)	(248,637)
Total non-operating revenues/(expenses)	<u>(287,199)</u>	<u>(458,846)</u>
Net income	562,829	2,617,581
Net position, January 1,	<u>85,704,788</u>	<u>83,087,207</u>
Net position, December 31,	<u>\$ 86,267,617</u>	<u>\$ 85,704,788</u>
Reconciliation to Statements of Revenues, Expenses and Changes in Net Position - GAAP Basis:		
Net income - modified accrual basis	\$ 562,829	\$ 2,617,581
Prior year wastewater GAAP adjustment	(1,897,461)	(1,130,974)
Current year wastewater GAAP Adjustment	1,144,753	1,897,461
Unbudgeted pension expense	(313,204)	(1,971,149)
Net (loss)/income - GAAP basis	<u>\$ (503,083)</u>	<u>\$ 1,412,919</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Wastewater Division
Operating Revenues and Costs Funded by Operating Revenues Compared to Budget
Rate Basis
For the year ended December 31, 2017

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Revenues:				
User service agreements	\$ 23,343,920	\$ 23,343,920	\$ 23,343,920	\$ -
Sludge and septage	2,098,480	2,098,480	2,549,757	451,277
Interest on investments and deposits	100,000	100,000	284,554	184,554
Miscellaneous	1,265,988	1,265,988	1,287,660	21,672
Fund balance and reserves anticipated	360,425	360,425	360,425	-
Total revenues	<u>27,168,813</u>	<u>27,168,813</u>	<u>27,826,316</u>	<u>657,503</u>
Expenses:				
Salaries	6,440,503	6,440,503	6,082,556	357,947
Employee benefits	4,445,489	4,445,489	4,061,657	383,832
Power and utilities	2,684,500	2,684,500	2,486,343	198,157
Chemicals	1,548,000	1,548,000	760,840	787,160
Fuel	1,336,000	1,336,000	1,094,207	241,793
Supplies and miscellaneous maintenance	1,434,000	1,434,000	1,448,716	(14,716)
Contractual services	756,860	756,860	688,233	68,627
Indirect operating expenses	925,795	925,795	810,326	115,469
Administrative	1,895,288	1,895,288	1,521,111	374,177
Maintenance program expense	2,000,000	2,000,000	2,363,203	(363,203)
Cancelled purchase orders	-	-	(380,602)	380,602
Total operating expenses	<u>23,466,435</u>	<u>23,466,435</u>	<u>20,936,590</u>	<u>2,529,845</u>
Non-operating expenses:				
County appropriation	360,425	360,425	360,425	-
System reserve requirements	1,291,910	1,291,910	1,291,910	-
Debt service interest	222,531	222,531	211,328	11,203
Debt service principal	1,827,512	1,827,512	1,752,306	75,206
Total non-operating expenses	<u>3,702,378</u>	<u>3,702,378</u>	<u>3,615,969</u>	<u>86,409</u>
Total expenses	<u>27,168,813</u>	<u>27,168,813</u>	<u>24,552,559</u>	<u>2,616,254</u>
Net income from operations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,273,757</u>	<u>\$ 3,273,757</u>

**Reconciliation to Statements of Revenues, Expenses
and Changes in Net Position - Modified Accrual Basis:**

Net income - rate basis	\$ 3,273,757
Fund balance and reserves anticipated	(360,425)
System reserve requirements	1,291,910
Principal payments	1,752,306
Depreciation expense	(5,394,719)
Prior year wastewater GAAP adjustment	(1,897,461)
Current year wastewater GAAP Adjustment	1,144,753
Unbudgeted pension expense	<u>(313,204)</u>
Net loss - GAAP basis	<u>\$ (503,083)</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Wastewater Division
Schedule of Cash and Cash Equivalents and Investments
December 31, 2017

Description	Face Amount	Interest Rate	Maturity Date	Fair Value December 31, 2017
Unrestricted accounts:				
Cash	\$ 557,840			\$ 557,840
First American Treasury Obligation Fund	5,243,195	0.76%		5,243,195
Certificates of Deposit - Various Issuers	3,500,000	1.4%-1.75%	2/4/2019 - 11/1/2019	3,483,282
PFM Asset Management - NJ ARM	142,576	1.15%		142,576
PFM Asset Management - US Treasury Notes	12,015,205	1.125%-1.5%	2/28/2019 - 8/15/2020	11,909,999
PFM Asset Management - US Treasury Bills	1,985,841	*	2/22/2018 - 5/24/2018	1,992,503
PFM Asset Management - NJ ARM	135,430	0.76%		135,430
PFM Asset Management - US Treasury Notes	8,407,578	1.125%-1.5%	2/28/2019 - 8/15/2020	8,334,789
PFM Asset Management - US Treasury Bills	1,191,504	*	2/22/2018 - 5/24/2018	1,195,502
	<u>33,179,169</u>			<u>32,995,116</u>
Operating reserve:				
First American Treasury Money Market	394	0.76%		394
Certificate of Deposit-Capital Bank of NJ	3,300,000	1.25%	2/22/2019	3,300,000
PFM Asset Management - NJ ARM	1,768,291	1.15%		1,768,291
	<u>38,247,854</u>			<u>38,063,801</u>
Restricted accounts:				
Wastewater Trust Fund:				
First American Treasury Money Market:	10	0.76%		10
Debt Service Fund:				
First American Treasury	208,437	0.76%		208,437
Debt Service Reserve Fund:				
First American Treasury Obligation Fund	34,581	0.76%		34,581
PFM Asset Management - NJ ARM	717,727	1.15%		717,727
PFM Asset Management - US Treasury Note	399,125	1.125%		396,719
	<u>1,151,433</u>			<u>1,149,027</u>
Renewal and Replacement Fund:				
PFM Asset Management - NJ ARM	1,784,369	0.76%		1,784,369
PFM Asset Management - US Treasury Notes	3,999,336	1.125%-1.625%	2/28/2019 - 7/31/2019	3,971,719
PFM Asset Management - US Treasury Bills	1,835,255	*	2/22/2018 - 5/24/2018	1,841,011
	<u>7,618,960</u>			<u>7,597,099</u>
	<u>8,978,840</u>			<u>8,954,573</u>
Total	<u>\$ 47,226,694</u>			<u>\$ 47,018,374</u>
Unrestricted:				
Cash and cash equivalents	\$ 9,438,909			\$ 9,444,859
Investments	28,808,945			28,618,942
Restricted:				
Cash and cash equivalents	4,182,583			3,144,407
Investments	4,796,257			5,810,166
Total	<u>\$ 47,226,694</u>			<u>\$ 47,018,374</u>

* - US Treasury Bills are purchased and carried at a discount. Upon maturity the full face value will be paid to the Authority which represents interest income.

ATLANTIC COUNTY UTILITIES AUTHORITY
Wastewater Division
Schedule of Property, Plant and Equipment
Modified Accrual Basis

For the years ended December 31, 2017, 2016, 2015, 2014 and 2013

	2017	2016	2015	2014	2013
Property, plant and equipment:					
Property, plant and equipment, gross - January 1,	\$ 225,924,312	\$ 225,276,984	\$ 225,276,984	\$ 223,760,258	\$ 223,681,452
Additions:					
Sewer mains and interceptors	1,043,421	-	-	1,516,726	-
Buildings and improvements	-	-	-	-	78,806
Construction in progress	4,651,421	647,328	-	-	-
Equipment and vehicles	285,572	-	-	-	-
Total additions	5,980,414	647,328	-	1,516,726	78,806
Property, plant and equipment, gross - December 31,	231,904,726	225,924,312	225,276,984	225,276,984	223,760,258
Less:					
Accumulated depreciation and amortization	(172,430,062)	(167,035,343)	(161,648,228)	(156,246,558)	(150,857,937)
Property, plant and equipment, net - December 31,	\$ 59,474,664	\$ 58,888,969	\$ 63,628,756	\$ 69,030,426	\$ 72,902,321

ATLANTIC COUNTY UTILITIES AUTHORITY
Wastewater Division
Schedule of Debt Issuance Costs
Modified Accrual Basis

For the years ended December 31, 2017, 2016, 2015, 2014 and 2013

	2017	2016	2015	2014	2013
Unamortized debt issuance costs, gross - December 31,	\$ -	\$ 89,637	\$ 89,637	\$ 89,637	\$ 89,637
Less:					
Accumulated amortization	-	(89,637)	(88,926)	(71,852)	(54,778)
Unamortized debt issuance costs, net - December 31,	\$ -	\$ -	\$ 711	\$ 17,785	\$ 34,859

ATLANTIC COUNTY UTILITIES AUTHORITY
Solid Waste Division
Statement of Net Position
Modified Accrual Basis
December 31, 2017 and 2016

	2017	2016
ASSETS		
Unrestricted current assets:		
Cash and cash equivalents	\$ 4,587,616	\$ 12,175,631
Investments	16,784,693	5,000,000
Accrued interest receivable	132,424	41,094
Accounts receivable (net of allowance of \$52,240 and \$52,240 in 2017 and 2016, respectively)	2,780,279	2,869,613
Due from Wastewater Division	635,109	1,985,984
Total unrestricted current assets	24,920,121	22,072,322
Restricted noncurrent assets:		
Cash and cash equivalents	1,907,691	3,490,712
Investments	9,056,187	4,700,000
Amounts held by State of New Jersey	29,774,409	30,300,118
Accrued interest receivable	155,546	156,090
Total restricted noncurrent assets	40,893,833	38,646,920
Capital assets, gross	141,892,435	140,392,506
Accumulated depreciation	(105,057,904)	(101,266,623)
Capital assets, net	36,834,531	39,125,883
TOTAL ASSETS	102,648,485	99,845,125

ATLANTIC COUNTY UTILITIES AUTHORITY
Solid Waste Division
Statement of Net Position
Modified Accrual Basis
December 31, 2017 and 2016

	2017	2016
LIABILITIES		
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	4,086,184	3,065,015
Customer deposits	173,920	185,615
Pension payable	931,059	891,191
Total current liabilities payable from current assets	5,191,163	4,141,821
Current liabilities payable from restricted assets:		
Construction contracts payable	33,885	435,731
Total current liabilities payable from restricted assets	33,885	435,731
Noncurrent liabilities payable from restricted assets:		
Accrued landfill closure and post-closure care cost	32,837,954	32,993,037
Noncurrent liabilities:		
Accrued compensated absences	429,715	511,572
Post retirement benefits payable	800,000	800,000
Total noncurrent liabilities	1,229,715	1,311,572
TOTAL LIABILITIES	39,292,717	38,882,161
NET POSITION		
Investment in capital assets, net of related debt	36,834,531	39,125,883
Unrestricted	26,521,237	21,837,081
TOTAL NET POSITION	63,355,768	60,962,964
TOTAL LIABILITIES AND NET POSITION	\$ 102,648,485	\$ 99,845,125

ATLANTIC COUNTY UTILITIES AUTHORITY
Solid Waste Division
Statement of Revenues, Expenses and Changes in Net Position
Modified Accrual Basis
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Tipping fees	\$ 23,307,196	\$ 23,585,818
Collections and recycling income	8,845,058	8,149,345
Grant income	211,927	42,559
Composting income	1,060,366	1,082,209
Other	991,646	1,294,202
	<u>34,416,193</u>	<u>34,154,133</u>
Operating expenses:		
Salaries	9,185,061	8,911,347
Employee benefits	6,279,348	5,722,358
Power and utilities	626,591	583,800
Fuel	863,182	774,312
Supplies and miscellaneous maintenance	2,427,190	2,500,132
Indirect operating expenses	2,909,240	3,499,552
Administrative	1,012,524	1,059,344
Community benefit	2,384,381	2,405,932
Recycling and other taxes	1,065,815	1,079,585
Depreciation	4,513,118	5,143,326
	<u>31,266,450</u>	<u>31,679,688</u>
Operating income	<u>3,149,743</u>	<u>2,474,445</u>
Non-operating revenues/(expenses):		
County appropriation	(439,575)	(426,451)
Interest income	504,886	1,760,303
(Loss)/Gain on sale of fixed assets	146,227	(19,875)
Adjustment to landfill closure and post-closure care cost	(968,477)	(1,093,704)
	<u>(756,939)</u>	<u>220,273</u>
Net income	2,392,804	2,694,718
Net position, January 1,	<u>60,962,964</u>	<u>58,268,246</u>
Net position, December 31,	<u>\$ 63,355,768</u>	<u>\$ 60,962,964</u>
Reconciliation to Statements of Revenues, Expenses and Changes in Net Position - GAAP Basis:		
Net income - modified accrual basis	\$ 2,392,804	\$ 2,694,718
Prior year solid waste GAAP adjustment	(350,081)	(375,757)
Current year solid waste GAAP Adjustment	255,775	350,081
Unbudgeted pension expense	(1,100,924)	(1,701,351)
Net income - GAAP basis	<u>\$ 1,197,574</u>	<u>\$ 967,691</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
Solid Waste Division
Operating Revenues and Costs Funded by Operating Revenues Compared to Budget
Rate Basis
For the year ended December 31, 2017

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Operating revenues:				
Tipping fees	\$ 22,859,523	\$ 22,859,523	\$ 23,307,196	\$ 447,673
Collections and recycling income	7,735,142	7,735,142	8,668,024	932,882
Composting income	1,177,628	1,177,628	1,060,366	(117,262)
Interest on investments and deposits	85,000	85,000	181,447	96,447
Miscellaneous	903,565	903,565	1,380,607	477,042
Fund balance and reserves anticipated	439,575	439,575	439,575	-
Total operating revenues	33,200,433	33,200,433	35,037,215	1,836,782
Operating expenses:				
Administration	3,900,031	3,900,031	3,417,510	482,521
Solid Waste Administration	1,417,549	1,417,549	1,350,806	66,743
Transfer Station Operations	1,375,567	1,375,567	1,367,529	8,038
Composting	663,731	663,731	476,154	187,577
Landfill Operations	8,448,063	8,448,063	7,656,527	791,536
Recycling Center Processing	205,194	205,194	207,060	(1,866)
Collections	7,296,275	7,296,275	7,139,007	157,268
Maintenance Center	6,119,053	6,119,053	5,638,055	480,998
Cancelled purchase orders	-	-	(194,797)	194,797
Total operating expenses	29,425,463	29,425,463	27,057,851	2,367,612
Net income from operating activities	3,774,970	3,774,970	7,979,364	4,204,394
Non-operating expenses:				
County appropriation	(439,575)	(439,575)	(439,575)	-
Renewal and replacement fund CIP	(3,335,395)	(3,335,395)	(3,349,705)	(14,310)
Total non-operating expenses	(3,774,970)	(3,774,970)	(3,789,280)	(14,310)
Net income from operations	\$ -	\$ -	\$ 4,190,084	\$ 4,190,084

**Reconciliation to Statements of Revenues, Expenses
and Changes in Net Position - Modified Accrual Basis:**

Net income - rate basis	\$ 4,190,084
Fund balance and reserves anticipated	(439,575)
Transfers to Cell Replacement & Capital Improvement Fund	3,349,705
Contributions to landfill escrows	304,519
Depreciation expense	(4,513,118)
Pinelands Park Landfill interest income	323,439
(Loss)/Gain on sale of fixed assets	146,227
Adjustment to landfill closure and post-closure care cost	(968,477)
Prior year solid waste GAAP adjustment	(350,081)
Current year solid waste GAAP Adjustment	255,775
Unbudgeted pension expense	(1,100,924)
Net income - GAAP basis	\$ 1,197,574

ATLANTIC COUNTY UTILITIES AUTHORITY
Solid Waste Division
Schedule of Cash and Cash Equivalents and Investments
December 31, 2017

Description	Face Amount	Interest Rate	Maturity Date	Fair Value December 31, 2017
Unrestricted accounts:				
Operations:				
Cash	\$ 533,783			\$ 533,783
PFM Asset Management - NJ ARM	3,159,889	1.15%		3,159,889
PFM Asset Management - US Treasury Notes	3,995,061	1.125%-1.25%	6/15/2018 - 12/15/2018	3,994,434
Wells Fargo Government Money Market	15,316	1.09%		15,316
Certificates of Deposit - Various	5,040,000	1.5%-1.7%	8/8/2018 - 8/23/2019	5,021,821
PFM Asset Management - NJ ARM	125,859	1.15%		125,859
PFM Asset Management - US Treasury Notes	6,507,520	1.125%-1.5%	2/28/2019 - 8/15/2020	6,451,464
PFM Asset Management - US Treasury Bills	843,982	*	2/22/2018 - 5/24/2018	846,814
PFM Asset Management - NJ ARM	328,531	1.15%		328,531
PFM Asset Management - US Treasury Notes	550,414	1.125%-1.625%	2/28/2019 - 7/31/2019	546,395
PFM Asset Management - US Treasury Bill	346,973	*	5/24/2018	348,003
	<u>20,913,545</u>			<u>20,838,526</u>
Total unrestricted accounts	<u>21,447,328</u>			<u>21,372,309</u>
Restricted accounts:				
Renewal and Replacement Fund:				
PFM Asset Management - NJ ARM	1,189,326	1.15%		1,189,326
PFM Asset Management - US Treasury Note	2,302,965	1.375%	6/30/2018	2,298,562
PFM Asset Management - NJ ARM	718,365	1.15%		718,365
PFM Asset Management - US Treasury Notes	2,995,406	1%-1.125%	6/15/2018 - 11/30/2018	2,991,461
PFM Asset Management - US Treasury Bill	3,757,813	*	7/19/2018 - 8/16/2018	3,766,164
	<u>10,963,875</u>			<u>10,963,878</u>
Escrow Funds:				
ACUA Standard Escrow	5,259,963			5,259,963
ACUA Alternative Escrow	4,930,215			4,930,215
Pinelands Park Standard Escrow	10,854,423			10,854,423
Pinelands Park Alternative Escrow	8,729,808			8,729,808
	<u>29,774,409</u>			<u>29,774,409</u>
Total restricted accounts	<u>40,738,284</u>			<u>40,738,287</u>
Total	<u>\$ 62,185,612</u>			<u>\$ 62,110,596</u>
Unrestricted:				
Cash and cash equivalents	\$ 4,586,036			\$ 4,587,616
Investments	16,861,292			16,784,693
Restricted:				
Cash and cash equivalents	1,907,691			1,907,691
Investments	9,056,184			9,056,187
Cash and investments held by the State of New Jersey	29,774,409			29,774,409
Total	<u>\$ 62,185,612</u>			<u>\$ 62,110,596</u>

* - US Treasury Bills are purchased and carried at a discount. Upon maturity the full face value will be paid to the Authority which represents interest income.

ATLANTIC COUNTY UTILITIES AUTHORITY
Solid Waste Division
Schedule of Property, Plant and Equipment
Modified Accrual Basis

For the years ended December 31, 2017, 2016, 2015, 2014 and 2013

	2017	2016	2015	2014	2013
Waste Disposal:					
Property, plant and equipment:					
Property, plant and equipment, gross - January 1,	\$ 112,563,204	\$ 111,965,508	\$ 109,113,091	\$ 100,566,525	\$ 101,793,902
Additions:					
Buildings and improvements	-	245,618	563,231	10,747	335,305
Construction in progress	9,442	303,651	-	-	-
Equipment and vehicles	1,157,063	-	655,592	1,496,984	755,979
Landfill design and implementation	662,144	273,160	2,143,647	7,038,835	509,909
Total additions	1,828,649	822,429	3,362,470	8,546,566	1,601,193
Disposals:					
Buildings and improvements	-	-	-	-	(2,828,570)
Construction in progress	(303,651)	-	-	-	-
Equipment and vehicles	(217,882)	(224,733)	(510,053)	-	-
Total disposals	(521,533)	(224,733)	(510,053)	-	(2,828,570)
Property, plant and equipment, gross - December 31,	113,870,320	112,563,204	111,965,508	109,113,091	100,566,525
Less:					
Accumulated depreciation and amortization	(82,563,812)	(79,358,203)	(76,019,206)	(71,775,228)	(68,217,829)
Property, plant and equipment, net - December 31,	31,306,508	33,205,001	35,946,302	37,337,863	32,348,696

ATLANTIC COUNTY UTILITIES AUTHORITY
Solid Waste Division
Schedule of Property, Plant and Equipment
Modified Accrual Basis

For the years ended December 31, 2017, 2016, 2015, 2014 and 2013

	2017	2016	2015	2014	2013
Waste Recycling:					
Property, plant and equipment:					
Property, plant and equipment, gross - January 1,	\$ 37,688,803	\$ 37,362,979	\$ 37,977,540	\$ 37,689,306	\$ 39,323,038
Additions:					
Buildings and improvements	-	-	-	59,142	12,912
Equipment and vehicles	704,262	1,255,528	61,355	229,092	53,256
Total additions	704,262	1,255,528	61,355	288,234	66,168
Disposals:					
Buildings and improvements	-	-	-	-	(1,699,900)
Equipment and vehicles	(511,450)	(929,704)	(675,916)	-	-
Total disposals	(511,450)	(929,704)	(675,916)	-	(1,699,900)
Property, plant and equipment, gross - December 31,	37,881,615	37,688,803	37,362,979	37,977,540	37,689,306
Less:					
Accumulated depreciation and amortization	(32,353,592)	(31,767,921)	(31,020,353)	(31,007,146)	(29,160,294)
Property, plant and equipment, net - December 31,	5,528,023	5,920,882	6,342,626	6,970,394	8,529,012
Grand total	\$ 36,834,531	\$ 39,125,883	\$ 42,288,928	\$ 44,308,257	\$ 40,877,708

ATLANTIC COUNTY UTILITIES AUTHORITY
Wastewater Division
Special-Purpose Statement of Revenues and Expenses to Comply
With Bond Resolutions
For the year ended December 31, 2017

	2017
Operating revenues:	
User service agreements:	
Operating	\$ 22,318,899
General	1,025,022
Sludge	2,211,839
Septage and leachate	337,919
Other	1,287,659
Total operating revenues	27,181,338
Operating expenses:	
Salaries	6,082,556
Employee benefits	4,061,657
Power and utilities	2,343,096
Chemicals	703,980
Fuel	1,094,207
Supplies and miscellaneous maintenance	3,828,771
Contractual services	557,651
Indirect operating expenses	631,173
Administrative	1,454,347
Licenses and permits	179,153
Total operating expenses	20,936,591
Operating income	6,244,747
Non-operating revenues / (expenses):	
County appropriation	(360,425)
Interest income	284,554
Interest expense	(211,328)
Total non-operating revenues / (expenses)	(287,199)
Net income	\$ 5,957,548

ATLANTIC COUNTY UTILITIES AUTHORITY
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System
Last Ten Fiscal Years

	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability (asset)	0.17958%	0.18174%	0.18177%	0.17659%	0.17743%
Authority's proportionate share of the net pension liability (asset)	\$ 41,803,959	\$ 53,824,768	\$ 40,804,441	\$ 33,062,762	\$ 33,910,352
Authority's covered-employee payroll	\$ 12,431,741	\$ 12,312,031	\$ 12,482,810	\$ 12,051,171	\$ 12,145,642
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	336.27%	437.17%	326.89%	274.35%	279.20%
Plan fiduciary net position as a percentage of the total pension liability	48.10%	40.14%	47.93%	52.08%	48.72%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

ATLANTIC COUNTY UTILITIES AUTHORITY
 Schedule of Authority Contributions
 Public Employees' Retirement System
 Last Ten Fiscal Years

	2017	2016	2015	2014	2013
Contractually required contribution	\$ 1,663,641	\$ 1,614,510	\$ 1,562,762	\$ 1,455,795	\$ 1,336,897
Contributions in relation to the contractually required contribution	1,663,641	1,614,510	1,562,762	1,455,795	1,336,897
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 12,814,155	\$ 12,431,741	\$ 12,312,031	\$ 12,482,810	\$ 12,051,171
Contributions as a percentage of covered-employee payroll	12.98%	12.99%	12.69%	11.66%	11.09%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to the Required Supplementary Information
For the year ended December 31, 2017

Public Employees' Retirement System (PERS)

Changes of Benefit Terms – None

Changes of Assumptions – The discount rate changed from 3.98% as of June 30, 2016, to 5.00% as of June 30, 2017.



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

The Chairman and Members of the
Atlantic County Utilities Authority
6700 Delilah Road
Egg Harbor Township, New Jersey 08234

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 and audit requirements as prescribed by Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Atlantic County Utilities Authority (herein referred to as “the Authority”), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated June 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority's internal control over financial reporting internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

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 Audit Standards* and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectively Submitted,

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 2, 2018
Toms River, New Jersey



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY NEW JERSEY
OMB CIRCULAR 15-08**

The Chairman and Members of the
Atlantic County Utilities Authority
6700 Delilah Road
Egg Harbor Township, New Jersey 08234

Report on Compliance for Each Major State Program

We have audited the Atlantic County Utility Authority’s compliance with the types of compliance requirements described in the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of the Authority’s major state programs for the fiscal year ended December 31, 2017. The Atlantic County Utility Authority’s major state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Atlantic County Utility Authority’s major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; New Jersey OMB’s Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*; and the audit requirements prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards and New Jersey OMB’s Circular 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major State Program

In our opinion, the Atlantic County Utilities Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Atlantic County Utility Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with New Jersey OMB's Circular 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of New Jersey OMB's Circular 15-08. Accordingly, this report is not suitable for any other purpose.

Respectively Submitted,

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 2, 2018
Toms River, New Jersey

ATLANTIC COUNTY UTILITIES AUTHORITY
Schedule of Expenditures of State Financial Assistance
For the year ended December 31, 2017

State Funding Agency/ Program Title	State Account Number	Award Amount	Grant Period		Balance as of December 31, 2016	Program Receipts	Disbursements/ Expenditures	Subrecipient Expenditures	Balance as of December 31, 2017	Cumulative Disbursements/ Expenditures
			From	To						
N.J. Environmental Infrastructure Trust:										
2016 Construction Loan - Fund	S340 809 23	\$ 2,514,842	Open	Open	-	\$ 2,514,842	\$ -	\$ -	\$ 2,514,842	
2017 Construction Loan - Fund	S340 809 26	286,849	Open	Open	-	286,849	-	-	286,849	
2016 Construction Loan - Fund	S340 809 27	704,604	Open	Open	-	704,604	-	-	1,020,542	
2016 Construction Loan - Trust	S340 809 27	234,868	Open	Open	-	234,868	-	-	340,180	
2017 Construction Loan - Fund	S340 809 28	402,487	Open	Open	-	402,487	-	-	402,487	
Total state financial assistance		\$ 4,143,650			-	\$ 4,143,650	\$ -	\$ -	\$ 4,564,900	

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Schedule of Expenditures of State Financial Assistance
For the year ended December 31, 2017

NOTE 1: GENERAL

The accompanying schedule of expenditures of state financial assistance presents the activity of all state financial assistance programs of the Atlantic County Utilities Authority. The Authority is defined in Note 1 of the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of New Jersey OMB's Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. All state awards received directly from state agencies, as well as state awards passed through other government agencies, is included on the schedule of state financial assistance.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of state financial assistance is presented using the accrual basis of accounting as promulgated by the State of New Jersey, Department of Community Affairs, Division of Local Government Services, which is described in the Notes to the Financial Statements, Note 1.

The amounts shown as current year expenditures represent only the state grant portion of the program costs. Such expenditures are recognized following the cost principles contained in State of New Jersey OMB Circular 15-08, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Authority did not elect the 10-percent de minimis indirect cost rate as discussed in 2 CFR 200.414.

NOTE 3: RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

The accompanying schedule of expenditures of state financial assistance may include expenditures that occurred in prior fiscal years. The amounts reported in the accompanying schedule agree with the amounts reported in the Authority's financial statements, except for the following grants and amounts:

	Recognized in Current Year Financial Statements	Recognized in Prior Year Financial Statements	Total
New Jersey Environmental Infrastructure Trust – 2016	\$ 3,399,106	\$ 55,208	\$ 3,454,314
New Jersey Environmental Infrastructure Trust – 2017	689,336	-0-	689,336
Total Financial Assistance	\$ 4,088,442	\$ 55,208	\$ 4,143,650

NOTE 4: RELATIONSHIP TO THE STATE FINANCIAL REPORTS

The regulations and guidelines governing the preparation of state financial reports vary by state agency and among programs administered by the same agencies. Accordingly, the amounts reported in the state financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the accrual basis of accounting as explained in Note 1.

ATLANTIC COUNTY UTILITIES AUTHORITY
Notes to Schedule of Expenditures of State Financial Assistance (continued)
For the year ended December 31, 2017

NOTE 5: STATE LOANS OUTSTANDING

The Atlantic County Utilities Authority had loan balances outstanding at December 31, 2017 of \$3,245,296.

NOTE 6: CONTINGENCIES

Each of the grantor agencies reserves the right to conduct additional audits of the Authority's grant program for economy, efficiency and program results. However, the Authority administration does not believe such audits would result in material amounts of disallowed costs.

NOTE 7: MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

ATLANTIC COUNTY UTILITIES AUTHORITY
(A Component Unit of the County of Atlantic, State of New Jersey)
Schedule of Findings and Questioned Costs
For the year ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
1) Material weakness(es) identified?	_____ yes <u> X </u> no
2) Significant deficiency(ies) identified?	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

Federal Awards

SECTION IS N/A - NOT REQUIRED

Internal control over major programs:	
1) Material weakness(es) identified?	_____ yes _____ no
2) Significant deficiency(ies) identified?	_____ yes _____ none reported
Type of auditor's report issued on compliance for major programs	_____
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section .516(a) of Uniform Guidance?	_____ yes _____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>FAIN Number(s)</u>	<u>Name of Federal Program or Cluster</u>

Dollar threshold used to determine Type A programs	_____
--	-------

Auditee qualified as low-risk auditee?	_____ yes _____ no
--	-----------------------

ATLANTIC COUNTY UTILITIES AUTHORITY
(A Component Unit of the County of Atlantic, State of New Jersey)
Schedule of Findings and Questioned Costs (continued)
For the year ended December 31, 2017

Section I - Summary of Auditor's Results (continued)

State Financial Assistance

Dollar threshold used to determine Type A programs \$750,000

Auditee qualified as low-risk auditee? yes X no

Internal control over major programs:

1) Material weakness(es) identified? yes X no

2) Significant deficiency(ies) identified? yes X no

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported
in accordance with New Jersey OMB's Circular 15-08? yes X no

Identification of major programs:

<u>State Grant/Project Number(s)</u>	<u>Name of State Program</u>
S340 809-23	New Jersey Environmental Infrastructure Trust - Fund (2016)
S340 809-26	New Jersey Environmental Infrastructure Trust - Fund (2017)
S340 809-27	New Jersey Environmental Infrastructure Trust - Fund (2016)
S340 809-27	New Jersey Environmental Infrastructure Trust - Trust (2016)
S340 809-28	New Jersey Environmental Infrastructure Trust - Fund (2017)

ATLANTIC COUNTY UTILITIES AUTHORITY
(A Component Unit of the County of Atlantic, State of New Jersey)
Schedule of Findings and Questioned Costs (continued)
For the year ended December 31, 2017

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards* and with audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

None.

Section III – Federal Awards & State Financial Assistance Findings & Questioned Costs

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and New Jersey OMB's Circular 15-08.

FEDERAL AWARDS

N/A – Federal single audit not required

STATE FINANCIAL ASSISTANCE

None

ATLANTIC COUNTY UTILITIES AUTHORITY
(A Component Unit of the County of Atlantic, State of New Jersey)
Summary Schedule of Prior Year Audit Findings and
Questioned Costs as Prepared by Management
For the year ended December 31, 2017

This section identifies the status of prior year findings related to the financial statements, federal awards and state financial assistance that are required to be reported in accordance with *Government Auditing Standards*, Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards* (Uniform Guidance), and New Jersey OMB's Circular 15-08.

FINANCIAL STATEMENT FINDINGS

No Prior Year Findings.

FEDERAL AWARDS

N/A – No Federal Single Audit in prior year.

STATE FINANCIAL ASSISTANCE

N/A – No State Single Audit in prior year.



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The Chairman and Members of the
Atlantic County Utilities Authority
6700 Delilah Road
Egg Harbor Township, New Jersey 08234

We have audited the financial accounts and transactions of the Atlantic County Utilities Authority, a component unit of the County of Atlantic, State of New Jersey for the year ended December 31, 2017. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments and Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

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

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$40,000, except by contract or agreement.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. The results of our examination did not disclose any discrepancies.

The minutes indicated that bids were requested by public advertising and awarded by resolution for the various projects in the current fiscal year.

The minutes also indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Contracts and Agreements Requiring Solicitation of Quotations

The examination of expenditures revealed individual payments, contracts or agreements in excess of \$6,000 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (*N.J.S.A.40A:11-6.1*).

The minutes indicate that quotes were requested for all items that required them.

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a partial payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Account

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and ascertained that the accumulated withholdings were disbursed to the proper agencies. The results of the examination did not disclose any discrepancies.

Property, Plant & Equipment

The property, plant and equipment subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

Follow-up on Prior Years' Findings

In accordance with *Government Auditing Standards* we have included a review of all prior year findings. There were no findings in the prior year.

General Ledger

The general ledger was complete with the required journal entries.

Budget Adoption

The State of New Jersey requires that the Authority's operating and capital budgets be approved and adopted for each fiscal year. The Authority approved its 2017 operating and capital budget on December 15, 2016 and adopted its 2017 operating and capital budget on January 19, 2017.

Acknowledgment

We received the complete cooperation of all the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

During our audit, we did not note any problems or weaknesses significant enough that would affect our ability to express an opinion on the financial statements taken as a whole. Should you have any questions concerning our comments or recommendations please call us.

Respectfully Submitted,

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 2, 2018
Toms River, New Jersey