# 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, 2016 and 2015**

**(With Independent Auditor's Report thereon)**

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**(A Component Unit of the County of Atlantic, New Jersey)**
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**For the years ended December 31, 2016 and 2015**

**Atlantic County Utilities Authority**
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May 5, 2017

Chairman Embry, Authority Board Members and President Dovey:

Presented to you are the audited financial statements for the 2016-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 2016-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, 2016 and 2015. 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

To the Board of Commissioners of the
Atlantic County Utilities Authority

## 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, 2016 and 2015, 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 as of December 31, 2016 and 2015, 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, budgetary comparison information and schedules relating to the Public Employees Retirement System 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 accompanying introductory section and supplementary information contained in schedules I and II, IV through VIII, and X through XII are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information contained in schedules I and II, IV through VIII, and X through XII are the responsibility of management and were derived from and relate 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 and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information contained in schedules I and II, IV through VIII, and X through XII are fairly stated, in all material respects, in relation to the basic financial statements 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 May 5, 2017 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.

Holman, Frenia, Allison

**HOLMAN FRENIA ALLISON, P.C.**
*Certified Public Accountants*

May 5, 2017
Toms River, New Jersey

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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 Board of Commissioners of
Atlantic County Utilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States 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 Authority as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 5, 2017.

**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 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 in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Holman, Frenia, Allison

**HOLMAN FRENIA ALLISON, P.C.**
*Certified Public Accountants*

May 5, 2017
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, 2016.

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, 2016 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, 2016 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. Historically the State of New Jersey recorded all pension-related activity on its financial statement. GASB 68 requires participating units to record their proportional share of future liabilities, inflows and outflows on their financial statements. The following line items on the financial statements of the Authority are a result of GASB 68:

- Deferred outflows related to pensions: Represents an actuarial estimate of obligations due in a future period
- Pension payable: The annual amount due for the current year not paid until the subsequent year (this has historically been reported as a current liability of the Authority; however it is now a separate line item, not included in Accounts Payable)
- Net pension liability: Represents an actuarial estimate of the current liability for future pension expenses
- Deferred inflows related to pensions: Represents an actuarial estimate of revenue to be received in a future period

See Notes 7 and 13 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, with the exception of Depreciation. Depreciation is not included on the statement which complies with the Wastewater Bond Resolution.

Other information or statements incorporated within the annual audit report are the Schedule of Cash, Cash Equivalents and Investments; Schedule of Property, Plant and Equipment and Other Capitalized Costs and Schedule of Debt Issue Costs.

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.

## Wastewater Division

Comparative Balance Sheet

The Wastewater Division's Total Assets and Deferred Outflows increased $6.4 million and 6%. Current Assets were up by $7.2 million due to more cash and investments on hand and more Accounts Receivable because a $2.2 million quarterly payment from a customer normally received in December was not received until January 2017. Restricted Noncurrent Assets remained about the same at $8.6 million. Capital Assets increased $647,000 for Construction In Progress which represents projects that began in 2016 but will not be complete until 2017 or beyond. Accumulated Depreciation increased by about $5.4 million resulting in a net decrease in Net Capital Assets of $4.7 million. 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 increased $3.9 million to $6.7 million. The increase is primarily due to the actuarial assumptions used to calculate pension obligations. The discount and investment rates of return decreased causing a significant increase in the Deferred Outflow for all participating units.

Total Liabilities and Deferred Inflows increased by $5 million and 14%. The increase is due to a combination of an increase of $441,000 in NJEIT interim loans, an increase of $6.2 million Net Pension Liability, a decrease in Debt of $1.7 million in accordance with debt service schedules and a decrease of $295,000 Deferred Inflows Related to Pensions. Deferred revenue also decreased by $167,000 due to a 2016 revenue recognition adjustment for processing the leachate that is related to the Authority's deferred revenue. Accounts Payable increased $381,000 primarily due to the timing of payments. Pension Payable increased $38,000 and 5% and is the amount payable to the New Jersey Public Employee's Retirement System for the current year. Accrued absences increased $88,000 in 2016 compared to 2015.

Current and Long-Term Bonds Payable went from \$14.2 million in 2015 to \$12.5 million in 2016 due to principal payments in accordance with debt service schedules. Accrued Interest Expense decreased \$15,000 and is also in accordance with debt service schedules. The Authority is authorized to borrow up to \$30 million in New Jersey Environmental Infrastructure Trust (NJEIT) loans and anticipates closing on a portion of these in 2017 and the remainder in 2018. Projects funded under these loan programs include resiliency projects, bar screen improvements, Brigantine force main improvements and incinerator improvements. The NJEIT program requires that funds initially be borrowed on an interim basis via a construction loan program. In 2016 the Authority closed on two interim construction loans to install new bar screens and to replace the emergency backup generators for a total of \$6.6 million. As of December 31st the Authority had drawn down \$441,000 for these two projects. The interim loans are at 0% interest.

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 increased \$6.2 million and 35% to \$24.1 million in 2016. The increase is attributable to changes in actuarial assumptions used to calculate pension obligations. The discount and investment rates of return decreased causing a significant increase in the Net Pension Liability for all participating units.

Deferred Inflows Related to Pensions is \$41,000 as compared to \$336,000 in 2015. The significant decrease is also attributable to the actuarial assumptions used to calculate pension obligations.

Assets and Deferred Outflow of Resources exceed Liabilities and Deferred Inflow of Resources by \$70.1 million. This compares to 2015 where the division's Assets and Deferred Outflow of Resources exceeded its Liabilities and Deferred Inflow of Resources by \$68.7 million. The net change represents income for the 2016-year of \$1.4 million.

The Division's Net Position of \$70,100,750 is comprised of the following:

> (1) Capital Assets, Net of Related Debt of \$45,956,152, 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. Calculated as: (Net Capital Assets-Long-Term Portion of Bonds Payable –Current Maturities of Long-Term Debt = Investment in Capital Assets, Net of Related Debt).
>
> (2) Net Position of \$5,800,000 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 $339,205 restricted for the purpose of forthcoming debt service payments.

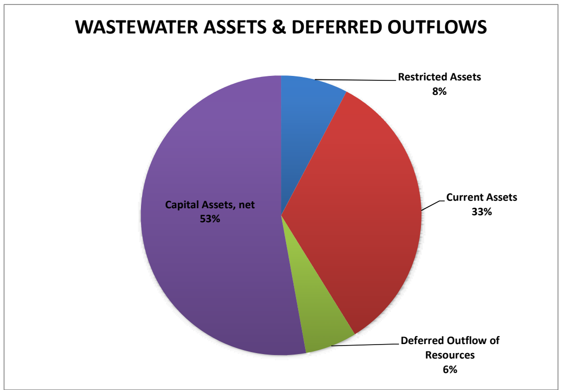
(4) Net Position of $1,150,757 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority's debt covenants.

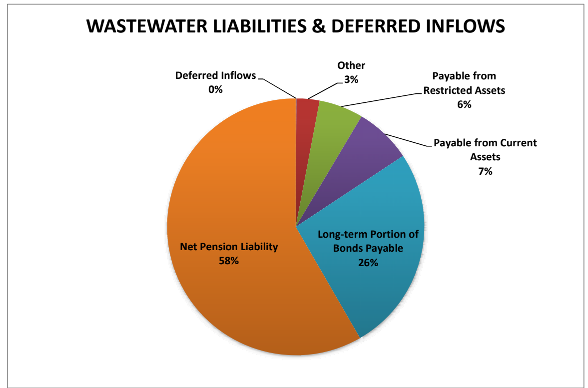
(5) Unrestricted Net Position of $16,854,636 represents the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and current liabilities.

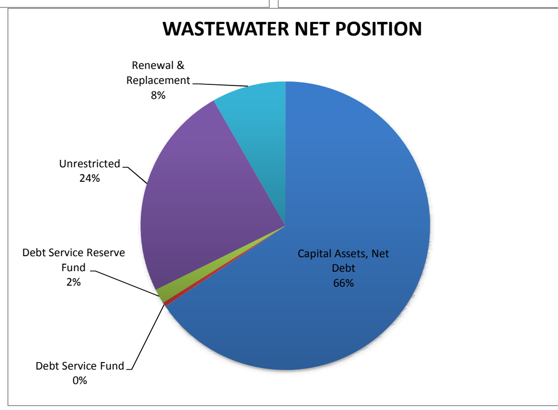
Restricted Net Position remained about the same at $7.3 million. Unrestricted Net Position increased $4.9 million which is a function of changes in Restricted Net Assets and Net Income for the year.

Below is a synopsis of the Wastewater Division's 2016 Balance Sheet with a comparison to last year:

| | 2016 | 2015 | $ Change | % Change |
|---|---|---|---|---|
| Total Current Assets | $ 37,284,134 | $ 30,076,231 | $ 7,207,903 | 24% |
| Total Restricted & Noncurrent Assets | 8,614,492 | 8,619,017 | (4,525) | 0% |
| Capital Assets, Net of Depreciation | 58,888,969 | 63,628,756 | (4,739,787) | -7% |
| Deferred Outflow Related to Pensions | 6,653,724 | 2,711,204 | 3,942,520 | 145% |
| **TOTAL ASSETS & DEFERRED OUTLFOWS** | $111,441,319 | 105,035,208 | 6,406,111 | 6% |
| | | | | |
| Total Current Payable from Current | 2,947,323 | 2,696,157 | 251,166 | 9% |
| Total Current Payable from Restricted | 2,306,540 | 1,813,679 | 492,861 | 27% |
| Total Noncurrent Liabilities | 36,045,597 | 31,501,194 | 4,544,403 | 14% |
| Deferred Inflows Related to Pensions | 41,109 | 336,347 | (295,238) | -88% |
| **TOTAL LIABILITIES & DEFERRED INFLOWS** | 41,340,569 | 36,347,377 | 4,993,192 | 14% |
| | | | | |
| Invested in Capital Assets, Net Debt | 45,956,152 | 49,432,835 | (3,476,683) | -7% |
| Total Restricted | 7,289,962 | 7,299,183 | (9,221) | 0% |
| Unrestricted | 16,854,636 | 11,955,813 | 4,898,823 | 41% |
| **TOTAL NET POSITION** | $ 70,100,750 | $ 68,687,831 | $ 1,412,919 | 2% |
| | | | | |
| **TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION** | $111,441,319 | $ 105,035,208 | $ 6,406,111 | 6% |




Comparative Statement of Revenues, Expenses and Changes in Net Position

Net Income decreased $1.6 million and 52%. The decrease is due to a combination of increases in both revenue and expenses. Operating Revenue increased $399,000, Operating Expenses increased $1.7 million and Non-Operating Expenses increased $236,000.

The user fee charged to the fourteen participants did not change. Sludge income increased $63,000 and 3% due to additional customers as well as increased business with existing customers. Income from Septage and Leachate disposal increased $445,000 and 97% and is primarily due to a leachate revenue price adjustment recognized in 2016 for $611,000. From 1994 until September 2015 the ACUA accepted and processed leachate trucked from Pinelands Park Landfill to the wastewater treatment plant. The contractually allowable rate that should have been charged for processing leachate was not always increased in accordance with the contract. In 2016 the rates were retroactively adjusted which resulted in a $611,000 increase in revenue. A portion of this adjustment had been prepaid in the amount of $167,000 which reduced deferred revenue on the Authority's Current Liabilities. The balance of $444,000 was paid from Pinelands Park Landfill to the Authority in February 2017. In the fall of 2015 a sewer line was installed at Pinelands Park Landfill and the leachate began to flow through the municipality's sewer system for treatment. Leachate revenue is no longer anticipated due to the installation of the sewer line. Other income decreased $108,000 and 7% due to several factors as shown below. Changes greater than $10,000 are explained below the chart:

| | 2016 | 2015 | $ Change | % Change |
|---|---|---|---|---|
| Operating Service | $ 899,915 | $ 913,735 | $ (13,820) | -2% |
| Solar Renewable Energy Credits | 128,270 | 125,119 | 3,151 | 3% |
| Rental | 126,759 | 127,563 | (804) | -1% |
| Lab | 108,700 | 95,809 | 12,891 | 13% |
| Miscellaneous | 33,304 | 6,387 | 26,917 | 421% |
| Truck Wash Revenue | 32,580 | 20,880 | 11,700 | 56% |
| Permits | 7,928 | 12,096 | (4,168) | -34% |
| Revised NJEIT Debt Service Schedule | - | 17,226 | (17,226) | 100% |
| Amortization of Bond Prem | - | 126,805 | (126,805) | -100% |
| **Total Other Income** | **$ 1,337,456** | **$ 1,445,620** | **$ (108,166)** | **-7%** |

Operating Service Revenue decreased slightly by $14,000 and 2%. This revenue includes pump station maintenance and repairs for customers, fuel sales, grease inspections and hauling revenue. Lab Revenue increased $13,000 and 13% due to a new lab services contract with the Atlantic City Municipal Utilities Authority. Miscellaneous income increased $27,000 and includes insurance reimbursements, vendor refunds and grant income. Truck Wash revenue increased by $12,000 due to a 38% increase in the number of vehicles washed in 2016 as compared to 2015. In 2015 the NJEIT advised that a portion of a loan was not disbursed from the program and a revised loan schedule was prepared. This was a one-time adjustment to principal owed. Finally, the bonds associated with a premium were retired in 2015 and fully amortized.

The user fee is the primary revenue source of the Authority and supports the expenses as follows: $22,960,225 for operating expenses, and $1,958,329 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 $3.1 million in 2016, up from $2.6 million in 2015. The revenue adjustment for Leachate Rates as described above is the primary reason for this increase.

Operating expenses increased by $1.7 million and 7% from the prior year. The increase is due to a combination of increases and decreases among significant operating items. The Division experienced modest increases in Power & Utilities, Indirect Operating Expenses, Administrative Expenses and Licenses & Permit Expenses. The Division experienced modest decreases in Depreciation and Amortization of Bond Issue Costs.

More significant increases were seen in Salaries, Employee Benefits, Supplies & Maintenance, and Contractual Services. Salaries increased $382,000 due to vacancies in 2015 filled for the full year of 2016, additional overtime paid due to employees out on extended leave and annual salary increases paid to employees. Employee Benefits increased over $1 million and 22% due to an increase in Unbudgeted Pension Expense 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. Supplies & Maintenance Expense increased $305,000 as anticipated in the 2016 budget with increased spending on infrastructure improvements and equipment. Contractual Services increased $300,000 and 55% due to compliance testing required to be performed in 2016 and because a consultant was hired to act as interim Director of Operations while the Authority conducted a search for a full-time replacement.

Significant decreases were realized in Chemicals and Fuel Expenses. Chemical Expenses decreased $228,000 and 21% due to testing more expensive chemicals in 2015 that did not meet expectations and were no longer used in 2016. Fuel Expenses decreased $152,000 and 12% because natural gas prices decreased in 2016 as compared to 2015.

Total Operating Revenues exceeded Total Operating Expenses by $1,871,765.

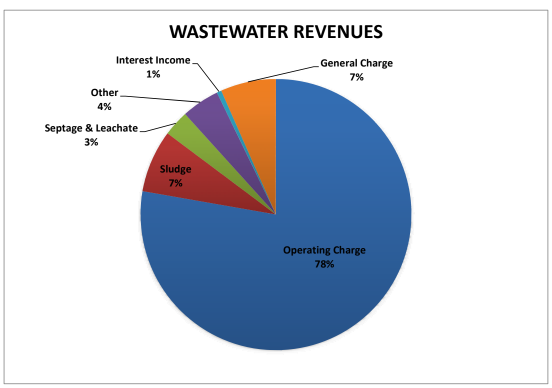
Non-Operating Expenses, which is comprised of County Appropriation, Interest Income and Interest Expense, increased $236,000 and 106%.

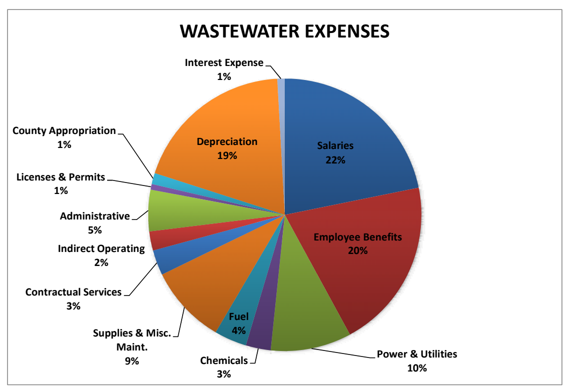
In 2014, the County of Atlantic exercised its right to request that up to five percent (5%) of the Authority's operating budget appropriations be transferred to the County. The County requested the maximum amount of 5% be transferred and the budget was amended to appropriate this expense for the full 5%, calculated to be $1,387,635 for the Wastewater Division. The funds were transferred in August 2014 upon both ACUA and County of Atlantic obtaining all necessary approvals to execute the transaction. The reason the County requested the funds was for economic development initiatives for 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 2016 the Wastewater Division was responsible for $374,000 of the $800,000 due for both initiatives.

Interest income had an increase of $90,000 because interest rates paid on investments increased during the year. Interest expense decreased $48,000 in accordance with debt service schedules.

Total 2016 Revenues exceeded Total Expenses by $1,412,919.

| | 2016 | 2015 | $ Change | % Change |
|---|---|---|---|---|
| **WW Revenue** | | | | |
| User Fee | $ 24,918,555 | $ 24,918,554 | $ 1 | 0% |
| Sludge | 2,204,097 | 2,141,491 | 62,606 | 3% |
| Septage & Lechate | 904,548 | 459,799 | 444,749 | 97% |
| Other | 1,337,455 | 1,445,620 | (108,165) | -7% |
| Total Revenue | 29,364,655 | 28,965,464 | 399,191 | 1% |
| **WW Operating Expenses** | | | | |
| Salaries | 6,132,440 | 5,750,211 | 382,229 | 7% |
| Employee Benefits | 5,696,943 | 4,651,644 | 1,045,299 | 22% |
| Power & Utilities | 2,687,946 | 2,671,691 | 16,255 | 1% |
| Chemicals | 831,329 | 1,058,891 | (227,562) | -21% |
| Fuel | 1,087,511 | 1,239,796 | (152,285) | -12% |
| Supplies & Miscellaneous Maintenance | 2,619,424 | 2,314,618 | 304,806 | 13% |
| Contractual Services | 841,588 | 541,771 | 299,817 | 55% |
| Indirect Operating Expenses | 639,740 | 601,578 | 38,162 | 6% |
| Administrative | 1,380,497 | 1,371,906 | 8,591 | 1% |
| Licenses & Permits | 188,357 | 171,892 | 16,465 | 10% |
| Depreciation | 5,387,115 | 5,401,670 | (14,555) | 0% |
| Amortization of Bond Issue Costs | - | 711 | (711) | -100% |
| Total Operating Expenses | 27,492,890 | 25,776,379 | 1,716,511 | 7% |
| **WW Non-Operating Revenue/(Expenses)** | | | | |
| County Appropriation | (373,549) | - | (373,549) | 100% |
| Interest Income | 163,340 | 73,571 | 89,769 | 122% |
| Interest Expense | (248,637) | (296,496) | (47,859) | -16% |
| | (458,846) | (222,925) | 235,921 | 106% |
| **NET INCOME** | $ 1,412,919 | $ 2,966,160 | $ (1,553,241) | -52% |




## Statement of Cash Flows

Net Cash Provided by Operating Activities decreased 23%, a decrease of $2.1 million. The Authority's largest customer paid their $2.2 million quarterly user fee in January 2017 whereas in 2015 this fee was paid in December. The difference in receipts from customers is an increase in Accounts Receivable. There were no significant changes in Payments to Employees or Payments to Suppliers.

Net Cash Used by Capital and Related Financing Activities increased by $5.1 million. The Purchase of Capital Assets was $647,000 in 2016 as compared to $0 in 2015.

Principal Paid on Debt decreased $5.6 million and Interest Paid decreased by $82,000, both in accordance with debt services schedules.

Net Cash Provided by Investment Activities was $9.3 million as compared to $7.3 million Net Cash Used by Investment Activities, representing a cash flow increase of $16.5 million. Interest Income increased $66,000 due to increased interest rates during 2016 as compared to 2015. The county appropriation of $374,000 decreased cash flows from investing activities. The most significant increase is a result of investments that matured in 2016. The Authority issued a request for proposals for investment advisory services and intends to invest available cash in higher interest bearing investments by mid-2017.

The Net Increase in Cash and Cash Equivalents for the 2016 year is $14,168,209. The Cash and Cash Equivalents Balance at the Beginning of the Year was $25,387,574 and the Balance at the End of the Year was $39,555,783.

| | 2016 | 2015 | Cash Flow Incr/(Decr) | % Change |
|---|---|---|---|---|
| **Cash Flows from Operating Activites** | | | | |
| Receipts from Customers and Users | $ 26,794,346 | $ 28,534,366 | $ (1,740,020) | -6% |
| Payments to Employees | (6,132,440) | (5,750,211) | (382,229) | 7% |
| Payments to Suppliers | (13,514,496) | (13,548,047) | 33,551 | 0% |
| Net Cash Provided by Operating Activites | 7,147,410 | 9,236,108 | (2,088,698) | -23% |
| **Cash Flows from Noncapital Financing Activites** | | | | |
| Transfers to Other Funds | 384,905 | 197,636 | 187,269 | 95% |
| **Cash Flows from Capital and Related Financing Activites** | | | | |
| Purchase of Capital Assets | (647,328) | - | (647,328) | 100% |
| Principal Paid on Debt | (1,703,770) | (7,334,853) | 5,631,083 | -77% |
| Interest Paid on Debt | (263,782) | (346,071) | 82,289 | -24% |
| Net Cash Used by Capital and Financing | (2,614,880) | (7,680,924) | 5,066,044 | -66% |
| **Cash Flows from Investing Activities** | | | | |
| Interest Income | 171,255 | 105,633 | 65,622 | 62% |
| County Appropriation | (373,549) | - | (373,549) | -100% |
| Transferred to Investments | 9,453,068 | (7,357,379) | 16,810,447 | -228% |
| Net Cash Provided/(Used) by Investing Activities | 9,250,774 | (7,251,746) | 16,502,520 | -228% |
| **Net Increase in Cash and Cash Equivalents** | 14,168,209 | (5,498,926) | 19,667,135 | -358% |
| **Cash and Cash Equivalents, January 1** | 25,387,574 | 30,886,500 | (5,498,926) | -18% |
| **Cash and Cash Equivalents, December 31** | $ 39,555,783 | $ 25,387,574 | $ 14,168,209 | 56% |

## Solid Waste Division

Comparative Balance Sheet

The Solid Waste Division reports Total Assets and Deferred Outflows of $108,043,000, an increase of $8 million and 8% from 2016.

Current Assets increased $2.9 million and 15% primarily due to $1.8 million more cash and investments on hand and a $754,000 increase to accounts receivable in 2016 as compared to 2015. In 2016 the Authority purchased 96-gallon recycling and trash carts for two municipalities as part of their multi-year collection contracts. The carts are the property of the municipalities and are being repaid monthly over the length of the contract. The amount due for carts as of December 31, 2016 is approximately $718,000.

Restricted and Noncurrent Assets increased $3.5 million and 10%. Cash and investments increased due to monthly deposits made to fund cell wall construction in 2018. Amounts held by the state of New Jersey increased $1 million and 4% 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 5% to $156,000 in 2016 as compared to $165,000 in 2015.

Capital Assets increased $924,000 and 1% and includes 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 $4.1 million and 4% and is a combination of $5.1 million depreciation expense and $1.1 million 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 increased $4.7 million to $8.2 million. The increase is primarily due to the actuarial assumptions used to calculate pension obligations. The discount and investment rates of return decreased causing a significant increase in the Deferred Outflow for all participating units.

Total Liabilities and Deferred Inflows increased $7 million and 11%. Current Liabilities Payable from Unrestricted Assets increased by $172,000 and 5% due to increased Accounts Payable, Customer Deposits and Pension Payable. Accounts Payable increased $135,000 primarily due to the timing of payments. Customer Deposits increased $23,000 and 14% due to more customers depositing cash to draw down with future sales activity. Pension Payable increased $14,000 and 2% and is the amount payable 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 and increased $119,000 to $436,000. The increase is due to capital assets received in 2016 but not paid until 2017.

Accrued Landfill Closure and Post-Closure costs increased $351,000 and 1%. The ACUA now 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 $14.9 million, an increase of $1.1 million from 2015. The PPL Closure Liability is

$18.1 million and decreased more than $700,000 due to closure expenses incurred in 2016 which are partially offset by interest income earned in the escrow accounts.

The amount escrowed for ACUA's landfill is in accordance with the consulting Engineer's findings as reported. Total anticipated closure cost as of December 31, 2016 is $14,903,748. The percent of cumulative landfill capacity utilized as of December 31, 2016 according to the consulting engineer report is 61.7%, up from 58.7% in 2015. This increase is the result of 339,473 current year tons of accepted waste plus 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 $18.1 million and are fully funded. The ACUA Landfill Post-Closure Costs are estimated to be $14.9 million and $9.8 million is funded. Both are shown in the Noncurrent Assets of the Authority.

Other Non-Current Liabilities include an accrual for expected future Post Retirement Benefit costs in the amount of $800,000 and Accrued Compensated Absences of $512,000. 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 increased $6.8 million and 30% to $29.7 million in 2016. The increase is attributable to changes in actuarial assumptions used to calculate pension obligations. The discount and investment rates of return decreased causing a significant increase in the Net Pension Liability for all participating units.

Deferred Inflows Related to Pensions is $51,000 as compared to $430,000 in 2015. The significant decrease is also attributable to the actuarial assumptions used to calculate pension obligations.

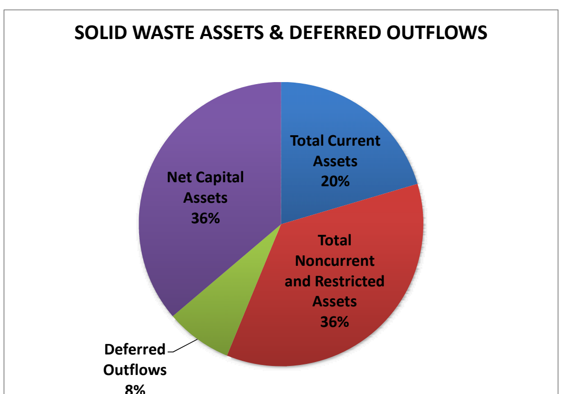
The Division's Net Position of $39,749,699 is comprised of the following:

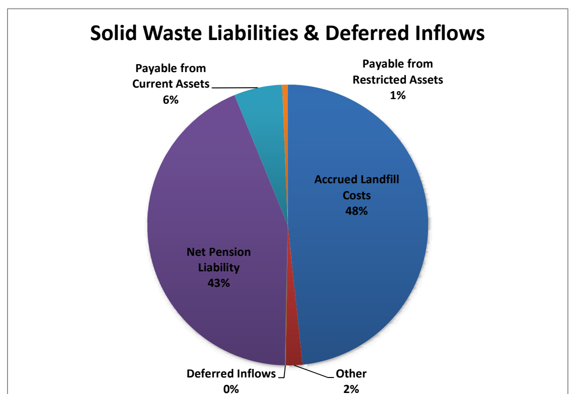
(1) Capital Assets, Net of Related Debt of $0, are $39,125,883 and include Property, Plant and Equipment, net of Accumulated Depreciation.

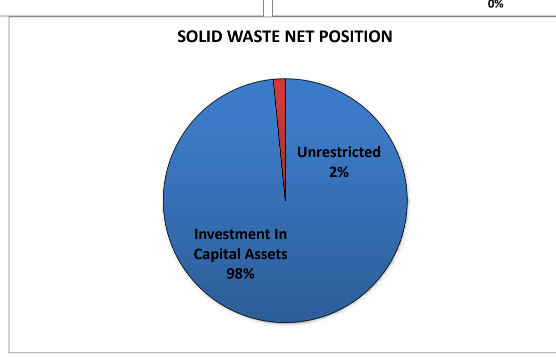
(2) Unrestricted Net Position increased $4.1 million to $623,816 and represents the Net Position available to maintain the Authority's continuing obligations to the Authority's service area, certain creditors, current liabilities and other post-employment benefits. In 2015, the Net Position decreased $21.4 million to negative $3,506,920 due to the implementation of GASB 68 and due to a Net Loss of $604,287 in 2015. In 2016, Net Income of $968,000 coupled with

a net decrease in Capital Assets of $3.2 million increased Unrestricted Net Position by $4.1 million.

| | 2016 | 2015 | $ Change | % Change |
|---|---|---|---|---|
| Total Current Assets | $ 22,072,322 | $ 19,137,499 | $ 2,934,823 | 15% |
| Total Noncurrent & Restricted Assets | 38,646,920 | 35,158,598 | 3,488,322 | 10% |
| Capital Assets, Net of Depreciation | 39,125,883 | 42,288,928 | (3,163,045) | -7% |
| Deferred Outflows Related to Pensions | 8,197,957 | 3,467,398 | 4,730,559 | 136% |
| **TOTAL ASSETS & DEFERRED OUTFLOWS** | 108,043,082 | 100,052,423 | 7,990,659 | 8% |
| | | | | |
| Total Liabilities Payable from Current Assets | 3,791,740 | 3,619,787 | 171,953 | 5% |
| Total Liabiliites Payable from Restricted Assets | 435,731 | 316,720 | 119,011 | 38% |
| | | | | |
| Accrued Landfill Closure and Post-Closure Costs | 32,993,037 | 32,641,816 | 351,221 | 1% |
| Other Non-Current Liablities | 1,311,572 | 1,362,699 | (51,127) | -4% |
| Net Pension Liability | 29,710,654 | 22,899,234 | 6,811,420 | 30% |
| Deferred Inflows Related to Pensions | 50,649 | 430,159 | (379,510) | -88% |
| **TOTAL LIABILITIES & DEFERRED INFLOWS** | 68,293,383 | 61,270,415 | 7,022,968 | 11% |
| | | | | |
| Invested in Capital Assets, Net Debt | 39,125,883 | 42,288,928 | (3,163,045) | -7% |
| Unrestricted | 623,816 | (3,506,920) | 4,130,736 | -118% |
| **TOTAL NET POSITION** | $ 39,749,699 | $ 38,782,008 | $ 967,691 | 2% |
| | | | | |
| **TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION** | $ 108,043,082 | $ 100,052,423 | $ 7,990,659 | 8% |




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

Solid Waste Net Income is $968,000 compared to a Net Loss of $604,000 in 2015, a $1.6 million increase. There has 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 with Operating Revenue increasing $2.3 million and 7%. Operating Expenses increased $793,000 and 2% while Non-Operating Revenue increased $50,000.

Tip Fees increased 8% and $1.8 million primarily due to construction and demolition, industrial and bulky waste received. The City of Atlantic City has been actively demolishing properties as part of its economic recovery efforts, there are properties throughout the coastal regions being lifted and rebuilt after Superstorm Sandy and a large landfill excavation project brought significant industrial waste to ACUA in 2016. Recycling Market Revenue and Revenue from Collection Contracts increased 8% and $638,000. Recycling Grant income increased about $190,000 due to two additional grants from the State of New Jersey received in 2016; an entitlement grant and a bonus grant. Other Grant income decreased $57,000 because a Clean Communities reimbursement was not done until 2017. Compost and Eco-Product Revenue decreased $56,000 and 5% due in part to running out of Eco Soil in 2016 and we did not run out of Eco Soil in 2015. Other Income increased $23,000 and 2% due to several factors as shown below. Significant changes are explained following the chart.

| | 2016 | 2015 | $ Change | % Change |
|---|---|---|---|---|
| Landfill Gas to Energy | 323,212 | 332,637 | $ (9,424) | -3% |
| Rental Income | 234,688 | 230,570 | 4,118 | 2% |
| PPL Reimbursement | 219,915 | 291,185 | (71,270) | -24% |
| Atlantic City Writeoff Paid in 2017 | 146,519 | - | 146,519 | 100% |
| CNG Tax Rebate | 82,556 | 76,583 | 5,972 | 8% |
| Waste Flow Settlement | 60,000 | 30,000 | 30,000 | 100% |
| Clean Energy | 59,046 | 31,490 | 27,556 | 88% |
| Insurance Refunds | 57,775 | 14,998 | 42,777 | 285% |
| Miscellaneous | 81,797 | 90,922 | (9,125) | -10% |
| Fuel Sales | 27,687 | 40,501 | (12,814) | -32% |
| Worker's Comp | 1,008 | 105,037 | (104,029) | -99% |
| Stickers for Carts Atlantic City | - | 27,000 | (27,000) | -100% |
| **Total Other Income** | **$1,294,202** | **$1,270,923** | **$ 23,279** | **2%** |

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). ACUA shares in total revenues of the project and earned $323,000 in 2016 which is slightly less than the prior year. The ACUA revenue share decreased approximately $90,000 per year when the two engines were offline in 2015 and 2016. The Authority renegotiated its contract with ACLE in 2016. The new agreement requires ACLE, among other things, to operate two engines and to install a hydrogen sulfide treatment system that will benefit both parties. In exchange, the ACUA agreed to reduce its revenue share and also required ACLE to support the ACUA as it seeks a landfill solar project and a methane gas to natural gas pipeline project. Both of these projects became more viable by removing the third engine. Revenue remained flat for the project and is anticipated to decrease in 2017 when the second engine comes online. PPL reimbursement income decreased from 2015 to 2016 because the 2015 reimbursement included 14 months of activity and the 2016 reimbursements included 12 months. ACUA gets reimbursed for actual expenses incurred plus annual corporate and finance overhead charges as approved by the DEP. Atlantic City owed the ACUA $147,000 for collection services, carts and stickers supplied to the city. As of December 31, 2015 the receivable was considered uncollectible by management due to the poor financial condition the City has been experiencing. In 2016 the city underwent a state takeover and the ACUA was paid for the amount written off which was recognized as income in 2016. 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 slightly as CNG fuel use by ACUA increased with additional CNG trucks deployed in 2016. The Authority continues to enforce waste flow and was paid $60,000 on waste flow violation settlements in 2016. Clean Energy income increased $28,000 due to more companies deploying CNG vehicles and fueling at the station. Clean Energy bills outside customers and remits that revenue to ACUA on a monthly basis. Insurance refunds increased $43,000 due to claims on an excavator that flipped on the landfill and a fire in the recycling center bag house. Fuel sales decreased 32% due to a reduction in the cost of fuel and price charged to outside customers. The quantity of fuel sold remained relatively flat from 2015 to 2016. Worker's compensation decreased $104,000 because two premium refunds were received in 2015 after the insurance company audited the payroll. There were no premium refunds in 2016. Finally, the ACUA sold stickers for carts to Atlantic City in 2015 which was a one-time, unique transaction.

Operating Expenses increased $793,000 and 2%, which is the net result of increases and decreases among significant operating items. The Division experienced modest changes in Fuel and Administrative Expenses. More significant increases and decreases are explained below.

Significant increases were seen in Salaries, Employee Benefits, Indirect Operating Expenses and Community Benefit Expense. There was a $382,000 and 4% increase in Salaries due to vacancies in 2015 filled for the full year of 2016 and annual salary increases paid to employees. Employee Benefits increased $955,000 and 15% partly due to a $1.3 million increase in Unbudgeted Pension Expense 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. Other employee health benefit costs decreased due to increased employee contributions and prior year canceled encumbrances not expended. Indirect Operating Expenses increased $327,000 and 10% primarily due to NJDEP Compliance fees assessed in 2016 that were not previously required to be paid and due to a permit violation penalty assessed. Compliance fees increased $261,000 from 2015 to 2016. Finally, Community Benefit Expense increased $126,000 and 6% due to increased tonnages received and paid to Egg Harbor Township, the host community for the landfill. The Host Community Benefit Fee for 2016 and 2015 was $7.80 per ton.

Significant decreases were seen in Power and Utilities, Supplies and Miscellaneous Maintenance, Bad Debt Expense and Depreciation. Power and Utilities decreased due to lower sewer costs. A temporary cap was installed on 30 acres of the landfill in 2015 which caused a significant reduction in leachate flows to the sewer system. Supplies and Miscellaneous Maintenance decreased $581,000 and 19% because the net impact of the 2014 GAAP adjustment increased 2015 costs by $636,000 which is related to timing of goods and services received only. Actual costs for Supplies and Maintenance remained flat from year to year. In 2015 management considered amounts owed to the Authority from Atlantic City uncollectible and fully reserved the balance owed by recording Bad Debt Expense. In 2016 management determined the allowance for doubtful accounts was adequate and no Bad Debt Expense was necessary. Depreciation Expense decreased $242,000 in accordance with the Authority's depreciation policy and partly due to assets sold in 2016.

Total Operating Revenue exceeded Total Operating Expenses resulting in operating income of $747,000 for 2016 versus $774,000 operating loss in 2015. 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.

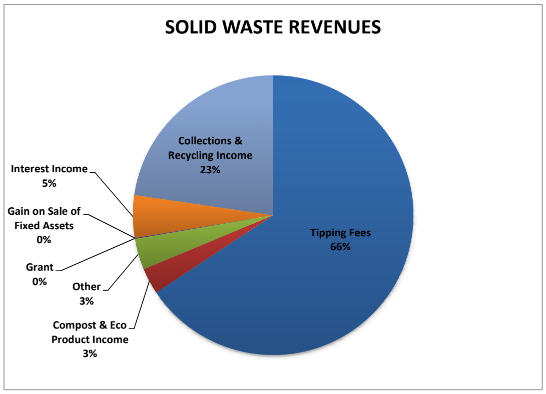
Total Non-Operating Income is $220,000 compared to $170,000 in 2015, an improvement of $50,000.

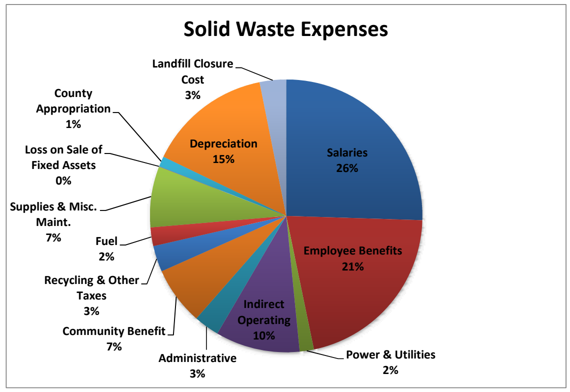
In 2014, the County of Atlantic exercised its right to request that up to five percent (5%) of the Authority's operating budget appropriations be transferred to the County. The County requested the maximum amount of 5% be transferred and the budget was amended to appropriate this expense for the full 5%, calculated to be $1,424,083 for the Solid Waste Division. The funds were transferred in August 2014 upon both ACUA and County of Atlantic obtaining all necessary approvals to execute the transaction. The reason the County requested the funds was for economic development initiatives for 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 2016 the Solid Waste Division was responsible for $426,000 of the $800,000 due for both initiatives.

In 2016 Interest Income 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 2016 some old equipment and vehicles were sold which resulted in a net loss of $20,000. In 2015 similar sales took place that resulted in a net gain of $41,000. 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 increased $1,094,000 in 2016 and is calculated by an independent engineer on an annual basis.

Net Income for the 2016 year is $967,691 compared to Net Loss of $604,287 in 2015, a $1.6 million improvement.

| **SW Revenue** | 2016 | 2015 | $ Change | % Change |
|---|---|---|---|---|
| Tipping Fee | $ 23,585,818 | $21,818,878 | $ 1,766,940 | 8% |
| Collections & Recycling | 8,149,345 | 7,511,662 | 637,683 | 8% |
| Grant Income | 42,559 | 99,533 | (56,974) | -57% |
| Composting & Eco Product Income | 1,082,209 | 1,138,387 | (56,178) | -5% |
| Other | 1,294,202 | 1,270,923 | 23,279 | 2% |
| Total Revenue | 34,154,133 | 31,839,383 | 2,314,750 | 7% |
| | | | | |
| **SW Operating Expenses** | | | | |
| Salaries | 8,911,347 | 8,529,052 | 382,295 | 4% |
| Employee Benefits | 7,423,709 | 6,468,956 | 954,753 | 15% |
| Power & Utilities | 583,800 | 687,356 | (103,556) | -15% |
| Fuel | 774,312 | 794,554 | (20,242) | -3% |
| Supplies & Miscellaneous Maintenance | 2,525,808 | 3,106,605 | (580,797) | -19% |
| Indirect Operating Expenses | 3,499,552 | 3,172,062 | 327,490 | 10% |
| Administrative | 1,059,344 | 1,017,431 | 41,913 | 4% |
| Community Benefit | 2,405,932 | 2,279,554 | 126,378 | 6% |
| Recycling & Other Taxes | 1,079,585 | 1,022,877 | 56,708 | 6% |
| Bad Debt Expense | - | 150,000 | (150,000) | -100% |
| Depreciation | 5,143,326 | 5,385,068 | (241,742) | -4% |
| Total Operating Expenses | 33,406,715 | 32,613,515 | 793,200 | 2% |
| | | | | |
| **SW Non-Operating Revenue/(Expenses)** | | | | |
| County Appropriation | (426,451) | - | (426,451) | 100% |
| Interest Income | 1,760,303 | 844,313 | 915,990 | 108% |
| Gain on Sale of Fixed Asset | (19,875) | 40,940 | (60,815) | 100% |
| Adjustement to landfill closure and post-closure care cost | (1,093,704) | (715,408) | (378,296) | 53% |
| | 220,273 | 169,845 | 50,428 | 30% |
| | | | | |
| **NET INCOME** | $ 967,691 | $ (604,287) | $ 1,571,978 | -260% |




Statement of Cash Flows

Net Cash Provided by Operating Activities decreased 36% and $3.7 million. Receipts from Customers and Users increased $1.4 million due to increased revenue in 2016. Payments to Employees were flat. Payments to Suppliers increased 35% and $4.7 million which is primarily due to 2015 being an unusually low amount because capital spending was lower than typical. 2016 is more in line with historical payments to suppliers.

Net Cash Used by Capital and Related Financing Activities decreased $1.4 million due to fewer capital asset additions in 2016. In 2015 cell construction costs of $2.1 million were paid.

Net Cash Provided by Investment Activities increased by $9 million to an inflow of $758,000 compared to an outflow in 2015 of $8.2 million. In 2016, Interest Income increased by $926,000 due to a $1.1 million investment maturity in the ACUA standard escrow fund. The County Appropriation increased 100% because there was no County appropriation in 2015. Net transfers from cash to short-term investments were $585,000 and were a combination of investment maturities that were subsequently reinvested to other short-term investments. The Authority issued a request for proposals for investment advisory services and intends to invest available cash in higher interest bearing investments by mid-2017.

Total Net Increase in Cash and Cash Equivalents for 2016 is $4,675,885.

Cash and Cash Equivalents at the Beginning of the Year were $10,990,458 and $15,666,343 at the End of Year, a 43% increase.

| | 2016 | 2015 | $ Change | % Change |
|---|---|---|---|---|
| **Cash Flows from Operating Activites** | | | | |
| Receipts from Customers and Users | $ 33,422,882 | $32,010,210 | $ 1,412,672 | 4% |
| Payments to Employees | (8,911,347) | (8,529,052) | (382,295) | 4% |
| Payments to Suppliers | (18,130,895) | (13,442,021) | (4,688,874) | 35% |
| Net Cash Provided by Operating Activites | 6,380,640 | 10,039,137 | (3,658,497) | -36% |
| **Cash Flows from Noncapital Financing Activites** | | | | |
| Transfers to Other Funds | (384,905) | (197,636) | (187,269) | 95% |
| **Cash Flows from Capital and Related Financing Activites** | | | | |
| Purchase of Capital Assets | (2,077,957) | (3,429,649) | 1,351,692 | -39% |
| Net Cash Used by Capital and Financing | (2,077,957) | (3,429,649) | 1,351,692 | -39% |
| **Cash Flows from Investing Activites** | | | | |
| Interest Income | 1,769,878 | 843,660 | 926,218 | 110% |
| County Appropriation | (426,451) | - | (426,451) | -100% |
| Transferred to Investments | (585,320) | (9,070,729) | 8,485,409 | -94% |
| Net Cash Provided (Used) by Investing Activities | 758,107 | (8,227,069) | 8,985,176 | -109% |
| **Net Increase (decrease) in Cash and Cash Equivalents** | 4,675,885 | (1,815,217) | 6,491,102 | -358% |
| **Cash and Cash Equivalents, January 1** | 10,990,458 | 12,805,675 | (1,815,217) | -14% |
| **Cash and Cash Equivalents, December 31** | $ 15,666,343 | $10,990,458 | $ 4,675,885 | 43% |

## 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 the following components:

Transfer Station
Landfill
Recycling Center
Composting Facility
Maintenance Center

The Transfer Station processes all municipal waste delivered to the system. It is permitted to operate at a maximum of 1,950 tons of solid waste per day. Waste received goes through the Transfer Station before being taken to the landfill for disposal. Cell 11 was constructed in 2011 and 2012 for a total cost of approximately $4.6 million. This cell began to accept waste in the second quarter of 2012 and reached its capacity in early 2015. Cell 9 is the last cell to be built under the original landfill footprint and was completed in late 2014 for a total cost of approximately $6.6 million. Waste began being placed in Cell 9 in the second quarter of 2015. After Cell 9 reaches its capacity a mechanically stabilized earth (MSE) wall will be constructed that will utilize available side slope areas for additional capacity. It is anticipated that construction of the MSE wall will begin in 2018. Capacity at the landfill is expected to be available through 2026. The ACUA is seriously researching and collaborating on other innovative and emerging technologies for the disposal of solid waste.

A gas collection system improvement was done during 2012 and included the installation of eighteen vertical gas wells to increase the amount of gas collected. The cost for the eighteen wells was approximately $160,000. The wells help to reduce odors from the landfill and increase the amount of gas collected to be used by the Landfill Gas to Electricity (LFG) facility. In 2013 an additional $75,000 was invested in the gas collection system and referred to as the Header Project. This project includes the installation an 18" gas collection main from the flare station to the landfill and will increase gas collection from the existing landfill wells and replace the old header which is installed under the capped portion of the landfill which cannot be maintained if a problem were to occur. In 2014 a total of 32 additional wells were installed at a cost of approximately $366,000 to proactively continue to increase gas collection and reduce potential odor issues. In 2015 a temporary rain capping system was installed and covers approximately 30 acres of landfill. The temporary cap has multiple benefits to landfill operations and gas collection efficiencies. The rain cap contains potential fugitive gas within the cover and allows gas collection wells to more effectively collect the gas without the intrusion of air. The cover also reduces the amount of rainwater that infiltrates the landfill which reduces the amount of leachate required to be treated as well as decrease the production of landfill gas. The electricity for the entire solid waste facility is provided by two engines in the ACLE landfill gas facility which is a renewable energy source. One of the three engines in that project were taken off line as previously discussed.

In 2012 the ACUA successfully closed a loop-hole in the Solid Waste Management Plan and all waste generated in Atlantic County must be disposed at the ACUA. Waste brought to the ACUA includes municipal, commercial, construction, and industrial waste. In 2016 approximately 339,000 tons of was came in compared to approximately 300,000 tons in 2015, about 290,000 tons in 2014, 324,000 tons in 2013 and 293,000 tons in 2012. Tipping Fees for every ton of waste that comes into the solid waste facility is the primary source of revenue for the Solid Waste Division.

In 2010 the Authority awarded a contract to Hudson Baylor Corporation, now ReCommunity, to own and operate a single stream processing facility at the existing 58,500 square foot ACUA Recycling Center. The facility began operations in August of 2011. The ACUA delivers all single-stream material to ReCommunity and shares in the revenues earned from their resale. ReCommunity pays rent and utilities to ACUA in addition to the share of revenue earned on recyclable materials.

Recycling collection is provided to about twenty Atlantic County municipalities, either on a weekly or bi-weekly basis. Many commercial entities have weekly service. All the recyclables received are processed and marketed by ReCommunity. Revenue from recyclables declined sharply in late 2008 due to the global economic crisis. The markets had been rebounding, however declined again in 2015 and remained relatively flat in 2016. In 2016 approximately 55,000 tons were collected, which is about 18% higher than 2015.

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.

The Authority's compost operation processes leaves, grass clippings, tree branches, clean wood, brush and Christmas trees. In 2016 about 23,000 tons of yard waste was processed, about the same as in 2015 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 70 vehicles and 30 pieces of specialized heavy equipment is maintained and serviced. In 2010 the Authority completed construction of its compressed natural gas (CNG) fueling station and now has twenty-four CNG refuse collection trucks, three CNG rolloff trucks, a CNG street sweeper and five bi-fuel trucks in its fleet. In order to service these vehicles safely, approximately $195,000 of improvements to the Maintenance Center were necessary and were completed in 2011 and 2012. The ACUA received $75,000 in grant funding towards these costs in 2012. Maintenance to other governmental agencies is provided on an as need basis. The vehicle wash, owned by the Wastewater Division, is also available to other agencies and the public. These services provide additional income to the Divisions and optimize the existing facility and staff. Centralized Maintenance is also responsible for buildings and grounds maintenance for ACUA property and operates and maintains the vehicle wash facility.

## 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. In addition, no resolution or other action of the Authority Board providing for the issuance or refunding of bonds or other financial obligations of the Authority can be adopted or made effective without the prior written approval of 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

The President of the Atlantic County Utilities Authority, Richard S. Dovey, manages the daily operations of the Authority. He oversees a staff of about 250, an annual operating budget of about \$60 million, and a capital budget averaging \$6 to \$10 million yearly. Senior staff is charged with the management of the operations and financial affairs of the Authority.

A brief description of the President and senior staff is as follows:

Richard S. Dovey, President. Mr. Dovey was appointed President of the Atlantic County Utilities Authority in June 1990. Prior to assuming his present responsibilities, he was Department Head for the Department of Regional Planning and Development with Atlantic County Government for eight years where he directed the Divisions of Planning, Economic Development, Engineering and Human Services. Prior to that Mr. Dovey was Manager of the Rutland County, Vermont, Solid Waste District for two years. Mr. Dovey is active in numerous community and statewide organizations. He currently serves as Chair of the Sustainable Jersey Board of Trustees, Chairman of the Egg Harbor City Industrial Commission, Vice Chairman of the Cape Atlantic Conservation District Board of Supervisors and Chair of the Stockton University Foundation Board. He also serves on a number of advisory boards at Stockton University, Rowan University School of Engineering, Atlantic Cape Community College and Atlantic County Institute of Technology. Mr. Dovey has served as chairman of the New Jersey Solid Waste Advisory Council, on the Board of Trustees and President of the N.J. Association of Environmental Authorities, as Chairman of the Community FoodBank of New Jersey, Southern Branch, President of the Atlantic County School Board Association, Vice President of the Egg Harbor City Board of Education, and Chairman of the 2011 United Way of Atlantic County Campaign. While Mr. Dovey has served as president, ACUA wastewater and solid waste operations have been nationally recognized for excellence in innovation, efficiency, and environmental stewardship. Mr. Dovey is a graduate of Stockton University with a Bachelor of Arts in Urban Studies.

Linda Bazemore, Vice President of Administration and Finance/CFO. Ms. Bazemore joined the Authority in January 2016 with more than 14 years of experience in administration, finance management and policy development.

In her role, she oversees the operations of the Finance, Human Resources and Information Technology departments. Her role includes advising on developing, coordinating, and carrying out administrative and financial policies, procedures, and plans. In addition, she provides advice necessary to make management decisions, establish organizational goals and objectives within the organization.

Before joining ACUA, she served as the Deputy Executive Director of Administration for the Atlantic City Municipal Utilities Authority (ACMUA) — a position she held for nine years. Linda was responsible for managing finance and capital projects; interpreting and implementing administrative and financial policies; preparing and managing budgets; contract and vendor negotiations; developing and reviewing RFPs; strategic planning; overseeing the accounting, personnel and customer service divisions; and regulatory compliance, among other duties. Prior to joining the ACMUA in 2001, she served as a Senior Accountant and Senior Rate Analyst at the South Jersey Gas Company.

Linda is a Certified Public Accountant and Certified Municipal Finance Officer. She holds a Masters of Business Administration from Rutgers University and a Bachelor of Arts in Accounting from Stockton University.

Linda is a member of the United Way of Atlantic County Women's Leadership Initiative and she currently serves on the Board of Highland Academy. Furthermore, Linda serves on the Women's Shelter Ministry for her Church.

Katherine O. Vesey, Director of Finance and Research & Development. Ms. Vesey has worked for the Authority since 2004 and is responsible for coordinating the annual audit. Ms. Vesey is responsible for the daily operations of the finance department and works with her R&D team to explore energy and environmental initiatives for the ACUA. She has led the ACUA in becoming New Jersey's first organization to join the Chicago Climate Exchange (CCX), the world's first and North America's only legally binding rules-based greenhouse gas emissions allowance trading system. Ms. Vesey also manages the ACUA's Solar Renewable Energy Certificate portfolio. Ms. Vesey holds Bachelor of Science degrees in Accounting and Management from Northeastern University. She is a Certified Public Accountant and also holds a certificate of successful completion of the Water and Wastewater Leadership Center from The University of North Carolina at Chapel Hill Kenan-Flagler Business School. Ms. Vesey is a volunteer board member for Literacy Volunteers Association Cape-Atlantic and currently serves as Board Chair and is a member of the United Way of Atlantic County Women's Leadership Initiative. Ms. Vesey also volunteers to provide financial statement audit reviews for the United Way of Greater Philadelphia and Southern New Jersey.

Other leaders in the Finance Department are Sandra Bourguignon, Chief of Staff, Rick Thomas, Purchasing Manager and Harry Gallagher, IT & HR Director.

Brian Lefke, Senior Vice President – Solid Waste Division and Authority Board Secretary. Mr. Lefke has served as Board Secretary since December 2003, and is responsible for the administration of the Authority Board of Commissioners business and activity. In July of 2009, Mr. Lefke was appointed to the position of Vice President of Solid Waste. Mr. Lefke is responsible for the management oversight of all operations within the Solid Waste Division which includes: Solid Waste Administration, Recycling, Collections, Transfer Station, Landfill, Compost and EcoProduct Marketing. Prior to assuming his current responsibilities, Mr. Lefke served as the Director of Solid Waste Operations at the Authority for 17 years. Prior to joining the ACUA, Mr. Lefke was employed at the Atlantic County Planning Department in various management titles and also served as the acting Executive Director of the Atlantic County Transportation Authority for one year. Mr. Lefke graduated from Stockton University with a Bachelor of Science in Environmental Science and from Farleigh Dickinson University with a Master of Science in Administrative Science. He has served on the Atlantic Cape Community College Board of Trustees since 1995 and was the Board Chairman from 2005-2007. Mr. Lefke has been a member of the Association of New Jersey Recyclers and has served on the executive committee of this group. He has previously been a member of the New Jersey Pinelands Commission and Somers Point Planning Board.

Also serving the Solid Waste Division is Gary Conover, Director of Solid Waste.

Joseph Pantalone, Vice President – Wastewater Division. Mr. Pantalone joined the Authority in August 2013 in his current title and is responsible for the day-to-day administration, operation and maintenance of the Authority's wind and solar powered wastewater treatment plant and collection system. The 40 million gallon per day plant and regional system serves 14 municipalities, surrounding and including Atlantic City, New Jersey. A native of Hammonton, NJ, Mr. Pantalone served most recently as both the Director of Engineering and Human Resources for Adams, Rehmann and Heggan Associates (ARH) in Hammonton, a civil engineering and planning firm serving both municipal and county governments. Mr. Pantalone was with this firm for more than twenty years where he was involved in a significant number of infrastructure projects throughout South Jersey, including the ACUA's interceptor project. The interceptor project was $28 million and connected Hamilton Township to ACUA's wastewater system. Prior to joining ARH, Mr. Pantalone served as the executive director of the Hamilton Township Municipal Utilities Authority in Mays Landing from 1981 through 1988. Mr. Pantalone currently serves on the Atlantic County Groundwater Advisory Committee and has served on the Hammonton Chamber of Commerce for fifteen years. Mr. Pantalone is a graduate of James Madison University in Harrisonburg, Virginia, where he received both a B.S. in Psychology and Sociology and a M.A. in Personnel Administration.

<u>Eugene L. Petitt, PE, PP Chief Engineer</u>. Mr. Petitt is the Chief Engineer for the Authority, a position he has held since 1990. Mr. Petitt is responsible for the planning, design, permitting, and construction of all capital infrastructure improvements for both the Wastewater and Solid Waste Divisions. In February 2008, Mr. Petitt was appointed Head of Centralized Maintenance, a function that combined the in-house maintenance departments of both the Divisions into a central department. Duties include handling fleet maintenance, buildings and grounds, electrical and mechanical maintenance functions. Mr. Petitt has overseen over $137 million worth of capital improvements since joining the Authority. Prior to joining the Authority, Mr. Petitt was the Atlantic County Engineer for eight years, and managed a consulting engineering company in Millville, NJ for six years. Mr. Petitt graduated from Cumberland County College with an Associates of Arts degree in Math and Science and Drexel University with a Bachelor of Science degree in Civil Engineering. Mr. Petitt is a licensed professional engineer, a professional planner and holds an architect's license in the State of New Jersey. He is a member of numerous engineering and construction affiliations and has received numerous awards; the most prestigious include the "Twenty Year Achievement Award" and the "Key-D Award", both from Drexel University. Mr. Petitt was inducted into the "Mary S. Irick Drexel Society," joining a very elite group of engineers who have graduated from Drexel since 1932 and served as President. He also was recently appointed to Drexel's Goodwin College of Professional Studies Advisory Council.

Also serving the Engineering Department is Tom Ganard, Deputy Chief Engineer.

## <u>Funding of Infrastructure and Debt Management</u>

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

Refunding of existing public debt is routinely reviewed, analyzed and recommended when appropriate.

## 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 can be obtained by contacting the Atlantic County Utilities Authority or the ACUA web site at www.acua.com.

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Statement of Net Position**
**December 31, 2016 and 2015**

| | 2016 | | | |
|---|---|---|---|---|
| | **Wastewater Division** | **Solid Waste Division** | **Total** | **2015** |
| **ASSETS** | | | | |
| Unrestricted current assets: | | | | |
| Cash and cash equivalents | $ 30,941,291 | $ 12,175,631 | $ 43,116,922 | $ 24,631,540 |
| Investments | 5,000,000 | 5,000,000 | 10,000,000 | 21,491,300 |
| Accrued interest receivable | 9,669 | 41,094 | 50,763 | 59,428 |
| Accounts receivable (net of allowance $52,240 and $198,759 in 2016 and 2015, respectively) | 3,319,158 | 2,869,613 | 6,188,771 | 3,031,462 |
| Internal accounts | (1,985,984) | 1,985,984 | - | - |
| Total unrestricted current assets | 37,284,134 | 22,072,322 | 59,356,456 | 49,213,730 |
| Restricted noncurrent assets: | | | | |
| Cash and cash equivalents | 8,614,492 | 3,490,712 | 12,105,204 | 11,746,492 |
| Investments | - | 4,700,000 | 4,700,000 | 2,599,937 |
| Amounts held by State of New Jersey | - | 30,300,118 | 30,300,118 | 29,266,271 |
| Accrued interest receivable | - | 156,090 | 156,090 | 164,915 |
| Total restricted noncurrent assets | 8,614,492 | 38,646,920 | 47,261,412 | 43,777,615 |
| Capital assets, gross | 225,924,312 | 140,392,506 | 366,316,818 | 364,745,973 |
| Accumulated depreciation | (167,035,343) | (101,266,623) | (268,301,966) | (258,828,289) |
| Capital assets, net | 58,888,969 | 39,125,883 | 98,014,852 | 105,917,684 |
| TOTAL ASSETS | 104,787,595 | 99,845,125 | 204,632,720 | 198,909,029 |
| **DEFERRED OUTFLOW OF RESOURCES** | | | | |
| Deferred outflows related to pensions | 6,653,724 | 8,197,957 | 14,851,681 | 6,178,602 |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES | 111,441,319 | 108,043,082 | 219,484,401 | 205,087,631 |

The accompanying notes are an integral part of this statement.

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Statement of Net Position**
**December 31, 2016 and 2015**

| | 2016 | | | |
|---|---|---|---|---|
| | **Wastewater Division** | **Solid Waste Division** | **Total** | **2015** |
| **LIABILITIES** | | | | |
| Current liabilities payable from current assets: | | | | |
| Accounts payable and accrued expenses | 2,224,004 | 2,714,934 | 4,938,938 | 4,423,316 |
| Customer deposits | - | 185,615 | 185,615 | 162,377 |
| Unearned revenue, current | - | - | - | 167,489 |
| Pension payable | 723,319 | 891,191 | 1,614,510 | 1,562,762 |
| Total current liabilities payable from current assets | 2,947,323 | 3,791,740 | 6,739,063 | 6,315,944 |
| Current liabilities payable from restricted assets: | | | | |
| Construction contracts payable | 18,804 | 435,731 | 454,535 | 316,720 |
| Current portion of long-term debt | 1,752,306 | - | 1,752,306 | 1,703,770 |
| NJEIT loan payable, net | 440,666 | - | 440,666 | - |
| Accrued interest | 94,764 | - | 94,764 | 109,909 |
| Total current liabilities payable from restricted assets | 2,306,540 | 435,731 | 2,742,271 | 2,130,399 |
| Noncurrent liabilities payable from restricted assets: | | | | |
| Accrued landfill closure and post-closure care cost | - | 32,993,037 | 32,993,037 | 32,641,816 |
| Noncurrent liabilities: | | | | |
| Accrued compensated absences | 656,619 | 511,572 | 1,168,191 | 1,131,516 |
| Post retirement benefits payable | 535,019 | 800,000 | 1,335,019 | 1,335,019 |
| Long-term portion of bonds payable | 10,739,845 | - | 10,739,845 | 12,492,151 |
| Net pension liability | 24,114,114 | 29,710,654 | 53,824,768 | 40,804,441 |
| Total noncurrent liabilities | 36,045,597 | 31,022,226 | 67,067,823 | 55,763,127 |
| TOTAL LIABILITIES | 41,299,460 | 68,242,734 | 109,542,194 | 96,851,286 |
| **DEFERRED INFLOW OF RESOURCES** | | | | |
| Deferred inflows related to pensions | 41,109 | 50,649 | 91,758 | 766,506 |
| TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES | 41,340,569 | 68,293,383 | 109,633,952 | 97,617,792 |

The accompanying notes are an integral part of this statement.

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Statement of Net Position**
**December 31, 2016 and 2015**

| | 2016 | | | |
|---|---|---|---|---|
| | Wastewater Division | Solid Waste Division | Total | 2015 |
| **NET POSITION** | | | | |
| Investment in capital assets, net of related debt | 45,956,152 | 39,125,883 | 85,082,035 | 91,721,763 |
| Restricted for: | | | | |
| Wastewater: | | | | |
| Renewal and replacement | 5,800,000 | - | 5,800,000 | 5,800,000 |
| Debt service fund | 339,205 | - | 339,205 | 348,426 |
| Debt service reserve fund | 1,150,757 | - | 1,150,757 | 1,150,757 |
| Unrestricted | 16,854,636 | 623,816 | 17,478,452 | 8,448,893 |
| TOTAL NET POSITION | 70,100,750 | 39,749,699 | 109,850,449 | 107,469,839 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $ 111,441,319 | $ 108,043,082 | $ 219,484,401 | $ 205,087,631 |

The accompanying notes are an integral part of this statement.

**EXHIBIT B**
**(continued)**

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Statements of Revenues, Expenses and Changes in Net Position**
**For the years ended December 31, 2016 and 2015**

| | 2016 | | | |
|---|---|---|---|---|
| | Wastewater Division | Solid Waste Division | Total | 2015 |
| Operating revenues: | | | | |
| Wastewater: | | | | |
| User service agreements: | | | | |
| Operating | $ 22,960,225 | $ - | $ 22,960,225 | $ 22,548,595 |
| General | 1,958,329 | - | 1,958,329 | 2,369,959 |
| Sludge | 2,204,097 | - | 2,204,097 | 2,141,491 |
| Septage and leachate | 904,548 | - | 904,548 | 459,799 |
| Other | 1,337,456 | - | 1,337,456 | 1,445,620 |
| Solid Waste: | | | | |
| Tipping fees | - | 23,585,818 | 23,585,818 | 21,818,878 |
| Collections and recycling income | - | 8,149,345 | 8,149,345 | 7,511,662 |
| Grant income | - | 42,559 | 42,559 | 99,533 |
| Composting income | - | 1,082,209 | 1,082,209 | 1,138,387 |
| Other | - | 1,294,202 | 1,294,202 | 1,270,923 |
| Total operating revenues | 29,364,655 | 34,154,133 | 63,518,788 | 60,804,847 |
| Operating expenses: | | | | |
| Salaries | 6,132,440 | 8,911,347 | 15,043,787 | 14,279,263 |
| Employee benefits | 5,696,943 | 7,423,709 | 13,120,652 | 11,120,600 |
| Power and utilities | 2,687,946 | 583,800 | 3,271,746 | 3,359,047 |
| Chemicals | 831,329 | - | 831,329 | 1,058,891 |
| Fuel | 1,087,511 | 774,312 | 1,861,823 | 2,034,350 |
| Supplies and miscellaneous maintenance | 2,619,424 | 2,525,808 | 5,145,232 | 5,421,223 |
| Contractual services | 841,588 | - | 841,588 | 541,771 |
| Indirect operating expenses | 639,740 | 3,499,552 | 4,139,292 | 3,773,640 |
| Administrative | 1,380,497 | 1,059,344 | 2,439,841 | 2,389,337 |
| Community benefit | - | 2,405,932 | 2,405,932 | 2,279,554 |
| Recycling and other taxes | - | 1,079,585 | 1,079,585 | 1,022,877 |
| Licenses and permits | 188,357 | - | 188,357 | 171,892 |
| Bad debt expense | - | - | - | 150,000 |
| Depreciation | 5,387,115 | 5,143,326 | 10,530,441 | 10,786,738 |
| Amortization of bond issue costs | - | - | - | 711 |
| Total operating expenses | 27,492,890 | 33,406,715 | 60,899,605 | 58,389,894 |
| Operating income | 1,871,765 | 747,418 | 2,619,183 | 2,414,953 |
| Non-operating revenues / (expenses): | | | | |
| County appropriation | (373,549) | (426,451) | (800,000) | - |
| Interest income | 163,340 | 1,760,303 | 1,923,643 | 917,884 |
| Interest expense | (248,637) | - | (248,637) | (296,496) |
| Gain on sale of fixed assets | - | (19,875) | (19,875) | 40,940 |
| Adjustment to landfill closure and post-closure care cost | - | (1,093,704) | (1,093,704) | (715,408) |
| Total non-operating revenues / (expenses) | (458,846) | 220,273 | (238,573) | (53,080) |
| Net income | 1,412,919 | 967,691 | 2,380,610 | 2,361,873 |
| Net position, January 1, | 68,687,831 | 38,782,008 | 107,469,839 | 142,404,028 |
| Prior period restatement/adjustment | - | - | - | (37,296,062) |
| Net position, January 1, as restated | 68,687,831 | 38,782,008 | 107,469,839 | 105,107,966 |
| Net position, December 31, | $ 70,100,750 | $ 39,749,699 | $ 109,850,449 | $ 107,469,839 |

The accompanying notes are an integral part of this statement.

**EXHIBIT C**
**(continued)**

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Statement of Cash Flows**
**For the years ended December 31, 2016 and 2015**

| | 2016 | | | |
|---|---|---|---|---|
| | **Wastewater Division** | **Solid Waste Division** | **Total** | **2015** |
| Cash flows from operating activities: | | | | |
| Receipts from customers and users | $ 26,794,346 | $ 33,422,882 | $ 60,217,228 | $ 60,544,576 |
| Payments to employees | (6,132,440) | (8,911,347) | (15,043,787) | (14,279,263) |
| Payments to suppliers | (13,514,496) | (18,130,895) | (31,645,391) | (26,990,068) |
| Net cash flows from operating activities | 7,147,410 | 6,380,640 | 13,528,050 | 19,275,245 |
| Cash flows from non-capital financing activities: | | | | |
| Operating subsidies and transfers to other funds | 384,905 | (384,905) | - | - |
| Net cash flows from non-capital financing activities | 384,905 | (384,905) | - | - |
| Cash flows from capital and related financing activities: | | | | |
| Purchase of capital assets | (647,328) | (2,077,957) | (2,725,285) | (3,429,649) |
| Principal paid on debt | (1,703,770) | - | (1,703,770) | (7,334,853) |
| Interest paid on debt | (263,782) | - | (263,782) | (346,071) |
| Net cash flows from capital and related financing activities | (2,614,880) | (2,077,957) | (4,692,837) | (11,110,573) |
| Cash flows from investing activities: | | | | |
| Interest income | 171,255 | 1,769,878 | 1,941,133 | 949,293 |
| County appropriation | (373,549) | (426,451) | (800,000) | - |
| Transferred from/(to) investments | 9,453,068 | (585,320) | 8,867,748 | (16,428,108) |
| Net cash flows from investing activities | 9,250,774 | 758,107 | 10,008,881 | (15,478,815) |
| Net change in cash and cash equivalents | 14,168,209 | 4,675,885 | 18,844,094 | (7,314,143) |
| Cash and cash equivalents, January 1 | 25,387,574 | 10,990,458 | 36,378,032 | 43,692,175 |
| Cash and cash equivalents, December 31, | $ 39,555,783 | $ 15,666,343 | $ 55,222,126 | $ 36,378,032 |
| Reconciliation of Statements of Net Positions: | | | | |
| Unrestricted cash and cash equivalents | $ 30,941,291 | $ 12,175,631 | $ 43,116,922 | $ 24,631,540 |
| Restricted cash and cash equivalents | 8,614,492 | 3,490,712 | 12,105,204 | 11,746,492 |
| Total cash and cash equivalents | $ 39,555,783 | $ 15,666,343 | $ 55,222,126 | $ 36,378,032 |

The accompanying notes are an integral part of this statement.

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Statement of Cash Flows**
**For the year ended December 31, 2016**

| | 2016 | | | |
|---|---|---|---|---|
| | **Wastewater Division** | **Solid Waste Division** | **Total** | **2015** |
| **Reconciliation of operating income to net cash flows from operating activities:** | | | | |
| Operating income | $ 1,871,765 | $ 747,418 | $ 2,619,183 | $ 2,414,953 |
| Items which did not use/(provide) cash: | | | | |
| Depreciation expense | 5,387,115 | 5,143,326 | 10,530,441 | 10,786,738 |
| Amortization of bond issuance costs | - | - | - | 711 |
| Bad debt expense | - | - | - | 150,000 |
| Unbudgeted pension expense | 1,971,149 | 1,701,351 | 3,672,500 | 1,263,565 |
| Working capital changes which provided/(used) cash: | | | | |
| Accounts receivable | (2,402,820) | (754,489) | (3,157,309) | (280,195) |
| Accrued landfill post-closure costs | - | 351,221 | 351,221 | 3,014,891 |
| Accounts and other payables | 487,690 | 202,422 | 690,112 | (302,873) |
| Unearned revenues | (167,489) | - | (167,489) | (125,338) |
| Customer deposits | - | 23,238 | 23,238 | (4,738) |
| Amounts held by the State | - | (1,033,847) | (1,033,847) | 2,357,531 |
| Net cash flows from operating activities | $ 7,147,410 | $ 6,380,640 | $ 13,528,050 | $ 19,275,245 |

The accompanying notes are an integral part of this statement.

## NOTE 1: AUTHORITY DESCRIPTION AND GENERAL INFORMATION

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.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The Authority's financial statements include all the accounts of all the Authority's operations. 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 organization is legally separate (can sue or be sued in their own name);
- 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;

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### A. Reporting Entity (continued)

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.

Based on the aforementioned criteria, the Authority has no component units.

### B. 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.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As permitted by accounting principles generally accepted in the United States of America, the Authority has elected to apply only Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989.

The Authority has adopted GASB No. 33 through 65, and related interpretations issued through December 31, 2012. Statement No. 33 required contributions to be recorded in the Statements of Activities. Statement 34 and subsequent Statements and Interpretations required certain other changes in terminology, format and content, as well as inclusion of the Management's Discussion and Analysis supplementary information.

The Authority prepares its financial statements on an enterprise fund basis. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Accordingly, the Authority's financial statements are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Eligibility requirements include timing requirements, which specify the 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 specific purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

### C. 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

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### C. Wastewater Service Contract

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.

### D. 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 the 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, 2016 and 2015, the Construction Fund and Wastewater Trust Fund cash equivalents amounted to $0.

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, 2016 and 2015, the Rebate Fund amounted to $0 and $42,054 respectively.

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 15$^{th}$ 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 15$^{th}$ for the Sewer Revenue Refunding Bonds. At December 31, 2016 and 2015, the Debt Service Fund cash amounted to $339,205 and $348,426, respectively.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### D. Wastewater Bond Resolutions (continued)

Debt Service Reserve Fund (1995, 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 (1995, 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, 2016 and 2015, the market value of the Debt Service Reserve Fund cash and investments amounted to $1,150,823.

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, 2016 and 2015, the Renewal and Replacement Fund cash totaled $7,123,917 and $6,816,283, respectively. The System Reserve Fund, a component of the Renewal and Replacement Fund, cash requirement at December 31, 2016 and 2015 was $5,800,000.

### E. Investments

The Authority invests available funds in interest bearing securities as prescribed by its various bond resolutions and applicable law. Investments are intended to be held to maturity, the timing of which is based on anticipated cash flow requirements.

Investments are obligations of the United State Government and are stated at market value. The Authority considers investments with maturities of three months or less to be cash equivalents for purposes of the Statement of Cash Flows.

### F. Capital Assets

Capital assets are stated at cost, which includes direct construction costs and other expenditures related to construction. Construction costs are charged to construction in progress until such time as projects are completed and put into operation. Interest incurred on debt during the course of construction is capitalized as part of the project.

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

| | |
|---|---|
| Sewer mains and interceptors | 50 years |
| Buildings and improvements | 40 years |
| Incinerator facility | 40 years |
| Pump stations | 35 years |
| Machinery and equipment | 5 to 10 years |
| Vehicles | 5 years |

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.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### G. 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.

The Authority records unearned revenue for leachate processing fees received in advance. Revenue is recorded as the leachate is processed.

### H. 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.

### I. Restricted Assets

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

### J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net position, and reported amounts of revenues and expenses during the reporting period. These estimates and assumptions include depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results may differ from those estimates.

### K. Risk of Loss

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

### L. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and is recorded as a liability until the revenue is both measureable and the Authority is eligible to realize the revenue.

### M. Net Position

Net position, represents the difference between summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. Net position is classified in the following three components:

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### M. Net Position (continued)

- Net Investment in Capital Assets – This component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for acquisition, construction, or improvement of those assets.
- Restricted – Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Unrestricted – Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

### N. Deferred Inflows/Outflows of Resources

In addition to assets, the statement 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 statement 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 periods and so will not be recognized as an inflow of resources (revenue) until that time.

### O. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended December 31, 2015, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

For the year ended December 31, 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*. As a result of implementing this statement, the Authority is required to measure certain investments at fair value for financial reporting purposes. In addition, the Authority is required to measure donated capital assets at acquisition value (an entry price); these assets were previously required to be measured at fair value. Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of this Statement did not impact the Authority's financial statements.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### O. Impact of Recently Issued Accounting Principles (continued)

Adopted Accounting Pronouncements (continued)

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this Statement did not impact the Authority's financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Implementation of this Statement did not impact 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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended December 31, 2017.

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. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### O. Impact of Recently Issued Accounting Principles (continued)

Recently Issued Accounting Pronouncements (continued)

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. This Statement will be effective for the year ended December 31, 2017. 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.

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.

### P. 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.

*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.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### P. Fair Value Measurement (continued)

*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.

### Q. Subsequent Events

The Authority has evaluated subsequent events occurring through May 5, 2017, which is the date the financial statements were available to be issued.

## NOTE 3: CASH AND CASH EQUIVALENTS

Cash and cash equivalents include change funds, bank deposits and 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. 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.

The Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2016 and 2015 are reported at fair value are shown on the following page.

| | 2016 | 2015 |
|---|---|---|
| **Deposits:** | | |
| Demand deposits | $ 55,222,126 | $ 36,378,032 |
| Total deposits | $ 55,222,126 | $ 36,378,032 |
| **Reconciliation to Statements of Net Position:** | | |
| Current unrestricted assets: | | |
| Cash and cash equivalent | $ 43,116,922 | $ 24,631,540 |
| Current restricted assets: | | |
| Cash and cash equivalent | 12,105,204 | 11,746,492 |
| Total | $ 55,222,126 | $ 36,378,032 |

### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2016 and 2015, the Authority's bank balances of $55,721,878 and $37,368,979, respectively, were insured or collateralized as follows:

**NOTE 3: CASH AND CASH EQUIVALENTS (continued)**

| | 2016 | 2015 |
|---|---|---|
| Insured | $ 888,100 | $ 896,415 |
| Collaterized in the Authority's name | | |
| Under GUDPA | 54,833,778 | 36,472,564 |
| Total | $ 55,721,878 | $ 37,368,979 |

**NOTE 4: INVESTMENTS**

**A. 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.

**B. Investment Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Authority has adopted a cash management plan that limits investment maturities in accordance with N.J.S. 40A:5-15 as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments held at December 31, 2016 and 2015 are provided in the schedule on the following page.

**C. Investment Credit Risk**

The Authority is limited in its investment choices by state law as follows:

- 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 federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Authority or bonds or other obligations of the local unit or units within which the Authority is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Authority;
- Local Government investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities.

## NOTE 4: INVESTMENTS (continued)

### C. Investment Credit Risk

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, 2016 and 2015, the Authority had the following restricted and unrestricted investments:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Face Value | Market | Face Value | Market |
| Wastewater: | | | | |
| New Jersey ARM | $ 5,000,000 | $ 5,000,000 | $11,374,894 | $ 11,374,894 |
| Solid Waste: | | | | |
| New Jersey ARM | | | | |
| Restricted | 4,700,000 | 4,700,000 | | |
| Unrestricted | 5,000,000 | 5,000,000 | 10,116,406 | 10,116,406 |
| Total | $ 14,700,000 | $ 14,700,000 | $ 21,491,300 | $ 21,491,300 |

### D. 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, 2016 and 2015 are summarized above.

## NOTE 5: CAPITAL ASSETS

Capital assets consisted of the following at December 31, 2016 and 2015:

**Wastewater Division:**

| | 2015 | Additions | Deletions | 2016 |
|---|---|---|---|---|
| Land and improvements | $ 12,691,336 | $ - | $ - | $ 12,691,336 |
| Sewer mains and interceptors | 78,054,066 | - | - | 78,054,066 |
| Buildings and improvements | 51,150,440 | - | - | 51,150,440 |
| Machinery and equipment | 40,398,043 | - | - | 40,398,043 |
| Incinerator facility | 16,353,524 | - | - | 16,353,524 |
| Atlantic Coastal Alternative | 26,629,575 | - | - | 26,629,575 |
| Construction in Progress | - | 647,328 | - | 647,328 |
| Capital assets, gross | 225,276,984 | 647,328 | - | 225,924,312 |
| Less: accumulated depreciation | (161,648,228) | (5,387,115) | - | (167,035,343) |
| Capital assets, net | $ 63,628,756 | $ (4,739,787) | $ - | $ 58,888,969 |

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.

## NOTE 5: CAPITAL ASSETS

**Solid Waste Division:**

| | 2015 | Additions | Deletions | 2016 |
|---|---|---|---|---|
| Land and improvements | $ 14,758,845 | $ - | $ - | $ 14,758,845 |
| 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 |
| Construction in Progress | - | 303,651 | | 303,651 |
| Capital assets, gross | 139,468,988 | 2,077,957 | (1,154,438) | 140,392,507 |
| Less: accumulated depreciation | (97,180,060) | (5,143,326) | 1,056,762 | (101,266,624) |
| Capital assets, net | $ 42,288,928 | $ (3,065,369) | $ (97,676) | $ 39,125,883 |

## NOTE 6: BONDS PAYABLE

Wastewater Revenue and Revenue Refunding Bonds at December 31, 2016 and 2015 consist of the following:

| | 2015 | Increases | Decreases | 2016 |
|---|---|---|---|---|
| NJ Environmental Infrastructure Trust – 1997 | $ 1,377,628 | - | $ 678,897 | $ 698,731 |
| NJ Environmental Infrastructure Trust – 2001 | 706,287 | - | 112,069 | 594,218 |
| NJ Environmental Infrastructure Trust – 2004 | 2,460,674 | - | 253,786 | 2,206,888 |
| NJ Environmental Infrastructure Trust – 2006 | 1,395,738 | - | 135,143 | 1,260,595 |
| NJ Environmental Infrastructure Trust – 2007 | 1,934,486 | - | 147,996 | 1,786,490 |
| NJ Environmental Infrastructure Trust - 2010A | 3,113,125 | - | 190,938 | 2,922,187 |
| NJ Environmental Infrastructure Trust - 2010B | 1,421,072 | - | 81,071 | 1,340,001 |
| NJ Environmental Infrastructure Trust – 2012 | 1,786,911 | - | 103,870 | 1,683,041 |
| NJ Environmental Infrastructure Trust Interim Lc | - | 440,666 | | 440,666 |
| Total | $ 14,195,921 | $ 440,666.00 | $ 1,703,770 | $ 12,932,817 |

The following schedule combines the total debt for the two divisions:

| | 2016 | 2015 |
|---|---|---|
| Bonds payable: | | |
| Wastewater Division | $ 12,932,817 | $ 14,195,921 |
| Total bonds payable | $ 12,932,817 | $ 14,195,921 |
| Current portion of long-term debt: | | |
| Wastewater Division | $ 2,192,972 | $ 1,703,770 |
| Non-current portion of long-term debt: | | |
| Wastewater Division | 10,739,845 | 12,492,151 |
| Total bonds payable | $ 12,932,817 | $ 14,195,921 |

**NOTE 6: BONDS PAYABLE (continued)**

**A. Description of Bonds Payable**

At December 31, 2016, bonds payable consisted of the following issues:

Wastewater Division

$10,602,202 New Jersey Wastewater Trust Fund Loan dated 1997, due in semiannual installments for principal and interest through August 1, 2017, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2016 is $698,731.

$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, 2016 is $594,218.

$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, 2016 is $2,206,888.

$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, 2016 is $1,260,595.

$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, 2016 is $1,786,490.

$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, 2016 is $2,922,187.

$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, 2016 is $1,340,001.

$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, 2016 is $1,683,041.

The Authority closed on two interim financings with the NJEIT that act as construction loans until total project costs are available and long-term financings can be scheduled. The loans totaled $6,662,741. As of December 31, 2016 $444,666 was borrowed and outstanding, leaving $6,222,075 available to fund remaining project costs.

## NOTE 6: BONDS PAYABLE (continued)

The Wastewater Bonds are secured and payable solely from the revenues of the Wastewater Division.

### B. Debt Service Requirements

Debt service requirements on serial bonds and loans payable at December 31, 2016 are as follows:

**Wastewater Division**

| | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 2,192,972 | $ 227,433 | $ 2,420,405 |
| 2018 | 1,057,999 | 188,783 | 1,246,782 |
| 2019 | 1,074,910 | 170,883 | 1,245,793 |
| 2020 | 1,106,661 | 153,433 | 1,260,094 |
| 2021 | 1,097,714 | 133,970 | 1,231,684 |
| 2022-2026 | 4,454,338 | 412,500 | 4,866,838 |
| 2027-2031 | 1,948,223 | 85,499 | 2,033,722 |
| | $ 12,932,817 | $ 1,372,501 | $ 14,305,318 |

## NOTE 7: PENSION OBLIGATIONS

### A. 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 www.state.nj.us/treasury/pensions/annrprts.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:

| Tier | Definition |
|---|---|
| 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 1/55$^{th}$ 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 1/60$^{th}$ 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

## NOTE 7: PENSION OBLIGATIONS (continued)

### A. Public Employees' Retirement System (PERS) (continued)

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.

**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 2016, 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.

**Components of Net Pension Liability -** At December 31, 2016, the Authority reported a liability of $53,824,768 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, which was rolled forward to June 30, 2016. 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, 2016. The Authority's proportion measured as of June 30, 2016, was .18174%, which was a decrease of .00003% from its proportion measured as of June 30, 2015.

## NOTE 7: PENSION OBLIGATIONS (continued)

### A. Public Employees' Retirement System (PERS) (continued)

Collective Balances at December 31, 2016 and Decmber 31, 2015

| | 12/31/2016 | 12/31/2015 |
|---|---|---|
| Actuarial valuation date (including roll forward) | June 30, 2016 | June 30, 2015 |
| Deferred Outflows of Resources | $ 14,851,681 | $ 6,178,602 |
| Deferred Inflows of Resources | $ 91,758 | $ 766,506 |
| Net Pension Liability | $ 53,824,768 | $ 40,804,441 |
| Authority's portion of the Plan's total net pension Liability | 0.18174% | 0.18177% |

**Pension Expense and Deferred Outflows/Inflows of Resources** - For the year ended December 31, 2016, the Authority recognized a net pension expense of $3,672,500. At December 31, 2016, 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 |
|---|---|---|
| | **PERS** | **PERS** |
| Differences between Expected and Actual Experience | $ 1,000,978 | $ - |
| Changes of Assumptions | 11,149,617 | - |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments | 2,052,387 | - |
| Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions | 648,699 | 91,758 |
| | $ 14,851,681 | $ 91,758 |

The amount reported of $1,614,510 resulting from the Authority's contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2016, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

## NOTE 7: PENSION OBLIGATIONS (continued)

### A. Public Employees' Retirement System (PERS) (continued)

| Year Ending Dec 31, | PERS |
|---|---|
| 2017 | $ 3,347,641 |
| 2018 | 3,347,645 |
| 2019 | 3,840,231 |
| 2020 | 3,216,150 |
| 2021 | 1,008,256 |
| | $ 14,759,923 |

| | PERS | |
|---|---|---|
| | Deferred Outflow of Resources | Deferred Inflow of Resources |
| Differences between Expected and Actual Experience | | |
| Year of Pension Plan Deferral: | | |
| June 30, 2014 | - | - |
| June 30, 2015 | 5.72 | - |
| June 30, 2016 | 5.57 | - |
| Changes of Assumptions | | |
| Year of Pension Plan Deferral: | | |
| June 30, 2014 | 6.44 | - |
| June 30, 2015 | 5.72 | - |
| June 30, 2016 | 5.57 | - |
| 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 | - |
| 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 |

## NOTE 7: PENSION OBLIGATIONS (continued)

### A. Public Employees' Retirement System (PERS) (continued)

**Actuarial Assumptions -** The total pension asset/(liability) as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

| | PERS |
|---|---|
| Inflation | 3.08% |
| Salary Increases: | |
| Through 2026 | 1.65% - 4.15% Based on Age |
| Thereafter | 2.65% - 5.15% Based on Age |
| Investment Rate of Return | 7.65% |
| Mortality Rate Table | RP-2000 |
| Period of Actuarial Experience Study upon which Actuarial Assumptions were Based | July 1, 2011 - June 30, 2014 |

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 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, 2015 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 (7.65% at June 30, 2016) 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, 2016 are summarized in the following table:

## NOTE 7: PENSION OBLIGATIONS (continued)

### A. Public Employees' Retirement System (PERS) (continued)

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash | 5.00% | 0.87% |
| U.S. Treasuries | 1.50% | 1.74% |
| Investment grade credit | 8.00% | 1.79% |
| Mortgages | 2.00% | 1.67% |
| High Yield Bonds | 2.00% | 4.56% |
| Inflation-Indexed Bonds | 1.50% | 3.44% |
| Broad U.S. Equities | 26.00% | 8.53% |
| Developed Foreign Equities | 13.25% | 6.83% |
| Emerging Market Equities | 6.50% | 9.95% |
| Private Equity | 9.00% | 12.40% |
| Hedge Funds/Absolute Return | 12.50% | 4.68% |
| Real Estate (Property) | 2.00% | 6.91% |
| Commodities | 0.50% | 5.45% |
| Global debt ex U.S. | 5.00% | -0.25% |
| REIT | 5.25% | 5.63% |
| | 100.00% | |

**Discount Rate** - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipals 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 30% 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 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**Sensitivity of 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 (2.98%) or 1-percentage-point higher (4.98%) than the current rate:

## NOTE 7: PENSION OBLIGATIONS (continued)

### A. Public Employees' Retirement System (PERS) (continued)

| | PERS | | |
|---|---|---|---|
| | 1% Decrease (2.98%) | Current Discount Rate (3.98%) | 1% Increase (4.98%) |
| Authority's Proportionate Share of the Net Pension Liability | $ 65,955,971 | $ 53,824,768 | $ 43,809,409 |

## NOTE 8: 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 |
|---|---|---|---|
| 2016 | $ 5,728,605 | $ 751,311 | $ 6,479,916 |
| 2015 | $ 5,358,728 | $ 721,435 | $ 6,080,163 |
| 2014 | $ 5,036,614 | $ 574,452 | $ 5,611,066 |

## NOTE 9: 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.

## NOTE 10: 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, 2016 and 2015 totaled \$32,993,037 and \$32,641,816, respectively. For the years ended December 31, 2016 and 2015 landfill closure capacity used was 61.7% and 58.7% respectively.

## NOTE 11: 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, 2016:

| | |
|---|---|
| United States Treasury | $ 25,356,273 |
| Cash | 4,943,845 |
| Total | $ 30,300,118 |

## NOTE 12: 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.

Schedule I

# ATLANTIC COUNTY UTILITIES AUTHORITY
## Wastewater Division
## Statement of Net Position
***Modified Accrual Basis***
**December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Unrestricted current assets: | | |
| Cash and cash equivalents | $ 30,941,291 | $ 19,368,494 |
| Investments | 5,000,000 | 11,374,894 |
| Accrued interest receivable | 9,669 | 17,584 |
| Accounts receivable | 3,319,158 | 916,338 |
| Total unrestricted current assets | 39,270,118 | 31,677,310 |
| Restricted noncurrent assets: | | |
| Cash and cash equivalents | 8,614,492 | 6,019,080 |
| Investments | - | 2,599,937 |
| Total restricted noncurrent assets | 8,614,492 | 8,619,017 |
| Capital assets, gross | 225,924,312 | 225,276,984 |
| Accumulated depreciation | (167,035,343) | (161,648,228) |
| Capital assets, net | 58,888,969 | 63,628,756 |
| TOTAL ASSETS | 106,773,579 | 103,925,083 |

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Wastewater Division**
**Statement of Net Position**
***Modified Accrual Basis***
**December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **LIABILITIES** | | |
| Current liabilities payable from current assets: | | |
| Accounts payable and accrued expenses | 4,121,465 | 2,973,894 |
| Unearned revenue, current | - | 167,489 |
| Due to Solid Waste Division | 1,985,984 | 1,601,079 |
| Pension payable | 723,319 | 685,748 |
| Total current liabilities payable from current assets | 6,830,768 | 5,428,210 |
| Current liabilities payable from restricted assets: | | |
| Construction contracts payable | 18,804 | - |
| Current portion of long-term debt | 1,752,306 | 1,703,770 |
| NJEIT loan payable, net | 440,666 | - |
| Accrued interest | 94,764 | 109,909 |
| Total current liabilities payable from restricted assets | 2,306,540 | 1,813,679 |
| Noncurrent liabilities: | | |
| Accrued compensated absences | 656,619 | 568,817 |
| Post retirement benefits payable | 535,019 | 535,019 |
| Long-term portion of bonds payable | 10,739,845 | 12,492,151 |
| Total noncurrent liabilities | 11,931,483 | 13,595,987 |
| TOTAL LIABILITIES | 21,068,791 | 20,837,876 |
| **NET POSITION** | | |
| Investment in capital assets, net of related debt | 45,956,152 | 49,432,835 |
| Restricted for: | | |
| Renewal and replacement | 5,800,000 | 5,800,000 |
| Debt service fund | 339,205 | 348,426 |
| Debt service reserve fund | 1,150,757 | 1,150,757 |
| Unrestricted | 32,458,674 | 26,355,189 |
| TOTAL NET POSITION | 85,704,788 | 83,087,207 |
| TOTAL LIABILITIES, DEFFERRED INFLOWS OF RESOURCES AND NET POSITION | $ 106,773,579 | $ 103,925,083 |

Schedule II

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Wastewater Division**
**Statement of Revenues, Expenses and Changes in Net Position**
**Modified Accrual Basis**
**For the years ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Operating revenues: | | |
| User service agreements: | | |
| Operating | $ 22,960,225 | $ 22,548,595 |
| General | 1,958,329 | 2,369,959 |
| Sludge | 2,204,097 | 2,141,491 |
| Septage and leachate | 904,548 | 459,799 |
| Other | 1,337,456 | 1,445,620 |
| Total operating revenues | 29,364,655 | 28,965,464 |
| Operating expenses: | | |
| Salaries | 6,132,440 | 5,750,211 |
| Employee benefits | 3,725,794 | 3,822,601 |
| Power and utilities | 2,687,946 | 2,671,691 |
| Chemicals | 831,329 | 1,058,891 |
| Fuel | 1,087,511 | 1,239,796 |
| Supplies and miscellaneous maintenance | 3,385,911 | 2,662,057 |
| Contractual services | 841,588 | 541,771 |
| Indirect operating expenses | 639,740 | 601,578 |
| Administrative | 1,380,497 | 1,371,906 |
| Licenses and permits | 188,357 | 171,892 |
| Depreciation | 5,387,115 | 5,401,670 |
| Amortization of bond issue costs | - | 711 |
| Total operating expenses | 26,288,228 | 25,294,775 |
| Operating income | 3,076,427 | 3,670,689 |
| Non-operating revenues/(expenses): | | |
| County appropriation | (373,549) | - |
| Interest income | 163,340 | 73,571 |
| Interest expense | (248,637) | (296,496) |
| Total non-operating revenues/(expenses) | (458,846) | (222,925) |
| Net income | 2,617,581 | 3,447,764 |
| Net position, January 1, | 83,087,207 | 79,459,643 |
| Prior period adjustment | - | 179,800 |
| Net position, January 1, as restated | 83,087,207 | 79,639,443 |
| Net position, December 31, | $ 85,704,788 | $ 83,087,207 |
| **Reconciliation to Statements of Revenues, Expenses and Changes in Net Position - GAAP Basis:** | | |
| Net income - modified accrual basis | $ 2,617,581 | $ 3,447,764 |
| Prior year wastewater GAAP adjustment | (1,130,974) | (783,535) |
| Current year wastewater GAAP Adjustment | 1,897,461 | 1,130,974 |
| Unbudgeted pension expense | (1,971,149) | (829,043) |
| Net income - GAAP basis | $ 1,412,919 | $ 2,966,160 |

**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, 2016**

| | Original Budget | Modified Budget | Actual | Favorable/ (Unfavorable) Variance |
|---|---|---|---|---|
| Revenues: | | | | |
| User service agreements | $ 24,918,554 | $ 24,918,554 | $ 24,918,554 | $ - |
| Sludge and septage | 2,065,000 | 2,065,000 | 2,497,703 | 432,703 |
| Interest on investments and deposits | 100,000 | 100,000 | 163,340 | 63,340 |
| Miscellaneous | 1,001,860 | 1,001,860 | 1,337,455 | 335,595 |
| Fund balance and reserves anticipated | 373,549 | 373,549 | 373,549 | - |
| Total revenues | 28,458,963 | 28,458,963 | 29,290,601 | 831,638 |
| Expenses: | | | | |
| Salaries | 6,292,079 | 6,292,079 | 6,132,440 | 159,639 |
| Employee benefits | 4,143,689 | 4,143,689 | 3,903,121 | 240,568 |
| Power and utilities | 2,881,500 | 2,881,500 | 2,687,946 | 193,554 |
| Chemicals | 1,589,000 | 1,589,000 | 927,328 | 661,672 |
| Fuel | 1,345,000 | 1,345,000 | 1,087,511 | 257,489 |
| Supplies and miscellaneous maintenance | 1,418,910 | 1,418,910 | 1,307,710 | 111,200 |
| Contractual services | 748,360 | 748,360 | 802,304 | (53,944) |
| Indirect operating expenses | 896,635 | 896,635 | 835,772 | 60,863 |
| Administrative | 1,790,713 | 1,790,713 | 1,477,767 | 312,946 |
| Maintenance program expense | 2,000,000 | 2,000,000 | 2,023,722 | (23,722) |
| Cancelled purchase orders | - | - | (284,509) | 284,509 |
| Total operating expenses | 23,105,886 | 23,105,886 | 20,901,112 | 2,204,774 |
| Non-operating expenses: | | | | |
| County appropriation | 373,549 | 373,549 | 373,549 | - |
| System reserve requirements | 2,578,767 | 2,578,767 | 2,578,767 | - |
| Debt service interest | 521,373 | 521,373 | 248,637 | 272,736 |
| Debt service principal | 1,879,388 | 1,879,388 | 1,709,692 | 169,696 |
| Total non-operating expenses | 5,353,077 | 5,353,077 | 4,910,645 | 442,432 |
| Total expenses | 28,458,963 | 28,458,963 | 25,811,757 | 2,647,206 |
| Net income / (loss) from operations | $ - | $ - | $ 3,478,844 | $ 3,478,844 |

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

| | |
|---|---|
| Net income - rate basis | $ 3,478,844 |
| Fund balance and reserves anticipated | (373,549) |
| System reserve requirements | 2,578,767 |
| Principal payments | 1,709,692 |
| Depreciation expense | (5,387,115) |
| Leachate revenue | 610,942 |
| Prior year wastewater GAAP adjustment | (1,130,974) |
| Current year wastewater GAAP Adjustment | 1,897,461 |
| Unbudgeted pension expense | (1,971,149) |
| Net income - GAAP basis | $ 1,412,919 |

# ATLANTIC COUNTY UTILITIES AUTHORITY
## Wastewater Division
## Schedule of Cash and Cash Equivalents and Investments
## December 31, 2016

| Description | Face Amount | Interest Rate | Due Date | Fair Value December 31, 2016 |
|---|---|---|---|---|
| Unrestricted accounts: | | | | |
| Cash | $ 629,525 | | | $ 629,525 |
| First American Treasury Money Market | 6,397,479 | | | 6,397,479 |
| NJ Arm Pooled Investment | 10,101,445 | 0.38% | | 10,101,445 |
| Wells Fargo Certificate of Deposit | 5,000,000 | 1.18% | 8/1/2017 | 5,000,000 |
| NJ Arm Pooled Investment - OPEB | 8,697,711 | 0.38% | | 8,697,711 |
| | 30,826,160 | | | 30,826,160 |
| Operating reserve: | | | | |
| First American Treasury Money Market | 5,115,131 | | | 5,115,131 |
| Total unrestricted accounts | 35,941,291 | | | 35,941,291 |
| Restricted accounts: | | | | |
| Debt Service Fund: | | | | |
| First American Treasury Money Market | 339,205 | | | 339,205 |
| Debt Service Reserve Fund: | | | | |
| First American Treasury Money Market | 41,926 | | | 41,926 |
| NJ Arm Pooled Investment - OPEB | 1,109,444 | 0.38% | | 1,109,444 |
| | 1,151,370 | | | 1,151,370 |
| Renewal and Replacement Fund: | | | | |
| First American Treasury Money Market | 20,623 | | | 20,623 |
| NJ ARM - NJ Term | 7,103,294 | 0.38% | | 7,103,294 |
| | 7,123,917 | | | 7,123,917 |
| Total restricted accounts | 8,614,492 | | | 8,614,492 |
| Total | $ 44,555,783 | | | $ 44,555,783 |

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Wastewater Division**
**Schedule of Cash and Cash Equivalents and Investments**
**December 31, 2016**

| Description | Face Amount | Interest Rate | Due Date | Fair Value December 31, 2016 |
|---|---|---|---|---|
| Unrestricted: | | | | |
| Cash and cash equivalents | $ 30,941,291 | | | $ 30,941,291 |
| Investments | 5,000,000 | | | 5,000,000 |
| Restricted: | | | | |
| Cash and cash equivalents | 8,614,492 | | | 8,614,492 |
| Total | $ 44,555,783 | | | $ 44,555,783 |

Schedule V

# ATLANTIC COUNTY UTILITIES AUTHORITY
## Wastewater Division
## Schedule of Property, Plant and Equipment
***Modified Accrual Basis***
**For the years ended December 31, 2016, 2015, 2014, 2013 and 2012**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Property, plant and equipment: | | | | | |
| Property, plant and equipment, gross - January 1, | $ 225,276,984 | $ 225,276,984 | $ 223,760,258 | $ 223,681,452 | $ 221,975,821 |
| Additions: | | | | | |
| Sewer mains and interceptors | - | - | 1,516,726 | - | - |
| Buildings and improvements | - | - | - | 78,806 | 4,265,331 |
| Construction in progress | 647,328 | - | - | - | (2,559,700) |
| Total additions | 647,328 | - | 1,516,726 | 78,806 | 1,705,631 |
| Property, plant and equipment, gross - December 31, | 225,924,312 | 225,276,984 | 225,276,984 | 223,760,258 | 223,681,452 |
| Less: | | | | | |
| Accumulated depreciation and amortization | (167,035,343) | (161,648,228) | (156,246,558) | (150,857,937) | (145,480,638) |
| Property, plant and equipment, net - December 31, | $ 58,888,969 | $ 63,628,756 | $ 69,030,426 | $ 72,902,321 | $ 78,200,814 |

Schedule VI

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Wastewater Division**
**Schedule of Debt Issuance Costs**
***Modified Accrual Basis***
**For the years ended December 31, 2016, 2015, 2014, 2013 and 2012**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| 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, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Unrestricted current assets: | | |
| Cash and cash equivalents | $ 12,175,631 | $ 5,263,046 |
| Investments | 5,000,000 | 10,116,406 |
| Accrued interest receivable | 41,094 | 41,844 |
| Accounts receivable (net of allowance of $198,759 and $198,759 in 2016 and 2015, respectively) | 2,869,613 | 2,115,124 |
| Due from Wastewater Division | 1,985,984 | 1,601,079 |
| Total unrestricted current assets | 22,072,322 | 19,137,499 |
| Restricted noncurrent assets: | | |
| Cash and cash equivalents | 3,490,712 | 5,727,412 |
| Investments | 4,700,000 | - |
| Amounts held by State of New Jersey | 30,300,118 | 29,266,271 |
| Accrued interest receivable | 156,090 | 164,915 |
| Total restricted noncurrent assets | 38,646,920 | 35,158,598 |
| Capital assets, gross | 140,392,506 | 139,468,989 |
| Accumulated depreciation | (101,266,623) | (97,180,061) |
| Capital assets, net | 39,125,883 | 42,288,928 |
| TOTAL ASSETS | 99,845,125 | 96,585,025 |

Schedule VII
(continued)

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Solid Waste Division**
**Statement of Net Position**
***Modified Accrual Basis***
**December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **LIABILITIES** | | |
| Current liabilities payable from current assets: | | |
| Accounts payable and accrued expenses | 3,065,015 | 2,956,153 |
| Customer deposits | 185,615 | 162,377 |
| Pension payable | 891,191 | 877,014 |
| Total current liabilities payable from current assets | 4,141,821 | 3,995,544 |
| Current liabilities payable from restricted assets: | | |
| Construction contracts payable | 435,731 | 316,720 |
| Total current liabilities payable from restricted assets | 435,731 | 316,720 |
| Noncurrent liabilities payable from restricted assets: | | |
| Accrued landfill closure and post-closure care cost | 32,993,037 | 32,641,816 |
| Noncurrent liabilities: | | |
| Accrued compensated absences | 511,572 | 562,699 |
| Post retirement benefits payable | 800,000 | 800,000 |
| Total noncurrent liabilities | 1,311,572 | 1,362,699 |
| TOTAL LIABILITIES | 38,882,161 | 38,316,779 |
| **NET POSITION** | | |
| Investment in capital assets, net of related debt | 39,125,883 | 42,288,928 |
| Unrestricted | 21,837,081 | 15,979,318 |
| TOTAL NET POSITION | 60,962,964 | 58,268,246 |
| TOTAL LIABILITIES AND NET POSITION | $ 99,845,125 | $ 96,585,025 |

**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, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Operating revenues: | | |
| Tipping fees | $ 23,585,818 | $ 21,818,878 |
| Collections and recycling income | 8,149,345 | 7,511,662 |
| Grant income | 42,559 | 99,533 |
| Composting income | 1,082,209 | 1,138,387 |
| Other | 1,294,202 | 1,270,923 |
| Total operating revenues | 34,154,133 | 31,839,383 |
| Operating expenses: | | |
| Salaries | 8,911,347 | 8,529,052 |
| Employee benefits | 5,722,358 | 6,034,434 |
| Power and utilities | 583,800 | 687,356 |
| Fuel | 774,312 | 794,554 |
| Supplies and miscellaneous maintenance | 2,500,132 | 2,470,794 |
| Indirect operating expenses | 3,499,552 | 3,172,062 |
| Administrative | 1,059,344 | 1,017,431 |
| Community benefit | 2,405,932 | 2,279,554 |
| Recycling and other taxes | 1,079,585 | 1,022,877 |
| Bad debt expense | - | 150,000 |
| Depreciation | 5,143,326 | 5,385,068 |
| Total operating expenses | 31,679,688 | 31,543,182 |
| Operating income | 2,474,445 | 296,201 |
| Non-operating revenues/(expenses): | | |
| County appropriation | (426,451) | - |
| Interest income | 1,760,303 | 844,313 |
| (Loss)/Gain on sale of fixed assets | (19,875) | 40,940 |
| Adjustment to landfill closure and post-closure care cost | (1,093,704) | (715,408) |
| Total non-operating revenues/(expenses) | 220,273 | 169,845 |
| Net income/(loss) | 2,694,718 | 466,046 |
| Net position, January 1, | 58,268,246 | 61,149,282 |
| Prior period adjustment | - | (3,347,082) |
| Net position, January 1, as restated | 58,268,246 | 57,802,200 |
| Net position, December 31, | $ 60,962,964 | $ 58,268,246 |
| **Reconciliation to Statements of Revenues, Expenses and Changes in Net Position - GAAP Basis:** | | |
| Net income/(loss) - modified accrual basis | $ 2,694,718 | $ 466,046 |
| Prior year solid waste GAAP adjustment | (375,757) | (1,011,568) |
| Current year solid waste GAAP Adjustment | 350,081 | 375,757 |
| Unbudgeted pension expense | (1,701,351) | (434,522) |
| Net income - GAAP basis | $ 967,691 | $ (604,287) |

**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, 2016**

| | Original Budget | Modified Budget | Actual | Favorable/ (Unfavorable) Variance |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Tipping fees | $ 22,208,282 | $ 22,208,282 | $ 23,585,818 | $ 1,377,536 |
| Collections and recycling income | 7,683,882 | 7,683,882 | 8,073,321 | 389,439 |
| Composting income | 1,076,133 | 1,076,133 | 1,082,209 | 6,076 |
| Interest on investments and deposits | 20,000 | 20,000 | 54,224 | 34,224 |
| Miscellaneous | 1,074,552 | 1,074,552 | 1,412,785 | 338,233 |
| Fund balance and reserves anticipated | 426,451 | 426,451 | 426,451 | - |
| Total operating revenues | 32,489,300 | 32,489,300 | 34,634,808 | 2,145,508 |
| Operating expenses: | | | | |
| Administration | 3,869,930 | 3,869,930 | 3,372,301 | 497,629 |
| Solid Waste Administration | 1,380,836 | 1,380,836 | 1,344,001 | 36,835 |
| Transfer Station Operations | 1,294,571 | 1,294,571 | 1,333,989 | (39,418) |
| Composting | 635,364 | 635,364 | 545,485 | 89,879 |
| Landfill Operations | 8,043,585 | 8,043,585 | 8,109,506 | (65,921) |
| Recycling Center Processing | 217,396 | 217,396 | 198,914 | 18,482 |
| Collections | 7,715,520 | 7,715,520 | 7,102,747 | 612,773 |
| Maintenance Center | 6,188,723 | 6,188,723 | 5,235,617 | 953,106 |
| Cancelled purchase orders | - | - | (397,745) | 397,745 |
| Total operating expenses | 29,345,925 | 29,345,925 | 26,844,815 | 2,501,110 |
| Net income from operating activities | 3,143,375 | 3,143,375 | 7,789,993 | 4,646,618 |
| Non-operating expenses: | | | | |
| County appropriation | (426,451) | (426,451) | (426,451) | - |
| Renewal and replacement fund CIP | (2,716,924) | (2,716,924) | (2,822,343) | (105,419) |
| Total non-operating expenses | (3,143,375) | (3,143,375) | (3,248,794) | (105,419) |
| Net income / (loss) from operations | $ - | $ - | $ 4,541,199 | $ 4,541,199 |

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

| | |
|---|---|
| Net income - rate basis | $ 4,541,199 |
| Fund balance and reserves anticipated | (426,451) |
| Transfers to Cell Replacement & Capital Improvement Fund | 2,822,343 |
| Contributions to landfill escrows | 308,453 |
| Depreciation expense | (5,143,326) |
| Pinelands Park Landfill interest income | 1,706,079 |
| (Loss)/Gain on sale of fixed assets | (19,875) |
| Adjustment to landfill closure and post-closure care cost | (1,093,704) |
| Prior year solid waste GAAP adjustment | (375,757) |
| Current year solid waste GAAP Adjustment | 350,081 |
| Unbudgeted pension expense | (1,701,351) |
| Net income - GAAP basis | $ 967,691 |

Schedule X

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Solid Waste Division**
**Schedule of Cash and Cash Equivalents and Investments**
**December 31, 2016**

| Description | Face Amount | Interest Rate | Due Date | Fair Value December 31, 2016 |
|---|---|---|---|---|
| Unrestricted accounts: | | | | |
| Operations: | | | | |
| Cash | $ 134,704 | | | $ 134,704 |
| Revenue Fund: | | | | |
| NJ ARM Pooled Investment | 4,403,407 | 0.38% | | 4,403,407 |
| Wells Fargo Certificate of Deposit | 5,000,000 | 1.18% | 8/1/2017 | 5,000,000 |
| NJ ARM Pooled Investment | 988,159 | 0.38% | | 988,159 |
| NJ ARM Pooled Investment - OPEB | 6,649,361 | 0.38% | | 6,649,361 |
| | 17,040,927 | | | 17,040,927 |
| Total unrestricted accounts | 17,175,631 | | | 17,175,631 |
| Restricted accounts: | | | | |
| Renewal and Replacement Fund: | | | | |
| NJ ARM Pooled Investment | 2,920,650 | 0.38% | | 2,920,650 |
| NJ ARM Pooled Investment | 570,062 | 0.38% | | 570,062 |
| Wells Fargo Certificate of Deposit | 4,700,000 | 1.10% | 4/5/2017 | 4,700,000 |
| | 8,190,712 | | | 8,190,712 |
| Escrow Funds: | | | | |
| ACUA Standard Escrow | 4,943,845 | 0.00% | | 4,943,845 |
| ACUA Alternative Escrow | 4,867,341 | Various | | 4,867,341 |
| Pinelands Park Standard Escrow | 10,787,673 | Various | | 10,787,673 |
| Pinelands Park Alternative Escrow | 9,701,259 | Various | | 9,701,259 |
| | 30,300,118 | | | 30,300,118 |
| Total restricted accounts | 38,490,830 | | | 38,490,830 |
| Total | $ 55,666,461 | | | $ 55,666,461 |

| | | | | |
|---|---|---|---|---|
| Unrestricted: | | | | |
| Cash and cash equivalents | $ 12,175,631 | | | $ 12,175,631 |
| Investments | 5,000,000 | | | 5,000,000 |
| Restricted: | | | | |
| Cash and cash equivalents | 3,490,712 | | | 3,490,712 |
| Investments | 4,700,000 | | | 4,700,000 |
| Cash and investments held by the State of New Jersey | 30,300,118 | | | 30,300,118 |
| Total | $ 55,666,461 | | | $ 55,666,461 |

Schedule XI

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Solid Waste Division**
**Schedule of Property, Plant and Equipment**
***Modified Accrual Basis***
**For the years ended December 31, 2016, 2015, 2014, 2013 and 2012**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Waste Disposal: | | | | | |
| Property, plant and equipment: | | | | | |
| Property, plant and equipment, gross - January 1, | $ 111,965,508 | $ 109,113,091 | $ 100,566,525 | $ 101,793,902 | $ 100,567,777 |
| Additions: | | | | | |
| Buildings and improvements | 245,618 | 563,231 | 10,747 | 335,305 | - |
| Construction in progress | 303,651 | - | - | - | - |
| Equipment and vehicles | - | 655,592 | 1,496,984 | 755,979 | 536,110 |
| Landfill design and implementation | 273,160 | 2,143,647 | 7,038,835 | 509,909 | 690,015 |
| Total additions | 822,429 | 3,362,470 | 8,546,566 | 1,601,193 | 1,226,125 |
| Disposals: | | | | | |
| Buildings and improvements | - | - | - | (2,828,570) | - |
| Equipment and vehicles | (224,733) | (510,053) | - | - | - |
| Total disposals | (224,733) | (510,053) | - | (2,828,570) | - |
| Property, plant and equipment, gross - December 31, | 112,563,204 | 111,965,508 | 109,113,091 | 100,566,525 | 101,793,902 |
| Less: | | | | | |
| Accumulated depreciation and amortization | (79,358,203) | (76,019,206) | (71,775,228) | (68,217,829) | (67,589,631) |
| Property, plant and equipment, net - December 31, | 33,205,001 | 35,946,302 | 37,337,863 | 32,348,696 | 34,204,271 |

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Solid Waste Division**
**Schedule of Property, Plant and Equipment**
***Modified Accrual Basis***
**For the years ended December 31, 2016, 2015, 2014, 2013 and 2012**

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Waste Recycling: | | | | | |
| Property, plant and equipment: | | | | | |
| Property, plant and equipment, gross - January 1, | $ 37,362,979 | $ 37,977,540 | $ 37,689,306 | $ 39,323,038 | $ 39,108,415 |
| Additions: | | | | | |
| Buildings and improvements | - | - | 59,142 | 12,912 | 214,623 |
| Equipment and vehicles | 1,255,528 | 61,355 | 229,092 | 53,256 | - |
| Total additions | 1,255,528 | 61,355 | 288,234 | 66,168 | 214,623 |
| Disposals: | | | | | |
| Buildings and improvements | - | - | - | (1,699,900) | - |
| Equipment and vehicles | (929,704) | (675,916) | - | - | - |
| Total disposals | (929,704) | (675,916) | - | (1,699,900) | - |
| Property, plant and equipment, gross - December 31, | 37,688,803 | 37,362,979 | 37,977,540 | 37,689,306 | 39,323,038 |
| Less: | | | | | |
| Accumulated depreciation and amortization | (31,767,921) | (31,020,353) | (31,007,146) | (29,160,294) | (28,105,317) |
| Property, plant and equipment, net - December 31, | 5,920,882 | 6,342,626 | 6,970,394 | 8,529,012 | 11,217,721 |
| Grand total | $ 39,125,883 | $ 42,288,928 | $ 44,308,257 | $ 40,877,708 | $ 45,421,992 |

**ATLANTIC COUNTY UTILITIES AUTHORITY**
**Wastewater Division**
**Special-Purpose Statement of Revenues and Expenses to Comply With Bond Resolutions**
**For the year ended December 31, 2016**

| | 2016 |
|---|---|
| Operating revenues: | |
| User service agreements: | |
| Operating | $ 22,960,225 |
| General | 1,958,329 |
| Sludge | 2,204,097 |
| Septage and leachate | 904,548 |
| Other | 1,337,456 |
| Total operating revenues | 29,364,655 |
| Operating expenses: | |
| Salaries | 6,132,440 |
| Employee benefits | 3,725,794 |
| Power and utilities | 2,687,946 |
| Chemicals | 831,329 |
| Fuel | 1,087,511 |
| Supplies and miscellaneous maintenance | 3,385,911 |
| Contractual services | 841,588 |
| Indirect operating expenses | 639,740 |
| Administrative | 1,380,497 |
| Licenses and permits | 188,357 |
| Total operating expenses | 20,901,113 |
| Operating income | 8,463,542 |
| Non-operating revenues / (expenses): | |
| County appropriation | (373,549) |
| Interest income | 163,340 |
| Interest expense | (248,637) |
| Total non-operating revenues / (expenses) | (458,846) |
| Net income | $ 8,004,696 |

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

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Authority's proportion of the net pension liability (asset) | 0.18174% | 0.18177% | 0.17659% | 0.17743% |
| Authority's proportionate share of the net pension liability (asset) | $ 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 |
| Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 432.96% | 331.42% | 264.87% | 281.39% |
| Plan fiduciary net position as a percentage of the total pension liability | 40.14% | 47.93% | 52.08% | 48.72% |

**This schedule is presented to illistrate 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**

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

**This schedule is presented to illistrate 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.

**Public Employees' Retirement System (PERS)**

**Basis of Presentation.** The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived in a report provided by KPMG dated April 6, 2017. The full report is available by the State of New Jersey, Division of Pension and Benefits. 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.

**Changes of benefit terms.** 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.

**Changes of assumptions**. Pre-retirement mortality rates were based on the RP-2000 Employee Pre-Retirement 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 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).

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To the Board of Commissioners of the
Atlantic County Utilities Authority

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, 2016. 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.

We reviewed disbursements to determine whether any clear-cut violations of the bid thresholds discussed above existed. The results of our examination did not disclose any discrepancies.

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*.

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 or our examination did not disclose any discrepancies.

**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 2016 operating and capital budget on December 17, 2015 and adopted its 2016 operating and capital budget on January 21, 2016.

**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.

Should you have any questions concerning our comments or recommendations please call us.

Holman, Frenia, Allison

**HOLMAN FRENIA ALLISON, P.C.**
*Certified Public Accountants*

May 5, 2017
Toms River, New Jersey