

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

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

**AND**

**INDEPENDENT AUDITORS' REPORT**

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

TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis (MD&amp;A)</b>	4
<b>Basic Financial Statements</b>	
Comparative Statements of Net Position	20
Comparative Statements of Revenues, Expenses and Changes in Net Position	22
Comparative Statements of Cash Flows	23
Notes to Basic Financial Statements	24
<b>Other Supplementary Information</b>	
Combining Schedule of Revenues, Expenses and Changes in Net Position	50
Schedule of Appropriations Compared to Budget	51
<b>Required Supplementary Information - Schedules and Notes Related to Accounting and Reporting for Pensions (GASB 68)</b>	
Schedule of the Proportionate Share of the Net Pension Liability	55
Schedule of Pension Contributions	56
Notes to the Required Supplementary Information - GASB 68 Pension Changes	57

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

TABLE OF CONTENTS (Continued)

	<u>Page</u>
<b>Information Required Under <i>Government Auditing Standards</i> (GAS)</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58
Summary of Auditors' Results and Findings	60
Summary Schedule of Prior Audit Findings	61

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Atlantic City Municipal Utilities Authority

We have audited the accompanying financial statements of the business-type activities of Atlantic City Municipal Utilities Authority (a component unit of the city of Atlantic City, New Jersey), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Atlantic City Municipal Utilities Authority's (the "Authority") basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

## **Opinion**

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Atlantic City Municipal Utilities Authority (a component unit of the City of Atlantic City, New Jersey), as of December 31, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adjustments to Prior Period Financial Statements**

The financial statements of the Atlantic City Municipal Utilities Authority (a component unit of the City of Atlantic City, New Jersey), as of December 31, 2014, were audited by other auditors whose report dated March 11, 2015, expressed an unmodified opinion on those financial statements. As discussed below, under the subheading “Emphasis of Matters”, the Authority has adjusted its 2014 financial statements to retrospectively apply the change in accounting related to the adoption of the new accounting principles. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2015 financial statements, we also audited the adjustments to the 2014 financial statements to retrospectively apply the change in accounting as described under the subheading “Emphasis of Matters”. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Authority’s 2014 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements.

## **Emphasis of Matters**

### *Adoption of New Accounting Principles*

As discussed in Note 2 to the financial statements, during the year ended December 31, 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### *Prior Period Restatement*

Because of the implementation of GASB Statements No. 68 and No. 71, unrestricted net position as of December 31, 2014 on the statement of net position has been restated, as discussed in Note 2 to the financial statements.

### *Risks and Uncertainties*

As discussed in Note 15 to the financial statements, the current financial crisis affecting the City of Atlantic City is also causing certain challenges and uncertainties for the Authority. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4 through 19 and the Schedules and Notes Related to Accounting and

(Continued)

Reporting for Pensions (GASB 68) on pages 55 through 57 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 2015 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. The other auditors applied certain limited procedures to the 2014 required supplementary information on pages 4 through 19 and, accordingly, did not express an opinion or provide any assurance on such information.

#### *Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The 2015 other supplementary information on pages 50 through 54, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information, except for the portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The 2014 other supplementary information on those pages 50 through 54 was subjected to the auditing procedures applied in the 2014 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2014 basic financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



June 7, 2016

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

### OVERVIEW OF ANNUAL FINANCIAL REPORT:

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

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

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

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

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

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

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

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

### **MANAGEMENT'S ANALYSIS OF FINANCIAL POSITION:**

#### **Financial Highlights**

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

- The recently issued Government Accounting Standard Board ("GASB") Statement 68 requires state and local governmental entities, who participate in the pension plan sponsored by the State of New Jersey, to disclose their allocable portion of the unfunded pension liability. Accordingly, the 2015 and 2014 basic financial statements were impacted as a result of the accounting change. Additional information regarding the accounting change are discussed in the Management's Discussion and Analysis and the Notes to the Financial Statements.
- Total assets and deferred outflows at year-end totaled \$67,998,601 and exceeded liabilities and deferred inflows in the amount of \$35,228,462 (i.e., net position). Total assets decreased by \$357,755. Total net position increased by \$638,608.
- For fiscal year 2015, the Authority pumped approximately 4,133 million gallons of water, compared to 4,820 million gallons of water in 2014.
- Operating revenues were \$15,649,725, an increase from the year 2014 in the amount of \$436,196. Total operating revenues were \$706,305 higher than budget projections.
- Operating expenses were \$79,259 higher than last year.
- Operating income for the year was \$878,958.
- Connection fee income recognized in 2015 amounted to \$252,519 compared to \$399,996 in 2014, as a result of less construction in 2015 than 2014.
- Investment income was \$17,292 higher than budget projections. Actual investment income for 2015 amounted to \$102,622 which was \$1,614 higher than last year.

The Authority's financial condition has not changed materially in the current fiscal year. Despite the closure of several casinos in 2014, operating revenues increased partially due to the rate increase which became effective in 2015. In addition, the Authority realized additional revenues as a result of increased consumption utilized by Bally's Atlantic City Hotel and Casino. Operating expenses increased mainly due to the recording of additional pension expense in 2015 resulting from the implementation of GASB Statement 68. The Authority recognized \$999,505 for pension expense in 2015 compared to \$432,678 in 2014.

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

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

**CONDENSED COMPARATIVE STATEMENT OF NET POSITION**

Compared to prior year, not many fluctuations were recognized on the Statement of Net Position of the Authority. Explanations for the material fluctuations are as follows:

Total Current Assets- Total Current Assets for 2015 totaled \$9,574,121 compared to \$ 9,271,632 in 2014. The increase amounted to \$302,489 and resulted primarily from an increase in Accounts Receivable. The increase in Accounts Receivable was primarily due to an unpaid balance of the City of Atlantic City amounting to approximately \$240,000.

Total Restricted Assets- Total Restricted Assets for 2015 totaled \$5,971,885 compared to \$5,200,402 in 2014. The increase amounted to approximately \$771,483.

Net Capital Assets – Net Capital Assets for 2015 totaled \$49,435,594 compared to \$50,867,321 in 2014. This decrease of \$1,431,727 resulted from an increase in accumulated depreciation that amounted to \$2,795,975, partially offset by 2015 capital additions.

Total Current Liabilities Payable From Unrestricted Assets - Total Current Liabilities Payable from Unrestricted Assets for 2015 totaled \$1,963,413 compared to \$1,552,814 (after restatement) in 2014. This increase was due primarily to the recognition of higher payments due to vendors. Also contributing to the increase, was the recognition of higher deferred income in 2015.

Total Current Liabilities Payable From Restricted Assets - Total Current Liabilities Payable from Restricted Assets for 2015 totaled \$1,899,620 compared to \$1,897,090 in 2014. The slight increase was due to an increase in current principal payments due in 2016.

Total Long-Term Liabilities Payable from Restricted Assets- Total Long-Term Liabilities Payable from Restricted Assets for 2015 totaled \$28,691,249 compared to \$28,014,588, (after restatement) in 2014. This increase was due primarily to the implementation of GASB 68. The pension liability for 2015 increased by \$2,583,323. Partially offsetting this increase, was a decrease in Long Term Debt of \$1,824,289. This decrease was due primarily to the annual principal payments made in 2015.

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

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

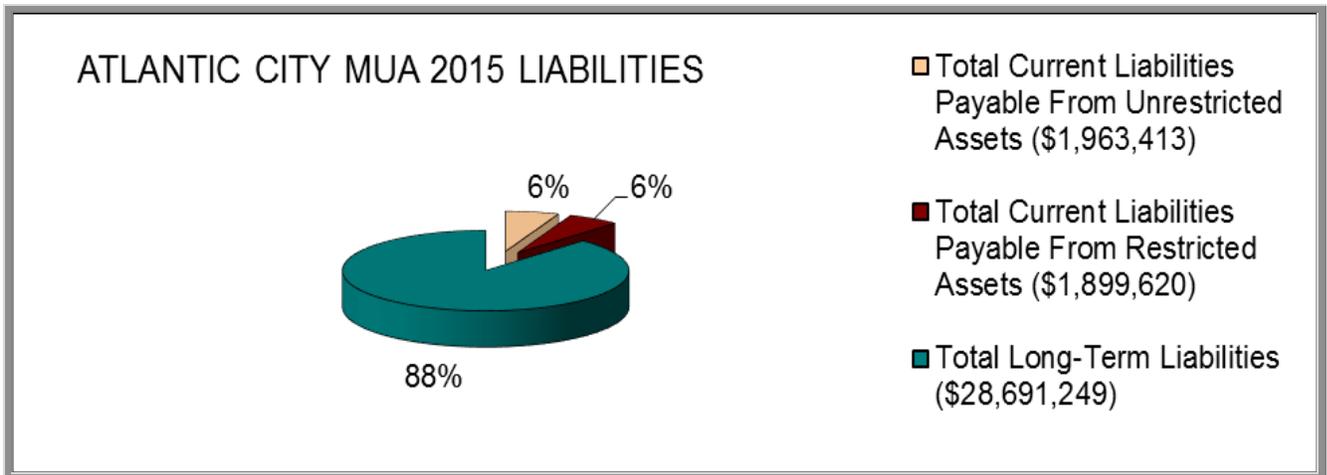
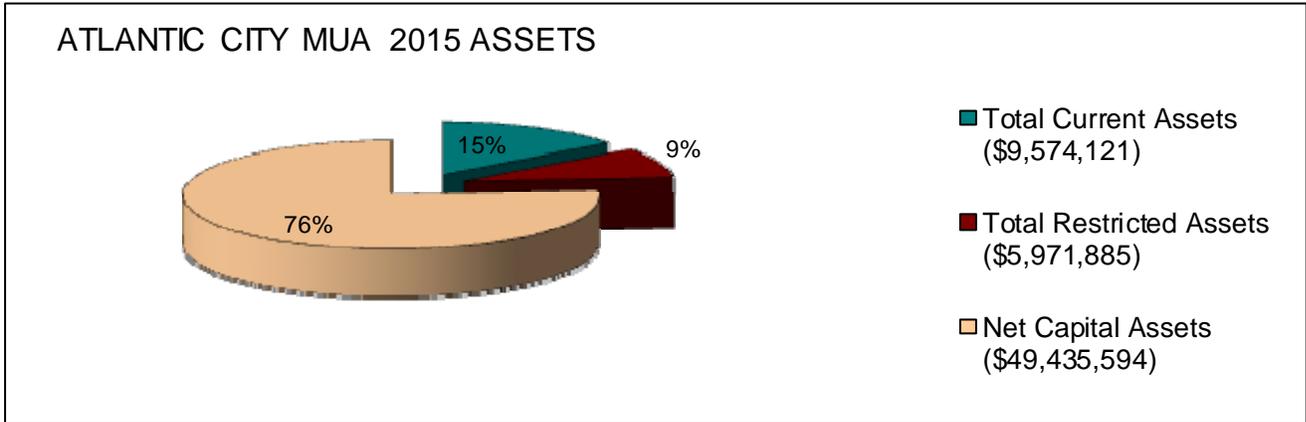
**CONDENSED COMPARATIVE STATEMENT OF NET POSITION (Continued)**

	<b>December 31, 2015</b>	<b>December 31, 2014 (As Restated)</b>
Total Current Assets	\$ 9,574,121	\$ 9,271,632
Total Restricted Assets	5,971,885	5,200,402
Net Capital Assets	<u>49,435,594</u>	<u>50,867,321</u>
<b>Total Assets</b>	<b><u>64,981,600</u></b>	<b><u>65,339,355</u></b>
Loss on Refunding of Long-Term Debt	160,389	201,113
Related to Pensions	<u>2,856,612</u>	<u>1,160,015</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>3,017,001</u></b>	<b><u>1,361,128</u></b>
Total Current Liabilities - Unrestricted	1,963,413	1,552,814
Total Current Liabilities - Restricted	1,899,620	1,897,090
Total Long-Term Liabilities	<u>28,691,249</u>	<u>28,014,588</u>
<b>Total Liabilities</b>	<b><u>32,554,282</u></b>	<b><u>31,464,492</u></b>
Related to Pensions	<u>215,857</u>	<u>646,137</u>
<b>Deferred Inflows of Resources</b>	<b><u>215,857</u></b>	<b><u>646,137</u></b>
Net Position (Deficit):		
Net Investment in Capital Assets	33,803,452	33,548,933
Restricted for Capital Projects and Debt Service	5,145,648	4,279,376
Unrestricted	<u>(3,720,638)</u>	<u>(3,238,455)</u>
<b>Total Net Position</b>	<b><u>\$ 35,228,462</u></b>	<b><u>\$ 34,589,854</u></b>

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

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

**CONDENSED COMPARATIVE STATEMENT OF NET POSITION (Continued)**



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

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

**CONDENSED COMPARATIVE STATEMENT OF CASH FLOWS**

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Total Operating Revenues	\$15,649,725	\$15,213,529
Net Cash Provided by Operating Activities	\$4,314,607	\$3,433,894
Net Operating Cash as a Percentage of Operating Revenue	27.50%	22.50%

**2015 Net Cash Provided by Operating Activities as Compared to 2014**

Net cash provided by operating activities increased by 26%. This increase resulted primarily from a decline in vendor payments in 2015. Also contributing to the increase, was the receipt of additional cash from customers which resulted primarily from the 2015 rate increase.

**MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION:**

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

Total Revenues (excluding connection fees) for 2015 totaled \$15,752,347 compared to \$15,314,537 in 2014. Despite the various casino closings, total revenue increased by 2.8%. Operating expenses for 2015 totaled \$14,770,767 compared to \$14,691,508 in 2014. Total operating expenses increased slightly. Explanations of the fluctuations are as follows:

**Operating Revenues** - Operating Revenues for 2015 totaled \$15,649,725 compared to \$15,213,529 (after restatement) in 2014. The revenues increased by \$436,196. The increased revenues recognized during the year resulted partially from the rate increase that went into effect in 2015. In addition, the Authority realized additional revenues as a result of increased consumption utilized by Bally's Atlantic City Hotel and Casino. In early 2015, the casino experienced issues with its well and as a result connected to the Authority's water system. It is estimated that additional revenue of approximately \$182,000 was realized as a result of the additional usage. Also slightly contributing to the increased revenues, was increased consumption utilized by New Jersey American Water.

**Connection Fee Income** - Connection Fee Income for 2015 totaled \$252,519 compared to \$399,996 in 2014. The decrease recognized in 2015 was due to a decline in new construction, as experienced in the previous year.

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

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

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

Interest Income - Interest Income for 2015 totaled \$102,622, compared to \$101,008 in 2014. This slight increase was due to the availability of similar amounts of capital for investing and earnings based on similar rates of interest in 2015, as compared to last year.

Salaries Expense - Salaries Expense for 2015 totaled \$4,332,644 compared to \$4,546,412 in 2014. The decrease amounted to \$213,768. Salaries Expense declined due to an increase in vacant positions which resulted primarily from an increase in employee retirements. The decline was offset by the annual salary increases for management and supervisor employees. The contract for the supervisor's union previously expired on December 31, 2012. In lieu of the overall supervisor's contract, a Memorandum of Understanding was executed for a salary increase for the years 2013, 2014 and 2015 and ratified in the year 2015.

Employee Benefits - Employee Benefits for 2015 totaled \$3,715,134 compared to \$3,151,996 in 2014. The increase in employee benefits expense amounted to \$563,138. The increase was primarily due to implementation of GASB No. 68 and GASB No. 71. As a result of implementing these two Statements, the Authority recognized pension expense in the amount of \$999,505 in 2015 compared to \$432,678 in 2014. Also contributing to the increase, was higher health care premiums. In 2011, legislation was passed which required government employees to contribute a portion of their salary to cover health care premiums. The full employee contribution was phased-in over a four year period, with the fourth year being completed in 2014. As a result of the legislation, increased employee contribution was experienced during the year that somewhat offset the increase in health care premiums. Additionally, the increase mentioned above was slightly offset by a decline in Worker's Compensation cost due to an improved experience modification factor resulting from improved claims experience.

Repairs and Maintenance - Repairs and Maintenance expense for 2015 totaled \$557,422 compared to \$724,741 in 2014. In 2014, the Authority experienced higher than normal street opening expenses as a result of colder temperatures which resulted in additional road repairs.

Miscellaneous Expenses - Miscellaneous Expenses for 2015 totaled \$3,369,592 compared to \$3,489,652 in 2014. The decrease for the year was \$120,060 and resulted from fluctuations in various accounts. Chemical and gases expense decreased slightly in 2015. Decline in gasoline expenses and electricity expenses also contributed to the above mentioned decrease.

Depreciation Expenses - Depreciation Expenses for 2015 totaled \$2,795,975 compared to \$2,778,707 in 2014. The depreciation expense recorded on assets placed in service and purchased in 2015 contributed to the increase, partially offset by a decline in expense for assets that were fully depreciated during the year.

Interest Expenses - Expenses for 2015 totaled \$505,775 compared to \$552,103 in 2014. A decline in interest expense was recognized in 2015 due to a decrease in Long-Term Debt Outstanding, which resulted from principal payments made on outstanding bonds and NJEIT loans.

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

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

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

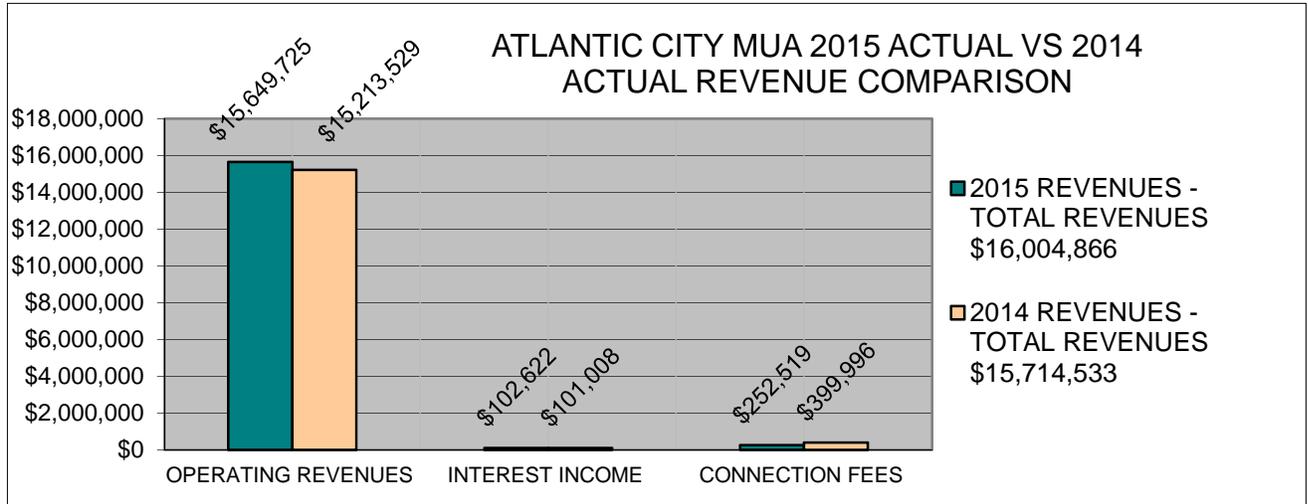
	<b>December 31 2015</b>	<b>December 31, 2014</b>
Total Operating Revenues	<u>\$ 15,649,725</u>	<u>\$ 15,213,529</u>
Operating Expenses:		
Total Salaries Expenses	4,332,644	4,546,412
Total Employee Benefits	3,715,134	3,151,996
Total Repairs and Maintenance	557,422	724,741
Total Miscellaneous Expenses	3,369,592	3,489,652
Depreciation	<u>2,795,975</u>	<u>2,778,707</u>
Total Operating Expenses	<u>14,770,767</u>	<u>14,691,508</u>
Non-Operating Revenues (Expenses)		
Connection Fees	252,519	399,996
Investment Income	102,622	101,008
Bond Interest	(546,499)	(592,827)
Net Change in Fair Value of Investments	(48,907)	(36,557)
Loss on disposal of assets	<u>(85)</u>	<u>(47)</u>
Total Non-Operating Revenues (Expenses), Net	<u>(240,350)</u>	<u>(128,427)</u>
Change in Net Positon	<u>638,608</u>	<u>393,594</u>
Net position, beginning of year	<u>34,589,854</u>	<u>45,001,985</u>
Net position, end of year prior to restatement	35,228,462	45,395,579
Adjustment for restatement (Note 2)	<u>-</u>	<u>(10,805,725)</u>
Net position, end of year	<u>\$ 35,228,462</u>	<u>\$ 34,589,854</u>

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

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

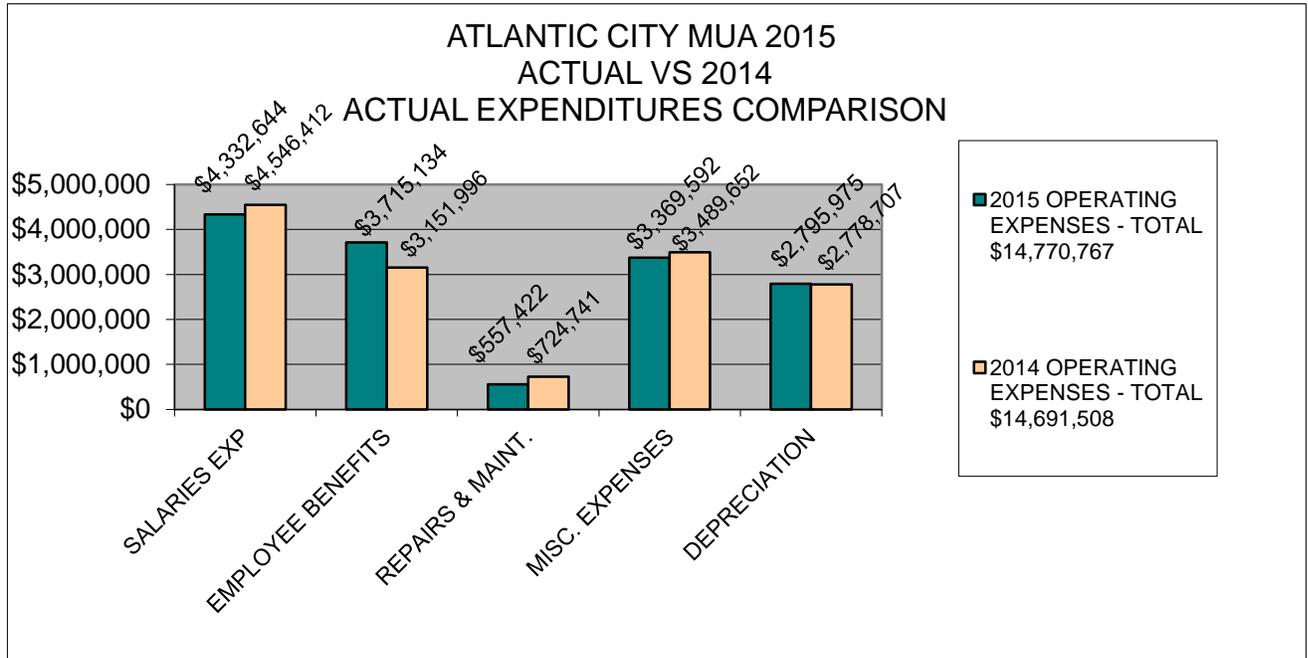
The following table shows the composition of operating expenses by major classification of expense for the last three years:

	<b>2015</b>	<b>%</b>	<b>2014</b>	<b>%</b>
Salaries Expenses	\$ 4,332,644	29.34%	\$ 4,546,412	30.95%
Employee Benefits	3,715,134	25.15	3,151,996	21.45
Repairs and Maintenance	557,422	3.77	724,741	4.93
Miscellaneous Expenses	3,369,592	22.81	3,489,652	23.75
Depreciation	<u>2,795,975</u>	<u>18.93</u>	<u>2,778,707</u>	<u>18.92</u>
<b>Total</b>	<b><u>\$ 14,770,767</u></b>	<b><u>100%</u></b>	<b><u>\$ 14,691,508</u></b>	<b><u>100%</u></b>



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

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



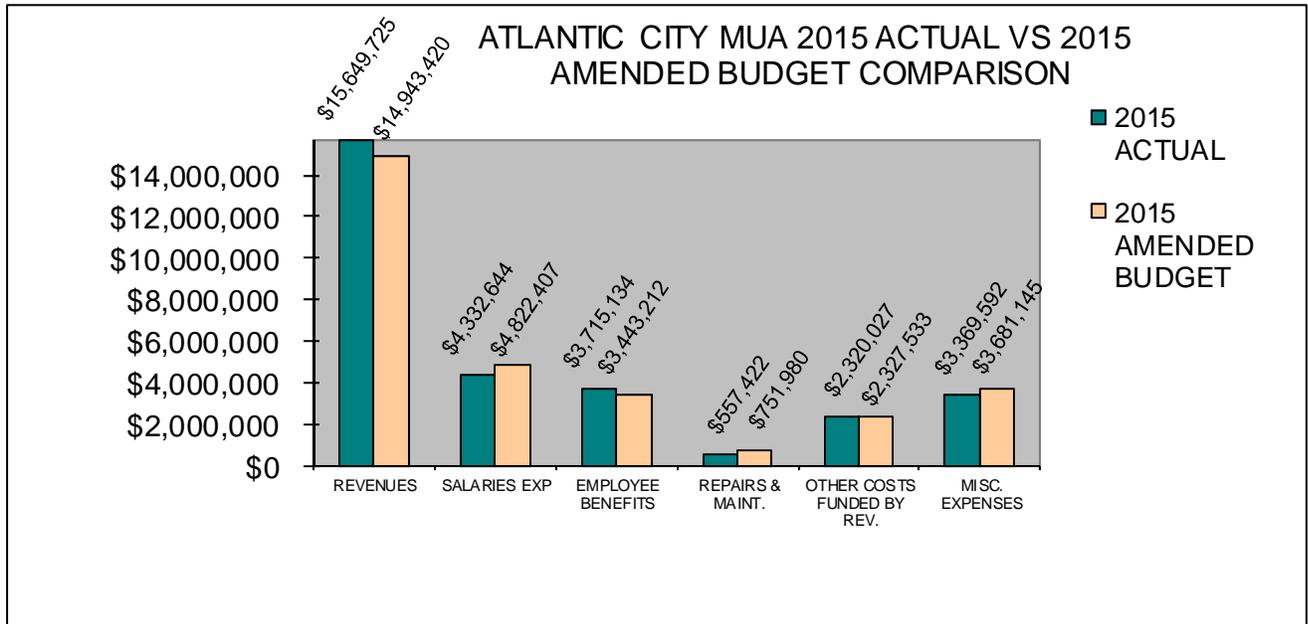
**CONDENSED SCHEDULE OF APPROPRIATIONS COMPARED TO AMENDED BUDGET**

Total Operating Revenues for 2015 totaled \$15,649,725 compared to Budgeted Revenues of \$14,943,420. Revenues include all revenues, except connection fee revenues and interest income. Actual revenues were \$706,305 more than budgeted revenues. The increase compared to budget resulted primarily from the recognition of higher user fees than anticipated. Expenses from Administration and Operations for 2015 totaled \$11,974,792 compared to budgeted expenses of \$12,698,744. Actual expenses for 2015 were \$723,952 lower than the projected expenditures. Some of the larger fluctuations fell in the categories of salaries expense, employee benefits expense, electricity expense, street openings and chemical and gases expense. Contributing to lower than anticipated salaries expense was the failure to fill vacant positions that were included in the 2015 budget. Employee benefits were higher than anticipated primarily from the recognition of significant pension expense due to the implementation of GASB Statement No. 68. Offsetting the increase resulted from lower than projected health benefits cost and workers compensation cost. Electricity expense was lower than budget due to the use of less power than anticipated. In addition, due to less severe winter weather than anticipated, street openings expense was lower than projected. Chemicals and gases expense was also lower than budget due to the use of less chemicals than anticipated in the water treatment process.

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

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

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



**MANAGEMENT'S ANALYSIS OF 2015 CAPITAL ASSETS & LONG TERM DEBT  
ACTIVITY:**

**Capital Assets**

Total capital assets increased approximately \$1,348,360 during 2015. Property and equipment in service increased by \$3,316,711 in 2015. Impacting this increase was the 2015 additions and the transfer of assets from construction in progress. Currently, the major component of construction in progress is the painting of the 2MG Absecon Boulevard water storage tank. The Aquifer Storage and Recovery Well house project that totaled \$2,237,059, including capitalized interest of \$20,885, was transferred into service on December 31, 2015.

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

**MANAGEMENT'S ANALYSIS OF 2015 CAPITAL ASSETS & LONG TERM DEBT  
ACTIVITY (Continued):**

**Capital Assets (Continued)**

	<u>2015</u>	<u>2014</u>
Treatment and Distribution Facilities	\$ 93,452,030	\$ 90,254,705
Land and Land Improvements	1,811,009	1,811,009
Equipment and Vehicles	5,176,504	5,057,118
Office Building	3,877,030	3,877,030
Furniture and Fixtures	459,324	459,324
Construction-in-Progress	<u>1,645,052</u>	<u>3,613,403</u>
 Total	 <u>\$ 106,420,949</u>	 <u>\$ 105,072,589</u>

**Long-Term Debt**

At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$16,543,437.

	<u>2015</u>	<u>2014</u>
Revenue Bonds	\$ 10,120,000	\$11,395,000
New Jersey EIT Loans	\$ 6,423,437	\$ 6,962,689

**OTHER SELECTED INFORMATION:**

<b>Selected Data for Analysis</b>	<u>2015</u>	<u>2014</u>	<u>Change Amount</u>	<u>Change %</u>
Employees at Year End	78	80	(2)	(2.50%)
Number of Customers Year End	8,052	8,065	(13)	(0.16%)
Water Pumped (millions of gallons)	4,133	4,820	(687)	(14.25%)
Revenues per 1,000 gallons pumped	3.8	3.0	(0.8)	N/A
<b>Expenses per 1,000 gallons pumped:</b>				
Expenses Excluding Depreciation	2.8	2.5	0.3	N/A
Total Operating Expenses	3.5	3.0	0.5	N/A

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

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

#### **Customer Base and 2016 Budget**

Over the last several years, the Atlantic City Municipal Utilities Authority has seen its expenses rise, however, its water sales since 2006, have shown a steady and continual decline. The Authority attributes the decline to two primary factors. The first significant factor in the Authority's revenue decline is water conserving devices. Water conservation is always promoted in order to minimize the wasteful use of resources. Since 1992, the Authority has seen the average gallons (per capita, per day) in Atlantic City for residential customers drop from 97 to 73, almost a 25% percent reduction.

The second factor that has contributed to the decline of water sales is the removal of hotels and housing in Atlantic City through demolition. The Authority has forecasted in the 2016 budget that the decline in sales experienced in 2015 resulting from the closure of four casinos (Atlantic Club, Showboat, Revel, and Trump Plaza) would no longer negatively impact the 2016 Budget. In fact, the budget reflected stabilization of the declining sales previously recognized. Regarding the Atlantic Club Hotel and Casino, a Pennsylvania Real Estate Company purchased the facility in 2014 with plans of utilizing it for residential development in the very near future. However, no specific plans have been recently discussed.

The Richard Stockton University of New Jersey (the "University") purchased the former casino Showboat Atlantic City with the plan to transform the facility into an island campus and hotel in 2014. However, this plan did not move forward due to legal disputes (deed restriction). Therefore, the University sold the former casino to a Philadelphia developer (Bart Blatstein) in November 2015. It is still uncertain as to when and what manner in which the building will be utilized. However, the University still has plans to construct an island campus in Atlantic City. They are in partnership with Atlantic City Development Corporation and plans are underway for the completion of the campus in the fall of 2018. Construction is expected to begin by the fall of 2016.

Atlantic City's former Revel casino was bought by a Florida developer Polo North Country Club, Inc., in 2015. The Revel's new owner plans to open the property in mid-June of 2016. In 2015, the construction of the 86,000-square foot Bass Pro Shops was completed. The store opened in the early spring of 2015 and sells hunting, fishing, camping and outdoor merchandise.

New Jersey American Water Company ("NJAWC") has been a major customer of the ACMUA since 2001. At present, the Authority has a contractual agreement with NJAWC, which specifies that they must purchase a minimum average daily flow of 1.5 million gallons per day ("gpd"). Additionally, NJAWC is limited to a maximum daily purchase of 5 million gpd.

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

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

The 2016 Proposed Budget is a fully funded budget, providing for the continuation of all of the Authority's major operations. The proposed appropriations for 2016 are anticipated to be approximately \$1,046,800 higher than budgeted appropriations for 2015. This increase is due primarily to an increase in the 2016 Renewal and Replacement Reserve that approximated \$856,400. These additional reserves will be utilized to help fund the 2016 Capital Budget. Also, contributing to the increase in the 2016 appropriations, are higher anticipated fringe benefit expenses as related to health benefits costs. Somewhat offsetting the expected increase in appropriations is a slight decline in administrative repairs and maintenance expenses anticipated for 2016.

#### **Rates**

The Authority rates are structured to ensure that projected revenues will be sufficient to cover the anticipated appropriations for the year. In 2013, the MUA's net increase in rates was 2%. The increase was applied as a 2% increase in the base rate and a 2% increase in the excess rate. This increase raised the average residential bill by approximately \$5.84 per year. In 2014, the Authority's net increase in rates was 2%. The 2% increase was applied as a \$1.00 increase in the quarterly charge to all residential units and a 2% increase in excess charges for all users. This increase raised the average residential bill by approximately \$5.71 per year. In 2015, the MUA's net increase in rates was 1%. The 2% increase was applied to the flat charge for most customers other than residential and an 8% increase in excess charges for all users. The residential rates increased from a flat charge of \$30 a quarter to \$40 a quarter. This increase raised the average residential bill by approximately \$47.42 per year. Effective January 1, 2016 an additional rate increase was incorporated into the rate structure. The Authority was anticipating a rate increase between 2.5% and 4% for most customers. The residential rates for residential customers increased from the flat charge of \$40 a quarter to \$45 a quarter. In addition, residential customers that exceed the allowed allotment will be subject to a 4% increase in the excess rate. The connection fee is recalculated each year as required by State law. For 2016, the connection fee rate was increased to \$14.3178 per gallon. This increase resulted from the significant decline in demand as a result of the many casino closings.

#### **Legislation with Potential Impact to the Authority**

At present, with the City of Atlantic City (the "City") under tremendous debt, both the NJ Senate and Assembly have bills directed to address the City's debt. While there is no resolution between the two proposals as yet, both acknowledge the potential of monetizing the Authority to assist the City's debt.

Rather than wait for an external move upon the Authority, the Authority has prepared to engage a private company that would pay an upfront fee to enter into a long-term concessionaire agreement. The related fees received would be available to assist the City's debt load. Under such approach, the Authority would be able to protect its workforce and fashion water rate increases in a reasonable manner.

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

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

**Legislation with Potential Impact to the Authority (Continued)**

In the absence of a state takeover, a City bankruptcy could result. Such an event would force the Authority to shift legal attention to how the Authority can be shielded from such action.

**Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

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

**COMPARATIVE STATEMENTS OF NET POSITION**

	December 31,	
	2015	2014
	(As Restated)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 1,820,960	\$ 2,643,466
Accounts receivable, net	1,125,501	958,049
Investments	6,092,062	5,150,312
Inventories	449,993	429,778
Prepaid expenses	41,697	45,178
Accrued interest receivable	43,908	42,446
Other	-	2,403
Total current assets	9,574,121	9,271,632
<b>Noncurrent assets</b>		
Restricted assets		
Investments	5,145,648	4,279,376
Receivable - NJ EIT	826,237	921,026
	5,971,885	5,200,402
Capital assets		
Land and land improvements	1,811,009	1,811,009
Construction-in-progress	1,645,052	3,613,403
Other capital assets, net of depreciation	45,979,533	45,442,909
	49,435,594	50,867,321
Total assets	64,981,600	65,339,355
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Loss on refunding of long-term debt	160,389	201,113
Related to pensions (Note 10)	2,856,612	1,160,015
	3,017,001	1,361,128

(Continued)

See notes to financial statements.

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

**COMPARATIVE STATEMENTS OF NET POSITION**

	December 31,	
	2015	2014
	(As Restated)	
<b>LIABILITIES AND NET POSITION</b>		
<b>Current liabilities payable from unrestricted assets</b>		
Accounts payable	\$ 893,049	\$ 580,522
Employer pension contributions payable	514,182	477,396
Accrued payroll and payroll liabilities	44,114	16,246
Prepaid user charges	82,545	98,532
Unearned revenue	429,523	380,118
	1,963,413	1,552,814
<b>Current liabilities payable from restricted assets</b>		
Accrued interest payable	75,331	82,838
Current portion of long-term debt	1,824,289	1,814,252
	1,899,620	1,897,090
<b>Noncurrent liabilities</b>		
Compensated absences	546,571	628,944
Long-term debt, net of current portion	14,719,148	16,543,437
Net pension liability	13,425,530	10,842,207
	28,691,249	28,014,588
<b>Total liabilities</b>	32,554,282	31,464,492
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to pensions (Note 10)	215,857	646,137
Contingencies		
<b>NET POSITION (DEFICIT)</b>		
Net investment in capital assets	33,803,452	33,548,933
Restricted for capital projects and debt service	5,145,648	4,279,376
Unrestricted	(3,720,638)	(3,238,455)
<b>Total net position</b>	\$ 35,228,462	\$ 34,589,854

See notes to financial statements.

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

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

	Year Ended December 31,	
	2015	2014
<b>Operating revenues</b>		
User charges	\$ 15,579,370	\$ 15,107,436
Rental income	2,500	2,500
Miscellaneous	67,855	103,593
	<u>15,649,725</u>	<u>15,213,529</u>
<b>Operating expenses</b>		
Cost of providing services	8,890,594	8,923,528
General and administrative	3,084,198	2,989,273
Depreciation	2,795,975	2,778,707
	<u>14,770,767</u>	<u>14,691,508</u>
<b>Operating income</b>	<u>878,958</u>	<u>522,021</u>
<b>Non-operating revenues (expenses)</b>		
Connection fees	252,519	399,996
Investment income	102,622	101,008
Bond interest	(546,499)	(592,827)
Net change in fair value of investments	(48,907)	(36,557)
Loss on disposal of assets	(85)	(47)
	<u>(240,350)</u>	<u>(128,427)</u>
<b>Change in net position</b>	<u>638,608</u>	<u>393,594</u>
<b>Net position, beginning of year</b>	<u>34,589,854</u>	<u>45,001,985</u>
<b>Net position, end of year prior to restatement</b>	<u>35,228,462</u>	<u>45,395,579</u>
Adjustment for restatement (Note 2)	-	(10,805,725)
<b>Net position, end of year</b>	<u>\$ 35,228,462</u>	<u>\$ 34,589,854</u>

See notes to financial statements.

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

**COMPARATIVE STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2015	2014
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 15,445,336	\$ 15,208,708
Receipts from others	70,355	106,093
Payments to employees and related benefits	(7,040,971)	(7,085,897)
Payments to suppliers and vendors for goods and services	(4,160,113)	(4,795,010)
Net cash provided by operating activities	4,314,607	3,433,894
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(1,450,025)	(1,446,287)
Receipts from NJ EIT	94,789	10,838
Connection fees	252,519	399,996
Interest paid on debt	(513,282)	(561,181)
Principal paid on debt	(1,814,252)	(2,458,812)
Net cash used in capital and related financing activities	(3,430,251)	(4,055,446)
<b>Cash flows from investing activities</b>		
Investment income	101,160	103,963
Transferred from (to) investments	(1,808,022)	1,624,039
Net cash provided by (used in) investing activities	(1,706,862)	1,728,002
<b>Net increase (decrease) in cash</b>	(822,506)	1,106,450
Cash, beginning of year	2,643,466	1,537,016
<b>Cash, end of year</b>	\$ 1,820,960	\$ 2,643,466
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 878,958	\$ 522,021
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,795,975	2,778,707
Provision for doubtful accounts	51,170	39,421
GASB 68 adjustment	493,231	-
(Increase) decrease in assets		
Accounts receivable	(218,622)	23,299
Inventories	(20,215)	72,126
Prepaid expenses	3,481	746
Other current assets	2,403	98
Increase (decrease) in liabilities		
Accounts payable	312,527	(22,157)
Employer pension contributions payable	36,786	-
Accrued payroll and payroll liabilities	27,868	(11,309)
Other current liabilities	-	1,535
Unearned income	49,405	2,048
Prepaid user charges	(15,987)	36,504
Compensated absences	(82,373)	(9,145)
Net cash provided by operating activities	\$ 4,314,607	\$ 3,433,894

See notes to financial statements.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**1 - NATURE OF ORGANIZATION**

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

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

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

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

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

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

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

**Basis of Accounting**

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

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

Expenses are recognized at the time they are incurred.

**Budgets and Budgetary Accounting**

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

**Use of Estimates**

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Funds**

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

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

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

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

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

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

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

**Cash and Cash Equivalents**

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

**Allowance for Doubtful Accounts**

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Allowance for Doubtful Accounts (Continued)**

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

	December 31,	
	2015	2014
Municipal Liens	\$ 406,372	\$ 469,765
Approximate uncollectible %	95%	70%
Total Allowance	\$ 386,053	\$ 334,883

**Investments**

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

**Inventories**

Material inventories for the Authority are made up of supplies that are directly related to customer accounts, such as water meters and accessories, and are stated at cost. Material inventories totaled \$449,993 and \$429,778 at December 31, 2015 and 2014, respectively. The inventories are presented using the FIFO method.

**Restricted Assets**

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

Restricted investments consist of the following:

	December 31,	
	2015	2014
Debt Service Fund	\$ 2,327,533	\$ 2,327,533
Debt Service Reserve Fund	1,675,781	1,675,781
Bond Redemption and Improvement Fund	150,000	150,000
Capital Fund	992,334	126,062
	\$ 5,145,648	\$ 4,279,376

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Restricted Assets** (Continued)

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

**Capital Assets**

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

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

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

**Deferred Outflows and Inflows of Resources**

The accompanying statements of net position report separate sections for deferred outflow of resources and deferred inflow of resources. Deferred outflow of resources, reported after total assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflow of resources, reported after total liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time. Transactions are classified as deferred outflow of resources and deferred inflow of resources only when specifically prescribed by the GASB standards.

The Authority reports the following as deferred outflow of resources:

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deferred Outflows and Inflows of Resources (Continued)**

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

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

**Unearned Revenue**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue. The Authority's unearned revenue recorded consists of advance billings.

**Compensated Absences**

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

**Pensions**

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Position**

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

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

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

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

**Operating and Non-Operating Revenues and Expenses**

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

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

**Recently Issued and Adopted Accounting Pronouncements**

For the year ended December 31, 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting such Statements, the Authority was required to measure and recognize liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to their defined benefit pensions. The cumulative effect of adopting GASB Statements No. 68 and No. 71 totaled

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recently Issued and Adopted Accounting Pronouncements (Continued)**

\$10,805,725 and was recognized as a restatement of the Authority's December 31, 2014 net position on the statements of revenues, expenses and changes in net position. The restated amount is the net effect of the recognition of the net pension liability as of December 31, 2014 of \$10,842,207, reduced by \$36,482 as a result of the net effect of the restatement of deferred outflows of resources (\$1,160,015) offset by the restatement of the employer pension contributions payable (\$477,396) and deferred inflows of resources (\$646,137) as of December 31, 2014.

**Recently Issued Accounting Pronouncements**

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

Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement will become effective for the Authority in 2016. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The Statement will become effective for the Authority in 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or "OPEB") included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement will become effective for the Authority in 2017. Management does not expect this Statement will have an impact on the financial statements.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recently Issued Accounting Pronouncements (Continued)**

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement will become effective for the Authority in 2018. Management has not yet determined the impact of this Statement on the financial statements.

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

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Statement will become effective for the Authority in 2016. Management does not expect this Statement will have an impact on the financial statements.

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

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement will become effective for the Authority in 2016. Management does not expect this Statement will have an impact on the notes to the financial statements.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recently Issued Accounting Pronouncements (Continued)**

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

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement will become effective for the Authority in 2017. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 82, *Pensions Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement will become effective for the Authority in 2017. Management has not yet determined the impact of this Statement on the financial statements.

**Reclassifications**

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

**Subsequent Events**

These financial statements were approved by management and available for issuance on June 7, 2016. Management has evaluated subsequent events through this date.

**3 - CASH**

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Unit Deposit Protection Act ("GUDPA") or in qualified investments established in New Jersey Statutes 40A:5-151(a) that are treated as cash equivalents. The first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation ("FDIC"). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**4 - INVESTMENTS**

As of December 2015 and 2014, the Authority had the following investments and maturities:

Investment	Maturity Date	Interest Rate	Moody's/S&P Credit Rating	2015 Fair Value	2014 Fair Value
Federated treasury obligations	N/A	N/A	N/A	\$ 6,048,313	\$ 4,397,109
United States Treasury					
Inflation Indexed Bond	01/15/2018	1.63%	Aaa	1,845,039	1,870,449
Municipal Bond	08/15/2018	5.00	AA	994,358	1,017,855
Certificate of Deposit	01/31/2015	0.60	N/A	-	1,390,000
Certificate of Deposit	03/19/2015	0.65	N/A	-	604,275
Certificate of Deposit	02/02/2016	0.65	N/A	1,500,000	-
Certificate of Deposit	02/10/2016	0.60	N/A	150,000	150,000
Certificate of Deposit	03/20/2016	0.65	N/A	700,000	-
<b>Total Investments</b>				<b>\$ 11,237,710</b>	<b>\$ 9,429,688</b>

**Custodial Credit Risk - Investments**

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**4 - INVESTMENTS (Continued)**

**Concentration of Credit Risk**

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

**5 - CAPITAL ASSETS**

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**5 - CAPITAL ASSETS (Continued)**

Capital asset balances and activity for the year ended December 31, 2014 were as follows:

	Balance, January 1, 2014	Additions	Reclass/ Reductions	Balance, December 31, 2014
<b>Capital assets not being depreciated</b>				
Land and land improvements	\$ 1,811,009	\$ -	\$ -	\$ 1,811,009
Construction-in-progress	3,439,157	638,120	(463,874)	3,613,403
Capital assets not being depreciated	5,250,166	638,120	(463,874)	5,424,412
<b>Capital assets being depreciated</b>				
Treatment and distribution facilities	89,188,200	1,066,505	-	90,254,705
Equipment and vehicles	4,941,398	168,005	(52,285)	5,057,118
Office building	3,877,030	-	-	3,877,030
Furniture and fixtures	458,351	973	-	459,324
Capital assets being depreciated	98,464,979	1,235,483	(52,285)	99,648,177
Accumulated depreciation	(51,478,799)	(2,778,707)	52,238	(54,205,268)
Capital assets, net of depreciation	46,986,180	(1,543,224)	(47)	45,442,909
<b>Total capital assets, net</b>	<b>\$ 52,236,346</b>	<b>\$ (905,104)</b>	<b>\$ (463,921)</b>	<b>\$ 50,867,321</b>

**6 - DEFERRED LOSS ON REFUNDING ISSUES**

The 2007 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old bonds of \$193,907. The difference, reported in the accompanying financial statements as a Deferred Outflows of Resources, is being charged to operations through the year 2029 using the straight-line method. Amounts charged in both 2015 and 2014 were \$8,816. The balance as of December 31, 2015 and 2014 was \$117,846 and \$126,662, respectively.

The 2012 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old bonds of \$151,116. The difference, reported in the accompanying financial statements as a Deferred Outflows of Resources, is being charged to operations through the year 2017 using the straight-line method. Amounts charged in both 2015 and 2014 were \$31,907. The balance as of December 31, 2015 and 2014 was \$42,543 and \$74,451, respectively.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**7 - LONG-TERM DEBT**

Long-term debt consists of the following:

\$1,510,000 Subordinated Water System Revenue Bonds, Series 2005A, dated 11/10/05, payable in annual installments through 8/1/25. Interest is paid semi-annually at varying interest rates ranging from 4.00% to 5.00%. The balance at December 31, 2015 and 2014 was \$985,000 and \$1,060,000, respectively.

\$4,033,215 Subordinated Water System Revenue Bonds, Series 2005B, dated 11/10/05. The bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/25. The balance at December 31, 2015 and 2014 was \$2,248,813 and \$2,467,617, respectively.

\$660,000 Subordinated Water System Revenue Bonds, Series 2006A, dated 11/9/06, payable in annual installments through 9/1/26. Interest is paid semi-annually at varying interest rates ranging from 4.00% to 5.00%. The balance at December 31, 2015 and 2014 was \$445,000 and \$475,000, respectively.

\$1,489,065 Subordinated Water System Revenue Bonds, Series 2006B, dated 11/9/06. The original amount issued of \$1,798,103 was reduced by \$309,038 in 2014. The New Jersey Department of Environmental Protection authorized the deobligation of the 2006B bond series in the amount of \$309,038 as a result of the Authority having excess funds remaining related to the project funded by this bond series. The deobligated funds were transferred to the escrow funds established for the 2010 New Jersey Environmental Infrastructure Bonds, where funds will be applied to debt service. The 2006B bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/26. The balance at December 31, 2015 and 2014 was \$727,844 and \$820,310, respectively.

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

\$810,000 Subordinated Water System Revenue Bonds, Series 2009A, dated 12/2/09, payable in annual installments through 8/1/29. Interest is paid semi-annually at varying interest rates ranging from 2.00% to 5.00%. The balance at December 31, 2015 and 2014 was \$655,000 and \$690,000, respectively.

\$774,039 Subordinated Water System Revenue Bonds, Series 2009B, dated 12/2/09. The bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/29. The balance at December 31, 2015 and 2014 was \$580,530 and \$621,996, respectively.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**7 - LONG-TERM DEBT** (Continued)

\$505,000 New Jersey Environmental Infrastructure Bonds, Series 2010A, dated 9/01/10, payable in annual installments through 8/1/29. Interest is paid semi-annually at varying interest rates ranging from 3.00% to 5.00%. The balance at December 31, 2015 and 2014 was \$410,000 and \$430,000, respectively.

\$495,000 New Jersey Environmental Infrastructure Bonds, Series 2010B, dated 3/10/10. The bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/29. The balance at December 31, 2015 and 2014 was \$371,250 and \$397,768, respectively.

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**7 - LONG-TERM DEBT** (Continued)

Principal and interest requirements until maturity are as follows:

Year	Principal	Interest	Total
2016	\$ 1,824,289	\$ 467,706	\$ 2,291,995
2017	1,819,359	416,381	2,235,740
2018	1,290,619	372,881	1,663,500
2019	1,325,580	339,569	1,665,149
2020	1,369,301	305,059	1,674,360
2021-2025	5,772,352	1,013,756	6,786,108
2026-2029	3,141,937	249,213	3,391,150
	<u>\$ 16,543,437</u>	<u>\$ 3,164,565</u>	<u>\$ 19,708,002</u>

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

	Balance 12/31/13	Increase/ Adjustment	Decrease/ Adjustment	Balance 12/31/14	Due within one year
Revenue Bonds	\$ 13,310,000	\$ -	\$ 1,915,000	\$ 11,395,000	\$ 1,275,000
NJ EIT	7,506,500	-	543,811	6,962,689	539,252
Compensated absences	638,089	-	9,145	628,944	-
<b>Totals</b>	<u>\$ 21,454,589</u>	<u>\$ -0-</u>	<u>\$ 2,467,956</u>	<u>\$ 18,986,633</u>	<u>\$ 1,814,252</u>

**8 - ARBITRAGE**

The Tax Reform Act of 1986 (“Act”) imposed additional restrictive regulations, reporting requirements, and an arbitrage rebate liability on issuers of tax-exempt debt. This Act requires the remittance to the IRS of 90% of the cumulative rebatable arbitrage within 60 days of the end of each five-year reporting period following the issuance of governmental bonds. The Authority’s policy is to annually record a liability representing the estimated amount owed. The Authority actively manages its invested bond proceeds to minimize any arbitrage liability. The Authority had no cumulative arbitrage rebate liability for the years ended December 31, 2015 and 2014.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**9 - NET POSITION**

Net position consists of the following:

	December 31,	
	2015	2014
	(As Restated)	
<b>Net investment in capital assets</b>		
Capital assets, net	\$ 49,435,594	\$ 50,867,321
Receivable - NJ EIT	826,237	921,026
Loss on refunding of long-term debt	160,389	201,113
Debt	(16,543,437)	(18,357,689)
Accrued interest payable	(75,331)	(82,838)
	33,803,452	33,548,933
<b>Restricted for capital projects and debt service</b>		
Restricted investments	5,145,648	4,279,376
<b>Unrestricted (deficit)</b>	(3,720,638)	(3,238,455)
Total net position	\$ 35,228,462	\$ 34,589,854

**10 - PENSION PLAN**

**Description of Plan and Benefits Provided**

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**10 - PENSION PLAN** (Continued)

**Description of Plan and Benefits Provided** (Continued)

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

The vesting and benefit provisions are set by N.J.S.A.43:15A. The Plan provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the Plan.

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

Service retirement benefits of 1/55th of final average salary for each year of service credit are available to Tier 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit are available to Tier 4 members upon reaching age 62 and Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, Tiers 3 and 4 members before age 62 with 25 or more years of service credit, and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age for his/her respective tier. Tier 1 members can receive an unreduced benefit from age 55 to 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**10 - PENSION PLAN** (Continued)

**Contributions**

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over seven years beginning in July 2012. The member contribution rate was 6.92% in the State of New Jersey's ("State") fiscal year 2015. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The Authority's contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability.

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

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**10 - PENSION PLAN** (Continued)

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

At December 31, 2014, the Authority reported a liability of \$10,842,207 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2014. At December 31, 2014, the Authority reported this liability of \$10,842,207 as part of the restatement of net position, as described in Note 2. Total restatement was \$10,805,725 which encompasses the \$10,842,207 recognition of net pension liability and \$36,482 related to the net change of deferred outflows and inflows of resources as of June 30, 2014.

For the year ended December 31, 2015, the Authority recognized \$999,505 for pension expense.

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

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**10 - PENSION PLAN** (Continued)

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

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

Year Ending December 31,	
2016	\$ 387,143
2017	387,143
2018	387,143
2019	616,588
2020	348,556
	\$ 2,126,573

**Actuarial Assumptions**

The net pension liability measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.04%
Salary increases:	
2012-2021	2.15% - 4.40%, based on age
Thereafter	3.15% - 5.40%, based on age
Investment rate of return	7.9%
Mortality rate table	RP-2000
Period of actuarial experience study upon which actuarial assumptions were based	July 1, 2008 - June 30, 2011

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**10 - PENSION PLAN** (Continued)

**Actuarial Assumptions** (Continued)

The mortality rates were based on RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

In accordance with the State of New Jersey statute, the long-term expected rate of return on plan investments is determined by the State of New Jersey's Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries.

Best estimates of arithmetic real rates of returns for each major asset class included in the pension's target asset allocation as of June 30, 2015 are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	1.04%
U.S. treasuries	1.75	1.64
Investment grade credit	10.00	1.79
Mortgages	2.10	1.62
High yield bonds	2.00	4.03
Inflation-indexed bonds	1.50	3.25
Broad U.S. equities	27.25	8.52
Developed foreign equities	12.00	6.88
Emerging market equities	6.40	10.00
Private equity	9.25	12.41
Hedge funds/absolute return	12.00	4.72
Real estate (property)	2.00	6.83
Commodities	1.00	5.32
Global debt exchange U.S.	3.50	(.40)
Real estate investment trusts	4.25	5.12
	<b>100.00%</b>	

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**10 - PENSION PLAN** (Continued)

**Discount Rate**

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% as of June 30, 2015 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rates assumes that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

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

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

**Pension Plan Fiduciary Net Position**

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**10 - PENSION PLAN** (Continued)

The following presents the Authority’s proportionate share of the net pension liability at June 30, 2014 calculated using a discount rate of 5.39% for PERS, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	1% Decrease (4.39%)	Current Discount Rate (5.39%)	1% Increase (6.39%)
Authority’s proportionate share of the net pension liability	\$13,639,866	\$10,842,207	\$8,492,886

**11 - POST RETIREMENT BENEFITS**

**Plan Description**

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

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

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

The Authority is a member of the SHBP and provides that its retirees will be covered if they have 25 years participation in PERS and have been employed by the Authority for 10 years. During 2015, 2014 and 2013, the Authority paid the SHBP \$2,230,982, \$2,075,500 and \$2,062,794, respectively, for health care of employees and retirees. The amount paid for retirees was \$602,020, \$569,523 and \$633,705, respectively.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**12 - DEFERRED COMPENSATION**

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

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

**13 - CONTINGENCIES**

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

**14 - RISK MANAGEMENT**

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

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

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

The Authority made no payments in excess of the insurance coverage during the fiscal year. Also, there was no decrease in insurance coverage. From time to time, the Authority may be a defendant in legal proceedings relating to its operations as a utility authority.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**15 - RISKS AND UNCERTAINTIES**

As a result of the current financial crisis affecting the City of Atlantic City (the “City”), including the potential for a municipal bankruptcy, the Authority is facing its own challenges and uncertainties. Both the NJ Senate and NJ Assembly have put forth bills aimed at stabilizing the City’s budget crisis and reducing its burdensome debt, which include the potential takeover of the Authority and/or sale of the Authority’s assets.

As an alternative to either of these legislative proposals, and as an effort to retain some autonomy from the City and control over water rates, the Authority is working to develop a concessionaire operating model. Under this model, the Authority would remain in an advisory role, but would engage a private investor company to control operations, which would pay a large upfront fee to enter into a long-term concessionaire agreement. The upfront fee would then be available to reduce the City’s debt load and assist in the City’s recovery.

**OTHER SUPPLEMENTARY INFORMATION**

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

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
with Summarized Totals for 2014**

	Year Ended December 31, 2015						2015 Total	2014 Summarized Total
	General Fund	Debt Service Fund	Debt Service Reserve Fund	Bond Redemption and Improvement Fund	Capital Fund	Net Investment in Capital Assets		
<b>Operating revenues</b>								
User charges	\$ 15,579,370	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,579,370	\$ 15,107,436
Rental income	2,500	-	-	-	-	-	2,500	2,500
Miscellaneous	67,855	-	-	-	-	-	67,855	103,593
	15,649,725	-	-	-	-	-	15,649,725	15,213,529
<b>Operating expenses</b>								
Cost of providing services	8,890,594	-	-	-	-	-	8,890,594	8,923,528
General and administrative	3,084,198	-	-	-	-	-	3,084,198	2,989,273
Depreciation	-	-	-	-	-	2,795,975	2,795,975	2,778,707
	11,974,792	-	-	-	-	2,795,975	14,770,767	14,691,508
<b>Operating income (loss)</b>	3,674,933	-	-	-	-	(2,795,975)	878,958	522,021
<b>Non-operating revenues (expenses)</b>								
Connection fees	252,519	-	-	-	-	-	252,519	399,996
Investment income	102,622	-	-	-	-	-	102,622	101,008
Bond interest	(505,775)	-	-	-	-	(40,724)	(546,499)	(592,827)
Bond payments	(1,814,252)	-	-	-	-	1,814,252	-	-
Net change in fair value of investments	(48,907)	-	-	-	-	-	(48,907)	(36,557)
Loss on disposal of assets	(85)	-	-	-	-	-	(85)	(47)
	(2,013,878)	-	-	-	-	1,773,528	(240,350)	(128,427)
<b>Net increase (decrease) before transfers</b>	1,661,055	-	-	-	-	(1,022,447)	638,608	393,594
Transfers between funds	(2,143,238)	-	-	-	866,272	1,276,966	-	-
<b>Net increase (decrease) in net position</b>	(482,183)	-	-	-	866,272	254,519	638,608	393,594
<b>Net position (deficit), beginning of year</b>	(3,238,455)	2,327,533	1,675,781	150,000	126,062	33,548,933	34,589,854	45,001,985
<b>Net position (deficit), end of year prior to restatement</b>	(3,720,638)	2,327,533	1,675,781	150,000	992,334	33,803,452	35,228,462	45,395,579
Adjustment for restatement (Note 2)	-	-	-	-	-	-	-	(10,805,725)
<b>Net position (deficit), end of year</b>	(3,720,638)	2,327,533	1,675,781	150,000	992,334	33,803,452	35,228,462	34,589,854
<b>Analysis of net position (deficit), end of year</b>								
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,803,452	\$ 33,803,452	\$ 33,548,933
Restricted for capital projects and debt service	-	2,327,533	1,675,781	150,000	992,334	-	5,145,648	4,279,376
Unrestricted	(3,720,638)	-	-	-	-	-	(3,720,638)	(3,238,455)
	\$ (3,720,638)	\$ 2,327,533	\$ 1,675,781	\$ 150,000	\$ 992,334	\$ 33,803,452	\$ 35,228,462	\$ 34,589,854

See Independent Auditors' Report.

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

**SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET**

**YEARS ENDED DECEMBER 31,**

	2015 Budget (unaudited)	2015 Actual	Over/(Under) (unaudited)	2014 Actual
<b>Revenues</b>				
User charges	\$ 14,891,265	\$ 15,579,370	\$ 688,105	\$ 15,107,436
Rental income	2,500	2,500	-	2,500
Miscellaneous	49,655	67,855	18,200	103,593
Interest	85,330	102,622	17,292	101,008
	<u>15,028,750</u>	<u>15,752,347</u>	<u>723,597</u>	<u>15,314,537</u>
<b>Cost of Providing Services</b>				
<b>Personnel expenses</b>				
Salaries - regular	3,559,521	3,175,307	(384,214)	3,283,674
Salaries - overtime	175,635	131,041	(44,594)	162,285
	<u>3,735,156</u>	<u>3,306,348</u>	<u>(428,808)</u>	<u>3,445,959</u>
<b>Employee benefits</b>				
Health benefits	1,757,046	1,689,176	(67,870)	1,593,855
Pension	386,018	747,197	361,179	335,149
Social security	283,834	247,783	(36,051)	256,995
Unemployment	28,315	25,898	(2,417)	26,508
Workers compensation	254,443	175,766	(78,677)	261,943
	<u>2,709,656</u>	<u>2,885,820</u>	<u>176,164</u>	<u>2,474,450</u>
<b>Plant</b>				
Chemicals and gases	445,000	373,406	(71,594)	420,090
Fuel oil	18,725	14,147	(4,578)	15,249
Gasoline	58,000	38,429	(19,571)	60,572
Miscellaneous	40,000	31,018	(8,982)	33,226
	<u>561,725</u>	<u>457,000</u>	<u>(104,725)</u>	<u>529,137</u>
<b>Utilities</b>				
Electricity	962,538	838,499	(124,039)	902,509
Gas	8,500	5,112	(3,388)	7,340
Sewerage	2,000	1,187	(813)	1,193
Telephone	24,500	19,488	(5,012)	12,260
	<u>997,538</u>	<u>864,286</u>	<u>(133,252)</u>	<u>923,302</u>
<b>Taxes</b>				
Real estate	119,410	119,407	(3)	112,325
State water	31,415	27,875	(3,540)	30,524
	<u>150,825</u>	<u>147,282</u>	<u>(3,543)</u>	<u>142,849</u>

(Continued)

See Independent Auditors' Report.

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

**SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET**

**YEARS ENDED DECEMBER 31,**

	2015 Budget (unaudited)	2015 Actual	Over/(Under) (unaudited)	2014 Actual
<b>Repairs and maintenance</b>				
Building and grounds	\$ 154,255	\$ 134,216	\$ (20,039)	\$ 138,013
Electrical	24,000	12,589	(11,411)	10,126
Machinery and equipment	69,000	41,673	(27,327)	40,653
Miscellaneous	21,925	9,567	(12,358)	13,997
Motor vehicle	52,300	47,702	(4,598)	62,804
Plumbing	33,000	14,640	(18,360)	8,667
Street opening	355,000	283,526	(71,474)	429,602
Uniforms	25,000	5,432	(19,568)	13,721
	734,480	549,345	(185,135)	717,583
<b>Rental</b>				
Construction equipment	8,200	720	(7,480)	5,977
Other	15,200	11,583	(3,617)	6,435
	23,400	12,303	(11,097)	12,412
<b>Outside services</b>				
Advertising	2,500	1,734	(766)	2,770
Engineering fees	13,000	10,640	(2,360)	2,952
General insurance	358,400	350,115	(8,285)	347,231
Laboratory	85,000	73,258	(11,742)	84,311
New Jersey Department of Environmental Protection	38,000	34,951	(3,049)	35,367
Other	200,000	169,107	(30,893)	178,077
	696,900	639,805	(57,095)	650,708
<b>Training, travel, and education</b>				
Employee travel	7,000	37	(6,963)	1,499
Training	16,000	15,102	(898)	14,988
	23,000	15,139	(7,861)	16,487
<b>Dues and subscriptions</b>				
Books and publications	3,300	-	(3,300)	170
Dues	5,000	4,363	(637)	4,456
	8,300	4,363	(3,937)	4,626
<b>Office supplies</b>				
Office	7,600	7,185	(415)	4,699
Miscellaneous	1,700	1,001	(699)	1,267
Postage	1,100	717	(383)	49
Printing	1,000	-	(1,000)	-
	11,400	8,903	(2,497)	6,015
<b>Total cost of providing services</b>	<b>9,652,380</b>	<b>8,890,594</b>	<b>(761,786)</b>	<b>8,923,528</b>

(Continued)

See Independent Auditors' Report.

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

**SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET**

**YEARS ENDED DECEMBER 31,**

	2015 Budget (unaudited)	2015 Actual	Over/(Under) (unaudited)	2014 Actual
<b>General and Administrative</b>				
<b>Personnel expenses</b>				
Salaries - regular	\$ 1,044,751	\$ 986,982	\$ (57,769)	1,070,211
Salaries - overtime	2,000	509	(1,491)	356
Board salaries	40,500	38,805	(1,695)	29,886
	<u>1,087,251</u>	<u>1,026,296</u>	<u>(60,955)</u>	<u>1,100,453</u>
<b>Employee benefits</b>				
Health benefits	512,162	495,158	(17,004)	491,913
Pension	131,718	252,308	120,590	97,529
Social security	81,187	73,462	(7,725)	80,109
Unemployment	8,489	8,386	(103)	7,995
	<u>733,556</u>	<u>829,314</u>	<u>95,758</u>	<u>677,546</u>
<b>Operations</b>				
Data processing	15,000	11,457	(3,543)	13,068
Janitorial	20,500	15,662	(4,838)	15,719
Office	15,000	10,753	(4,247)	12,179
Outside services	38,000	50,566	12,566	10,880
Postage	25,000	21,274	(3,726)	20,832
Printing	5,000	3,339	(1,661)	8,361
Professional fees	174,000	182,313	8,313	159,469
Telephone	25,500	22,700	(2,800)	25,952
Training	9,000	6,472	(2,528)	5,159
Travel	1,000	36	(964)	1,373
Utilities	63,000	53,879	(9,121)	55,910
	<u>391,000</u>	<u>378,451</u>	<u>(12,549)</u>	<u>328,902</u>
<b>Repairs and maintenance</b>				
Building and grounds	8,000	3,272	(4,728)	3,714
Machinery and equipment	7,000	4,388	(2,612)	2,744
Miscellaneous	1,000	-	(1,000)	-
Motor vehicles	1,500	417	(1,083)	700
	<u>17,500</u>	<u>8,077</u>	<u>(9,423)</u>	<u>7,158</u>

(Continued)

See Independent Auditors' Report.

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

**SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET**

**YEARS ENDED DECEMBER 31,**

	2015 Budget (unaudited)	2015 Actual	Over/(Under) (unaudited)	2014 Actual
<b>Miscellaneous</b>				
Administrative fees	\$ 53,500	\$ 48,556	\$ (4,944)	\$ 50,857
Advertisement	2,500	1,236	(1,264)	4,452
Books and periodicals	3,500	1,602	(1,898)	2,307
Computer equipment maintenance	26,000	22,774	(3,226)	28,747
Insurance deductibles	3,500	3,500	-	-
Membership dues	9,500	8,315	(1,185)	8,085
Miscellaneous	17,600	10,580	(7,020)	21,493
Municipal appropriation	690,857	690,857	-	718,004
Provision for doubtful accounts	5,000	51,170	46,170	39,421
Rentals	1,500	-	(1,500)	-
Software license fee	3,600	3,470	(130)	1,848
	<u>817,057</u>	<u>842,060</u>	<u>25,003</u>	<u>875,214</u>
<b>Total general and administrative</b>	<u>3,046,364</u>	<u>3,084,198</u>	<u>37,834</u>	<u>2,989,273</u>
<b>Total cost of providing services and general and administrative expenses</b>	<u>12,698,744</u>	<u>11,974,792</u>	<u>(723,952)</u>	<u>11,912,801</u>
<b>Other costs funded by revenues</b>				
Debt service				
Principal	1,814,252	1,814,252	-	2,458,812
Interest	513,281	505,775	(7,506)	552,103
	<u>2,327,533</u>	<u>2,320,027</u>	<u>(7,506)</u>	<u>3,010,915</u>
<b>Total costs funded by operating revenues</b>	<u>\$ 15,026,277</u>	<u>\$ 14,294,819</u>	<u>\$ (731,458)</u>	<u>\$ 14,923,716</u>

See Independent Auditors' Report.

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

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

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

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

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

See Independent Auditors' Report.

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

**SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS  
TO THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

	For the Year Ended December 31, 2015
Contractually required contribution	\$ 797,999
Contributions in relation to the contractually required contribution	(797,999)
Contribution deficiency (excess)	\$ -0-
Authority's covered-employee payroll	\$ 4,043,269
Contributions as a percentage of the Authority's covered-employee payroll	19.74%

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

See Independent Auditors' Report.

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

**NOTES TO THE SCHEDULES RELATED TO ACCOUNTING  
AND REPORTING FOR PENSIONS (GASB 68)**

**Changes in Benefit Terms**

None.

**Changes in Assumptions**

The discount rate changed from 5.39% as of June 30, 2014, to 4.90% as of June 30, 2015, in accordance with Paragraph 44 of GASB Statement No. 67.

See Independent Auditors' Report.

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

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

To the Board of Directors  
Atlantic City Municipal Utilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Atlantic City Municipal Utilities Authority (a component unit of the City of Atlantic City, New Jersey), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Atlantic City Municipal Utilities Authority's basic financial statements, and have issued our report thereon dated June 7, 2016.

**Internal Control Over Financial Reporting**

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

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

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

(Continued)

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Linwood, New Jersey

June 7, 2016

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

**SUMMARY OF AUDITORS' RESULTS AND FINDINGS**

*Section I - Summary of Auditors' Results*

**Financial Statements**

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

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

*Section II - Financial Statement Findings*

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

None noted.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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

None.