ATLANTIC CITY
MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)

REPORT OF AUDIT

FOR THE YEARS ENDED

DECEMBER 31, 2012 AND 2011

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FINANCIAL SECTION

FORD - SCOTT
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Independent Auditor's Report

Members of the Board of Directors
Atlantic City Municipal Utilities Authority
Atlantic City, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Atlantic City Municipal Utilities Authority (a component unit of the City of Atlantic City) in the County of Atlantic, State of New Jersey, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Atlantic City Municipal Utilities Authority (a component unit of the City of Atlantic City) in the County of Atlantic, State of New Jersey, as of December 31, 2012 and 2011, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Atlantic City Municipal Utility's basic financial statements. The Schedule of Changes in Required Funds and the Schedule of Appropriations Compared to Budget are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Changes in Required Funds and the Schedule of Appropriations Compared to Budget is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 Schedule of Changes in Required Funds and the Schedule of Appropriations Compared to Budget is fairly stated, in all material respects, in relation to the 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 March 22, 2013 on our consideration of the Atlantic City Municipal Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Atlantic City Municipal Utilities Authority's internal control over financial reporting and compliance.

Ford Scott & Associates, LLC

Ford Scott & Associates, LLC

March 22, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

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 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 financial statements include a statement of net position; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

The ***statement of net position*** presents the financial position of the Authority on a full accrual historical cost basis. The statement of new 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 positions 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*** presents changes in cash and cash equivalents, resulting from operational, 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 ANALYSIS OF FINANCIAL POSITION:

Financial Highlights

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

- Total assets at year-end were $70,374,541 and exceeded liabilities in the amount of $45,811,105 (i.e. net position). Of the $6,140,818 classified as unrestricted the total amount was available to support short-term operations. Total assets increased $692,235 and total net position increased $766,549.
- For fiscal year 2012, the Authority pumped approximately 4,688 million gallons of water, compared to 4,739 million gallons of water in 2011.
- Operating revenues were $14,930,026 an increase from the year 2011 in the amount of $905,832. Total operating revenues were $286,597 higher than budget projections.
- Operating expenses were $305,794 higher than last year.
- Operating income for the year was $1,169,337.
- Connection Fee income recognized in 2012 amounted to $265,782 compared to $355,830 in 2011.
- During 2011, grant revenues from stimulus funding was recognized in the amount of $867,892. There were no grant revenues realized for 2012.
- During the year, the Authority's outstanding callable 2002 Water System Revenue Refunding Bonds were refunded. The issuance of the 2012 Revenue Refunding Bonds enabled the Authority to benefit from significantly lower interest rates. In addition, the Authority issued Revenue Bonds in the amount of $2,500,000. The funds from the issuance will be used primarily for the inspection and painting of the 2.0MG Water Tower.
- Investment income was slightly lower than budget. Actual investment income for 2012 amounted to $82,820 which was $40,140 lower than last year due to the continuation of lower than normal interest rates throughout the year.

The Authority's financial condition has not changed materially in the current fiscal year. Operating revenues increased due to a rate increase which became effective in 2012 and an increase in operating expenses partially offset the additional revenues recognized.

CONDENSED COMPARATIVE STATEMENT OF NET POSITION - Compared to prior year, not many fluctuations were recognized on the Statement of Net Position of the ACMUA. Explanations for the material fluctuations are as follows:

Total Current Assets- Total Current Assets for 2012 totaled $7,900,937 compared to $8,915,334 in 2011. The decrease amounted to $1,014,397 and resulted primarily from a decrease in Cash and Investments. Available cash was utilized to assist in the funding of the 2012 Capital Projects.

Total Restricted Assets- Total Restricted Assets for 2012 totaled $9,064,189 compared to $5,626,031 in 2011. This increase amounted to approximately $3,438,158 and resulted primarily from the issuance of revenue bonds in 2012. The funds from the issuance will be used for upcoming capital projects.

Net Capital Assets – Net Capital Assets for 2012 totaled $53,409,415 compared to $55,140,941 in 2011. This decrease of $1,731,526 resulted from an increase in accumulated depreciation that amounted to $2,815,594.

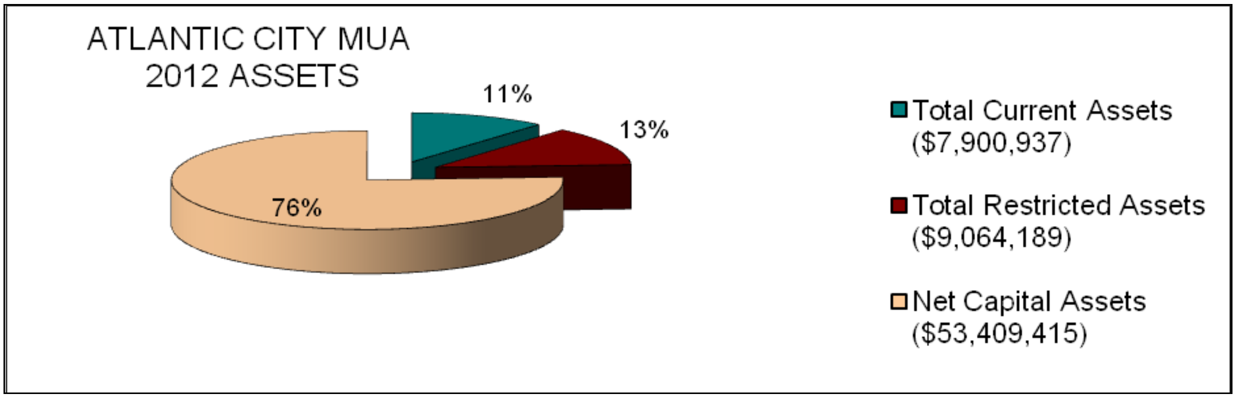
Total Current Liabilities Payable From Unrestricted Assets - Total Current Liabilities Payable From Unrestricted Assets for 2012 totaled $1,096,214 compared to $1,080,921 in 2011. This slight increase was due primarily to an increase in the liability for deferred income.

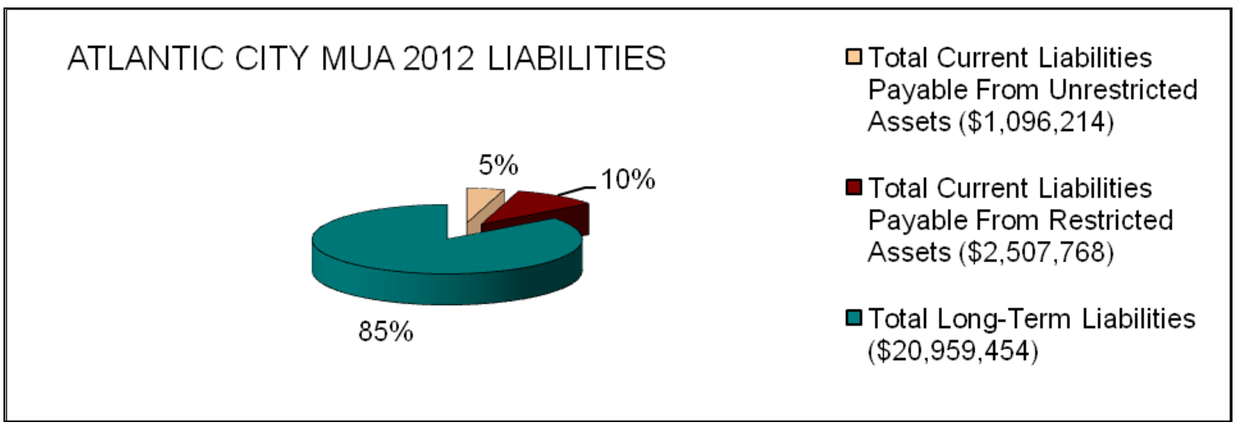
Total Current Liabilities Payable From Restricted Assets - Total Current Liabilities Payable From Restricted Assets for 2012 totaled $2,507,768 compared to $2,410,998 in 2011. This increase of $96,770 was due primarily to an increase in current principal payments due in 2013 for the outstanding bond issues.

Total Long-Term Liabilities Payable From Restricted Assets- Total Long-Term Liabilities Payable From Restricted Assets for 2012 totaled $20,959,454 compared to $21,145,831 in 2011. This decrease of $186,377 was due to a net decrease in Long-Term Debt. This decrease was due primarily to the annual principal payments made in 2012, partially offset by the newly issued debt in 2012.

CONDENSED COMPARATIVE STATEMENT OF NET ASSETS

	DECEMBER 31, 2012	**DECEMBER 31, 2011**	**DECEMBER 31, 2010**
Total Current Assets	$7,900,937	$8,915,334	$11,555,417
Total Restricted Assets	9,064,189	5,626,031	5,525,076
Net Capital Assets	53,409,415	55,140,941	54,144,521
Total Assets	$70,374,541	$69,682,306	$71,225,014
Total Current Liabilities – Unrestricted	$1,096,214	$1,080,921	$1,246,910
Total Current Liabilities – Restricted	2,507,768	2,410,998	2,305,383
Total Long-Term Liabilities	20,959,454	21,145,831	23,763,610
Total Liabilities	$24,563,436	$24,637,750	$27,315,903
Net Position:			
Restricted or Net Invested in Capital Assets	$39,670,287	$39,204,983	$37,149,915
Unrestricted	6,140,818	5,839,573	6,759,196
Total Net Position	$45,811,105	$45,044,556	$43,909,111
Total Liabilities and Net Position	$70,374,541	$69,682,306	$71,225,014





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.

CONDENSED COMPARATIVE STATEMENT OF CASH FLOWS

	DECEMBER 31, 2012	DECEMBER 31, 2011	DECEMBER 31, 2010
Total Operating Revenues	$14,930,926	$14,025,094	$13,711,575
Net Cash Provided by Operating Activities	$3,701,256	$3,302,069	$3,227,344
Net Operating Cash As A % Of Operating Revenue	24.79%	23.54%	23.54%

2012 Net Cash Provided by Operating Activities As Compared to 2011 – Net cash provided by operating activities increased by 12.1%. This increase resulted primarily from additional cash received from customers, as a result of the 2012 rate increase. Also contributing to the increase, was additional revenue realized in 2012 from additional customers.

MANAGEMENT'S ANALYSIS OF RESULTS OF OPERATION:

CONDENSED COMPARATIVE STATEMENT OF ACTIVITIES – Total Revenues (excluding connection fees) for 2012 totaled $15,013,746 compared to $14,148,054 in 2011. Total revenues increased by 6.1%. Total operating expenses for 2012 totaled $13,761,589 compared to $13,455,795 in 2011. Total operating expenses increased by 2.3%. Explanations of the fluctuations are as follows:

Operating Revenues – Operating Revenues for 2012 totaled $14,930,926 compared to $14,025,094 in 2011. The revenues increased by approximately $905,832. The increased revenues recognized during the year resulted primarily from the rate increase that took effect in 2012. In addition, the opening of Revel Entertainment (a mega hotel and casino) contributed to the increased revenues recognized during the year.

Connection Fee Income – Connection Fee Income for 2012 totaled $265,782 compared to $355,830 in 2011. The decrease recognized in 2012 was due to less new construction.

Interest Income – Interest Income for 2012 totaled $82,820, compared to $122,960 in 2011. The decrease was due to the decline in interest rates. In addition, interest income declined due to a slight decrease in cash available for investing.

Salaries Expenses – Salaries Expenses for 2012 totaled $4,216,523 compared to $4,122,532 in 2011. The slight increase in salaries expense amounted to $93,991. This increase was due primarily to the filling of vacant positions which resulted from an increase in employee retirements. Also contributing to the increase in salaries expense in 2012 was the settlement of the Supervisor's Union Contract.

Employee Benefits – Employee Benefits for 2012 totaled $2,914,052 compared to $2,732,161 in 2011. The increase in employee benefits expense resulted from an increase in employer pension contributions and health benefits costs. In 2011, Legislation was passed which required government employees to contribute a portion of their salary to cover health care premiums. The legislative change somewhat offset the increase mentioned above.

Repairs and Maintenance – Repairs and Maintenance expense for 2012 totaled $541,156 compared to $518,421 in 2011. The increase in repairs and maintenance expense resulted primarily from the sludge removal project at the water treatment plant facility.

Miscellaneous Expenses – Miscellaneous Expenses for 2012 totaled $3,274,264 compared to $3,220,774 in 2011. The increase for the year approximated $53,490 and resulted from fluctuations in various accounts. For example, an increase was recognized for other outside services. This increase was due primarily to additional laboratory expense. Also contributing to the additional expense were higher training costs, which resulted from several employees enrolling in water treatment courses. Partially offsetting the increase, were decreased expenses realized for electricity expense.

Depreciation Expenses – Depreciation Expenses for 2012 totaled $2,815,594 compared to $2,861,907 in 2011. The decline in expense resulted primarily from assets that became fully depreciated during the year. The decline was partially offset by the depreciation expense recognized for the assets purchased and placed in service in 2012.

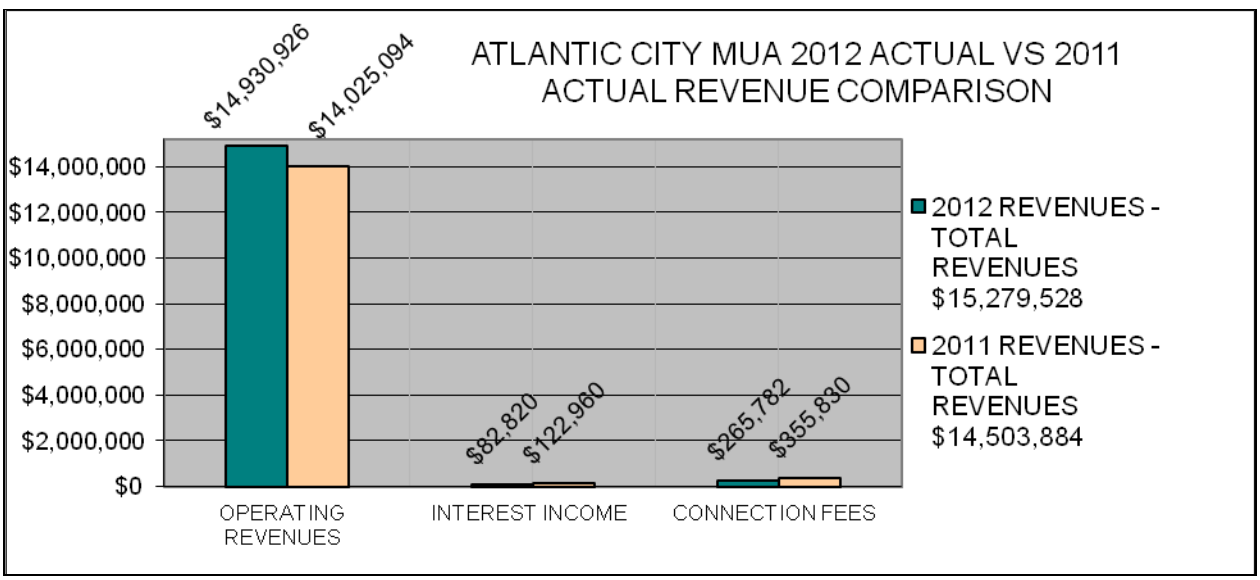
Interest Expenses – Interest Expenses for 2012 totaled $708,680 compared to $785,828 in 2011. A decline in interest expense was recognized in 2012 due to a decrease in Long-Term Debt Outstanding, which resulted from principal payments made on outstanding bonds and NJEIT loans.

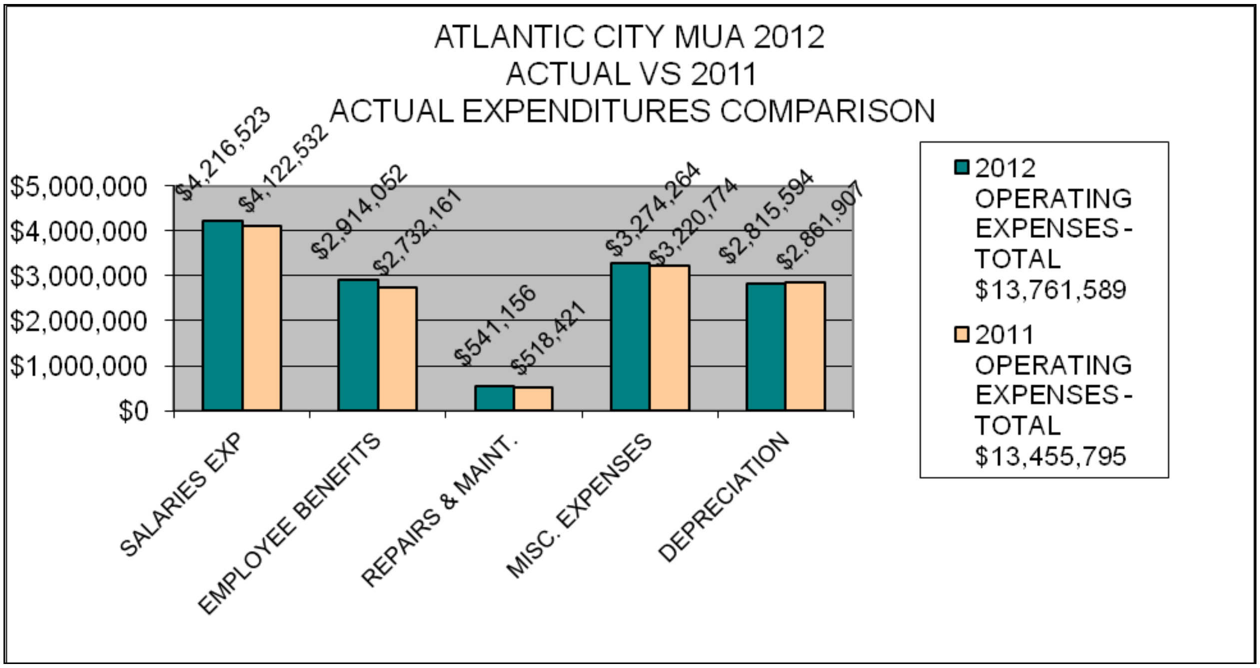
CONDENSED COMPARATIVE STATEMENT OF ACTIVITIES

	BUDGET 2012	DECEMBER 31, 2012	DECEMBER 31, 2011	DECEMBER 31, 2010
Total Operating Revenues	$14,644,329	$14,930,926	$14,025,094	$13,711,575
Operating Expenses:				
Total Salaries Expenses	$4,463,334	$4,216,523	$4,122,532	$4,555,238
Total Employee Benefits	$3,000,648	$2,914,052	$2,732,161	$2,552,545
Total Repairs & Maintenance	$736,631	$541,156	$518,421	$653,747
Total Miscellaneous Expenses	$3,540,327	$3,274,264	$3,220,774	$3,198,024
Depreciation	0	$2,815,594	$2,861,907	$2,560,738
Total Operating Expenses	$11,740,940	$13,761,589	$13,455,795	$13,520,292
Non-Operating Revenues (Expenses)				
Connection Fee Income	$0	$265,782	$355,830	$130,684
Interest Income	$81,217	$82,820	$122,960	$131,178
NJEIT Grant Revenue	0	0	$867,892	$1,670,186
Contributed Capital –CRDA	0	$9,650	$41,249	$151,384
Interest Expense	($723,900)	($708,680)	($785,828)	($804,776)
Principal Payments	($2,288,788)	($2,289,598)	($2,189,321)	($1,777,192)
Net Change in FMV of Invest.	0	($5,035)	$20,270	($15,235)
Miscellaneous Expense	0	($47,325)	($56,227)	($50,492)
Reserves	$28,082	0	0	0
Total Non-Operating Revenues (Expenses) Net	($2,903,389)	($2,692,386)	($1,623,175)	($564,263)
Increase (Decrease) in Net Assets	$0	($1,523,049)	($1,053,876)	($372,980)

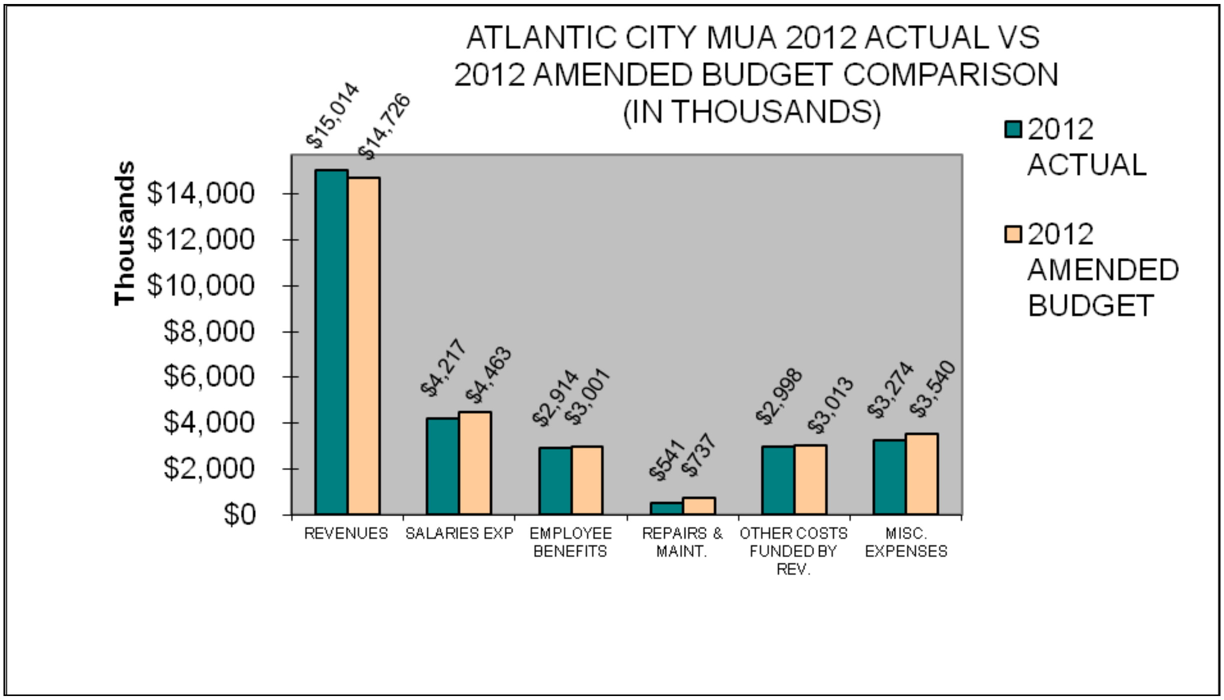
The following table shows the composition of operating expenses by major classification of expense for the last three years:

	2012	%	2011	%	2010	%
Salaries	$4,216,523	30.64%	$4,122,532	30.64%	$4,555,238	33.69%
Employee Benefits	$2,914,052	21.18%	$2,732,161	20.30%	$2,552,545	18.87%
Repairs & Maint.	$541,156	3.93%	$518,421	3.85%	$653,747	4.83%
Miscellaneous	$3,274,264	23.79%	$3,220,774	23.94%	$3,198,024	23.65%
Depreciation	$2,815,594	20.46%	$2,861,907	21.27%	$2,560,738	18.96%
Total	$13,761,589	100%	$13,455,795	100%	$13,520,292	100%





CONDENSED SCHEDULE OF APPROPRIATIONS COMPARED TO AMENDED BUDGET– Total Revenues for 2012 totaled $15,013,746 compared to Budgeted Revenues of $14,725,546. Revenues include all revenues, except connection fee revenues. Actual revenues were slightly higher than budgeted revenues. This increase compared to budget resulted primarily from the recognition of higher user fees than anticipated. Expenses from Administration and Operations for 2012 totaled $10,945,995 compared to budgeted expenses of $11,740,940. Actual expenses for 2012 were $794,945 lower than the projected expenditures. Some of the larger fluctuations fell in the categories of salaries expense, employee benefits expense, electricity expense and street openings expense. Contributing to lower than anticipated salaries expense was the failure to fill vacant positions that were included in the 2012 budget. Health benefits costs recognized during the year were also lower than the projected budget. Electricity costs were lower than anticipated due to the contract awarded to a Third Party Electric Supplier in 2012 which yielded a lower price per kwh than expected. Street openings expense was also lower than projected due to less severe winter weather than anticipated.



MANAGEMENT'S ANALYSIS OF 2012 CAPITAL ASSETS & LONG TERM DEBT ACTIVITY:

Capital assets increased approximately $1,039,376 during 2012. Property and equipment in service increased by $5,501,403 in 2012. Impacting this increase were the 2012 additions and the transfer of assets from construction in progress. The Cradle Replacement Project which was funded by way of ARRA Funds in 2009 was placed in service in 2012. Currently, the major component of construction in progress is the Aquifer Storage and Recovery Wellhouse Project.

CAPITAL ASSETS

	2012	2011	2010
Treatment and Distribution	$88,853,085	$83,494,499	$82,167,661
Land and Improvements	1,811,009	1,811,009	1,811,009
Vehicles & Equipment	4,781,791	4,645,075	4,540,252
Office Building	3,877,030	3,877,030	3,877,030
Furniture and Fixtures	449,438	443,337	442,836
Construction in Progress	2,185,439	6,647,466	4,279,139
Total	$101,957,792	$100,918,416	$97,117,927

Long-term Debt. At the end of the current fiscal year, the Authority had total bonded debt outstanding of $23,225,329.

	2012	**2011**	**2010**
Revenue Bonds	$15,180,000	$14,805,000	$16,495,000
New Jersey EIT Loans	$8,045,329	$8,564,117	$9,372,477

OTHER SELECTED INFORMATION:

Selected Data for Analysis	**2012**	**2011**	**Change Amount**	**Change %**
Employees at Year End	83	86	(3)	(3.5%)
Number of Customers Year End	8,288	8,457	(169)	(2.0%)
Water Pumped (millions of gallons)	4,688	4,739	(51)	(1.1%)
Revenues per 1,000 gallons pumped	3.1	3.0	.1	N/A
Expenses per 1,000 gallons pumped:				
Expenses Excluding Depreciation	2.3	2.2	.1	N/A
Total Operating Expenses	2.9	2.8	.1	N/A

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

ACMUA Customer Base

Increases in water usage in Atlantic City continued into the early 1990's, but then water demand slowed as the Authority's leak detection and control program yielded results and the City's population began to decrease. A significant decline in residential accounts has been recognized over the last ten years. However, the loss of significant additional accounts through demolition is not anticipated to continue. In fact, many housing and casino projects throughout town have been completed. Since the opening of the Borgata in 2003, usage has remained steady with a balance of new projects and demolition or renovation of other facilities, such as the closing of the Sands and the opening of The Walk.

Somewhat recent additions to our water system include: the Harrah's expansion opened in March 2008. The Borgata Tower expansion opened June 2008. A segment of the Taj Mahal Tower expansion opened September 2008. In addition, Revel Entertainment a mega casino including two hotel towers opened in May 2012. A substantial increase in billable water consumption was recognized in 2012 due to the opening of the new casino and hotel towers.

New Jersey American Water Company (NJAWC) has been a major customer of the ACMUA since 2001. At present, the ACMUA 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.

ACMUA Rates

Effective January 1, 2010, the ACMUA increased the flat and excess rates by approximately 9.5%. This increase raised the average residential bill by approximately $16.00 per year. An additional rate increase was approved and incorporated into rates effective January 1, 2011. In 2011, the MUA's net increase in rates was 2%. It was applied as a 5% increase in base charges to all rate classes and no increase in the excess charge. The increase raised the average residential bill by approximately $5.20 per year. In 2012, the MUA's net increase in rates was 5%. The increase was applied as a 6% increase in the base rate and a 3.5% increase in the excess rate. This increase raised the average residential bill by approximately $11.00 per 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 2.0 % increase in the excess rate. This increase raised the average residential bill by approximately $5.84 per year. The connection fee is recalculated each year as required by State Law. For 2013, the connection fee was increased to $11.6516 per gallon.

Legislation with potential impact to the ACMUA

There are two (2) major pieces of legislation that have been working their way through the legislature for several years that would have a major financial impact upon the ACMUA.

The first piece of legislation is a State Water Tax. This tax was previously slated at four cents (4¢) per thousand gallons of water sold by the ACMUA. However, the proposed legislation has been modified from four cents per thousand to forty cents per thousand. This is a pass through tax and will appear on all utility bills. Although this will not affect the ACMUA's financial situation directly, it will increase the water bills to the MUA's users and thus, will have an impact on the public perception of this utility.

The second is a series of legislative initiatives to eliminate fire service fees. During the past several years, fire service fees have been prohibited to health care facilities, and most recently, to small residential properties. The MUA raises approximately half a million dollars every year from fire service fees. It is anticipated that the legislature may continue to prohibit these types of fees, and thus, the MUA will either search for alternate sources of revenues or be forced to raise its rates to compensate.

All relevant factors mentioned above were considered in preparing the Authority's budget for the 2012 fiscal year.

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, and PO BOX 117,ATLANTIC CITY, NJ 08404-0117. The telephone number is 609-345-3315. The ACMUA Administration offices are located at 401 N. Virginia Avenue, Atlantic City, NJ.

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BASIC FINANCIAL STATEMENTS

EXHIBIT A

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
COMPARATIVE STATEMENT OF NET POSITION

ASSETS

	DECEMBER 31, 2012	DECEMBER 31, 2011
Current assets:		
Cash	$ 4,928,649	$ 4,069,704
Investments	1,321,661	3,500,195
Accounts receivable	1,009,475	887,930
Other current assets	11,951	-
Inventories	459,720	332,522
Accrued interest receivable	126,086	84,674
Prepaid expenses	43,395	40,309
Total current assets	7,900,937	8,915,334
Restricted assets:		
Investments	8,066,356	4,330,284
Receivable - NJ EIT	997,833	1,295,747
Total restricted assets	9,064,189	5,626,031
Capital assets:		
Land and improvements	1,811,009	1,811,009
Construction in progress	2,185,439	6,647,466
Depreciable capital assets, net of depreciation	49,412,967	46,682,466
Total captial assets	53,409,415	55,140,941
Total assets	$ 70,374,541	$ 69,682,306

See accompanying notes to financial statements

EXHIBIT A

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
COMPARATIVE STATEMENT OF NET POSITION

LIABILITIES AND NET ASSETS

	DECEMBER 31,	
	2012	2011
Current liabilities:		
Accounts payable	$ 611,558	$ 636,605
Accrued payroll and taxes	27,299	29,221
Other current liabilities	673	7
Deferred income	369,944	349,265
Prepaid user charges	86,740	65,823
Total current liabilities	1,096,214	1,080,921
Current liabilities payable from restricted assets		
Accrued interest payable	98,939	122,210
Revenue bonds payable	2,408,829	2,288,788
Total current liabilities payable from restricted assets	2,507,768	2,410,998
Long term liabilities:		
Compensated absences	663,905	699,093
Revenue bonds (net of unamortized discounts)	20,295,549	20,446,738
Total long term liabilities	20,959,454	21,145,831
Total liabilities	24,563,436	24,637,750
Net Position		
Investment in capital assets, net of related debt	31,603,931	33,578,952
Restricted for capital activity and debt service	8,066,356	5,626,031
Unrestricted	6,140,818	5,839,573
Total net position	$ 45,811,105	$ 45,044,556

See accompanying notes to financial statements

EXHIBIT B

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
COMPARATIVE STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED

	DECEMBER 31, 2012	DECEMBER 31, 2011
Operating revenues:		
User Charges	$ 14,831,950	$ 13,942,762
Rental Income	10,000	10,000
Miscellaneous	88,976	72,332
Total operating revenues	14,930,926	14,025,094
Operating expenses :		
Administrative and General	2,773,403	2,752,307
Cost of Providing Services	8,172,592	7,841,581
Depreciation	2,815,594	2,861,907
Total operating expenses	13,761,589	13,455,795
Operating income	1,169,337	569,299
Non-operating revenue (expense):		
Investment Income	82,820	122,960
Connection Fees	265,782	355,830
NJ EIT Grant		867,892
Contributed Capital	9,650	41,249
Gain on Disposal of Assets	9,828	4,162
Net change in fair value of investments	(5,035)	20,270
Amortization of bond discount	(57,153)	(60,389)
Bond and Note Interest	(708,680)	(785,828)
Total non-operating expense	(402,788)	566,146
Increase in net position	766,549	1,135,445
Net position at beginning of year	45,044,556	43,909,111
Net position at end of year	$ 45,811,105	$ 45,044,556

See accompanying notes to financial statements

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED

	DECEMBER 31, 2012	DECEMBER 31, 2011
Cash flows from operating activities:		
Cash received from customers	$ 14,752,001	$ 14,075,777
Cash received from others	98,976	82,332
Cash paid to employees	(4,542,573)	(4,587,726)
Cash paid to suppliers	(6,607,148)	(6,268,314)
Net cash provided by operating activities	3,701,256	3,302,069
Cash flows from investing activities:		
Investment Income	41,408	81,420
Transferred (to) investments	(1,557,538)	(1,168,060)
Net cash provided by investing activities	(1,516,130)	(1,086,640)
Cash flows from capital and related financing activities:		
Purchase of property plant and equipment	(1,201,616)	(3,853,721)
Sale of Property, Plant and Equipment		4,162
Bond Proceeds	7,030,000	
Deposit to escrow for refunding	(4,528,042)	
NJEIT Receivable	280,379	2,032,984
Contribution for Construction		41,249
Cost of bond issue costs	(151,135)	-
Connection fees	265,782	355,830
Interest paid on debt	(731,951)	(779,680)
Principal paid on debt	(2,289,598)	(2,189,321)
Net cash provided by capital and related activities	(1,326,181)	(4,388,497)
Increase(decrease) in cash and cash equivalents	858,945	(2,173,068)
Cash and cash equivalents at beginning of year	4,069,704	6,242,772
Cash and cash equivalents at end of year	$ 4,928,649	$ 4,069,704
Reconciliation to balance sheet:		
Unrestricted Cash	4,928,649	4,069,704
Restricted Cash	-	-
	$ 4,928,649	$ 4,069,704
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income(Loss)	$ 1,169,337	$ 569,299
Adjustments:		
Depreciation	2,815,594	2,861,907
Change in Assets and Liabilities:		
(Increase)decrease in Accounts Receivable	(121,545)	100,704
(Increase) in Other Current Assets	(11,951)	-
(Increase) decrease in Inventory	(127,198)	27,822
(Increase) in Prepaid Expenses	(3,086)	(11,333)
Increase(decrease) in Accounts Payable	(25,047)	10,518
(Decrease) in Accrued Payroll Taxes	(1,922)	(208,825)
Increase in Other Current Liabilities	666	7
Increase) in Deferred Income	20,679	32,968
Increase (decrease) in Prepaid User Charges	20,917	(657)
(Decrease) in Compensated Absences	(35,188)	(80,341)
Net cash provided by operating activities	$ 3,701,256	$ 3,302,069

See accompanying notes to financial statements

Note 1. 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.

The Authority, as a component unit of the City of Atlantic City, is financially accountable to the City. As set forth in Government Accounting Standards Board (GASB) 14, financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. 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 principal generally accepted in the United States of America, these financial statements would be includable with the City's on a blended basis.

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

Note 2. Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies:

Basis of Financial Statements

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

The Authority has adopted GASB No. 1 through 66 and related interpretations issued through December 31, 2012. Statement 34 and subsequent Statements and Interpretations required certain changes in terminology, format and content, as well as inclusion of the management's discussion and analysis supplementary information.

The Authority has implemented GASB 62. As result of the implementation the prior year was restated to agree to the presentation requirements of GASB 62. This implementation had no effect on net position of the Authority.

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

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

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 operating budget adopted annually 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 accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

Risks of Loss

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

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.

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 required to have a maturity date not more than 397 days from the date of purchase.

Inventory

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 $459,720 and $332,522 at December 31, 2012 and 2011, respectively. The inventory is presented using the LIFO method.

Restricted Assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions, grant awards, 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 net assets:

	12/31/2012	12/31/2011
Debt Service Fund	$ 3,016,910	3,012,688
Debt Service Reserve Fund	2,355,931	2,463,343
Capital Projects Fund	2,543,515	-
Improvement Fund	150,000	150,000
	$ 8,066,356	5,626,031

Funds

In accordance with the provisions of the Bond Resolution authorizing the issuance of the Revenue Bonds, revenues and expenditures 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 Sinking Fund
2) Debt Service Reserve Fund
3) Renewal and Replacement
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 issue is as follows:

$3,016,910

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 as follows:

$ 2,355,931

Bond Redemption & 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.

Allowance for Uncollectible Accounts Receivable

The allowance for uncollectible accounts receivable is 75% of the municipal liens.

Municipal Liens	$	383,920
		x 75%
	$	291,960

Municipal Liens can be foreclosed by the City of Atlantic City. If the liens are foreclosed the Authority will not receive any funds.

Plant and Equipment

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 determined on a straight-line basis for all plant and equipment. Depreciation expense for 2012 and 2011 was $2,815,594 and $2,861,910, respectively. Depreciation is provided over the following estimated useful lives:

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

Revenues and Rate Structure

Revenues from water services are recognized on the accrual basis as earned. 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.

Capital Contributions

Contributions are recognized in the Statement of Activities when earned. Contributions include capital grants, and other supplemental support by federal, state and local grants in support of system improvements.

Net Positions

Net positions comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net positions are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

Recent Accounting Pronouncements

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The purpose of the statement is to amend the criteria for reporting and including component units with the primary government. This statement, which is effective for fiscal periods beginning after June 15, 2012, is not anticipated to have any effect on the Authority's financial reporting.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The statement, which is effective for periods beginning after December 15, 2011, amends and supersedes several previously issued GASB statements to incorporate guidance that had been included in AICPA and FASB guidance. This statement has been implemented by the Authority.

Note 3. Investments

At year end, the Authority had the following investments and maturities:

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 - 5
Federated Treasury Obligations	$ 5,049,869	$ 5,049,869	
Certificates of Deposits	4,338,148	4,338,148	
	$ 9,388,017	$ 9,388,017	-

Certificates of Deposit. The Authority has a certificate of deposit from the Capital Bank of New Jersey in the amount of $828,400 that matured on 1/30/2013 and bears interest at a rate of .90% per annum, Capital Bank of New Jersey in the amount of $ 1,850,000 that will mature on 5/14/13 and bears interest at a rate of 2.25% per annum and Capital Bank of New Jersey in the amount of $154,211 that matured on 2/3/13 and bears interest at a rate of .90% per annum and Capital Bank of New Jersey in the amount of $505,538 that matured on 3/15/13 and bears interest at a rate of .90% per annum and Capital Bank of New Jersey in the amount of $1,000,000 that will mature on 8/16/13 and bears interest at a rate of .75% per annum. The certificate of deposit that matured on 1/30/2013, 2/3/13 and 3/15/13 were rolled over for another year.

Interest Rate Risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investment to 397 days.

Credit Risk. New Jersey Statutes 40A:5-15.1(a) limits Authority investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the authority or the local units in which the authority is located; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk. The authority places no limit on the amount the authority may invest in any one issuer.

Note 4. Cash

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government’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 Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-151(a) that are treated as cash equivalents. As of December 31, 2012 and 2011, $0 of the government’s bank balance of $5,108,370 and $4,309,527 respectively, was exposed to custodial credit risk.

Note 5. Long-term Obligations

Long-term debt as of December 31, 2012 consisted of the following:

$16,890,000 Revenue Refunding Bonds dated 3/26/02 payable in annual installments through 5/1/17. Interest is paid semi-annually at varying interest rates ranging from 4.00% to 4.625% per annum. The balance at December 31, 2012 was $0. This bond was refunded on 7/19/12. The loss on the defeasance was $151,116 and will be amortized over 6 years.

$1,510,000 Subordinated Water System Revenue Bonds, Series 2005A dated 11/10/05 payable in annual installments through 5/1/25. Interest is paid semi-annually at varying interest rates ranging from 4.00% to 5.00%. The balance at December 31, 2012 was $1,205,000. Total cost on these bonds was $168,301. This cost is being amortized over 20 years. The current year amortization was $8,437. The unamortized amount at 12/31/12 is $108,454. The premium on the bonds was $20,985. The current year amortization was $1,049. The unamortized amount at12/31/12 was $13,465.

$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, 2012 was $2,916,124.

$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 4.960%. The balance at December 31, 2012 was $535,000. Total cost on these bonds was $74,526. This cost is being amortized over 20 years. The current year amortization was $3,726. The unamortized amount at 12/31/12 is $51,630. The premium on the bonds was $13,865. The current year amortization was $693. The unamortized amount at12/31/12 was $9,590.

$1,389,065 Subordinated Water System Revenue Bonds, Series 2006B dated 11/9/06. During the current year the original amount issued, $1,789,103, was reduced by $309,038. The bonds bear no interest and the principal amount is due and payable on February 1 and August 1 each year, maturing on 8/1/26. The balance at December 31, 2012 was $1,013,473.

The Authority issued $8,830,000 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 refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statements of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $375,000. This advance refunding was undertaken to reduce total debt service payment 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 3.65% to 4.2%. The balance as of December 31, 2012 was $8,150,000. Total cost on these bonds was $357,581. This cost is being amortized over 21 years. The current year amortization was $17,309. The unamortized amount at 12/31/12 is $283,290. The premium on the bonds was $22,903. The current year amortization was $1,041. The unamortized amount at12/31/12 was $17,039.

The Authority issued $4,530,000 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 bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statements of net assets. $435,447 of Debt Service Reserve Funds were used to partially fund the transaction. This advance refunding was undertaken to reduce total debt service payment 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 1.294% to 3.00%. The balance as of December 31, 2012 was $4,530,000. Total cost of issuance on these bonds was $86,264. This cost is being amortized over 6 years. The current year amortization was $7,336. The unamortized amount at 12/31/12 is $78,927. The premium on the bonds was $93,282. The current year amortization was $7,933. The unamortized amount at12/31/12 was $85,349.

$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 2.125% to 4.00%. The balance at December 31, 2012 was $2,500,000. Total cost on these bonds was $55,896. This cost is being amortized over 9 years. The current year amortization was $2,577. The unamortized amount at 12/31/12 is $53,319. The premium on the bonds was $104,365. The current year amortization was $4,812. The unamortized amount at12/31/12 was $99,333.

$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, 2011 was $750,000. Total cost on these bonds was $67,956. This cost is being amortized over 20 years. The current year amortization was $3,398. The unamortized amount at 12/31/12 is $57,488. The premium on the bonds was $43,920. The current year amortization was $2,196. The unamortized amount at12/31/12 was $39,351.

$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, 2012 was $704,929.

$505,000 New Jersey Environmental Infrastructure Bonds, Series 2010A dated 3/10/10 payable in annual installments through 9/1/29. Interest is paid semi-annually at varying interest rates ranging from 3.00% to 5.00%. The balance at December 31, 2012 was $470,000. Total cost on these bonds was $50,280. This cost is being amortized over 20 years. The current year amortization was $2,514. The unamortized amount at 12/31/12 is $45,728. The premium on the bonds was $36,596. The current year amortization was $1,830. The unamortized amount at12/31/12 was $31,452.

$495,000 New Jersey Environmental Infrastructure Bonds, Series 2010B dated 3/10/11. 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, 2012 was $450,804.

Principal and interest requirements until maturity are as follows:

Year	Principal	Interest	Total
2013	2,408,829	608,081	3,016,910
2014	2,458,812	561,181	3,019,993
2015	1,814,251	513,281	2,327,532
2016	1,824,289	467,706	2,291,995
2017	1,819,359	416,381	2,235,740
2018-2022	6,494,001	1,515,947	8,009,948
2023-2027	4,804,819	699,056	5,503,875
2028-2029	1,600,969	65,475	1,666,444
	$ 23,225,329	4,847,108	28,072,437

	Balance 12/31/11	Increase/ Adjustment	Decreased/ Adjustment	Balance 12/31/12	Due within one year
Revenue bonds	$ 14,805,000	$ 2,500,000	$ 2,125,000	$ 15,180,000	$ 1,870,000
New Jersey EIT	8,564,117		518,788	8,045,329	538,829
Compensated Absences	699,093	491,563	526,749	663,907	
	$ 24,068,210	$ 2,991,563	$ 3,170,537	$ 23,889,236	$ 2,408,829
		Refunded	$ 355,000		
		Payment	1,770,000		
			$ 2,125,000		

Note 6. Arbitrage

Periodic arbitrage calculations have been made for the various bond issues and the Authority has concluded that no reserve is necessary at December 31, 2012. Reserves will be established if future calculations warrant a revision. Future reserves will be established from the earnings on bond proceeds, as a reserve for the possible payment of arbitrage earnings to the Internal Revenue Service.

Note 7. Pension Plan

Description of Plans

Substantially all of the Authority's employees are covered by the Public Employees' Retirement System cost-sharing multiple-employer defined benefit pension plan which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or the report can be accessed on the internet at –
http://www.state.nj.us/treasury/pensions/annrpts.shtml

Public Employees' Retirement System

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees of the State or any county, municipality, school Authority or public agency provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction.

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 6.5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS. The current PERS rate is 6.57% of covered payroll. The Authority's contributions to PERS for the years ending December 31, 2012, 2011 and 2010 were $461,925, $448,266 and $338,793 respectively, equal to the required contributions for each year.

Note 8. Property, Plant & Equipment

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
Nondepreciable Capital Assets				
Land and Improvements	$ 1,811,009			$ 1,811,009
Construction in Progress	6,647,466	445,375	4,907,402	2,185,439
Total Nondepreciable Capital Assets	8,458,475	445,375	4,907,402	3,996,448
Depreciable Capital Assets				
Treatment and Distributon Facilities	83,494,499	578,381	(4,780,204)	88,853,084
Equipment and Vehicles	4,645,075	181,408	44,691	4,781,792
Office Building	3,877,030			3,877,030
Furniture and Fixtures	443,336	6,102		449,438
Total Depreciable Capital Assets	92,459,940	765,891	(4,735,513)	97,961,344
Less: Accumulated Depreciation	(45,777,474)	(2,815,594)	(44,691)	(48,548,377)
Net Depreciable Capital Assets	46,682,466	(2,049,703)	(4,780,204)	49,412,967
Total Capital Assets, net	$ 55,140,941	(1,604,328)	127,198	53,409,415

Note 9: 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 adverse effect on the financial statement or operations of the Authority.

Note 10. Risk Management

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

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.

Note 11: Compensated Absences

The Authority has permitted employees to accrue unused vacation and sick time. The monetary value of these earned and unused employee benefits has been accrued by charges to operations. The total accrued value at December 31, 2012 and 2011 was $663,907 and $699,093.

Note 12. Net Assets and Contributed Capital

Net assets represent the difference between assets and liabilities. The restricted net assets amounts are as follows;

	December 31, 2012	December 31, 2011
Invested in Capital Assets, Net of related Liabilities		
Net plant and equipment in service	$ 53,409,415	$ 55,140,941
Debt	(23,225,329)	(23,369,118)
Bond issue costs	520,951	633,591
Grants Receivable	997,833	1,295,748
Accrued interest payable	(98,939)	(122,210)
	31,603,931	33,578,952
Restricted for Capital Activity and Debt Service		
Restricted investments	8,066,356	5,626,031
	8,066,356	5,626,031
Unrestricted	6,140,818	5,839,573
Total net assets	$ 45,811,105	$ 45,044,556

Note 13. 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 Generally Accepted Accounting Principles.

Note 14. Deferred Income

Deferred income consists of the following:

	2012	2011
Advance billings	$369,944	$349,265

Note 15. 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/pesnion/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 been employed by the Authority for 10 years. During 2012, 2011 and 2010 the Authority paid the SHBP $1,811,380, $1,620,051 and $1,482,581 respectively for health care of employees and retirees. The amount paid for retirees was $488,600, $442,431 and $353,655 respectively.

Note 16. Subsequent Event

The Authority has evaluated subsequent events through March 22, 2013, the date which the financial statements were available to be issued and no items were noted for disclosure.

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SUPPLEMENTARY INFORMATION

SCHEDULE 1

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
SCHEDULE OF CHANGES IN REQUIRED FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General fund	Debt service fund	Debt service reserve fund	Improvement fund	Construction fund	Investment in capital assets	Totals 2012	Totals 2011
Operating Revenues:								
User Charges	$ 14,831,950	$	$	$	$	$	$ 14,831,950	$ 13,942,762
Rental Income	10,000						10,000	10,000
Miscellaneous	88,976						88,976	72,332
Total Operating Revenues	14,930,926						14,930,926	14,025,094
Operating Expenses								
Administrative and General	2,773,403						2,773,403	2,752,307
Cost of Providing Services	8,172,592						8,172,592	7,841,581
Depreciation						2,815,594	2,815,594	2,861,907
Total Operating Expenses	10,945,995					2,815,594	13,761,589	13,455,795
Operating Income	3,984,931					(2,815,594)	1,169,337	569,299
Non-Operating Revenues (Expenses)								
Investment Income	82,820						82,820	122,960
Connection Fees	265,782						265,782	355,830
NJ EIT Grant	-						-	867,892
Contributed Capital	9,650						9,650	41,249
Net change in fair value of investments	(5,035)						(5,035)	20,270
Gain on Disposal of Assets	9,828						9,828	4,162
Bond Interest	(708,680)						(708,680)	(785,828)
Bond Payments	(2,289,598)					2,289,598	-	-
Amortization of Bond Costs						(57,153)	(57,153)	(60,389)
	(2,635,233)	-	-	-	-	2,232,445	(402,788)	566,146
Net Income (Loss) Before Transfers	1,349,698	-	-	-	-	(583,149)	766,549	1,135,445
Transfers Between Funds:								
Restricted Funds	(1,048,453)	4,222	(107,412)		2,543,515	(1,391,872)	-	-
Net increase (Decrease) in Fund Balance	301,245	4,222	(107,412)	-	2,543,515	(1,975,021)	766,549	1,135,445
Fund Equity January 1	5,839,573	3,012,688	2,463,343	150,000	-	33,578,952	45,044,556	43,909,111
Fund Equity December 31	$ 6,140,818	$ 3,016,910	$ 2,355,931	$ 150,000	$ 2,543,515	$ 31,603,931	$ 45,811,105	$ 45,044,556
<u>Ending Net Assets consists of:</u>								
Reserved Net Assets		3,016,910	2,355,931	150,000	2,543,515		8,066,356	5,626,031
Unreserved Net Assets	(1,128,819)						(1,128,819)	(1,430,064)
Designated by Board	7,269,637						7,269,637	7,269,637
Investment in Fixed Capital						31,603,931	31,603,931	33,578,952
Total Fund Equity December 31	$ 6,140,818	$ 3,016,910	$ 2,355,931	$ 150,000	$ 2,543,515	$ 31,603,931	$ 45,811,105	$ 45,044,556

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 BUDGET	2012 ACTUAL	UNEXPENDED BALANCE OR (EXCESS)	2011 ACTUAL
Revenues:				
User Charges and Fees	$ 14,551,284	$ 14,831,950	$ (280,666)	$ 13,942,762
Rental Income	10,000	10,000	-	10,000
Interest	81,217	82,820	(1,603)	122,960
Miscellaneous Income	83,045	88,976	(5,931)	72,332
	$ 14,725,546	$ 15,013,746	$ (288,200)	$ 14,148,054
Expenses:				
Administration:				
Personnel Expenses:				
Salaries - Regular	$ 994,562	$ 941,812	$ 52,750	$ 954,560
Salaries - Overtime	2,000	364	1,636	662
Board Salaries	30,000	29,886	114	29,886
Total Personnel Expenses	1,026,562	972,062	54,500	985,108
Employee Benefits				
PERS	97,463	96,494	969	94,136
Social Security	78,532	72,434	6,098	71,348
Unemployment	7,438	7,400	38	7,422
Health Benefits	479,698	474,954	4,744	432,233
Total Employee Benefits	663,131	651,282	11,849	605,139
Operating Expenses:				
Administration:				
Postage	27,000	24,073	2,927	23,377
Office Supplies	13,000	11,434	1,566	9,576
Printing and Binding	10,000	5,757	4,243	8,725
Janitorial Supplies	3,500	1,999	1,501	2,162
Other	5,500	1,414	4,086	5,700
Telephone	23,000	22,344	656	24,162
Electric	42,235	39,334	2,901	43,975
Sewerage	3,000	1,516	1,484	1,566
Gas	16,000	17,027	(1,027)	16,708
Furniture and Equipment Rentals	500		500	
Other Rentals	1,000	385.00	615	
Travel	4,000	3,993	7	2,940
Training	5,000	3,938	1,062	6,896
Data Processing	15,000	12,766	2,234	12,668
Janitorial Services	22,000	17,770	4,230	16,111
Outside Services	7,000	6,817	183	5,662
Accounting and Auditing	33,000	32,000	1,000	32,000
Legal	114,000	94,853	19,147	114,321
Other Professional Services	85,486	44,218	41,268	43,621
Total Operating Expenses	430,221	341,638	88,583	370,170

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 BUDGET	2012 ACTUAL	UNEXPENDED BALANCE OR (EXCESS)	2011 ACTUAL
Repair and Maintenance:				
Motor Vehicles	$ 1,500	$ 307	$ 1,193	$ 477
Buildings and Grounds	10,000	4,930	5,070	3,027
Machinery and Equipment	12,000	7,419	4,581	9,171
Miscellaneous Repairs	1,000	470	530	116
Total Repair and Maintenance	24,500	13,126	11,374	12,791
Miscellaneous Expenses:				
Insurance Deductibles	5,000	3,996	1,004	0
Advertisement	3,500	1,199	2,301	1,219
Membership Dues	9,000	8,501	499	7,928
Books and Peridicals	3,500	3,190	310	940
Computer Equipment Maintenance	30,000	27,047	2,953	24,965
Software License Fee	3,000	2,263	737	2,314
Administrative Fees	60,000	56,867	3,133	51,652
Municipal Approriation	668,082	668,082	-	657,935
Miscellaneous Expenses	28,000	24,150	3,850	32,146
Total Miscellaneous Expenses	810,082	795,295	14,787	779,099
Total Administrative Expenses	2,954,496	2,773,403	181,093	2,752,307
Expenses:				
Operating:				
Personnel Expenses:				
Salaries - Regular	3,252,156	3,100,130	152,026	2,980,970
Salaries - Overtime	184,616	144,331	40,285	156,454
Total Personnel Expenses	3,436,772	3,244,461	192,311	3,137,424
Employee Benefits:				
Pension	380,648	365,431	15,217	354,130
Social Security	268,612	249,841	18,771	245,825
Unemployment	27,293	26,228	1,065	26,319
Workers' Compensation	182,000	177,685	4,315	208,095
Health Benefits	1,478,964	1,443,585	35,379	1,292,653
Total Employee Benefits	2,337,517	2,262,770	74,747	2,127,022
Office Supplies:				
Postage	1,100	262	838	79
Office Supplies	6,700	5,466	1,234	5,061
Printing and Binding	1,000		1,000	(357)
Other Supplies	1,500	769	731	657
Total Office Supplies	10,300	6,497	3,803	5,440

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 **BUDGET**	2012 **ACTUAL**	UNEXPENDED BALANCE OR (EXCESS)	2011 ACTUAL
Plant Expenses:				
Chemicals and Gases	$ 370,000	$ 381,251	$ (11,251)	$ 344,183
Fuel Oil	33,000	30,917	2,083	15,530
Gasoline	68,000	63,065	4,935	63,363
Other	33,000	26,796	6,204	30,943
Total Plant Expenses	504,000	502,029	1,971	454,019
Utilities:				
Telephone	19,000	14,405	4,595	10,653
Electricity	927,792	850,887	76,905	898,551
Sewerage	1,755	1,229	526	1,188
Gas	7,000	4,439	2,561	5,535
Total Utilities	955,547	870,960	84,587	915,927
Rentals:				
Construction Equipment	8,200	7,886	314	3,700
Other Rentals	13,200	11,558	1,642	3,662
Total Rentals	21,400	19,444	1,956	7,362
Outside Services:				
General Insurance	318,000	311,487	6,513	296,264
Advertising	3,000	1,261	1,739	2,499
Laboratory	79,000	73,243	5,757	57,066
New Jersey DEP	38,000	32,621	5,379	33,685
Engineering Fees	10,000	5,373	4,627	4,850
Other Outside Services	193,797	162,199	31,598	160,243
Miscellaneous	3,500	3,057	443	3,313
Total Outside Services	645,297	589,241	56,056	557,920
Training, Travel & Education:				
Training	19,000	17,502	1,498	6,135
Employee Travel	6,000	2,753	3,247	3,552
Total Training, Travel & Education	25,000	20,255	4,745	9,687
Dues and Subscriptions:				
Dues	4,500	4,350	150	3,904
Books and Publications	3,300	162	3,138	162
Total Dues and Subscriptions	7,800	4,512	3,288	4,066

ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY
(A component unit of the City of Atlantic City)
SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 BUDGET	2012 ACTUAL	UNEXPENDED BALANCE OR (EXCESS)	2011 ACTUAL
Taxes:				
Real Estate Taxes	$ 92,180	$ 92,032	$ 148	$ 90,180
State Water Taxes	38,500	32,361	6,139	26,904
Total Taxes	130,680	124,393	6,287	117,084
Repairs and Maintenance:				
Electrical	31,500	8,935	22,565	11,267
Plumbing	35,750	25,297	10,453	16,460
Street Opening	358,900	241,919	116,981	260,697
Motor Vehicle	47,300	39,875	7,425	45,656
Building and Grounds	93,000	91,667	1,333	93,267
Machinery and Equipment	65,000	51,506	13,494	38,406
Clothing Allowance	14,000	9,761	4,239	14,644
Other Expenses	66,681	59,070	7,611	25,233
Total Repairs and Maintenance	712,131	528,030	184,101	505,630
Total Operations Expense	8,786,444	8,172,592	613,852	7,841,581
Total Administrative and Operations Expenses	11,740,940	10,945,995	794,945	10,593,888
Other Costs Funded by Revenues:				
Debt Service:				
Principal	2,288,788	2,289,598	(810)	2,189,321
Interest	723,900	708,680	15,220	785,828
	3,012,688	2,998,278	14,410	2,975,149
Total Costs Funded by Operating Revenues	$ 14,753,628	$ 13,944,273	$ 809,355	$ 13,569,037

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FORD - SCOTT
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Independent Auditor's Report

Members of the Board of Directors
Atlantic City Municipal Utilities Authority
Atlantic City, New Jersey

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 Atlantic City Municipal Utilities Authority, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 22, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ford Scott & Associates, LLC

Ford Scott & Associates, LLC

March 22, 2013

AUDIT FINDINGS AND RESPONSES

NONE

Status of Prior Year Findings and Questioned Costs
For the Year Ended December 31, 2011

NONE