

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY
YEARS ENDED DECEMBER 31, 2001 AND 2000

FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORTS

and

COMMENTS AND RECOMMENDATIONS

THE ATLANTIC COUNTY UTILITIES AUTHORITY
YEAR ENDED DECEMBER 31, 2001

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INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey

We have audited the separate financial statements of the Wastewater and Solid Waste Divisions (the "Divisions") of the Atlantic County Utilities Authority (the "Authority") as of December 31, 2001 and 2000 and for the years then ended, as listed in the foregoing Table of Contents. These financial statements are the responsibility of the Authority's management. 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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; the provisions of State OMB Circular 98-07, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid; and in compliance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2A, the Divisions' financial statements are presented separately for financial reporting purposes since the Divisions are separate and distinct for rate-making and operating purposes and the bond holders of each Division do not have any claims on the revenues or assets of the other Division. Accordingly, the accompanying financial statements are not intended to present the combined financial position, results of operations and changes in retained earnings/(deficit) and cash flows of the Authority taken as a whole.

Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey
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As further discussed in Notes 9 and 12 to the accompanying financial statements, the Authority is involved in various legal matters incidental to its business. Although the Authority is vigorously defending these actions and management believes that its position in each of these matters has substantial merit, the amounts in controversy in several actions are significant, and an adverse monetary judgment in one or more of these cases therefore has the potential to materially and adversely affect the financial position of the Authority's Solid Waste Division.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Atlantic County Utilities Authority as of December 31, 2001 and 2000, and the results of operations of such funds for the years then ended, in accordance with accounting principles and practices described in Note 2A.

In accordance with Government Auditing Standards, we have also issued our report dated April 5, 2002 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying information listed as supplemental information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements, but is presented as additional analytical data as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such information has been subjected to tests and other auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each Division taken as a whole.

Hutchins, Farrell, Meyer & Allison, P.A.

Hutchins, Farrell, Meyer & Allison, P.A.

April 5, 2002
(Except as to Notes 9 and 13, which are as of May 6, 2002)

FINANCIAL STATEMENTS

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

COMPARATIVE BALANCE SHEET

December 31, 2001 and 2000

	2001	2000	Liabilities, Reserves and Fund Equity	2001	2000
Assets					
Unrestricted Assets:			Current Liabilities Payable From		
Cash and Cash Equivalents	\$ 8,866,427	\$ 2,780,871	Unrestricted Assets:	\$ 954,258	\$ 1,261,724
Investments (Note 10)		5,930,589	Accounts Payable - Operations	78,823	79,605
Accrued Interest Receivable	54,030	73,858	Deferred Revenue	621,571	644,362
Accounts Receivable	709,590	965,706	Due To Solid Waste Division		
Total Unrestricted Assets	<u>9,630,047</u>	<u>9,751,024</u>	Total Current Liabilities Payable From	<u>1,654,652</u>	<u>1,985,691</u>
			Unrestricted Assets		
Restricted Assets:			Current Liabilities Payable From		
Cash and Cash Equivalents	13,134,955		Restricted Assets:	75,615	1,220,361
Investments (Note 10)	1,487,271	14,980,548	Construction Contracts Payable	3,978,286	3,794,396
Accrued Interest Receivable	1,164	6,625	Current Maturities of Long-Term Debt (Note 5)	1,902,380	1,673,557
Loans Receivable	3,747,247	4,571,243	Accrued Interest		
Total Restricted Assets	<u>18,370,637</u>	<u>19,558,416</u>	Total Current Liabilities Payable From	<u>5,956,281</u>	<u>6,688,314</u>
			Restricted Assets		
			Long-Term Portion of Bonds Payable (Note 5)		
			(Net of Unamortized Bond Premium and Discount of		
			\$1,189,406 and \$1,274,363 in 2001 and 2000,	71,945,086	74,035,786
			respectively)		
			Deferred Revenue	1,404,000	1,482,041
			Total Liabilities	<u>80,960,019</u>	<u>84,191,832</u>
			Fund Equity:		
Property, Plant and Equipment (Note 4)	197,201,072	194,788,163	Contributed Capital	111,961,686	111,961,686
Less: Accumulated Depreciation	<u>(88,178,797)</u>	<u>(81,984,789)</u>	Less: Accumulated Depreciation	<u>(66,949,393)</u>	<u>(64,162,966)</u>
Net Property, Plant and Equipment	<u>109,022,275</u>	<u>112,803,374</u>	Net Contributed Capital	<u>45,012,293</u>	<u>47,798,720</u>
			Retained Earnings:		
			Reserved For:		
			Renewal and Replacement	3,800,000	3,800,000
			Debt Service Fund	4,782,755	4,722,040
			Debt Service Reserve Fund	7,456,626	2,398,605
			Unreserved:		
			Deficit	<u>(1,427,531)</u>	<u>3,017,190</u>
Other Assets:			Total Retained Earnings	<u>14,611,850</u>	<u>13,937,835</u>
Unamortized Costs	3,561,203	3,815,573	Total Fund Equity	<u>59,624,143</u>	<u>61,736,555</u>
Total Other Assets	<u>3,561,203</u>	<u>3,815,573</u>	Total Liabilities, Reserves and Fund Equity	<u>\$ 140,584,162</u>	<u>\$ 145,928,387</u>
Total Assets	<u>\$ 140,584,162</u>	<u>\$ 145,928,387</u>			

See notes to financial statements

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating Revenues:		
User Service Agreements:		
Operating	\$ 10,126,518	\$ 10,263,187
General	7,291,900	7,295,429
Sludge	1,075,635	1,100,281
Septic and Leachate	397,823	423,321
Other	523,080	577,162
	<hr/>	<hr/>
Total Operating Revenues	19,414,956	19,659,380
	<hr/>	<hr/>
Operating Expenses:		
Salaries	5,051,468	5,055,591
Employee Benefits	1,354,426	1,823,655
Power and Utilities	1,799,506	1,968,274
Chemicals	506,794	414,479
Fuel	1,218,285	640,529
Supplies and Miscellaneous Maintenance	1,415,618	1,029,254
Contractual Services	291,157	229,066
Indirect Operating	77,764	123,270
Administrative	467,457	693,573
Licenses and Permits	119,963	154,468
	<hr/>	<hr/>
Total Operating Expenses	12,302,438	12,132,159
	<hr/>	<hr/>
Depreciation	6,194,010	4,091,481
	<hr/>	<hr/>
Total Operating Expenses	18,496,448	16,223,640
	<hr/>	<hr/>
Operating Income	918,508	3,435,740
	<hr/>	<hr/>
Non-Operating Revenues/(Expenses):		
Interest Expense	(3,518,994)	(3,419,323)
Interest Income	767,219	1,155,111
Amortization of Bond Issue Costs	(254,370)	(254,370)
	<hr/>	<hr/>
Total Non-Operating Expenses	(3,006,145)	(2,518,582)
	<hr/>	<hr/>
Net Income/(Loss) Before Transfer of Depreciation on Assets Purchased With Contributed Capital	(2,087,637)	917,158
Unrealized Gain/(Loss) on Investment	(24,775)	291,796
Transfer of Depreciation To Contributed Capital	2,786,427	810,447
	<hr/>	<hr/>
Net Income	674,015	2,019,401
	<hr/>	<hr/>
Retained Earnings, January 1	13,937,835	11,918,434
	<hr/>	<hr/>
Retained Earnings, December 31	14,611,850	13,937,835
	<hr/>	<hr/>
Contributed Capital - Net, January 1	47,798,720	48,609,167
	<hr/>	<hr/>
Transfer of Depreciation From Operations To Contributed Capital	(2,786,427)	(810,447)
	<hr/>	<hr/>
Contributed Capital - Net, December 31	45,012,293	47,798,720
	<hr/>	<hr/>
Fund Equity, December 31	\$ 59,624,143	\$ 61,736,555

See notes to financial statements

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

COMPARATIVE STATEMENT OF CASH FLOWS

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash Flows From Operating Activities:		
Operating Income	\$ 674,015	\$ 2,019,401
Adjustments To Reconcile Net Income To Net Cash		
Provided By Operating Activities:		
Depreciation	3,407,581	3,281,034
Amortization	254,370	254,370
Unrealized (Gain)/Loss on Investments	24,775	(291,796)
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	281,405	(484,757)
Increase/(Decrease) Due To Solid Waste Division	(22,791)	24,346
Decrease in Accounts Payable - Operations	(307,466)	(575,916)
Increase in Accrued Interest Payable	228,823	
(Decrease)/Increase in Construction Contracts Payable	(1,144,746)	1,220,361
Decrease in Deferred Revenue	(78,823)	(79,604)
	<u>2,643,128</u>	<u>3,348,038</u>
Total Adjustments To Operating Income		
	<u>3,317,143</u>	<u>5,367,439</u>
Net Cash Provided By Operating Activities		
Cash Flows From Capital and Related Financing Activities:		
Property, Plant and Equipment Additions	(2,412,909)	(3,357,941)
Proceeds From Wastewater Trust Financing	1,972,543	
Repayment of Bonds	(3,879,353)	(3,752,785)
Proceeds From Wastewater Trust	823,996	2,492,888
	<u>(3,495,723)</u>	<u>(4,617,838)</u>
Net Cash Used By Financing Activities		
Cash Flows From Investing Activities:		
Decrease/(Increase) in Investments	19,399,091	(325,756)
	<u>19,399,091</u>	<u>(325,756)</u>
Net Increase in Cash and Cash Equivalents	19,220,511	423,845
Cash and Cash Equivalents at Beginning of Year	<u>2,780,871</u>	<u>2,357,026</u>
Cash and Cash Equivalents at End of Year	<u>\$ 22,001,382</u>	<u>\$ 2,780,871</u>

See notes to financial statements

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

COMPARATIVE BALANCE SHEET

December 31, 2001 and 2000

<u>Assets</u>	<u>2001</u>	<u>2000</u>	<u>Liabilities, Reserves and Fund Equity</u>
Unrestricted Assets:			
Cash and Cash Equivalents	\$ 6,680,841	\$ 100,971	Current Liabilities Payable From Unrestricted Assets:
Investments (Note 10)	13,457	6,819,502	Accounts Payable - Operations
Accrued Interest Receivable	3,370,085	154,907	Customer Deposits
Accounts Receivable (Net of Allowance \$12,298,496, 2001)	382,163	16,662,775	Deferred Revenue
Other Accounts Receivable	621,571	15,953	
Due From Wastewater Division		644,362	Total Current Liabilities Payable From Unrestricted Assets
Prepaid Expense		24,575	<u>1,306,880</u>
Total Unrestricted Assets	<u>11,068,117</u>	<u>24,423,045</u>	
Restricted Assets:			Current Liabilities Payable From Restricted Assets:
Cash and Cash Equivalents	11,651,364	11,267,837	Bonds Payable - Current Portion
Investments (Note 10)	1,522,064	10,985	Construction Contracts Payable
Amounts Held by State of New Jersey	2,793		Accrued Interest Payable
Accrued Interest Receivable			
Total Restricted Assets	<u>13,176,221</u>	<u>11,278,822</u>	Total Current Liabilities Payable From Restricted Assets
			<u>5,358,203</u>
			Long-Term Portion of Bonds Payable (Note 5) (Net of Unamortized Premium and Discount of \$544,156 and \$610,948 in 2001 and 2000, respectively)
			<u>70,885,844</u>
Property, Plant and Equipment (Note 4)	79,083,083	75,062,752	Accrued Landfill Closure and Post-Closure Care Cost (Note 8)
Less: Accumulated Depreciation	<u>(32,361,326)</u>	<u>(29,112,695)</u>	<u>5,872,427</u>
Net Property, Plant and Equipment	<u>46,721,757</u>	<u>45,950,057</u>	Total Liabilities
			<u>83,423,354</u>
			Fund Equity:
			Contributed Capital
			Less: Accumulated Depreciation
			<u>22,319,722</u>
			<u>(1,277,500)</u>
			Net Contributed Capital
			<u>21,042,222</u>
Other Assets:			Reserved for:
Preoperating Costs			Debt Service Reserve
(Net of Accumulated Depreciation of \$6,449,773 and \$5,804,000 in 2001 and 2000, respectively)	3,409,728	4,055,501	<u>8,053,769</u>
Unamortized Bond Discount and Costs	<u>973,533</u>	<u>1,032,462</u>	Unreserved Deficit
Total Other Assets	<u>4,383,261</u>	<u>5,087,963</u>	<u>(37,169,989)</u>
Total Assets	<u>\$ 75,349,356</u>	<u>\$ 86,739,887</u>	Total Deficit
			<u>(29,116,220)</u>
			Total Fund Equity
			<u>(8,073,998)</u>
			Total Liabilities, Reserves and Fund Equity
			<u>\$ 86,739,887</u>

See notes to financial statements

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating Revenues:		
Tipping Fees	\$ 17,571,795	\$ 18,615,213
Collections and Recycling Income	5,909,628	5,962,443
Grant Income	68,258	134,047
Composting Income	667,466	609,279
Other	<u>1,206,905</u>	<u>756,697</u>
Total Operating Revenues	<u>25,424,052</u>	<u>26,077,679</u>
Operating Expenses:		
Salaries	5,854,876	5,481,761
Employee Benefits	1,752,651	1,899,079
Power And Utilities	447,813	466,445
Indirect Operating	3,208,446	2,929,335
Administrative	638,024	695,248
Community Benefit	1,688,808	1,310,951
Recycling and Other Taxes	537,969	378,879
Fuel	380,288	336,965
Supplies and Miscellaneous Maintenance	<u>1,388,146</u>	<u>1,263,361</u>
	15,897,021	14,762,024
Depreciation	<u>3,885,897</u>	<u>3,567,430</u>
Total Operating Expenses	<u>19,782,918</u>	<u>18,329,454</u>
Operating Income	<u>5,641,134</u>	<u>7,748,225</u>
Non-Operating Revenues/(Expenses):		
Interest Income	501,625	740,715
Interest Expense	(5,467,303)	(5,592,771)
Amortization Bond Issue Costs	<u>(58,929)</u>	<u>(58,928)</u>
Total Non-Operating Revenues Expenses	<u>(5,024,607)</u>	<u>(4,910,984)</u>
Net Income before Transfer of Depreciation on Assets Purchased with Contributed Capital	616,527	2,837,241
Transfer of Depreciation to Contributed Capital	<u>648,500</u>	<u>343,443</u>
Net Income	1,265,027	3,180,684
Deficit, January 1	(13,394,666)	(15,117,892)
Prior Period Adjustment to Fund Deficit (Note 13)	<u>(16,986,581)</u>	<u>(1,457,458)</u>
Deficit, December 31	<u>(29,116,220)</u>	<u>(13,394,666)</u>
Contributed Capital, Net, January 1	15,583,500	8,126,943
Additions	<u>6,107,222</u>	<u>7,800,000</u>
	21,690,722	15,926,943
Transfer of Depreciation from Operations to Contributed Capital	<u>(648,500)</u>	<u>(343,443)</u>
Contributed Capital, Net, December 31	<u>21,042,222</u>	<u>15,583,500</u>
Fund (Deficit)/Equity, December 31	<u>\$ (8,073,998)</u>	<u>\$ 2,188,834</u>

See notes to financial statements

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

COMPARATIVE STATEMENT OF CASH FLOWS

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash Flows From Operating Activities:		
Operating Income	\$ 1,265,027	\$ 3,180,684
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:		
Depreciation	3,237,397	3,223,987
Amortization of Bond Issuance Costs	58,929	58,928
Landfill Closure	978,611	1,140,778
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(1,910,386)	(2,599,300)
(Increase)/Decrease Due From Wastewater Division	22,791	(24,346)
(Increase)/Decrease in Interest Receivable	149,642	(15,690)
Increase/(Decrease) in Accounts Payable	229,569	(435,878)
Increase/(Decrease) in Customer Deposits	(15,238)	37,968
Decrease in Prepaid Expenses	24,575	
(Decrease) in Deferred Revenue	(36,666)	34,426
Total Adjustments To Operating Income	<u>2,739,224</u>	<u>1,420,873</u>
Net Cash Provided By Operating Activities	<u>4,004,251</u>	<u>4,601,557</u>
Cash Flows from Non-Capital Financing Activities:		
Repayment of EIC Payments	<u>(3,327,546)</u>	
Cash Flows From Capital and Related Financing Activities:		
Property, Plant and Equipment Additions	(4,011,824)	(3,114,847)
Notes Payable		(6,862,000)
Repayment of Bonds	(2,628,208)	(2,443,032)
State Contribution	<u>6,107,222</u>	<u>7,800,000</u>
Net Cash Used By Financing Activities	<u>(532,810)</u>	<u>(4,619,879)</u>
Cash Flows From Investing Activities:		
Decrease in Investments	<u>18,087,339</u>	<u>46,796</u>
Net Increase in Cash and Cash Equivalents	18,231,234	28,474
Cash and Cash Equivalents at Beginning of Year	<u>100,971</u>	<u>72,497</u>
Cash and Cash Equivalents at End of Year	<u>\$ 18,332,205</u>	<u>\$ 100,971</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. AUTHORITY DESCRIPTION AND GENERAL INFORMATION

GENERAL

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

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

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

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

In the opinion of management, revenues of the Solid Waste Division are adequate to cover all operating expenses, current capital costs, and a portion of the debt service on bonds issued by the Authority in 1992 for the Solid Waste Division's capital facilities ("1992 bonds"). The State of New Jersey has followed a policy to provide subsidies to fund any debt service shortfall for pre-deregulation Solid Waste debt, including the 1992 bonds.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of state and local governments. The Divisions' financial statements are presented separately for financial reporting purposes since the Divisions are separate and distinct for ratemaking and operating purposes. Accordingly, the accompanying financial statements are not intended to present the combined financial position, results of operations, changes in retained earnings/(deficit) and cash flows of the Authority taken as a whole.

The Authority's financial statements include the accounts of all Authority's operations. The Authority, as a component unit of the County of Atlantic, is financially accountable to the County. 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 be 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 County. However, if the County presented its financial statements in accordance with generally accepted accounting principles, these financial statements would be includable with the County's on a blended basis.

B. WASTEWATER SERVICE CONTRACT

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

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. WASTEWATER BOND RESOLUTIONS

The Sewer Revenue Refunding and Sewer Revenue Bonds were issued pursuant to a General Bond Resolution of the Authority. The General Bond Resolution, as supplemented, is hereinafter referred to as the "Resolution."

Pursuant to the terms of the Resolution, the Authority is required to maintain the following funds:

CONSTRUCTION FUND – All costs pertaining to the acquisition or construction of a designated project shall be paid from this Fund and capitalized herein. The proceeds from the sale of bonds and certain receipts are deposited herein to pay for all such construction costs. Interest earned on investments in this Fund is credited to project costs. At December 31, 2001 and 2000, the Construction Fund and Wastewater Trust Fund cash equivalents amounted to \$470,423 and \$1,009,919, respectively.

REBATE FUND – The balance in this Fund shall be maintained in an amount sufficient to make payments to the United States Treasury for investment earnings above levels permitted by Section 148(f) of The Internal Revenue Code of 1986, as amended. At December 31, 2001 and 2000, the Rebate Fund amounted to \$159,681 and \$153,261, respectively. No arbitrage rebate is owed to the U.S. Government at December 31, 2001 or 2000.

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

DEBT SERVICE FUND – The Debt Service Fund is to accumulate a balance sufficient to pay the interest and principal to become due at or before the January 15 next ensuing, plus any unpaid principal and interest then due. In addition, a sinking fund is included which shall equal the aggregate amount of all sinking fund installments required to redeem bonds on the next January 15 beginning in 2004 for the Sewer Revenue Refunding Bonds (see Note 6). At December 31, 2001 and 2000, the Debt Service Fund cash amounted to \$5,203,572 and \$5,063,508, respectively.

DEBT SERVICE RESERVE FUND (1991, 1994 and 1998 Series) – The balance in this Reserve Fund shall be maintained equal to the maximum amount of principal and interest payable in any one year on the Wastewater Revenue Bonds (1991, 1994 and 1998 Series) less any surety. At December 31, 2001 and 2000, the Debt Service Reserve Fund cash amounted to \$2,563,079 and \$2,893,782, respectively. The balance of the Debt Service Reserve Requirement is funded by a surety issued by Ambac Assurance Corporation.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. WASTEWATER BOND RESOLUTIONS (cont'd)

RENEWAL AND REPLACEMENT FUND – The balance in this Fund shall be maintained equal to 3% of gross revenues or such larger amount as determined by the Consulting Engineer. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. With the approval of the Consulting Engineer, this Fund may be used to meet reasonable and necessary expenses for major repairs, renewals, replacement, or maintenance items of a type not recurring annually. At December 31, 2001 and 2000, the Renewal and Replacement Fund cash amounted to \$5,958,449 and \$5,866,580, respectively. The System Reserve Fund, a component of the Renewal and Replacement Fund, cash requirement was \$3,800,000 as of December 31, 2001 and 2000.

D. SOLID WASTE BOND RESOLUTIONS

The Solid Waste System Revenue Bonds (Series 1992) were issued pursuant to a bond resolution of the Authority adopted on January 23, 1992 (“General Bond Resolution”). The General Bond Resolution, as supplemented, is hereinafter referred to as the “Resolution.”

Pursuant to the terms of the Resolution, the Authority is required to maintain the following Funds:

CONSTRUCTION FUND – All costs pertaining to the acquisition or construction of a designated project shall be paid from this Fund and capitalized herein. The proceeds from the sale of bonds and certain receipts are deposited herein to pay for all such construction costs. At December 31, 2001 and 2000, Restricted Cash and Investments included in this Fund amounted to \$0 and \$1,684,499, respectively.

REBATE FUND – The balance in this Reserve Fund shall be maintained in an amount equal to the rebatable arbitrage with respect to the 1992 bonds as set forth in the opinion of the financial consultant retained by the Authority. No balance was required in this Fund at December 31, 2001 and 2000.

REVENUE FUND – All cash receipts attributable to the operations, maintenance, and repair of the system are deposited in this Fund and are to be used to pay for the cost of such. On a monthly basis, the Trustee shall retain in the Revenue Fund, as a reserve for operations, an amount equal to one and one-half month’s annual operating expenses as reflected in the Annual Budget of the Authority and transfer the remaining balance to satisfy the requirements of the following Funds, listed in order of priority.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

D. SOLID WASTE BOND RESOLUTIONS (cont'd)

DEBT SERVICE FUND – The balance in the Debt Service Fund shall be maintained in an amount sufficient to pay the interest and principal currently due on the 1992 Bonds. At December 31, 2001 and 2000, the Debt Service Fund cash amounted to \$99,660 and \$45, respectively.

DEBT SERVICE RESERVE FUND – The balance in this Reserve Fund shall be maintained in an amount equal to the lesser of (a) 10% of the principal amount of Bonds which are outstanding from time to time, (b) maximum annual principal and interest which is payable during the current or any subsequent fiscal year with respect to all Series of Bonds, including the 1992 Bonds, or (c) 125% of the average annual principal and interest which is payable with respect to all Series of Bonds, including the 1992 Bonds. The Debt Service Reserve Fund must be marked to market not less than annually. At December 31, 2001 and 2000, the Debt Service Reserve Fund cash amounted to \$8,053,769 and \$8,064,091, respectively.

RENEWAL AND REPLACEMENT FUND – The balance in this Fund shall be maintained in an amount equal to the System Improvement Requirement (the "Requirement"). The Requirement is equal to the amount, as certified by the Independent Consulting Engineer, which is reasonably necessary to be held as a Reserve for Expenses with respect to the System for (a) nonrecurring major repairs, renewals, replacements or maintenance items, or (b) expenses relating to closure and post-closure of any System component, or (c) repairs, renewals or replacements resulting from the occurrence of uncontrollable events or circumstances which are not covered by the proceeds of an insurance policy. At December 31, 2001 and 2000, the Renewal and Replacement Fund cash amounted to \$3,497,935 and \$1,519,202, respectively.

GENERAL AUTHORITY POLICIES

E. INVESTMENTS

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

Investments are in obligations of the U.S. Government and certificates of deposit and are stated at cost, which approximates market. Investments are not considered cash equivalents for purposes of the Statement of Cash Flows.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

F. GRANTS

Federal and state grants are recorded as receivables at the time the amounts of such grants are determinable. Grants externally restricted for non-operating purposes are recorded as contributed capital.

G. PROPERTY, PLANT AND EQUIPMENT AND OTHER CAPITALIZED COSTS

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

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

Sewer Mains and Interceptors	50 years
Buildings and Improvements	40 years
Incinerator Facility	40 years
Pump Stations	35 years
Machinery and Equipment	5 to 10 years
Vehicles	5 years

Landfill cells are depreciated on the basis of capacity utilized. Deferred solid waste preoperating costs are amortized over 25 years, the term of the debt, which funded such costs.

Depreciation on assets acquired with grants-in-aid and contributed capital is recorded as a reduction of contributed capital. Depreciation expense related to assets acquired through debt financing is charged to operations.

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

H. UNAMORTIZED DEBT ISSUE COSTS

Debt issue costs incurred with the issuance of the Wastewater Revenue Refunding Bonds and the Solid Waste Revenue Bonds are being amortized over the life of the issues.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

I. WASTEWATER REVENUES

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

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

J. ALLOCATION OF COMMON COSTS

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

K. RESTRICTED ASSETS

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

L. INTERDISTRICT AGREEMENTS

The Solid Waste Division is a party to agreements with certain other New Jersey counties, which provide for minimum delivery requirements of municipal waste from the Authority and bulky and industrial waste to the Authority. See Note 9A for further discussion on the status of agreements.

3. GRANTS

Grants have been awarded to the Wastewater Division in prior years by the United States Environmental Protection Agency and the New Jersey Department of Environmental Protection aggregating \$100,750,290 for construction of the Atlantic County Coastal Region and Coastal Alternative projects. Through December 31, 2001, all such amounts have been received.

During 2001, the Solid Waste Division recognized grant income of \$68,258 from the New Jersey Department of Environmental Protection and Energy for operating purposes.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

4. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consisted of the following at December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Wastewater Division:		
Land	\$ 12,691,336	\$ 12,691,336
Sewer Mains and Interceptors	70,885,644	68,268,616
Buildings and Improvements	31,975,595	32,019,030
Machinery and Equipment	38,665,398	38,826,082
Incinerator Facility	16,353,524	16,353,524
Atlantic County Coastal Alternative	<u>26,629,575</u>	<u>26,629,575</u>
	197,201,072	194,788,163
Less: Accumulated Depreciation	<u>88,178,797</u>	<u>(81,984,789)</u>
	<u>\$ 109,022,275</u>	<u>\$ 112,803,374</u>

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

Property, Plant and Equipment consisted of the following at December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Solid Waste Division:		
Land and Improvements	\$ 12,941,777	\$ 12,607,741
Buildings	22,711,654	22,450,839
Equipment and Vehicles	12,507,734	11,622,213
Landfill Design and Implementation	27,609,867	25,481,183
Planning and Designs	<u>3,312,051</u>	<u>2,900,776</u>
	79,083,083	75,062,752
Less: Accumulated Depreciation	<u>(32,361,326)</u>	<u>(29,112,695)</u>
	<u>\$ 46,721,757</u>	<u>\$ 45,950,057</u>

In addition to financing the majority of the Plant, Property and Equipment detailed above, the 1992 Solid Waste Revenue Bond of \$87,650,000 also provided funding as follows:

\$9,859,501 preoperating costs dating back to 1987; \$8,053,769 debt service reserve; \$4,010,000 transfer to operating reserve; \$2,951,898 capitalized interest; \$2,235,211 underwriters discount and \$434,695 cost of bond issuance.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

5. BONDS PAYABLE

Wastewater Revenue and Revenue Refunding Bonds at December 31, 2001 and 2000 consist of the following:

	<u>2001</u>	<u>2000</u>
Wastewater Revenue Bonds, 1991 Series	\$ <u>2,110,421</u>	\$ <u>2,292,961</u>
Sewer Revenue Refunding and Sewer Revenue Bonds, 1994 Series A and B	11,115,000	11,330,000
Unamortized Bond Discount	<u>(142,991)</u>	<u>(153,205)</u>
	<u>10,972,009</u>	<u>11,176,795</u>
Wastewater Treatment Trust – 1995	<u>6,235,349</u>	<u>6,608,269</u>
Wastewater Treatment Trust – 1997	<u>9,270,653</u>	<u>9,744,589</u>
Wastewater Treatment Trust – 2001	<u>1,972,543</u>	<u> </u>
Wastewater Revenue Refunding Bonds, 1998 Series	44,030,000	46,580,000
Unamortized Bond Premium	<u>1,332,397</u>	<u>1,427,568</u>
	<u>45,362,397</u>	<u>48,007,568</u>
	<u>\$ 75,923,372</u>	<u>\$ 77,830,182</u>

Solid Waste Revenue Bonds and other long-term debt at December 31, 2001 and 2000 consist of the following:

	<u>2001</u>	<u>2000</u>
Solid Waste System Revenue Bonds	\$ 74,320,000	\$ 77,015,000
Unamortized Bond Discount	<u>(544,156)</u>	<u>(610,948)</u>
	<u>\$ 73,775,844</u>	<u>\$ 76,404,052</u>

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

5. BONDS PAYABLE (cont'd)

During 1991, the Authority entered into an agreement with the New Jersey Pinelands Infrastructure Trust Fund, which provides for borrowing up to \$3,691,756 at an interest rate of 3.68%. Borrowings pursuant to the agreement, which amounted to \$3,469,051 through December 31, 2000, are to fund Atlantic County Coastal Alternative project costs. Principal and accrued interest are due in semiannual installments of \$141,143 through January 2011.

On June 29, 1994, the Authority issued Bonds to provide funds to: (i) advance refund \$5,845,000 principal amount of the Authority's outstanding Sewer Revenue Refunding Bonds, Series 1987 to achieve debt service savings; (ii) provide a portion of the cost of the design, acquisition and construction of improvements to the sewerage treatment facilities comprising the System; (iii) provide capitalized interest on the Bonds for a specified period; (iv) fund the Debt Service Reserve Fund Requirement; (v) pay the premium for a surety bond to be issued by AMBAC to fund a portion of the Debt Service Reserve Fund Requirement; and (vi) pay the costs and expenses incidental to the authorization, issuance and delivery of the Bonds, including the municipal bond insurance premium.

The Bonds were issued in two series; (i) \$7,130,000, aggregate principal amount, Sewer Revenue Refunding Bonds, Series 1994A; and (ii) \$5,150,000 aggregate principal amount, Sewer Revenue Bonds, Series 1994B. The aggregate principal amount of both series 1994A and Series 1994B Bonds is \$12,280,000.

Timely payment in full of the principal of and interest on the bonds is insured by a municipal bond insurance policy issued by AMBAC Indemnity Corporation.

The maturity amount of the Series 1994A Bonds ranges from \$25,000 in 2001 to \$50,000 in 2013, \$2,850,000 in 2014, with final maturity in the amount of \$3,720,000 in year 2015. The maturity amount on the Series 1994B Bonds ranges from \$190,000 in 2001 to \$390,000 in 2014, with a final maturity of \$415,000 in 2015. The interest rates on the Series 1994A and 1994B Bonds range from 5.00% to 5.85%.

At closing, proceeds equal to \$6,128,095, together with an amount equal to \$173,524 from moneys then held by the refunded bond trustee was deposited in an escrow fund established pursuant to an escrow deposit agreement. These funds, except for \$208,320 which remained in cash, were invested in United States Treasury Obligations – State and Local Government Series, which provided sufficient cash, when needed, to pay the principal amount of and interest on the refunded 1987 bonds to and including January 15, 1997 (“Redemption Date”) and to redeem, on that date, the balance of the outstanding refunded 1987 bonds at a redemption price of 102% of the principal amount thereof plus interest accrued to the date of redemption.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

5. BONDS PAYABLE (cont'd)

During 1995, the Authority entered into an agreement with the New Jersey Wastewater Treatment Trust which provides for borrowing up to \$4,085,000 at interest rates varying from 4.60% to 5.25% for the Series 1995A bonds and are payable in varying amounts ranging from \$170,000 in 2002 to \$325,000 in 2015. The Series 1995B provides for borrowing up to \$3,882,538 and is a zero interest loan and is payable in varying semiannual installments.

During 1997, the Authority entered into an agreement with the New Jersey Wastewater Treatment Trust which provides for borrowing as follows: up to \$1,545,000 with interest rates varying from 4.2% to 5.00% which are payable in varying amounts ranging from \$60,000 in 2002 to \$120,000 in 2017; and up to \$3,910,000 with interest rates varying from 4.2% to 5.00% which are payable in varying amounts ranging from \$150,000 in 2002 to \$305,000 in 2017. Two additional series provide for borrowing up to \$1,487,663 and \$3,659,539 at zero interest and are payable in varying semiannual installments.

During 1998, the Authority issued Sewer Revenue Refunding Bonds, Series 1998 in the amount of \$51,405,000 for the purpose of refunding \$40,420,000 of 1987 Refunding Bonds and \$9,999,895 of 1989 Bonds as well as to pay the costs of issuance. The Bonds were issued at a premium in the amount of \$1,649,763 and carry an average interest rate of 4.62%.

During 2001, the Authority entered into an agreement with the New Jersey Department of Environmental Protection which provides for borrowing up to \$960,000 through the New Jersey Environmental Infrastructure Trust and \$1,012,543 through the New Jersey Environmental Infrastructure Trust Fund. The Trust Agreement provides for interest rates varying from 4.00% to 5.50% and are payable in varying amounts ranging from \$30,000 in 2003 to \$75,000 in 2021. The Trust Fund Agreement provides for interest-free borrowing, and principal is payable in varying amounts ranging from \$27,552 in 2002 to \$53,369 in 2020.

The Wastewater Revenue bonds are secured by and payable solely from the revenues of the Wastewater Division.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

5. BONDS PAYABLE (cont'd)

A summary of debt service to maturity for Wastewater Revenue and Revenue Refunding Bonds is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 3,950,735	\$ 3,277,418	\$ 7,228,153
2003	4,111,731	3,105,622	7,217,353
2004	4,313,487	2,924,600	7,238,087
2005	4,488,586	2,733,562	7,222,148
2006	4,772,647	2,577,071	7,349,718
Thereafter	<u>53,096,780</u>	<u>12,642,201</u>	<u>65,738,981</u>
	<u>\$ 74,733,966</u>	<u>\$ 27,260,474</u>	<u>\$ 101,994,440</u>

In prior years, the Authority defeased certain other bonds by depositing sufficient funds with a trustee to form an irrevocable escrow account to provide for all future debt service payments on the old Bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements.

SOLID WASTE REVENUE BONDS

On April 15, 1992, the Authority issued \$87,650,000 in Solid Waste System Revenue Bonds. The stated interest rates on the bonds vary from 5.2% to 7.125%. The Bonds due on or after March 1, 2008 are subject to optional redemption by the Authority prior to maturity at varying redemption prices.

Proceeds of the 1992 Bonds were used to: (1) repay the principal and interest on the Authority's 1989 and 1990 Solid Waste Bond Anticipation Notes; (2) improve and expand the solid waste system; (3) pay the interest on a portion of the 1992 Bonds accruing through September 1, 1993; (4) fund the Debt Service Reserve Requirement in accordance with the terms of the Bond Resolution; and (5) pay the costs and expenses incurred in connection with the authorization, issuance and delivery of the 1992 bonds.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

5. BONDS PAYABLE (cont'd)

On November 29, 1994, the Authority closed on a non-interest bearing \$7,500,000 Resource Recovery Project Loan, funded by the Resource Recovery Solid Waste Disposal Facility Bond Act Program, with the State of New Jersey acting by and through the New Jersey Department of Environmental Protection. The funds were applied as follows: \$4,562,206 to redeem \$4,410,000 plus accrued interest of \$152,206 on a Solid Waste Bond Anticipation Note that was completed in March 1994 for construction of Cell II of the Sanitary Landfill; \$1,500,000 as reimbursement of prior expenditures; \$1,405,793 for additional facility improvements to the Solid Waste System; and \$32,000 in issuance costs. The loan was payable in semi-annual principal payments of \$187,500 through September 1, 2016. In November, 1998, the voters at the general election approved the forgiveness of this loan by the State Legislature. On June 22, 2000, an agreement was executed by the State of New Jersey and the Atlantic County Utilities Authority whereby the State Treasurer forgave in whole the repayment by the Authority of the outstanding balance of the 1994 loan.

The Solid Waste Revenue Bonds are secured by and payable solely from the revenues of the Solid Waste Division.

A summary of debt service to maturity is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 2,890,000	\$ 5,162,644	\$ 8,052,644
2003	3,100,000	4,952,994	8,052,994
2004	3,325,000	4,728,119	8,053,119
2005	3,565,000	4,486,969	8,051,969
2006	3,825,000	4,228,318	8,053,318
Thereafter	<u>57,615,000</u>	<u>22,904,435</u>	<u>80,519,435</u>
	<u>\$ 74,320,000</u>	<u>\$ 46,463,479</u>	<u>\$ 120,783,479</u>

6. SURETY BOND

When the Authority issued its 1998 Sewer Revenue Refunding Bonds, a surety bond guaranteed by AMBAC Indemnity Corporation ("AMBAC") was issued for surety bond coverage defined as the lesser of \$5,012,116 or the Debt Service Reserve requirement of \$7,277,803. An additional surety bond in the amount of \$135,494 was issued in 2001 for series 2001 A&B. The total surety bond amount is \$5,147,610.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

7. PENSION PLAN

DESCRIPTION OF THE SYSTEM

The Authority contributes to a cost-sharing multiple-employer plan, the Public Employees Retirement System ("PERS"). Members are required to contribute 3% of their annual covered salary. The Plan is administered by the State of New Jersey Division of Pensions and Benefits and is included along with other state-administered pension trust and agency funds in the general-purpose financial statements of the State of New Jersey. Financial reports may be obtained for the Plan by writing to: New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

MEMBERSHIP

Membership in the PERS is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district 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.

CONTRIBUTIONS

The contribution policy for the PERS is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members are required to contribute 3% of their annual covered salary. Employers are required to contribute at an actuarially determined rate. There was no required employer contribution for 2001. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits.

Contributions to the PERS for the years 2001 and 2000 were as follows:

<u>Year</u>	<u>Employees</u>	
	<u>Amount</u>	<u>Percent of Covered Payroll</u>
12/31/01	\$ 272,575	3.00%
12/31/00	\$ 256,735	3.00%

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

8. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Authority adopted the provisions of Statement No. 18 of the Government Accounting Standards Board, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, in 1993. This Standard requires the Authority to recognize an expense and a liability in each period it accepts solid waste for a portion of the landfill closure and postclosure costs expected to be incurred in future periods. The estimated current cost is based on use of landfill capacity rather than the passage of time.

State and federal laws and regulations require that the Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$5,872,427 which is based on 33.52% usage of total permitted landfill capacity. In addition, the Authority charges \$1 per ton for use towards closure and postclosure costs and expects to fund postclosure costs and certain closure costs from this fund. There is \$1,522,064 related to this Fund held by a trustee as of December 31, 2001. The Authority expects to fund remaining closure costs from its Capital Improvement Fund. It is estimated that an additional \$11,647,498 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2029). The estimated present worth of total cost of the landfill closure and postclosure care (\$17,519,925) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2001. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

9. CONTINGENCIES

A. SOLID WASTE DIVISION

Counsel retained by management has provided the following synopsis:

The Authority is involved in various legal matters incidental to its business. Although the Authority is vigorously defending these actions and management believes that its position in each of these matters has substantial merit, the amount in controversy in several actions is significant, and an adverse monetary judgment in one or more of these cases therefore has the potential to materially and adversely affect the financial position of the Solid Waste Division.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

9. CONTINGENCIES (cont'd)

A. SOLID WASTE DIVISION (cont'd)

Mercer County Improvement Authority v. ACUA: This action consists of claims by MCIA and the Authority against one another as a result of the Interdistrict Agreement between them, and the abandonment of the Mercer County resource recovery project. Several years ago, the Court ruled that the abandonment of the Mercer County resource recovery project resulted from "uncontrollable circumstances" within the intent of the contract, and that the clause that would otherwise have excused the Authority from payment of its share of capital costs to MCIA was not triggered. The parties are presently litigating the amounts due from each to the other. While there is exposure to a significant adverse ruling in this matter, such a ruling is essentially offset by the significance of a potential recovery, both of which could occur given the nature of the cross claims pending in this matter.

Environmental Investment Charge ("EIC"): In the Resolution of the New Jersey Local Finance Board dated January 14, 1998, we find not only the source of the Environmental Investment Charge ("EIC"), but a summary of the historical context which gave rise to it. The EIC was ordered by the Local Finance Board ("LFB") and authorized by the New Jersey Department of Environmental Protection and required the Atlantic County Utilities Authority to assess and collect a service charge commencing March 1, 1998 from both present and former users of their solid waste system.

On June 26, 1998, various parties filed a Verified Complaint and Order to Show Cause in the Superior Court, Chancery Division, General Equity Part, Atlantic County to challenge the Authority from carrying out the Order of the LFB. An amended complaint was filed on July 22, 1998, and captioned as a class action on behalf of all EIC recipients in the Township of Galloway and the City of Port Republic. Each of the named Plaintiffs allegedly owns property in either the Township of Galloway or the City of Port Republic and received a bill from the Authority pursuant to the LFB Order. The amended complaint sought preliminary and permanent injunctive relief precluding the Authority from imposing an EIC on residential property owners in the Township of Galloway and the City of Port Republic. The amended complaint also sought to compel the Authority to return all EIC payments received from property owners in the Township of Galloway as well as attorneys' fees and costs.

After the initial hearing before the trial court, several entities sought to participate in this case. The New Jersey Department of Environmental Protection and the New Jersey Local Finance Board (hereinafter referred to collectively as the "State") and Atlantic County filed motions to intervene. The Cape May County Municipal Utilities Authority ("CMCMUA") moved to participate as *amicus curiae*. The trial court granted these motions on August 21, 1998. At the time of their intervention, the State plaintiffs renewed the Authority's application to transfer the case to the Appellate Division. The trial court granted this motion by Order dated September 10, 1998, ruling that the Appellate Division had original jurisdiction over the action of a state agency pursuant to R. 2:2-3(a).

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

9. CONTINGENCIES (cont'd)

A. SOLID WASTE DIVISION (cont'd)

On May 13, 1999, the Appellate panel ruling in In re Passaic County Utilities Authority, 321 N.J. Super 186 (App. Div., 1999) approved an LFB Order authorizing the use of an EIC in Passaic County. A petition for certification in that case was filed and was granted by the Supreme Court on September 13, 1999. The Supreme Court heard oral argument in Passaic on February 2, 2000 and the Appellate Division heard oral argument in Galloway on February 16, 2000. However, the Appellate Division, by Order dated April 17, 2000, stayed the issuance of its decision in this case until the New Jersey Supreme Court issued its decision in Passaic.

On June 22, 2000, the Supreme Court issued its ruling. See Passaic County Utilities Authority, 164 N.J. 270 (2000). The effective date of ruling was delayed 90 days, or until September 20, 2000, to permit time for legislative action. The stay was subsequently extended an additional 60 days.

On June 30, 2000, the Appellate Division rendered its opinion in this litigation, holding that "the EIC imposed in this case is no different than that considered in the Passaic County case." The Appellate Division held that "the EIC imposed by the Authority (is) invalid", and "reversed" the decisions of NJDEP and LFB to approve the EIC. *Id.*

Notwithstanding the original jurisdiction of the Appellate Division to determine the validity of State Agency decisions, or that the June 30 Order reversed the actions of the NJDEP and the LFB, plaintiffs moved for a remand to the trial court to address refunds to Plaintiffs and the class members for EIC payments or the award of counsel fees. Over the opposition of the Authority, the State, and the County, the motion was granted, briefed, argued and granted on November 27, 2000. The Authority moved for leave to Appeal, which was granted, and the matter is now pending in the Appellate Division.

Immediately following the trial court ruling on November 27, 2000, two complaints were filed, both by the same attorney, on behalf of the Tropicana Casino and the three Trump properties, respectively. Summary judgment motions were filed, briefed, argued and granted in both cases; the Court granted judgment to Plaintiffs in both matters given the status of the Law after Passaic and Galloway. More recently, the Town of Hammonton has filed an action seeking a return or credit on account for EIC payments made to the Authority. That issue has only recently been joined.

From March 1, 1998 through the first quarter of 2001, the Authority collected \$17.1 million in EIC payments from municipalities, casinos, homeowners in Galloway, businesses and over-the-scale. The Authority believes that about 90% of the payments were received from generators who were users of the Atlantic County Solid Waste System on or after March 1, 1998.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

9. CONTINGENCIES (cont'd)

A. SOLID WASTE DIVISION (cont'd)

The amount in issue in Galloway is calculated to be \$325,000. The amount in issue in Trump is \$1,150,000; in Tropicana \$450,000; and in Hammonton \$70,000.

On appeal, the Authority is arguing that an EIC on a user of the solid waste system is a lawful service charge pursuant to statute and distinct from the charges imposed on former users of the system in Passaic. The Authority is also taking the position that, given the authority of the LFB, the NJDEP and the unanimous ruling by the Appellate Court in Passaic, the Supreme Court ruling in that case should be given only prospective effect from and after June 22, 2000 (and arguably until November 20, 2000, the final date of the stay as extended).

For the foregoing reasons, it is believed that only 10% of the EIC collected is from generators who may be non-users of the system on or after March 1, 1998 and that, if the Authority is liable for refunds of those amounts collected from "former users", the liability for such refunds commences with the Supreme Court ruling in Passaic, either June 22, 2000 and thereafter or, giving effect to the stay, November 20, 2000 and thereafter.

As of December 31, 2001, Accounts Receivable related to this charge amounted to \$3,502,221, comprised of:

Casinos	\$ 1,143,861
Account Customers	685,142
Residential/Commercial Customers	533,898*
Municipal Customers	<u>1,139,320</u>
	<u>\$ 3,502,221</u>

* Approximately 21% are Residential Customers

B. WASTEWATER DIVISION

There are no matters potentially affecting the Wastewater Division.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

10. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GENERAL AUTHORIZATION

The Atlantic County Utilities Authority's investment practices are governed by New Jersey State Statute 40A:5-15.

TYPES OF INVESTMENTS

Statutes authorize the Authority to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds and a maturity date not greater than 12 months from the date of purchase. In addition, the Authority can invest in direct debt securities of the United States or obligations guaranteed by the United States, bonds and other obligations of the local municipality of which the Authority is a part unless such investments are expressly prohibited by law and not in compliance with the applicable bond resolution.

SECURITY

Deposits (including certificates of deposit and money market funds) in banks and savings and loans are protected under the Governmental Unit Deposit Protection Act, N.J.S.A. 17:9-41. Securities purchased in the Authority's name are registered in the name of the Authority by an agent of the Authority and are confirmed with safekeeping receipts.

VIOLATIONS

There were no violations of the legal or contractual provisions for deposits and investments.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

10. CASH AND CASH EQUIVALENTS AND INVESTMENTS (cont'd)

INVESTMENTS

As of December 31, 2001, balances on deposit are entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

As of December 31, 2001, the investments of the Authority are listed by appropriate risk category as follows:

- Category 1 Cash or investments, which are insured or registered or held by the Authority or its agent in the Authority's name.
- Category 2 Investments which are uninsured and unregistered, with securities held by others in the Authority's name.
- Category 3 Investments which are uninsured and unregistered, with securities held by others, but not in the Authority's name.

As of December 31, 2001, Cash and Cash Equivalents and Investments of the Authority consisted of the following:

	Carrying Amount			
	Category			
	1	2	3	Market Value
Checking/Savings A/C	\$ 2,578,726			\$ 2,578,726
Cash on Hand	620			620
Money Market Fund	176,020			176,020
Evergreen Treasury	14,726,529			14,726,529
U.S. Treasury Fund	16,264,904			16,264,904
New Jersey ARM	8,074,599	_____	_____	8,074,599
	<u>\$41,821,398</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$41,821,398</u>

The carrying amount of the Authority's Cash and Cash Equivalents and Investments as of December 31, 2001 was \$41,821,398 and the bank balance was \$41,818,798. Of the bank balance, \$100,000 was covered by federal depository insurance and \$41,718,798 was covered by a collateral pool maintained by the banks as required by New Jersey statutes.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

11. AMOUNTS HELD BY OTHERS

The State of New Jersey holds the Landfill Closure Escrow Account in the name of the Atlantic County Utilities Authority. These investments consisted of the following at December 31, 2001:

U.S. Treasury Notes	\$ 1,388,405
U.S. Treasury Funds	<u>133,659</u>
	<u>\$ 1,522,064</u>

12. CONTRIBUTED CAPITAL

The State of New Jersey contributed \$2,695,000 in principal, \$2,726,222 in interest, and \$686,000 to refund EIC fees. These funds were used towards the retirement of debt and development and implementation of the Authority's Systems. The total amount contributed of \$6,107,222 was toward the repayment of debt service in 2001.

	<u>Solid Waste</u>	<u>Wastewater</u>
December 31, 2000	\$ 16,212,500	\$111,961,686
Additions	<u>6,107,222</u>	<u> </u>
	22,319,722	111,961,686
Accumulated Depreciation	<u>(1,277,500)</u>	<u>(66,949,393)</u>
December 31, 2001	<u>\$ 21,042,222</u>	<u>\$ 45,012,293</u>

13. ENVIRONMENTAL INVESTMENT CHARGE ("EIC")

In the Resolution of the New Jersey Local Finance Board dated January 14, 1998, we find not only the source of the Environmental Investment Charge ("EIC"), but a summary of the historical context which gave rise to it. The EIC was ordered by the Local Finance Board ("LFB") and authorized by the New Jersey Department of Environmental Protection and required the Atlantic County Utilities Authority to assess and collect a service charge commencing March 1, 1998 from both present and former users of their solid waste system. See Note 9A.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

14. PRIOR-PERIOD ADJUSTMENTS – SOLID WASTE DIVISION

Closure/Postclosure Costs

The Authority has recorded a prior period adjustment for 2001 related to the increase in valuation, and the recognition of the Landfill Escrow Closure Fund held by the State of New Jersey. The prior period adjustment in 2000 was due to the consulting engineers not providing the necessary information in a timely manner in 1999, and revising and updating their analysis related to 2000, and funds held by the State related to closure/postclosure costs.

	<u>2000</u>	<u>2001</u>
Charged/(Audit) to Operations	\$ 1,140,778	\$ 344,233
Relating to Prior Period	1,457,458	1,177,831 (A)
Previously Funded	<u>1,951,347</u>	<u> </u>
Assets Held By State		<u>\$ 1,522,064</u>
Accrued Liability for Closure/ Postclosure	<u>\$ 4,549,583</u>	

EIC and Customer Deposit Account Receivables

As a result of litigation and continuing litigation, the Authority:

- Established an allowance for doubtful accounts related to EIC receivables (\$2,817,087) and monies owed from Mercer County Improvement Authority (\$9,481,409).
- Was unsuccessful in its litigation with Somerset County, resulting in a write-off of \$2,538,370.
- Refunded previously-collected EIC billings amounting to \$3,327,546.

	<u>2001</u>
Relating to Prior Period:	
EIC Refunds	\$ 3,327,546
Somerset County Receivable	2,538,370
Allowance for Doubtful Accounts:	
EIC	2,817,087
Mercer County Improvement Authority	<u>9,481,409</u>
	<u>\$ 18,164,412 (A)</u>

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

14. PRIOR-PERIOD ADJUSTMENTS – SOLID WASTE DIVISION (cont'd)

(A) The charges and credits in 2001 amount to the following:

\$ 18,164,412
<u>(1,177,831)</u>
<u>\$ 16,986,581</u>

15. SUBSEQUENT EVENTS

In order to meet the debt service payment due March 1, 2002 with respect to the Atlantic County Utilities Authority Solid Waste Revenue Bonds, Series 1992, the Trustee drew \$5,422,235.88 from the Debt Service Reserve Fund. The Debt Service Reserve Fund after the draw contained a balance of \$2,631,532.90. The principal and interest due on March 1, 2002 was \$5,521,896.88.

The interest due on September 1, 2002 is \$2,530,747. The Debt Service Reserve Requirement as of March 1, 2002 was \$8,053,768.75. In anticipation of the upcoming New Jersey Economic Development Authority solid waste financing, State funds were not made available for the March 1, 2002 debt service payment.

The Authority expects, but cannot assure, that it will refinance the bonds and restructure its indebtedness in accordance with the newly-enacted legislation, N.J.S.A. 34:1B-3, which authorizes the New Jersey Economic Development Authority to refinance certain solid waste facility bonds issued by any county or public authority and, in any event, the Authority will have sufficient funds available from current revenues and/or funds on deposit in the Debt Service Reserve Fund to make the September 1, 2002 debt service payment if the bonds are still outstanding at that time.

SUPPLEMENTAL INFORMATION

WASTEWATER DIVISION

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

COMPARATIVE BALANCE SHEET
MODIFIED GAAP BASIS

December 31, 2001 and 2000

Assets	2001	2000	Liabilities, Reserves and Fund Equity	2001	2000
Unrestricted Assets:			Current Liabilities Payable From		
Cash and Cash Equivalents	\$ 8,866,427	\$ 2,780,871	Unrestricted Assets:	\$ 2,383,350	\$ 2,321,220
Investments		5,930,589	Accounts Payable - Operations	78,823	79,605
Accrued Interest Receivable	54,030	73,858	Deferred Revenue	621,571	644,362
Accounts Receivable	709,590	965,706	Due To Solid Waste Division		
Total Unrestricted Assets	<u>9,630,047</u>	<u>9,751,024</u>	Total Current Liabilities Payable From	<u>3,083,744</u>	<u>3,045,187</u>
			Unrestricted Assets		
Restricted Assets:			Current Liabilities Payable From		
Cash and Cash Equivalents	13,134,955	14,980,548	Restricted Assets:	2,471,751	3,154,158
Investments	1,487,271	6,625	Construction Contracts Payable	3,978,286	3,794,396
Accrued Interest Receivable	1,164	6,625	Current Maturities of Long-Term Debt	1,902,380	1,673,557
Loans Receivable	3,747,247	4,571,243	Accrued Interest		
Total Restricted Assets	<u>18,370,637</u>	<u>19,558,416</u>	Total Current Liabilities Payable From	<u>8,352,417</u>	<u>8,622,111</u>
			Restricted Assets		
Property, Plant and Equipment	198,685,800	195,810,552	Long-Term Portion of Bonds Payable	1,404,000	1,482,041
Less: Accumulated Depreciation	<u>(88,178,797)</u>	<u>(81,984,789)</u>	(Net of Unamortized Bond Premium and Discount of \$1,189,406 and \$1,274,363 in 2001 and 2000, respectively)	<u>71,945,086</u>	<u>74,035,786</u>
Net Property, Plant and Equipment	<u>110,507,003</u>	<u>113,825,763</u>	Deferred Revenue	<u>84,785,247</u>	<u>87,185,125</u>
			Total Liabilities	<u>111,961,686</u>	<u>111,961,686</u>
			Fund Equity:	<u>(66,949,393)</u>	<u>(64,162,966)</u>
			Contributed Capital	45,012,293	47,798,720
			Less: Accumulated Depreciation		
			Net Contributed Capital	<u>3,800,000</u>	<u>3,800,000</u>
			Retained Earnings:	4,782,755	4,722,040
			Reserved For:	7,456,626	2,893,783
			Renewal and Replacement	(3,768,031)	551,108
			Debt Service Fund	12,271,350	11,966,931
			Debt Service Reserve Fund	57,283,643	59,765,651
			Unreserved:	<u>\$ 142,068,890</u>	<u>\$ 146,950,776</u>
			Retained Earnings/(Deficit)		
Other Assets:			Total Retained Earnings	<u>12,271,350</u>	<u>11,966,931</u>
Unamortized Costs	3,561,203	3,815,573	Total Fund Equity	<u>57,283,643</u>	<u>59,765,651</u>
Total Assets	<u>\$ 142,068,890</u>	<u>\$ 146,950,776</u>	Total Liabilities, Reserves and Fund Equity	<u>\$ 142,068,890</u>	<u>\$ 146,950,776</u>

Note: This schedule has been prepared on a modified GAAP basis which includes outstanding purchase orders as expenses in the year they are encumbered.

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
MODIFIED GAAP BASIS

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating Revenues:		
User Service Agreements:		
Operating	\$ 10,126,518	\$ 10,263,187
General	7,291,900	7,295,429
Sludge	1,075,635	1,100,281
Septic and Leachate	397,823	423,321
Other	523,080	577,162
	<hr/>	<hr/>
Total Operating Revenues	19,414,956	19,659,380
	<hr/>	<hr/>
Operating Expenses:		
Salaries	5,051,468	5,055,591
Employee Benefits	1,320,818	1,702,496
Power and Utilities	2,104,891	2,080,902
Chemicals	503,839	487,380
Fuel	1,305,035	778,534
Supplies and Miscellaneous Maintenance	1,380,073	1,338,052
Contractual Services	306,361	274,027
Indirect Operating	89,848	139,900
Administrative	489,479	704,097
Licenses and Permits	120,222	154,468
	<hr/>	<hr/>
Total Operating Expenses	12,672,034	12,715,447
	<hr/>	<hr/>
Depreciation	6,194,010	4,091,481
	<hr/>	<hr/>
Total Operating Expenses	18,866,044	16,806,928
	<hr/>	<hr/>
Operating Income	548,912	2,852,452
	<hr/>	<hr/>
Non-Operating Revenues/(Expenses):		
Interest Expense	(3,518,994)	(3,419,323)
Interest Income	767,219	1,155,111
Amortization of Bond Premium	(254,370)	(254,370)
	<hr/>	<hr/>
Total Non-Operating Expenses	(3,006,145)	(2,518,582)
	<hr/>	<hr/>
Net Income Before Transfer of Depreciation on Assets Purchased With Contributed Capital	(2,457,233)	333,870
Unrealized (Loss)/Gain on Investment	(24,775)	291,796
Transfer of Depreciation To Contributed Capital	2,786,427	810,447
	<hr/>	<hr/>
Net Income	304,419	1,436,113
	<hr/>	<hr/>
Retained Earnings, January 1	11,966,931	10,530,818
	<hr/>	<hr/>
Retained Earnings, December 31	12,271,350	11,966,931
	<hr/>	<hr/>
Contributed Capital - Net, January 1	47,798,720	48,609,167
	<hr/>	<hr/>
Transfer of Depreciation From Operations To Contributed Capital	(2,786,427)	(810,447)
	<hr/>	<hr/>
Contributed Capital - Net, December 31	45,012,293	47,798,720
	<hr/>	<hr/>
Fund Equity, December 31	<u>\$ 57,283,643</u>	<u>\$ 59,765,651</u>

Note: This schedule has been prepared on a modified GAAP basis which includes outstanding purchase orders as expenses in the year they are encumbered.

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES
COMPARED TO BUDGET - RATE BASIS

Year ended December 31, 2001

	<u>2001 Budget</u>	<u>2001 Actual</u>
Revenues:		
User Service Agreements:		
Operating Charge	\$ 10,126,517	\$ 10,126,517
General Charge	7,291,900	7,291,900
Interest on Investments and Deposits	850,000	767,219
Sludge, Septage and Leachate Disposal Fees	1,333,050	1,394,635
Miscellaneous	526,733	523,080
Fund Balance	<u>741,773</u>	<u> </u>
Total Revenues	<u>20,869,973</u>	<u>20,103,351</u>
Expenses:		
Operating Expenses:		
Salaries and Wages	4,998,921	5,051,468
Employee Benefits	1,281,594	1,320,818
Power and Utilities	2,320,000	2,104,891
Chemicals	651,156	503,839
Fuel	1,362,000	1,305,035
Supplies and Maintenance	737,175	750,015
Contractual Services	306,429	306,361
Indirect Operating	515,002	415,774
Licenses and Permits	805,796	695,633
Administrative	600,000	629,608
Cancelled Purchase Orders	<u> </u>	<u>(411,409)</u>
	<u>13,578,073</u>	<u>12,672,033</u>
Debt Service	<u>7,291,900</u>	<u>7,291,900</u>
Total Expenses	<u>\$ 20,869,973</u>	<u>19,963,933</u>
Net Income From Operations		<u>\$ 139,418</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND INVESTMENTS

Year ended December 31, 2001

Cash and Investments, December 31, 2000	\$ 23,692,008
Cash Receipts:	
Accounts Receivable	19,147,992
Other	523,080
Proceeds From Wastewater Trust	823,996
Interest Received	<u>792,508</u>
Total Cash and Investments Available	<u>44,979,584</u>
Cash Disbursements:	
Operations	12,162,213
Due To Solid Waste Division	22,791
Additions to Property, Plant and Equipment/ Contracts Payable	3,557,655
Bond Principal	3,794,396
Bond Interest	<u>3,441,147</u>
Total Cash Disbursements	<u>22,978,202</u>
Cash and Investments, December 31, 2001	<u><u>\$ 22,001,382</u></u>
Balance Comprised of:	
Unrestricted Cash and Cash Equivalents	\$ 8,866,427
Restricted Cash and Cash Equivalents	<u>13,134,955</u>
	<u><u>\$ 22,001,382</u></u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS

Year ended December 31, 2001

<u>Description</u>	<u>Face Amount</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Cost December 31, 2001</u>
Unrestricted Accounts:				
Cash	\$ 2,351,526			\$ 2,351,526
Evergreen Treasury Money Market	4,643,576	1.40%		4,643,576
NJ ARM Pooled Investment	<u>1,871,325</u>	2.06%		<u>1,871,325</u>
Total Unrestricted	<u>8,866,427</u>			<u>8,866,427</u>
Restricted Accounts:				
Wastewater Trust Fund:				
Evergreen Treasury Money Market	361,954	1.40%		361,954
Evergreen Treasury Money Market	<u>21,795</u>	1.40%		<u>21,795</u>
	<u>383,749</u>			<u>383,749</u>
Construction Account:				
Evergreen Treasury Money Market	<u>86,674</u>	1.40%		<u>86,674</u>
	<u>86,674</u>			<u>86,674</u>
Rebate Account:				
Evergreen Treasury	<u>159,681</u>	1.40%		<u>159,681</u>
	<u>159,681</u>			<u>159,681</u>
Debt Service Fund:				
Evergreen Treasury	4,826,851	1.40%		4,826,851
NJ ARM Pooled Investment	<u>376,721</u>	2.06%		<u>376,721</u>
	<u>5,203,572</u>			<u>5,203,572</u>
Debt Service Reserve Fund:				
Evergreen Treasury	1,342,830	1.40%		1,342,830
United States Treasury Bonds	1,149,682	11.25%	02/15/15	1,316,342
United States Treasury Strips	<u>70,568</u>		02/15/15	<u>170,929</u>
	<u>2,563,079</u>			<u>2,830,101</u>
Renewal and Replacement Fund:				
NJ ARM Pooled Investment	2,675,281	2.06%		2,675,281
Evergreen Treasury	<u>3,283,168</u>	1.40%		<u>3,283,168</u>
	<u>5,958,449</u>			<u>5,958,449</u>
Total Restricted	<u>14,355,205</u>			<u>14,622,226</u>
Total - Wastewater Division	<u>\$ 23,221,632</u>			<u>\$ 23,488,653</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AND OTHER CAPITALIZED COSTS
MODIFIED GAAP BASIS

For The Years Ended December 31, 2001, 2000, 1999, 1998, and 1997

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Additions During The Year:					
Property, Plant and Equipment:					
Land	\$ 2,471,094		\$ 43,432		
Sewer Mains and Interceptors	368,793	\$ 2,125,405			
Buildings and Improvements	35,361	2,632,238	62,336	\$ 623,319	\$ 2,408,627
Equipment and Vehicles		200,047	112,751	27,255	
Atlantic County Coastal Alternative					(147,722)
Total Additions	<u>2,875,248</u>	<u>4,957,690</u>	<u>218,519</u>	<u>650,574</u>	<u>2,260,905</u>
Cost Capitalized at the Beginning of the Year	<u>195,810,552</u>	<u>190,852,862</u>	<u>190,634,343</u>	<u>189,983,769</u>	<u>187,722,864</u>
	198,685,800	195,810,552	190,852,862	190,634,343	189,983,769
Less:					
Accumulated Depreciation and Amortization	<u>(88,178,797)</u>	<u>(81,984,789)</u>	<u>(77,893,308)</u>	<u>(73,859,253)</u>	<u>(69,836,940)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 110,507,003</u>	<u>\$ 113,825,763</u>	<u>\$ 112,959,554</u>	<u>\$ 116,775,090</u>	<u>\$ 120,146,829</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

SCHEDULE OF DEBT ISSUE COSTS

For The Years Ended December 31, 2001, 2000, 1999, 1998, and 1997

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Costs Capitalized at Beginning of Year	\$ 4,744,100	\$ 4,744,100	\$ 4,744,100	\$ 2,289,730	\$ 2,289,730
Net Effect of 1998 Refunding Bond Issue	<u>4,744,100</u>	<u>4,744,100</u>	<u>4,744,100</u>	<u>2,454,370</u>	<u>2,289,730</u>
Less:					
Accumulated Amortization	<u>(1,182,897)</u>	<u>(928,527)</u>	<u>(674,177)</u>	<u>(425,529)</u>	<u>(1,294,241)</u>
Unamortized Debt Issue Costs	<u>\$ 3,561,203</u>	<u>\$ 3,815,573</u>	<u>\$ 4,069,923</u>	<u>\$ 4,318,571</u>	<u>\$ 995,489</u>

SOLID WASTE DIVISION

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

COMPARATIVE BALANCE SHEET
MODIFIED GAAP BASIS

December 31, 2001 and 2000

Assets	2001	2000	Liabilities, Reserves and Fund Equity	2001	2000
Unrestricted Assets:			Current Liabilities Payable From		
Cash and Cash Equivalents	\$ 6,680,841	\$ 100,971	Unrestricted Assets:		
Investments	13,457	6,819,502	Accounts Payable - Operations	\$ 1,992,004	\$ 1,965,921
Accrued Interest Receivable		154,907	Customer Deposits	318,735	333,973
Accounts Receivable (Net of Allowance			Deferred Revenue		36,666
\$12,298,496, 2001)					
Other Accounts Receivable	3,370,085	16,662,775	Total Current Liabilities Payable From		
Due From Wastewater Division	382,163	15,953	Unrestricted Assets	2,310,739	2,336,560
Prepaid Expenses	621,571	644,362			
		24,575			
Total Unrestricted Assets	<u>11,068,117</u>	<u>24,423,045</u>	Current Liabilities Payable From		
Restricted Assets:			Restricted Assets:		
Cash and Cash Equivalents			Bonds Payable - Current Portion	2,890,000	2,695,000
Investments	11,651,364	11,267,837	Construction Contracts Payable	1,424,680	2,767,498
Amounts Held by State	1,522,064	10,985	Accrued Interest Payable	1,926,667	1,817,481
Accrued Interest Receivable	2,793				
Total Restricted Assets	<u>13,176,221</u>	<u>11,278,822</u>	Total Current Liabilities Payable From	<u>6,241,347</u>	<u>7,279,979</u>
Property, Plant and Equipment			Long-Term Portion of Bonds Payable		
Less: Accumulated Depreciation	79,931,746	77,389,939	(Net of Unamortized Premium and Discount of		
	<u>(32,361,326)</u>	<u>(29,112,695)</u>	\$544,156 and \$610,948 in 2001 and 2000,		
			respectively)	70,885,844	73,709,052
Net Property, Plant and Equipment	<u>47,570,420</u>	<u>48,277,244</u>	Accrued Landfill Closure and Postclosure		
			Care Cost (Note 8)	5,872,427	4,549,583
Other Assets:			Total Liabilities	<u>85,310,357</u>	<u>87,875,174</u>
Preoperating Costs			Fund Equity:		
(Net of Accumulated Depreciation of			Net Contributed Capital	22,319,722	16,212,500
\$6,449,773 and \$5,804,111 in 2001			Less: Accumulated Depreciation	<u>(1,277,500)</u>	<u>(629,000)</u>
and 2000, respectively)			Reserved for:		
Unamortized Bond Discount and Costs	3,409,728	4,055,501	Debt Service Reserve	21,042,222	15,583,500
	973,533	1,032,462	Unreserved Deficit	8,053,769	8,053,769
Total Other Assets	<u>4,383,261</u>	<u>5,087,963</u>	Total Deficit	<u>(38,208,329)</u>	<u>(22,445,369)</u>
Total Assets	<u>\$ 76,198,019</u>	<u>\$ 89,067,074</u>	Total Fund Equity	<u>(9,112,338)</u>	<u>1,191,900</u>
			Total Liabilities, Reserves and Fund Equity	<u>\$ 76,198,019</u>	<u>\$ 89,067,074</u>

Note: This schedule has been prepared on a modified GAAP basis which includes outstanding purchase orders as expenses in the year they are encumbered.

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
MODIFIED GAAP BASIS

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating Revenues:		
Tipping Fees	\$ 17,571,795	\$ 18,615,213
Collections and Recycling Income	5,909,628	5,962,443
Grant Income	68,258	134,047
Composting Income	667,466	609,279
Other	<u>1,206,905</u>	<u>756,697</u>
Total Operating Revenues	<u>25,424,052</u>	<u>26,077,679</u>
Operating Expenses:		
Contractual Services:		
Salaries	5,854,876	5,481,761
Employee Benefits	1,727,985	1,937,019
Power And Utilities	450,751	461,071
Indirect Operating	3,334,913	2,942,375
Administrative	676,913	695,640
Community Benefit	1,596,497	1,313,741
Recycling and Other Taxes	506,525	410,323
Fuel	362,976	367,719
Supplies and Miscellaneous Maintenance	<u>1,426,991</u>	<u>1,261,348</u>
	15,938,427	14,870,997
Depreciation	<u>3,885,897</u>	<u>3,567,430</u>
Total Operating Expenses	<u>19,824,324</u>	<u>18,438,427</u>
Operating Income	<u>5,599,728</u>	<u>7,639,252</u>
Non-Operating Revenues/(Expenses):		
Interest Income	501,625	740,715
Interest Expense	(5,467,303)	(5,592,770)
Amortization Bond Issue Costs and Premium	<u>(58,929)</u>	<u>(58,928)</u>
Total Non-Operating Expenses	<u>(5,024,607)</u>	<u>(4,910,983)</u>
Net Income before Transfer of Depreciation on Assets Purchased with Contributed Capital	575,121	2,728,269
Transfer of Depreciation to Contributed Capital	<u>648,500</u>	<u>343,443</u>
Net Income	1,223,621	3,071,712
Deficit, January 1	(14,391,600)	(16,005,854)
Prior Period Adjustment	<u>(16,986,581)</u>	<u>(1,457,458)</u>
Deficit, December 31	<u>(30,154,560)</u>	<u>(14,391,600)</u>
Contributed Capital, Net, January 1	15,583,500	8,126,943
Additions	<u>6,107,222</u>	<u>7,800,000</u>
	21,690,722	15,926,943
Transfer of Depreciation from Operations to Contributed Capital	<u>(648,500)</u>	<u>(343,443)</u>
Contributed Capital - Net, December 31	<u>21,042,222</u>	<u>15,583,500</u>
Fund (Deficit)/Equity, December 31	<u>\$ (9,112,338)</u>	<u>\$ 1,191,900</u>

Note: This schedule has been prepared on a modified GAAP basis which includes outstanding purchase orders as expenses in the year they are encumbered.

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET

Year ended December 31, 2001

	<u>2001 Budget</u>	<u>2001 Actual</u>
Long Term Debt Related Revenues:		
State Subsidy	\$ 6,107,222	\$ 6,107,222
	6,107,222	6,107,222
Long Term Debt Related Expenses:		
Principal and Interest	8,152,735	8,152,735
Net Loss on Debt Related Activities	<u>(2,045,513)</u>	<u>(2,045,513)</u>
Operational Revenues:		
Tipping Fees - Landfill	15,202,220	15,224,311
Tipping Fees - Other		877,377
Composting - Eco Product	613,689	667,466
Collections and Recycling Income	5,745,554	5,977,886
Earnings on Investments	544,483	501,625
Other	605,076	1,253,203
Total Operating Revenues	<u>22,711,022</u>	<u>24,501,868</u>
Operating Expenses:		
Administration	1,233,815	1,124,379
Solid Waste Administration	753,829	685,528
Transfer Station Operations	804,573	802,471
Composting Operations	399,110	319,699
Landfill Operations	4,343,165	4,294,769
Recycling Processing	1,511,412	1,453,461
Collections	3,737,605	3,680,479
Maintenance Center	2,487,399	2,403,848
Cancelled Purchase Orders		<u>(149,052)</u>
Total Operating Expenses	<u>15,270,908</u>	<u>14,615,582</u>
Net Income on Operating Activities	<u>7,440,114</u>	<u>9,886,286</u>
Net Operating Income From Operational Activities	<u>7,440,114</u>	<u>9,886,286</u>
Net Income Before Transfers	5,394,601	7,840,773
Transfer to Renewal and Replacement	<u>4,113,192</u>	<u>4,043,683</u>
Net Income After Transfers	<u>\$ 1,281,409</u>	<u>\$ 3,797,090</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND INVESTMENTS

Year ended December 31, 2001

Cash and Investments, December 31, 2000	\$ 18,188,310
Cash Receipts:	
Accounts Receivable	22,323,946
Interest Received	651,267
Grants	68,258
State Subsidy	6,107,222
Due From Wastewater Division	22,791
Customer Deposits	318,735
Miscellaneous	<u>840,695</u>
Total Cash and Investments	<u>48,521,224</u>
Cash Disbursements:	
Operations	14,923,729
Additions To Property, Plant and Equipment and Other Capitalized Costs	3,884,625
Bond Principal	2,695,000
Interest on Debt	5,358,119
Refunds of Prior Year Revenue	<u>3,327,546</u>
Total Cash Disbursements	<u>30,189,019</u>
Cash and Investments, December 31, 2001	<u>\$ 18,332,205</u>
Balance Comprised of:	
Unrestricted Cash and Cash Equivalents	\$ 6,680,841
Restricted Cash and Cash Equivalents	<u>11,651,364</u>
	<u>\$ 18,332,205</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS

Year ended December 31, 2001

<u>Description</u>	<u>Account Number</u>	<u>Face Amount</u>	<u>Interest Rate</u>	<u>Cost December 31, 2001</u>
Operations:				
Cash		<u>\$ 227,281</u>		<u>\$ 227,281</u>
Revenue Fund:				
Cash	000137	176,020		176,020
NJ ARM Pooled Investment	39-02/03	845,541	2.06%	845,541
U.S. Treasury Fund	000137	3,312,104	1.17%	3,312,104
U.S. Treasury Fund	000137	<u>12,461</u>	1.17%	<u>12,461</u>
		<u>4,346,126</u>		<u>4,346,126</u>
EIC:				
U.S. Treasury Fund	000169	<u>99,088</u>	1.16%	<u>99,088</u>
Operating Reserve				
NJ ARM Pooled Investment	38-08/09	1,337,553	2.06%	1,337,553
U.S. Treasury Fund	000159	<u>670,793</u>	1.17%	<u>670,793</u>
		<u>2,008,346</u>		<u>2,008,346</u>
Renewal and Replacement:				
U.S. Treasury Fund	000160	2,516,466	1.16%	2,516,466
U.S. Treasury Fund	000160	13,291	1.16%	13,291
NJ ARM Pooled Investment	39-10	<u>968,178</u>	2.06%	<u>968,178</u>
		<u>3,497,935</u>		<u>3,497,935</u>
Debt Service Fund:				
U.S. Treasury Fund	000158	<u>99,660</u>	1.16%	<u>99,660</u>
Debt Service Reserve Fund:				
U.S. Treasury Fund	000157	<u>8,053,769</u>	1.16%	<u>8,053,769</u>
Total		<u>\$ 18,332,205</u>		<u>\$ 18,332,205</u>
Unrestricted		\$ 6,680,841		\$ 6,680,841
Restricted		<u>11,651,364</u>		<u>11,651,364</u>
		<u>\$ 18,332,205</u>		<u>\$ 18,332,205</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AND PREOPERATING COSTS
MODIFIED GAAP BASIS

For The Years Ended December 31, 2001, 2000, 1999, 1998, and 1997

	2001	2000	1999	1998	1997
Waste Disposal:					
Additions/(Deletions) During the Year:					
Property, Plant and Equipment:					
Land and Improvements	\$ 196,007	\$ 1,331,240	\$ 4,769	\$ (7,952)	\$ 60,051
Buildings and Improvements	856,785	358,803	49,522	799,476	(56,000)
Equipment and Vehicles	1,061,143	2,383,359	3,213,925	4,443,496	36,245
Landfill Design and Implementation		(2,307)	(6,433)	(30)	(19,016)
Planning and Designs					
	2,113,935	4,071,095	3,261,783	5,234,990	21,280
Property, Plant and Equipment, and Preoperating Costs, Beginning of Year	57,650,959	53,579,864	50,318,081	45,083,091	45,061,811
	59,764,894	57,650,959	53,579,864	50,318,081	45,083,091
Less:					
Accumulated Depreciation and Amortization	(25,478,169)	(22,467,935)	(19,783,323)	(17,671,747)	(16,831,566)
Total Property, Plant and Preoperating Costs, End of Year	<u>\$ 34,286,725</u>	<u>\$ 35,183,024</u>	<u>\$ 33,796,541</u>	<u>\$ 32,646,334</u>	<u>\$ 28,251,525</u>
Waste Recycling:					
Additions/(Deletions) During the Year:					
Property, Plant and Equipment:					
Land and Improvements	\$ 325,516				\$ 29,808
Buildings	64,808				(6,207)
Equipment and Motor Vehicles	37,548	\$ 44,910		\$ 3,857	(5,126)
Planning and Design		13,442			
	427,872	58,352		3,857	18,475
Property, Plant and Equipment, and Preoperating Costs, Beginning of Year	29,598,481	29,540,129	\$ 29,540,129	29,536,272	29,517,797
	30,026,353	29,598,481	29,540,129	29,540,129	29,536,272
Less:					
Accumulated Depreciation and Amortization	(13,332,930)	(12,448,760)	(11,574,447)	(10,572,666)	(8,974,235)
Total Property, Plant and Preoperating Costs, End of Year	<u>\$ 16,693,423</u>	<u>\$ 17,149,721</u>	<u>\$ 17,965,682</u>	<u>\$ 18,967,463</u>	<u>\$ 20,562,037</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

SCHEDULE OF DEBT ISSUE COSTS

For The Years Ended December 31, 2001, 2000, 1999, 1998, and 1997

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Costs Capitalized at Beginning of Year	\$ 2,182,779	\$ 2,182,779	\$ 2,182,779	\$ 2,182,779	\$ 2,182,779
Less:					
Accumulated Amortization	<u>(1,209,246)</u>	<u>(1,150,317)</u>	<u>(1,091,389)</u>	<u>(1,032,461)</u>	<u>(973,532)</u>
Unamortized Debt Issue Costs	<u>\$ 973,533</u>	<u>\$ 1,032,462</u>	<u>\$ 1,091,390</u>	<u>\$ 1,150,318</u>	<u>\$ 1,209,247</u>

SPECIAL PURPOSE STATEMENTS OF REVENUES AND EXPENSES
TO COMPLY WITH REVENUE BOND RESOLUTION

Hutchins, Farrell, Meyer & Allison, P.A.

Certified Public Accountants • Business & Financial Advisors

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INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey

We have audited the accompanying Special-Purpose Statements of Revenues and Expenses of the Atlantic County Utilities Authority (the "Authority") Wastewater and Solid Waste Divisions for the year ended December 31, 2001. These financial statements are the responsibility of the Authority's management. 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 in compliance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of complying with the Sewer Revenue Bond Resolution adopted August 27, 1985, as restated and ratified, and the Solid Waste System Revenue Bond Resolution adopted January 23, 1992, as supplemented and restated March 5 and April 6, 1992, as discussed in Note 1, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

The Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey
Page 2

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the revenues and expenses of the Atlantic County Utilities Authority Wastewater and Solid Waste Divisions for the year ended December 31, 2001, except that the special-purpose statements do not include expenses for depreciation of Property, Plant and Equipment as Operating Expenses which is not in accordance with generally accounting principles as described in Note 1. In addition, because of the special purpose of the bond resolution statements, financial statement footnotes included in the annexed annual report have not been provided.

Hutchins, Farrell, Meyer & Allison, P.A.

Hutchins, Farrell, Meyer & Allison, P.A.

April 5, 2002

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

SPECIAL-PURPOSE STATEMENT OF REVENUES AND EXPENSES
TO COMPLY WITH BOND RESOLUTIONS

Year ended December 31, 2001

Operating Revenues:	
User Service Agreements:	
Operating	\$ 10,126,518
General	7,291,900
Sludge	1,075,635
Septic and Leachate	397,823
Other	<u>523,080</u>
 Total	 <u>19,414,956</u>
 Operating Expenses:	
Salaries	5,051,468
Employee Benefits	1,354,426
Power and Utilities	1,799,506
Chemicals	506,794
Fuel	1,218,285
Supplies and Miscellaneous Maintenance	1,415,618
Contractual Services	291,157
Indirect Operating	77,764
Administrative	467,457
Licenses and Permits	<u>119,963</u>
 Total Operating Expenses	 <u>12,302,438</u>
 Excess of Revenues Over Expenses From Operations	 <u>7,112,518</u>
 Nonoperating Revenues/(Expenses):	
Interest Expense	(3,518,994)
Interest Income	767,219
Amortization Bond Discount	<u>(254,370)</u>
	<u>(3,006,145)</u>
 Excess of Revenues Over Expenses	 <u><u>\$ 4,106,373</u></u>

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

SPECIAL-PURPOSE STATEMENT OF REVENUES AND EXPENSES
TO COMPLY WITH BOND RESOLUTIONS

Year ended December 31, 2001

Operating Revenues:	
Tipping Fees	\$ 17,571,795
Collections and Recycling Income	5,909,628
Grant Income	68,258
Composting Income	667,466
Other	<u>1,206,905</u>
Total	<u>25,424,052</u>
Operating Expenses:	
Salaries	5,854,876
Employee Benefits	1,752,651
Power and Utilities	447,813
Indirect Operating	3,208,446
Administrative	638,024
Community Benefit	1,688,808
Recycling and Other Taxes	537,969
Fuel	380,288
Supplies and Miscellaneous Maintenance	<u>1,388,146</u>
Total Operating Expenses	<u>15,897,021</u>
Excess of Revenues Over Expenses From Operations	<u>9,527,031</u>
Nonoperating Revenues/(Expenses):	
Interest Income	501,625
Interest Expense	(5,467,304)
Amortization Bond Issue Costs and Premiums	<u>(58,928)</u>
	<u>(5,024,607)</u>
Excess of Revenues Over Expenses	<u><u>\$ 4,502,424</u></u>

THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTE TO SPECIAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. BASIS OF PRESENTATION

The accompanying Statements of Revenues and Expenses for the Wastewater and Solid Waste Divisions have been prepared for the sole purpose of complying with the respective Division's underlying Bond Resolutions. As the Resolutions require, the Statements of Revenues and Expenses are prepared on the basis of generally accepted accounting principles, except that the Statements of Revenues and Expenses do not reflect charges for depreciation of Property, Plant and Equipment as Operating Expenses, which is contrary to generally accepted accounting principles, but is a requirement of the Resolutions.

DEBT SERVICE REQUIREMENT

Hutchins, Farrell, Meyer & Allison, P.A.

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INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States, the Balance Sheets of the Atlantic County Utilities Authority (the "Authority") as of December 31, 2001, and the related Statements of Revenues, Expenses and Changes in Fund Equity and Cash Flows for the year then ended, and have issued our report thereon dated April 5, 2002.

In connection with our audit, nothing came to our attention that caused us to believe that, as of December 31, 2001, the Authority was not in compliance with the accounting requirements (see annexed) of Section 6.10(b)(ii) of the Authority's Resolution Authorizing Solid Waste System Revenue Bonds, adopted January 23, 1992, as supplemented and restated March 5 and April 6, 1992. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of such non-compliance with such accounting requirements.

This report is intended solely for the information and use of the Board of Directors and management of the Atlantic County Utilities Authority and should not be used for any other purpose.

Hutchins, Farrell, Meyer & Allison, P.A.

Hutchins, Farrell, Meyer & Allison, P.A

April 5, 2002

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

DEBT SERVICE REQUIREMENT

December 31, 2001

Debt Service Requirement:	
Interest Payable During 2001	\$ 5,358,119
Principal Maturing During 2001	<u>2,695,000</u>
Subtotal	<u>8,053,119</u>
Plus: Coverage Requirement	110%
Debt Service Requirement	<u>\$ 8,858,431</u>
Actual Debt Service Coverage	
Net Revenues Provided:	
Gross Revenues	\$ 25,885,195
Operating Expenses	<u>15,841,778</u>
Net Revenues Provided	<u>\$ 10,043,417</u>

Hutchins, Farrell, Meyer & Allison, P.A.

Certified Public Accountants • Business & Financial Advisors

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey

We have audited the financial statements of the Atlantic County Utilities Authority (the "Authority") as of and for the year ended December 31, 2001, and have issued our report thereon dated April 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in compliance with audit standards prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Compliance

As part of obtaining reasonable assurance about whether the Atlantic County Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey
Page 2

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Atlantic County Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hutchins, Farrell, Meyer & Allison, P.A.

Hutchins, Farrell, Meyer & Allison, P.A.

April 5, 2002

Hutchins, Farrell, Meyer & Allison, P.A.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR LETTER 98-07

Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey

Compliance

We have audited the compliance of the Atlantic County Utilities Authority with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement and State Grant Compliance Supplement that are applicable to each of its major state programs for the year ended December 31, 2001. The Atlantic County Utilities Authority's major state programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Noncompliance and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Atlantic County Utilities Authority's management. Our responsibility is to express an opinion on the Atlantic County Utilities Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and State OMB Circular Letter 98-07, Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid Payments. Those standards, OMB Circular A-133 and State OMB Circular Letter 98-07 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Atlantic County Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Atlantic County Utilities Authority's compliance with those requirements.

Honorable Chairman and Members of the Board
of the Atlantic County Utilities Authority
Atlantic City, New Jersey
Page 2

In our opinion, the Atlantic County Utilities Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended December 31, 2001. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and State OMB Circular Letter 98-07.

Internal Control over Compliance

The management of the Atlantic County Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and State OMB Circular Letter 98-07.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hutchins, Farrell, Meyer & Allison, P.A.

Hutchins, Farrell, Meyer & Allison, P.A.

April 5, 2002

COMMENTS AND RECOMMENDATIONS

THE ATLANTIC COUNTY UTILITIES AUTHORITY
GENERAL COMMENTS AND RECOMMENDATIONS

None noted.

STATE FINANCIAL ASSISTANCE PROGRAMS

ATLANTIC COUNTY UTILITIES AUTHORITY
CITY OF ATLANTIC, NEW JERSEY

SCHEDULE OF STATE ASSISTANCE

For The Year Ended December 31, 2001

<u>State Funding Agency</u>	<u>Program</u>	<u>State Account Number</u>	<u>Grant Award Amount</u>	<u>Received</u>	<u>Grant Activity - 2001 Expended</u>
New Jersey Department of Environmental Protection	Wastewater Treatment:				
	Trust 95 Loan	4860-510-4860-12	\$ 7,967,538	\$ 847,743	\$ 937,101
	Trust 97 Loan	4860-510-4860-12	10,602,202	1,993,704	2,020,942
	Trust 01 Loan	4860-510-4860-07	2,025,086		54,173
	Total State Assistance		<u>\$ 20,594,826</u>	<u>\$ 2,841,447</u>	<u>\$ 3,012,216</u>

THE ATLANTIC COUNTY UTILITIES AUTHORITY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2001

SUMMARY OF AUDIT RESULTS

1. Type of report issues on financial statements – Qualified because reports on two Divisions separately.
2. No reportable conditions in internal control were disclosed by the audit.
3. The audit did not disclose any noncompliance that is material to the financial statements.
4. No reportable conditions in internal control over major programs were noted.
5. Type of report issued on compliance for major programs – Unqualified opinion.
6. The audit disclosed no findings required to be reported under generally accepted government auditing standards.
7. Identification of major programs:

State:

Wastewater Treatment Trust 95 and 97 4860-510-4860-12
8. Dollar threshold for Type A Programs - \$300,000.
9. We determined the Authority to be a low-risk auditee based on our assessment of risk.

THE ATLANTIC COUNTY UTILITIES AUTHORITY
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2001 (Continued)

FINDINGS RELATED TO FINANCIAL STATEMENTS

The audit disclosed no findings required to be reported under generally accepted government auditing standards. However, we performed procedures required by the New Jersey Department of Community Affairs Division of Local Government Services and our comments are included in a separate letter to management.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AND STATE AWARDS

None.