

ATLANTIC COUNTY UTILITIES AUTHORITY
COUNTY OF ATLANTIC,
STATE OF NEW JERSEY

FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION

FOR THE YEARS ENDED
DECEMBER 31, 2004 AND 2003

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	1 - 2
FINANCIAL SECTION	
Independent Auditor's Report	3 - 4
Required Supplementary Information:	
Management's Discussion and Analysis	5 - 23
Financial Statements:	
Comparative Statement of Net Assets	24 - 26
Comparative Statement of Revenues, Expenses and Changes in Net Assets	27
Comparative Statement of Cash Flows	28
Notes to the Financial Statements	29 - 44
Other Supplementary Information:	
Wastewater Division:	
Comparative Statement of Net Assets - Modified GAAP Basis	45 - 46
Comparative Statement of Revenues, Expenses and Changes in Net Assets - Modified GAAP Basis	47
Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget - Rate Basis	48
Schedule of Cash, Cash Equivalents and Investments	49
Schedule of Property, Plant and Equipment and Other Capitalized Costs - Modified GAAP Basis	50
Schedule of Debt Issue Costs - Modified GAAP Basis	51
Solid Waste Division:	
Comparative Statement of Net Assets - Modified GAAP Basis	52 - 53
Comparative Statement of Revenues, Expenses and Changes in Net Assets - Modified GAAP Basis	54
Schedule of Revenues and Costs Funded by Operating Revenues Compared to Budget - Modified GAAP Basis	55
Schedule of Cash, Cash Equivalents and Investments	56
Schedule of Property, Plant and Equipment and Preoperating Costs - Modified GAAP Basis	57 - 58
Schedule of Debt Issue Costs - Modified GAAP Basis	59

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION - CONTINUED	
Special - Purpose Statements of Revenues and Expenses to Comply with Revenue Bond Resolution:	
Independent Auditor's Report	60 - 61
Wastewater Division:	
Special - Purpose Statement of Revenues and Expenses to Comply with Bond Resolutions	62
Solid Waste Division:	
Special - Purpose Statement of Revenues and Expenses to Comply with Bond Resolutions	63
Notes to Special - Purpose Financial Statements	64
Debt Service Requirement:	
Independent Auditor's Report	65
Solid Waste Division - Debt Service Requirement	66
GENERAL COMMENTS AND RECOMMENDATIONS	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	67 - 68
General Comments and Recommendations	69
SINGLE AUDIT SECTION	
State Financial Assistance Programs:	
Schedule of State Assistance	70
Notes to Schedule of State Assistance	71
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 04-04	72 - 73
Schedule of Findings and Questioned Costs	74 - 75
Summary Schedule of Prior Audit Findings And Questioned Costs	76

INTRODUCTORY SECTION

March 24, 2005

Chairman Gallagher, Authority Board Members and President Dovey:

Presented to you are the audited financial statements for the 2004-year. There are separate financial statements for the Wastewater Division and Solid Waste Division, as has been done in prior years. The financial statements are presented separately for each division because the Divisions are separate and distinct for ratemaking, operating, and public financing purposes. There are also combined statements as required by accounting standards for the Comparative Statement of Net Assets, the Comparative Statement of Revenues, Expenses, and Changes in Net Assets, and Comparative Statement of Cash Flows.

Government Auditing Standards and State law requires that the Atlantic County Utilities Authority publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. The financial statements for the 2004-year are presented as required.

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

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

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

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

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

The staff of the Finance Department prepared the basic financial statements and the supplemental financial statements and schedules discussed above. Ford Scott Seidenburg and Kennedy, L.L.C., a firm of licensed certified public accountants, has audited and opined on the Authority's financial statements. The goal of an independent audit is to provide reasonable assurance as to the validity of the financial statements. This involves examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing any estimates and calculations utilized, assessing supplemental information provided or gathered by the auditors, and assessing the overall financial statement presentation. The auditors have opined that the basic financial statements which were prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards present fairly, in all material respects, the financial position of the Atlantic County Utilities Authority at December 31, 2004 and 2003. There were no recommendations noted.

Sincerely,

Maria Mento

Maria Mento
Chief Financial Officer

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman
and Members of the Board
of the Atlantic County Utilities Authority

We have audited the accompanying basic financial statements of the Atlantic County Utilities Authority ("Authority"), a component unit of the County of Atlantic, as of and for the years ended December 31, 2004 and 2003, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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 audit requirements as 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2004 and 2003, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of our 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 management's discussion and analysis are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and the presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying financial information listed as Other Supplementary Information is not a required part of the basic financial statements, but is presented as additional analytical data. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole. Additionally, the schedule of state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and New Jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, and are not a required part of the basic financial statements

Ford, Scott, Seidenburg & Kennedy, L.L.C.
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Edward W. Kennedy
Certified Public Accountant
Registered Municipal Accountant
No. 180

March 24, 2005

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Atlantic County Utilities Authority's (the Authority or the ACUA) annual financial report, the management of the Authority provides narrative discussion and analysis of the financial activities of the Authority for the audit year ending December 31, 2004.

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

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

Discussion of Financial Statements Included in Annual Audit

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

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

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

The primary difference between the statements is the recording and reporting of accounts payable. On the "Modified GAAP Basis" statements, all encumbrances as of 12/31/2004 are reported as Accounts Payable or Construction Contracts Payable, and as Property, Plant and Equipment. On the "GAAP Basis" statements, only those encumbrances that have been received as of 12/31/2004 are reported as Accounts Payable or Construction Contracts Payable, and as Property, Plant and Equipment. The difference between the two statements and methodologies presents itself in Net Assets- Unrestricted.

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

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

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

Finally there are “Special Purpose Statements of Revenues and Expenses to Comply with Revenue Bond Resolution”. This statement is done as defined and in accordance with the respective Division’s Bond Resolution. This statement essentially includes the same revenues and same expenses as reported on the “GAAP Basis” statements, with the exception of Depreciation and Amortization of Bond Issue Costs. Neither is included on the statement and complies with the Bond Resolution.

Other information or statements incorporated within the annual audit report is the Schedule of Cash, Cash Equivalents and Investments; Schedule of Property, Plant and Equipment and Other Capitalized Costs; Schedule of Debt Issue Costs and Debt Service Requirement rate covenant analysis.

For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the official statements of the Atlantic County Utilities Authority, those prepared in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governments. This is the first set of statements included in the annual audit report.

Wastewater Division

Comparative Statement of Net Assets

The Wastewater Division’s Total Assets decreased \$539,782. While accumulated depreciation increased almost \$4.9 million, Loans and Loans Receivable increased by about \$4.2 million. Cash, Cash Equivalents and Investments decreased by about \$1.3 million. The change to Property, Plant and Equipment was negligible.

Total liabilities increased \$285,655. Long-Term Portion of Bonds Payable went from \$63,323,708 in 2003 to \$64,026,481 in 2004. The Authority did a New Jersey Environmental Infrastructure Trust (NJEIT) borrowing in 2004 in the amount of \$4,919,402. Other debt was paid down in accordance with existing debt service schedules. Added to Other Post Retirement Benefits payable was \$231,856.

Accounts and Construction Contracts Payable in 2004 were \$534,640 less than in 2003. Assets exceed liabilities by \$56,358,523. This compares to 2003 where the division's assets exceeded its liabilities by \$57,183,960. Net change, a decrease in assets over liabilities of \$825,437.

The Division's Net Assets of \$ 56,358,523 are comprised of the following:

(1) Capital Assets, Net of Related Debt of \$28,364,958 include property plant and equipment, net of accumulated depreciation, and net of long-term debt and short-term debt related to the purchase or construction of capital assets. Calculated as: (Net Capital Assets-Long-Term Portion of Bonds Payable –Current Maturities of Long-Term Debt = Investment in Capital Assets, Net of Related Debt).

(2) Net Assets of \$4,800,000 restricted for the purpose of Renewal and Replacement of "the System" and restricted as the "System Improvement Requirement", which is determined each year by an independent consulting engineer.

(3) Net Assets of \$5,405,617 restricted for the purpose of forthcoming debt service payments.

(4) Net Assets of \$7,754,743 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority's debt covenants, and of which part is in the form of a Surety Bond. This number increased in 2004 due to the 2004 NJEIT Financing.

(5) Unrestricted Net Assets of \$10,033,205 represent the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and current liabilities.

Restricted Net Assets decreased \$4,404,358 in 2004 as follows: Investments in Capital Assets Net of Related Debt decreased \$5,667,304, the Reserve for Debt Service Fund increased \$971,158, and the Reserve for Debt Service Reserve Fund increased \$291,788.

Unrestricted Net Assets increased \$3,578,921, which is related to the decrease in assets and connected to the decrease in Investments in Capital Assets Net of Related Debt. In 2004 Capital Assets decreased as depreciation increased with no increase to Property Plant and Equipment. In addition long-term debt increased.

Total Fund Equity decreased 1.44 % or \$825,437, the reported Net Loss for the 2004-year.

	<u>2003</u>	<u>2004</u>
Total Current Assets	9,938,179	9,808,871
Total Non Current Assets	15,369,723	19,879,209
Net Capital Assets	101,757,810	96,822,468
Deferred Costs	<u>3,220,720</u>	<u>3,236,102</u>
Total Assets	<u>130,286,432</u>	<u>129,746,650</u>
Total Current Liabilities		
Payable from Current Assets	1,149,413	957,187
Total Current Liabilities		
Payable from Restricted Assets	6,227,418	5,872,356
Deferred Revenue	1,698,770	1,597,084
Accrued Compensated Absences And Post Retirement Benefits	703,163	935,019
Long-Term Obligations	<u>63,323,708</u>	<u>64,026,481</u>
Total Liabilities	<u>73,102,472</u>	<u>73,388,127</u>
Net Assets	<u>57,183,960</u>	<u>56,358,523</u>
Total Liabilities and Net Assets	<u>130,286,432</u>	<u>129,746,650</u>

Current Assets decreased by \$129,308. Cash and Cash Equivalents decreased in 2004 by \$1,594,739. The 2004 Budget anticipated using prior year's earnings to fund the 2004 Operations. Accounts Receivable increased \$1,465,041 due to a late payment by one user that was received in early January.

Non Current Assets such as Restricted Assets increased \$4,509,486 due to the NJEIT 2004 loan, resulting in a 364% increase to Loans Receivable of \$4,234,790. Cash and Cash Equivalents plus Investments increased 1.8%. There was little activity, other than the 2004 NJEIT loan, on the capital side or with restricted assets.

The change to Property, Plant and Equipment was negligible from year to year. There were no additions. Depreciation Expense for the year was \$4,895,809. Hence, Net Capital Assets are down \$4,935,342.

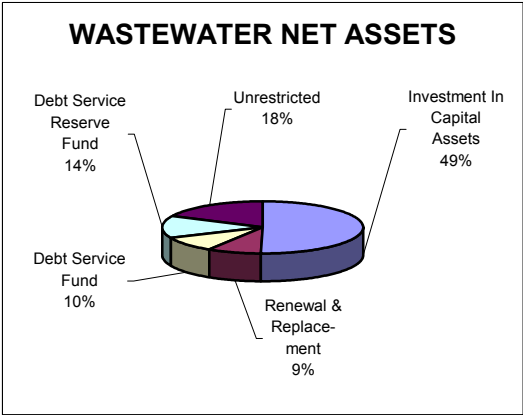
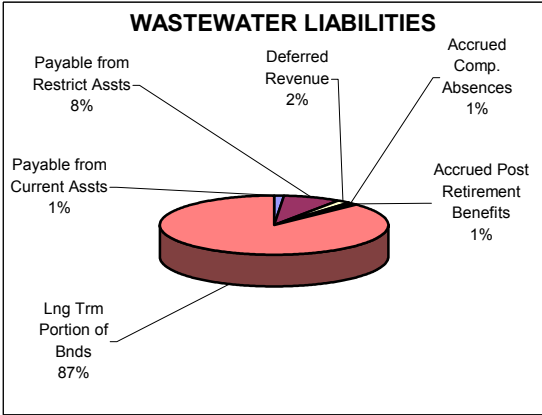
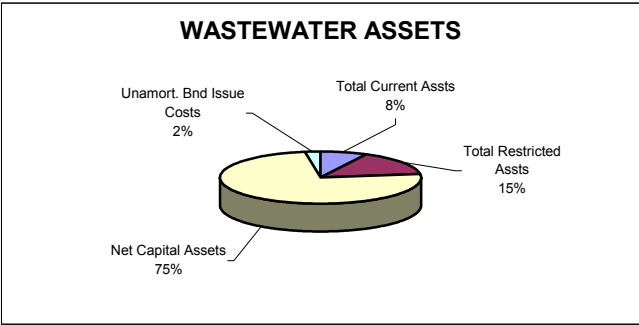
Total Current Liabilities Payable from Current Assets decreased by \$192,226 primarily because year-end Accounts Payable also decreased.

Total Current Liabilities Payable From Restricted Assets decreased again in 2004 primarily because of a 61.8% drop in Construction Contracts Payable and a 3% decrease in Accrued Interest on Bonds Payable. Current Maturities of Long-Term Debt increased .66% in accordance with the debt service schedule. Deferred Revenue has decreased by \$101,686 due to services provided in 2004 for leachate disposal.

Accrued Compensated Absences remain the same in 2004, since balances are sufficient. The Authority does not pay employees for their unused sick time hours at retirement.

In 2003, the Authority began to fund a potential and expected future liability for Other Post Retirement Benefits and began to account for the liability in anticipation of the implementation of GASB 45 and GASB 43. In 2004 this was increased by \$231,856 for a total of \$535,019.

Long-Term Obligations increased by \$702,773 in accordance with the payment of scheduled bond principal, and the addition of the NJEIT 2004 Loan. Total Net Assets or Total Fund Equity has decreased as a result of the reported loss for the 2004 year.



Comparative Statement of Revenues, Expenses and Changes in Net Assets

There was an increase to Operating Revenues of the Authority of 5.08%. The user fee charged to the fourteen participants increased by 5.54% which was a combination of a 2% increase in the rate charged and 3.38% increase in the anticipated flow. Sludge income dropped in 2004 by \$111,909 due to the poor quality of sludge processed, limiting the amount that can be received and processed. There was a 1.9% increase for Septage and Leachate disposal services provided. Sludge, Septage and Leachate disposal services is considered "outside income", and as such is utilized to reduce or stabilize the user fee charged to the Authority's 14 direct participants. The user fee is the primary revenue source of the Authority and supports the expenses as follows: \$11,946,943 for operating expenses, and \$7,181,610 for annual debt service.

Operating Expenses increased 6% from the prior year, a \$1,133,286 increase. The operating expenses were impacted most significantly by the increases seen in electricity rate increases as well as higher costs for natural gas usage. Electricity costs compared to the 2003 financials were 18% higher and Gas and Fuel charges were 28% greater than 2003 reported numbers. These two areas alone amounted to \$692,972 more in costs and accounted for 61% of the total increase from 2003 in Total Operating Expenses. Chemicals increased 9.75% from year to year and accounted for 4.8% of the total increase to Total Operating Expenses. Supplies and Maintenance was up 14.7% and accounted for 15.4% of the increase in Total Operating Expenses. Administrative costs that were affected by Insurance costs increased 19.5% and accounted for 15.6% of the increase to Total Operating Expenses. Indirect Operating costs decreased 13.28%, Contractual Services decreased by 13.85% and License and Permits decreased by 7%.

Salaries paid to employees of the Authority increased less than .50%, and Employee Benefits increased by 2.4%. Combined, Salaries and Benefits accounted for \$70,604 of the total \$1,133,285 increase to Total Operating Expenses.

Since there were no new additions, Depreciation remained relatively the same, with a slight increase of .33% from 2003. Amortization of Bond Issue Costs increased 22.9% or by \$54,871. This included the \$25,797.60 annual Amortization Expense associated with the 2003 Refunding and the proper classification of that expense from 2003.

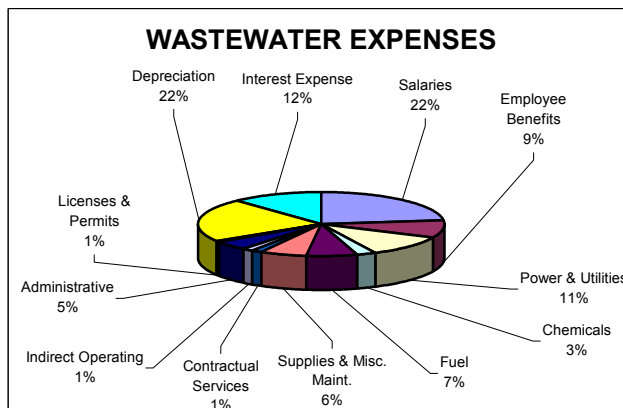
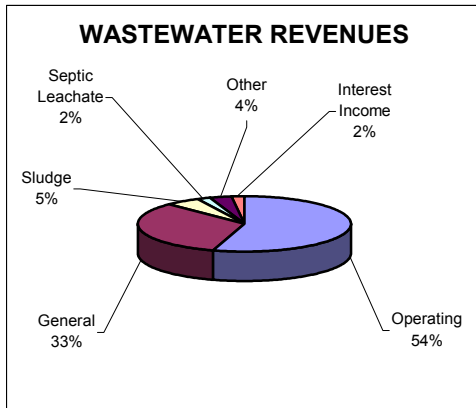
Total Operating Revenues exceeded Total Operating Expenses by \$1,453,540. This is a decrease of operating revenues over operating expenses when compared to 2003 by \$96,673, or a 6% decrease.

Non Operating Revenues/Expenses, which is comprised of Interest Income, Interest Expense, and Unrealized Gains/Losses on Investments, and other losses or gains, and Contributions showed a 15.3% increase in expenses. Interest Income dropped 42%. In 2003 there was unanticipated Interest Income realized from the New Jersey Environmental Infrastructure Trust program. Interest Expense increased 7.66% and in conformance with existing debt service schedules. There were no Unrealized Gains or Losses reported, and no other losses or gains, or contributions reported for 2004. In dollars, Total Non Operating Expenses increased \$302,582.

Total Expenses exceeded Total Income in 2004 by \$825,437.

Total Net Assets decreased \$825,437, from \$57,183,960 in 2003 to \$56,358,523 in 2004.

	<u>2003</u>	<u>2004</u>
Total Operating Revenues	<u>20,400,315</u>	<u>21,436,928</u>
Operating Expenses including Depreciation	<u>18,850,102</u>	<u>19,983,388</u>
Operating Income	1,550,213	1,453,540
Non-Operating Revenues/(Expenses)		
Interest Expense	(2,487,374)	(2,677,915)
Interest Income	687,803	398,938
Unrealized Gain/(Loss) on Investment	(48,268)	-0-
Loss on Refunding Bonds	<u>(128,556)</u>	<u>-0-</u>
Total Non-Operating Expense	<u>(1,976,395)</u>	<u>(2,278,977)</u>
Net Income/(Loss)	(426,182)	(825,437)
Net Assets, January 1	<u>57,610,142</u>	<u>57,183,960</u>
Net Assets, December 31	<u>57,183,960</u>	<u>56,358,523</u>



Statement of Cash Flows

Net Cash Provided by Operating Activities decreased 28%, a reduction in net cash of \$2,044,663. Payments to vendors had a 26% change from about \$7.4million in 2003 to \$9.4 million in 2004.

Cash used for Capital and Related Financing Activities decreased 14% when compared to 2003. Purchases of Capital Assets went from \$1,590,427 in 2003 to \$485,339 in 2004, a 69% decrease. Proceeds from Wastewater Trust Funding dropped 30%, with proceeds being \$971,758 in 2003, and \$684,612 in 2004. The Authority has four NJEIT Financings outstanding to date. The proceeds related to the improvements from the 1995 NJEIT Financing is 100% complete. The 1997 financing is 94% complete. The 2001 NJEIT Financing is 90% complete. The 2004 NJEIT loan was completed in November 2004, and as such only 6% of the total loan was drawn on and included in Proceeds from Wastewater Trust.

Payment of debt service decreased \$210,392 in accordance with the debt service schedules and the decrease is due to the 2003 Refunding.

Net Cash Provided By Investment Activities was down 43%. Income was up in 2003 by 48% due to interest income realized from the NJEIT program and discussed above.

Net Decrease in Cash and Cash Equivalents is \$1,176,592.

Balance at the Beginning of the Year was \$22,278,674. Balance at the End of the Year was \$20,965,160, a 5.9% decrease.

	<u>2003</u>	<u>2004</u>
Net Cash Provided by Operating Activities	<u>7,236,688</u>	<u>5,192,025</u>
Net Cash Provided by Noncapital Financing	-0-	10,866
Net Cash Used By Capital and Related Financing Activities	<u>(8,067,506)</u>	<u>(6,910,616)</u>
Net Cash Provided by Investing Activities	<u>693,896</u>	<u>394,211</u>
Net (Decrease)/Increase In Cash and Cash Equivalents	(136,922)	(1,313,514)
Balance – Beginning of the Year	<u>22,415,596</u>	<u>22,278,674</u>
Balance – End of Year	<u>22,278,674</u>	<u>20,965,160</u>

Solid Waste Division

Comparative Statement of Net Assets

The Solid Waste Division reports Total Net Assets of \$9,903,404. In 2003 there was total Net Assets of \$1,717,688. In 2002 there was a reported Fund Deficit (negative total assets) of \$6,974,455. From 2003 to 2004, Total Net Assets increased 477%, a \$8,185,716 increase. Total Liabilities decreased \$3,381,570 or 4%. Assets exceed Liabilities by \$9,903,404. This compares to 2003 where the division's Assets exceeded Liabilities by \$1,717,688

The Division's Net Assets of \$ 9,903,404 are comprised of the following:

- (1) Capital Assets, Net of Related Debt of (\$9,832,778), include Property, Plant and Equipment, net of Accumulated Depreciation, and net of Long-Term Debt and Short-Term Debt related to the purchase or construction of Capital Assets. Calculated as: (Net Capital Assets-Long-Term Portion of Bonds Payable – Current Maturities of Long-Term Debt = Investment in Capital Assets, Net of Related Debt).
- (2) Net Assets of \$8,053,769 restricted for the purpose of Debt Service Reserve Fund, in accordance with the Authority's debt covenants.
- (3) Unrestricted Net Assets of \$11,682,413 represents the portion available to maintain the Authority's continuing obligations to the Authority's service area, certain creditors, and current liabilities.

Unrestricted Net Assets decreased 16%, or \$2,164,110 over 2003.

Restricted- Debt Service Reserve Fund Net Assets remains the same at \$8,053,769, in accordance with the 1992 Solid Waste Bond Resolution and the defined "Debt Service Reserve Requirement". In 1992 the Authority made a draw from the Debt Service Reserve Fund for \$5,422,236.33 for the payment of the March 1, 2002 debt service. (See Notes to Financial Statements). The balance of cash in this fund as of 12/31/04, 12/31/03 and 12/31/02 is \$2,631,532.42.

Investment in Capital Assets, Net of Related Debt, of a negative \$9,832,778, improved by \$9,129,057, or 48%.

Total Net Assets improved by \$8,185,716, which is comprised of Operating Income of \$7,096,408 and Non-Operating Revenues in the amount of \$1,089,308.

	<u>2003</u>	<u>2004</u>
Total Current Assets	15,199,172	18,145,676
Total Restricted Assets	14,125,724	12,066,806
Net Capital Assets	50,032,184	54,808,278
Deferred Costs	<u>2,893,437</u>	<u>2,033,903</u>
Total Assets	82,250,517	87,054,663
Total Current Liabilities		
Payable from Current Assets	1,601,402	1,567,235
Total Current Liabilities Payable		
From Restricted Assets	6,097,479	5,757,858
Accrued Landfill Closure and		
Post Closure Care Cost	7,376,011	7,376,011
Accrued Compensated Absences		
And Post Retirement Benefit	874,099	1,374,099
Long and Short-Term Obligations	<u>64,583,838</u>	<u>61,076,056</u>
Total Liabilities	<u>80,532,829</u>	<u>77,151,259</u>
Net Assets	<u>1,717,688</u>	<u>9,903,404</u>

Current Assets increased with an increase in Cash and Cash Equivalents of 36%. There was a 4% growth in tipping fee income, 10% increase in recycling market and collection income, and 11.8% growth from composting activities. In addition, Accounts Receivable dropped 35% from \$3,324,288 to \$2,172,932.

Restricted Assets decreased by \$2,058,918. This is partly due to funds being expended from the Renewal and Replacement Fund for capital improvement and replacement purposes. The Renewal and Replacement Fund as of 12/31/04 had a balance of \$6,507,058. In 2003 it had a balance of \$7,983,521. The Authority raises money for capital improvements from the operating budget and from the tip fee revenue that supports the operating budget. This money is then deposited to the Renewal and Replacement Fund. In 2004 the R&R fund had deposits and earnings of \$5,030,595 added and withdraws for capital improvement purposes of \$6,507,058.

In addition, the remaining funds escrowed for Environmental Infrastructure Charge purposes were released. This fund totaled \$1,157,621 in 2003. Amounts Held by the State, which represents the Landfill Closure Fund, increased by \$415,342 in accordance with the approved closure plan.

Capital Assets from Property Plant and Equipment grew 9.8% in 2004, representing a dollar increase of \$8,793,083 in assets. Accumulated Depreciation Expense for the 2004 year increased 10% when compared to 2003. Depreciation Expense for the year was 20% greater than 2003. Net Property, Plant and Equipment grew \$4,776,094 or 9.5%. Most of the growth for Property Plant and Equipment is from new or ongoing cell construction at the ACUA landfill and for replacement of equipment. Most of the added depreciation expense is on individual landfill cells, which has a depreciation schedule of about seven years.

Total Current Liabilities Payable From Current Assets decreased slightly from the prior year, for a total change of \$34,167 on \$1,601,402. Most of the decrease was for Accounts Payable. There was also a decrease to Customer Escrow Deposits.

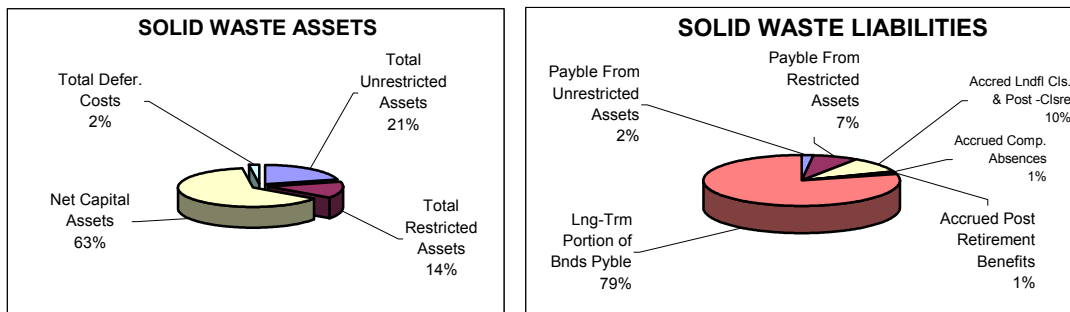
Total Current Liabilities from Restricted Assets decreased 5.6% or \$339,621. In 2003 there was a Loan Payable-Current Portion of \$1,085,181. This Loan has been paid off in full in 2004 and there is no 2004 Loan Payable-Current Portion to report.

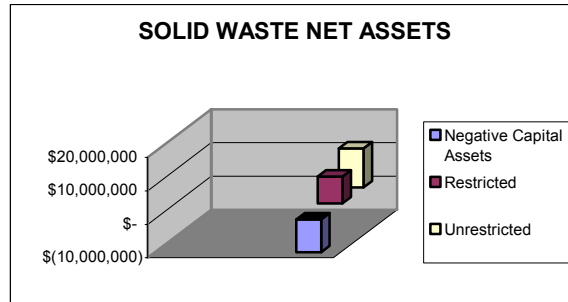
Construction Contracts Payable has an increase of \$583,143. Current Portion of Long Term Debt is \$240,000 greater than 2003. Accordingly, Accrued Interest Payable decreased \$77,583 as a result of principal payments made during 2004. Both Bonds Payable and Accrued Interest Payable have changed in accordance with the existing debt service schedule for the 1992 Solid Waste Revenue Bonds.

Non Current Liabilities Payable From Restricted Assets remains the same at \$7,376,011. This is the reported Balance Sheet liability for Landfill Closure and Post Closure Care costs. The percent of capacity utilized as of 12/31/04 is 31.9%. Indications are that this liability will decrease as changes to operations and available technology allow for greater capacity at the ACUA landfill, thereby potentially reducing the percent of usage by a significant amount. The Authority's independent consulting engineer performs the necessary calculation to determine the estimated liability in accordance with provisions of Statement No. 18 of the Government Accounting Standards Board, Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs.

Other Non-Current Liabilities include an accrual for expected future Post Retirement Benefit costs in the amount of \$800,000. This was increased in 2004 by \$500,000.

The Long-Term Portion of Bonds Payable has gone down \$3,507,782 due to the payment of principal in 2004. There was no new debt in 2004. Total Net Assets or Total Fund Equity has increased as a result of the \$8,185,716 reported Net Income for the 2004 year, and for the reasons described above and further described below.





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

There was a 5.25% increase to Solid Waste Operating Revenues in 2004. Tipping Fee revenue grew 4% or by \$960,693. Actual waste disposed went up by 2.24%. Collections and Recycling Income grew 10%, and Composting Income, which is income from the disposal of grass and leaves, and the income from the sale of eco products, like mulch and soil, increased 11%. In 2003 and 2002 this revenue source grew by 6% and 3% respectively. Other Income dropped 5%. Other Income is primarily comprised of fees related to the rental of non-utilized ACUA property, miscellaneous revenues, and late payment fees. Rental fees increase each year. Late payment fees continue to decline.

Total Operating Expenses increased 10.7% or \$2,541,716. Of this amount, Bad Debt Expense increased \$1,153,489, or 69% more than last year. Several difficult accounts were charged to Bad Debt Expense for 2004 in an effort to move them from Accounts Receivable on the Balance Sheet, however General Counsel is still pursuing many of these for collection. This totaled \$694,256 of the total Bad Debt Expense. In addition, the balance of Environmental Investment Charge receivables totaling \$679,362 was charged to Bad Debt. A reserve for future uncollectables of \$25,000 was also charged to Bad Debt. The Authority continues to record revenues for charges billed to Mercer County Improvement Authority, and then records a Bad Debt Expense for the same, which is offset to Allowance for Doubtful Accounts. This has been handled as such each year for charges billed since the inception of the agreement, which billing is in accordance with the Interdistrict Agreement between Atlantic County Utilities Authority and the Mercer County Improvement Authority. (See Notes to Financial Statements for status of litigation of this agreement and recent changes).

Depreciation Expense increased \$806,223, a 20% increase when compared to 2003. Most of this increase is for depreciation on landfill cells.

Indirect Operating Expense increased \$509,165 or 16%. While some Indirect Operating Expenses went down, other Indirect Operating Expenses increased. For example Hauling & Disposal of waste out of county jumped 48% from 2003 due to the Authority sending more waste to another facility. Insurance costs jumped 27% as a result of higher rates.

Employee Benefit costs increased 16% compared to 2003. Most of this increase was seen in Health Benefits, which increased 22% when compared to 2003. Salaries increased 2.64%. The Solid Waste Division operations are represented by one union. Salaries increased in accordance with the union contract and cost of living non-union increases. Overtime decreased again in 2004 to 13% of the total solid waste payroll.

Overtime was 15% in 2003 and 17% in 2002. Host Community Benefit costs dropped 7.9%. There was a payment adjustment in 2003 for the 2002-year, thereby inflating 2003 expenses. Host Community Benefit is paid to the host community, Egg Harbor Township, for every ton that comes into the facility. Tonnage was up 2.24% in 2004. Recycling and Other Taxes also reports a drop of about 4.5% also due to an adjustment.

Fuel increased 23% and Power increased 16.7%.

Supplies and Maintenance dropped 15% or \$225,863. Last year unanticipated repairs created unanticipated expenses.

Administrative costs dropped 28% for a savings of \$229,879. The primary savings came from renegotiated credit card fees and less outside professional services. Both of these type activities created a savings.

Total Operating Revenues exceeded Total Operating Expenses by \$7,096,408. This is an 11% decrease in Operating Income when compared to 2003.

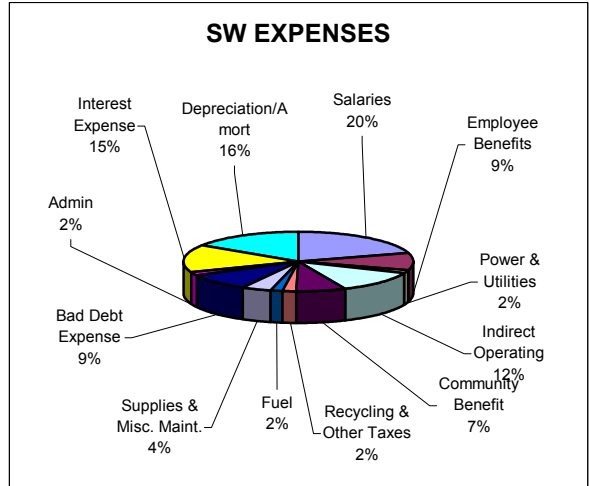
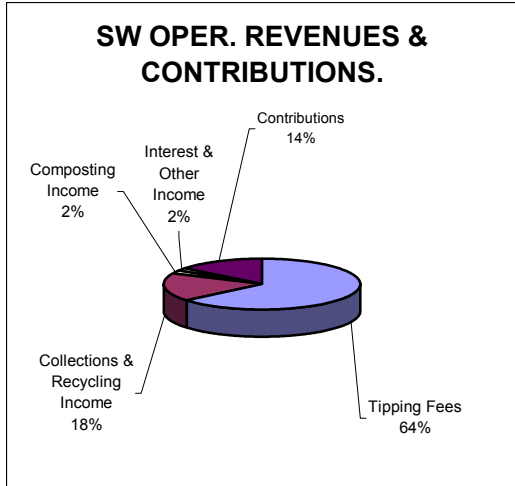
In 2004 the Authority again received \$5,630,747 from the State of New Jersey, in the form of a subsidy for the payment of most of its March 1, 2004 debt service.

Interest income more than doubled when compared to 2003.

Total Non-Operating Revenues/(Expenses) netted \$1,089,308. In 2003 Non-Operating Revenues/(Expenses) netted \$720,221.

Net Income after contributions is \$8,185,716

	<u>2003</u>	<u>2004</u>
Total Operating Revenues	<u>31,719,034</u>	<u>33,385,236</u>
Operating Expenses	19,676,812	21,412,305
Depreciation and Amortization	<u>4,070,300</u>	<u>4,876,523</u>
Total Operating Expenses	23,747,112	26,288,828
Operating Income	7,971,922	7,096,408
Non-Operating Revenues/(Expenses)		
Contributions-State Subsidy	5,630,747	5,630,747
Interest Expense	(4,972,504)	(4,683,614)
Interest Income	<u>61,975</u>	<u>142,175</u>
Total Non-Operating Expense	<u>720,221</u>	<u>1,089,308</u>
Net Income/(Loss)	8,692,143	8,185,716
Net Assets, January 1	(6,974,455)	<u>1,717,688</u>
Net Assets, December 31	<u>1,717,688</u>	<u>9,903,404</u>



Statement of Cash Flows

Net Cash Provided by Operating Activities decreased .5%. In 2003 it had increased by \$2,141,224 or 19%. In 2002 there was a 29% increase or \$2,524,169 increase to Cash Flows From Operating Activities. Receipts from Customers and Users grew 5% for an increase of \$1,494,428. Payments to Employees increased 6% for an additional \$161,958. Payments to Suppliers increased 12% or \$1,398,480.

Net Cash Used By Capital and Related Financing Activities increased \$1,124,546 or 11% as compared to 2003. Within this grouping, Purchases of Capital Assets increased by \$1,157,500 in 2004. Principal Paid On Capital Debt increased by \$225,000 or 7%, similar to the increase in 2003 and 2002, and in accordance with the debt service schedule for the 1992 Solid Waste Revenue Bonds. Interest Paid on Capital Debt decreased by \$316,716 or 6.28%, and in accordance with the debt service schedule.

State Contribution remained the same in 2004 at \$5,630,747. See "Comparative Statement of Revenues Expenses, and Changes in Net Assets".

A Loan Payable of \$1,085,181, that was fully paid off at year-end 2004, is reported on the Statement of Cash Flows, and is \$58,762 more than 2003.

Net Cash Provided By Investment Activities is \$122,771. In 2003 Net Cash Provided by Investment Activities was \$74,710.

Net Increase in Cash and Cash Equivalents is \$1,593,589 in 2004, which is 42% less than reported Net Increase for 2003, and mostly attributable to Net Cash Used by Capital.

Cash and Cash Equivalents at the beginning of the Year were \$23,005,182 and \$24,598,7712 at the end of the year, a 6.9% increase over 2003.

	<u>2003</u>	<u>2004</u>
Net Cash Provided by Operating Activities	13,240,788	13,174,778
Net Cash Provided/(Used) By Capital and Related Financing Activities	(10,568,548)	(11,693,094)
Net Cash Provided by Investing Activities	74,710	122,771
Net Increase In Cash and Cash Equivalents	2,746,950	1,593,589
Balance – Beginning of the Year	<u>20,258,232</u>	<u>23,005,182</u>
Balance – End of Year	23,005,182	24,598,771

Core Competencies

Wastewater Division

The Wastewater Division provides wastewater conveyance and treatment services (the System) under contracts with 14 municipalities and authorities within Atlantic County and one State-regulated public utility that services Atlantic City, NJ, also within Atlantic County.

The System consists of a wastewater treatment plant, a wastewater collection system of approximately 60 miles of gravity interceptor and force mains, 20 pumping stations and an ocean outfall line discharging into the Atlantic Ocean through a diffuser system.

The wastewater treatment plant provides primary and secondary wastewater treatment and is situated on about 300 acres located on the western outskirts of Atlantic City, NJ. The treatment plant has a capacity of 40 million gallons per day.

The Atlantic County Utilities Authority owns and operates the regional piping and pumping systems that receive, meter, and transport the municipal wastewater to the Authority's Regional Plant on City Island for treatment and discharge.

The User Fee, charged to the 14 municipalities and authorities within Atlantic County and the one State-regulated public utility that services Atlantic City, is the main source of revenue for the Wastewater Division. This is shown on the Comparative Statement of Revenues, Expenses and Changes in Net Assets as "User Service Agreements: Operating and General" and reported as Operating Revenues.

Other services provided include sludge, septage, leachate, and scum disposal, representing the next primary source of revenue to the Authority after User Fees.

Lab services, such as water testing, are provided, as needed for other governmental entities as well as private businesses.

The Wastewater Division also provides certain maintenance on a contractual basis for a local municipal utility and other governmental agencies.

The year 2004 marked the twenty-six year anniversary of the Wastewater system.

Solid Waste Division

In 1981 the Authority was designated by the Board of Chosen Freeholders of Atlantic County as the implementing agency for the County Solid Waste Management Plan, thereby empowering the division as the implementing agency to plan, design, construct and acquire all facilities for the implementation of a County-wide solid waste management program.

The Atlantic County Utilities Authority operates an extensive solid waste management system that consists of the following components:

- Transfer Station and Bulky Waste Recycling Center
- Landfill
- Recycling Center
- Composting Facility
- Maintenance Center

The Transfer Station processes all non-recyclable municipal waste delivered to the system. It is permitted to operate at a maximum of 1,950 tons of solid waste per day. Received waste goes through the Transfer Station before being transported to the Landfill for disposal.

Waste, with the exception of yard waste and recyclable material, is disposed at the Authority's Landfill. This includes municipal solid waste and non-putrescible (bulky and industrial) waste. Some waste, such as non-putrescible waste is shipped out in an effort to conserve landfill capacity. In 2004, over 380,000 tons of waste was brought into the ACUA Solid Waste facilities. Tipping Fees charged and paid for every ton of waste that comes into the solid waste facility is the primary source of revenue for the Solid Waste Division.

Recyclable material is processed at the Solid Waste Division's 58,500 square foot Recycling Center. Collection is provided to about twenty Atlantic County Municipalities and many commercial entities on a bi-weekly basis. Material received is recycled at the recycling center and then sold. In 2004, the Solid Waste Division collected about 34,000 tons of recyclable material. This material includes newspaper, plastic, aluminum, glass, and cardboard.

Collection of municipal solid waste, non-putrescible waste, and yard waste is also provided to municipalities who desire it and elect to contract with the Authority for such services.

Income realized from collection services is the second highest revenue source for the Solid Waste Division and is followed by the revenue realized from the marketing and sale of recyclable material.

The Authority's compost operation collects leaves, grass clippings, tree branches, clean wood, brush and Christmas trees. The branches, brush, and trees are processed into mulch and sold to the public, providing additional income to support the Solid Waste system.

The 17,000 square foot Maintenance Center maintains and services a fleet of over 70 vehicles and 30 pieces of specialized heavy equipment. In addition, the Solid Waste Division also provides maintenance to other governmental agencies on a contractual basis. This provides additional income to the solid waste system and optimizes the existing facility and staff.

Accountability

The Atlantic County Utilities Authority mission statement is:

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

The Authority’s accountability, first and foremost, is to protect the environment. The goal is to provide a cost effective and reliable service, and at the same time to protect the environment. This in turn means the Authority is accountable to its customers, the agencies and people served using the same principals: cost effective, efficient, reliable, and protective. This is what the employees of the Authority strive for each and every day. And each and every day, the Authority is accountable to its employees.

As an environmental utility, the Authority is also guided by or accountable to state government and the applicable rules and regulations that govern the Atlantic County Utilities Authority. More specifically, the Authority is accountable to the Department of Community Affairs, Division of Local Government Services and the Department of Environmental Protection.

As an environmental utility, the Authority is accountable to the U.S Environmental Protection Agency.

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

Governing Body

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

Action taken at a meeting of the Authority is not effective until approved by the County Executive or until ten days after the minutes of the meeting of the Authority Board Members has been delivered to the County Executive. In addition, no resolution or other action of the Authority Board providing for the issuance or refunding of bonds or other financial obligations of the Authority can be adopted or made effective without the prior written approval of the County Executive.

The Authority Board Members are:

Matthew Gallagher, Chairman
Chris C. Seher, Vice Chairman
Marvin E. Embry, Treasurer
Michele Verno, Assistant Treasurer
Vince Leonetti, Member
Andrew Berenato Sr., Member
Michael C. Epps, Member

Management of the Authority

The President of the Atlantic County Utilities Authority, Richard S. Dovey, manages the daily operations of the Authority. He oversees a staff of about 250, an annual operating budget of \$55 million, and a capital budget averaging \$6 million yearly. Senior staff is charged with the management of the operations and financial affairs of the Authority.

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

Richard S. Dovey, President. Mr. Dovey was appointed President of the Atlantic County Utilities Authority in June 1990. Prior to assuming his present responsibilities, he was Department Head for the Department of Regional Planning and Development with Atlantic County Government for eight years where he directed the Divisions of Planning, Economic Development, Engineering and Human Services. Prior to that he was Manager of the Rutland County, Vermont, Solid Waste District for two years. He has also held various environmental positions within Atlantic and Cape May Counties. A leader in the New Jersey environmental infrastructure and utility community, Mr. Dovey has served as chairman of the New Jersey Solid Waste Advisory Council and on the Board of Trustees of the N.J. Association of Environmental Authorities. While Mr. Dovey has served as president, ACUA wastewater and solid waste operations have been nationally recognized for excellence in innovation, efficiency, and environmental stewardship. Mr. Dovey is a graduate of Stockton State College with a Bachelor of Arts degree in Urban Studies.

Maria K. Mento, Chief Financial Officer. Ms. Mento was hired at the Authority in 1990 and was appointed as the Chief Financial Officer in the following year. Prior to accepting her position in 1990, she was with Atlantic County Government for ten years. Her tenure with Atlantic County Government was primarily with the Department of Finance, Treasurer's Office. Her responsibilities at the county included activities pertaining to the capital budget and operating budget, accounts payable, accounts receivable, monitoring various grants and contracts, payroll and employee pension services. Ms. Mento received her Bachelor of Arts degree in Business Administration from Glassboro State College (Rowan University), and her Masters of Business Administration in Finance from Rutgers, The State University of New Jersey. Ms. Mento is officially recognized by the State of New Jersey as a Certified County Finance Officer and a Certified Municipal Finance Officer and holds a Real Estate License in the State of New Jersey.

Paul Gallagher, Esq., Vice President and General Counsel. Mr. Gallagher was appointed to the position of Vice President and General Counsel of the Atlantic County Utilities Authority in the year 2000. Prior to that he was County Counsel for Atlantic County Government. He has held various other legal positions with governmental agencies and boards, and within the private sector. He is active in numerous community organizations and currently serves on several Boards. Mr. Gallagher was elected President of the Atlantic County Bar Association in 2003. He graduated with a Bachelor of Arts from Duquesne University College of Arts and Sciences and with a Masters of Business Administration from Clark University Graduate School of Management. He received his law degree from Boston College Law School.

Brian Lefke, Authority Board Secretary. Mr. Lefke was first hired by the Atlantic County Utilities Authority in 1988 and has served in various capacities. In 1991 he was promoted to Director of Solid Waste Operations and in December 2003 was re-assigned to Acting Authority Board Secretary. In 2004 he was appointed Authority Board Secretary. He is currently responsible for Human Resources and Personnel Management, Health Benefits and Insurance and serves as the Director of that department. Prior to coming to the Authority, Mr. Lefke was with Atlantic County Government for ten years. When he left the county, he was Acting Department Head for the Department of Planning and Engineering. He holds a Bachelor of Science degree in Environmental Science from Stockton State College and a Masters of Administrative Science from Fairleigh Dickinson University. Mr. Lefke is Chairman of the Atlantic Cape Community College Board of Trustees.

Thomas J. Lauletta, PE, CME, Vice President – Wastewater Division. The Authority hired Mr. Lauletta in 2004 after having served as Vice President of Perks Reutter Associates and the Authority's independent consulting engineer for 15 years. Mr. Lauletta has a degree in Civil Engineering from Drexel University and is a Professional Engineer in New Jersey and Pennsylvania, a licensed Wastewater Treatment Operator in Pennsylvania and a Certified Municipal Engineer in New Jersey. Prior to Mr. Lauletta's career as a consulting engineer he served as Plant Manager for Philadelphia's Wastewater Treatment Plants.

James M. Rutala, Vice President – Solid Waste Division. Mr. Rutala joined the Atlantic County Utilities Authority in 1988 to lead the development of the solid waste system. Prior to joining the Atlantic County Utilities Authority, Mr. Rutala was the Planning Director for the County of Atlantic. Mr. Rutala received his undergraduate degree from Seton Hall University, his Masters degree in City and Regional Planning from The Ohio State University, and his Masters of Business Administration from Rutgers University. He is a licensed Professional Planner in the State of New Jersey and is a member of the American Institute of Certified Planners.

Eugene L. Pettitt, PE, PP Chief Engineer. The Atlantic County Utilities Authority hired Mr. Pettitt in September 1990. Prior to joining the Authority, he was appointed as Atlantic County Engineer and held that position for six years. Earlier career experiences included Assistant Atlantic County Engineer, and Chief Design Engineer and Office Manager for a private consulting engineering firm. Mr. Pettitt holds an Associates Degree in Mathematics from Cumberland County College and a Bachelors Degree in Civil Engineering from Drexel University. He is licensed to practice Engineering and Planning in the State of New Jersey.

Funding of Infrastructure and Debt Management

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

- Borrowings from the New Jersey Environmental Infrastructure Trust
- Short-Term Loan Agreements (usually averaging 1 to 3 years)
- Lease With Option To Purchase Financing (usually averaging 3 to 5 years)
- Funding Incrementally or Annually from Annual Operating Budget

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

Auditors

The Authority has a policy of changing Auditors every 3 to 5 years to encourage any new or fresh reviews of the Atlantic County Utilities Authority financial operations and reporting of financial status, and to eliminate any perceived or potential conflicts of interest that may develop due to long-term relationships. The current auditors have reported for the 2003 and 2004 year.

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

FINANCIAL STATEMENTS

**ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

ASSETS	2004			2003
	Wastewater Division	Solid Waste Division	Total	
Current Assets:				
Cash and Cash Equivalents	\$ 8,070,376	\$ 15,300,097	\$ 23,370,473	\$ 20,897,622
Accrued Interest Receivable	55,910	21,352	77,262	46,602
Accounts Receivable (net of Allowance \$14,341,890 and \$15,146,115 in 2004 and 2003 respectively)	2,333,880	1,799,806	4,133,686	3,819,542
Other Accounts Receivable		373,126	373,126	373,585
Internal Accounts	(651,295)	651,295	-	-
Total Current Assets	9,808,871	18,145,676	27,954,547	25,137,351
Noncurrent Assets:				
Restricted Assets:				
Cash and Cash Equivalents	12,894,784	9,298,674	22,193,458	24,386,234
Investments	1,586,675		1,586,675	1,593,440
Amounts Held by State of New Jersey		2,767,121	2,767,121	2,351,779
Accrued Interest Receivable	312	1,011	1,323	1,346
Loans Receivable	5,397,438		5,397,438	1,162,648
Total Noncurrent Assets	19,879,209	12,066,806	31,946,015	29,495,447
Capital Assets:				
Property, Plant and Equipment (Note 4)	199,671,066	98,070,351	297,741,417	288,987,867
Less: Accumulated Depreciation	(102,848,598)	(43,262,073)	(146,110,671)	(137,197,873)
Net Capital Assets	96,822,468	54,808,278	151,630,746	151,789,994
Deferred Costs:				
Preoperating Costs (Net of Accumulated Depreciation of \$8,622,346 and \$7,821,740 in 2004 and 2003, respectively)		1,237,155	1,237,155	2,037,761
Unamortized Bond Issue Costs	3,236,102	796,748	4,032,850	4,076,396
Total Deferred Costs	3,236,102	2,033,903	5,270,005	6,114,157
TOTAL ASSETS	\$ 129,746,650	\$ 87,054,663	\$ 216,801,313	\$ 212,536,949

ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003

LIABILITIES	2004			2003
	Wastewater Division	Solid Waste Division	Total	
Current Liabilities Payable from Current Assets:				
Accounts Payable	\$ 857,328	\$ 1,421,106	\$ 2,278,434	\$ 2,503,719
Customer Deposits		146,129	146,129	149,064
Deferred Revenue	99,859		99,859	98,032
	<u>957,187</u>	<u>1,567,235</u>	<u>2,524,422</u>	<u>2,750,815</u>
Total Current Liabilities Payable from Current Assets				
Current Liabilities Payable from Restricted Assets:				
Construction Contracts Payable	209,953	655,610	865,563	623,007
Loan Payable - Current Portion	-	-	-	1,085,181
Current Portion of Long - Term Debt	4,431,029	3,565,000	7,996,029	7,726,840
Accrued Interest	1,231,374	1,537,248	2,768,622	2,889,869
	<u>5,872,356</u>	<u>5,757,858</u>	<u>11,630,214</u>	<u>12,324,897</u>
Total Current Liabilities Payable from Restricted Assets:				
Noncurrent Liabilities Payable from Restricted Assets:				
Accrued Landfill Closure and Post - Closure Care Cost	-	7,376,011	7,376,011	7,376,011
	<u>-</u>	<u>7,376,011</u>	<u>7,376,011</u>	<u>7,376,011</u>
Noncurrent Liabilities:				
Deferred Revenue	1,597,084		1,597,084	1,698,770
Accrued Compensated Absences	400,000	574,099	974,099	974,099
Post Retirement Benefits Payable	535,019	800,000	1,335,019	603,163
Long - Term Portion of Loan Payable	-	-	-	
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$1,046,883 and \$832,482 for Wastewater Bonds and \$363,944 and \$421,162 for Solid Waste Bonds in 2004 and 2003, respectively)	64,026,481	61,076,056	125,102,537	127,907,546
	<u>66,558,584</u>	<u>69,826,166</u>	<u>136,384,750</u>	<u>138,559,589</u>
Total Noncurrent Liabilities				
TOTAL LIABILITIES	<u>\$ 73,388,127</u>	<u>\$ 77,151,259</u>	<u>\$ 150,539,386</u>	<u>\$ 153,635,301</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

NET ASSETS	2004			2003
	Wastewater Division	Solid Waste Division	Total	
Investment in Capital Assets, Net of Related Debt	\$ 28,364,958	\$ (9,832,778)	\$ 18,532,180	\$ 15,070,427
Restricted for:				
Solid Waste:				
Debt Service Reserve		8,053,769	8,053,769	8,053,769
Wastewater:				
Renewal and Replacement	4,800,000		4,800,000	4,800,000
Debt Service Fund	5,405,617		5,405,617	4,434,459
Debt Service Reserve Fund	7,754,743		7,754,743	7,462,955
Unrestricted	10,033,205	11,682,413	21,715,618	19,080,038
TOTAL NET ASSETS	<u>56,358,523</u>	<u>9,903,404</u>	<u>66,261,927</u>	<u>58,901,648</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 129,746,650</u>	<u>\$ 87,054,663</u>	<u>\$ 216,801,313</u>	<u>\$ 212,536,949</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004		Total	2003
	Wastewater Division	Solid Waste Division		
Operating Revenues:				
Wastewater				
User Service Agreements:				
Operating	\$ 11,946,943	\$	\$ 11,946,943	\$ 10,685,178
General	7,181,610		7,181,610	7,455,504
Sludge	1,131,730		1,131,730	1,243,639
Septage and Leachate	410,121		410,121	402,390
Other	766,524		766,524	613,604
Solid Waste				
Tipping Fees		24,967,952	24,967,952	24,007,259
Collections and Recycling Income		7,087,113	7,087,113	6,437,156
Composting Income		809,402	809,402	723,897
Other		520,769	520,769	550,722
Total Operating Revenues	21,436,928	33,385,236	54,822,164	52,119,349
Operating Expenses:				
Salaries	5,165,988	6,285,358	11,451,346	11,264,683
Employee Benefits	1,956,030	2,916,128	4,872,158	4,422,522
Power and Utilities	2,415,810	558,334	2,974,144	2,524,323
Chemicals	613,122		613,122	558,632
Fuel	1,476,423	516,525	1,992,948	1,572,878
Supplies and Miscellaneous Maintenance	1,349,876	1,261,198	2,611,074	2,662,544
Contractual Services	331,617		331,617	384,956
Indirect Operating Expenses	274,217	3,667,743	3,941,960	3,474,843
Administrative	1,076,167	593,871	1,670,038	1,723,937
Community Benefit		2,148,983	2,148,983	2,333,676
Recycling and Other Taxes		635,701	635,701	665,494
Licenses and Permits	134,139		134,139	144,544
Bad Debt Expense		2,828,464	2,828,464	1,674,975
Depreciation	4,895,809	4,817,595	9,713,404	8,890,960
Amortization of Bond Issue Costs	294,190	58,928	353,118	298,247
Total Operating Expenses	19,983,388	26,288,828	46,272,216	42,597,214
Operating Income	1,453,540	7,096,408	8,549,948	9,522,135
Non - Operating Revenues / (Expenses):				
Interest Income	398,938	142,175	541,113	749,778
Interest Expense	(2,677,915)	(4,683,614)	(7,361,529)	(7,459,875)
Unrealized Gain / (Loss) on Investment	-		-	(48,268)
Loss on Refunding Bonds	-		-	(128,556)
Contributions - State Subsidy		5,630,747	5,630,747	5,630,747
Total Non - Operating Revenues / (Expenses)	(2,278,977)	1,089,308	(1,189,669)	(1,256,174)
Net Income / (Loss)	(825,437)	8,185,716	7,360,279	8,265,961
Net Assets (Deficit), January 1	57,183,960	1,717,688	58,901,648	50,635,687
Net Assets (Deficit), December 31	\$ 56,358,523	\$ 9,903,404	\$ 66,261,927	\$ 58,901,648

**ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004			2003
	Wastewater Division	Solid Waste Division	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers and Users	\$ 19,737,658	\$ 31,705,193	\$ 51,442,851	\$ 50,106,633
Payments to Employees	(5,165,988)	(6,285,358)	(11,451,346)	(11,338,606)
Payments to Suppliers	(9,379,645)	(12,245,057)	(21,624,702)	(18,290,551)
Net Cash Provided by Operating Activities	<u>5,192,025</u>	<u>13,174,778</u>	<u>18,366,803</u>	<u>20,477,476</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating Subsidies and Transfers to Other Funds	<u>10,866</u>	<u>(10,866)</u>	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of Capital Assets	(485,339)	(8,185,541)	(8,670,880)	(8,618,468)
Principal Paid on Capital Debt	(4,401,841)	(3,325,000)	(7,726,841)	(7,292,614)
Interest Paid on Capital Debt	(2,708,048)	(4,728,119)	(7,436,167)	(8,172,502)
State Contribution		5,630,747	5,630,747	5,630,747
Loan Repayments		(1,085,181)	(1,085,181)	(1,026,419)
Proceeds from Wastewater Trust	684,612		684,612	971,758
Net Refunding Bond Proceeds			-	(128,556)
Net Cash Provided / (Used) by Capital and Related Financing Activities	<u>(6,910,616)</u>	<u>(11,693,094)</u>	<u>(18,603,710)</u>	<u>(18,636,054)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Income	<u>394,211</u>	<u>122,771</u>	<u>516,982</u>	<u>768,606</u>
Net Cash Provided by Investing Activities	<u>394,211</u>	<u>122,771</u>	<u>516,982</u>	<u>768,606</u>
Net Increase in Cash and Cash Equivalents	(1,313,514)	1,593,589	280,075	2,610,028
Cash and Cash Equivalents, January 1	<u>22,278,674</u>	<u>23,005,182</u>	<u>45,283,856</u>	<u>42,673,828</u>
Cash and Cash Equivalents, December 31	<u>\$ 20,965,160</u>	<u>\$ 24,598,771</u>	<u>\$ 45,563,931</u>	<u>\$ 45,283,856</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income	\$ 1,453,540	\$ 7,096,408	\$ 8,549,948	\$ 9,522,135
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	4,895,809	4,817,595	9,713,404	8,890,960
Amortization of Bond Issuance Costs	294,190	58,928	353,118	298,247
Bad Debt Expense		2,828,464	2,828,464	1,674,975
(Increase) in Accounts Receivable	(1,701,097)	(1,677,108)	(3,378,205)	(1,552,719)
Increase (Decrease) in:				
Accounts and Other Payables	247,756	468,768	716,524	2,103,875
Deferred Revenue	1,827		1,827	(97,843)
Customer Deposits		(2,935)	(2,935)	58,131
Amounts Held by the State		(415,342)	(415,342)	(420,285)
	<u>\$ 5,192,025</u>	<u>\$ 13,174,778</u>	<u>\$ 18,366,803</u>	<u>\$ 20,477,476</u>

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

NOTE 1 – AUTHORITY DESCRIPTION AND GENERAL INFORMATION

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

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

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

The Solid Waste Division commenced operations in August of 1990 with the opening of a transfer station for waste disposal. The Solid Waste Division’s recycling activities were still considered to be in a construction state and recycling related pre-operating 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.

NOTE 2 – BASIS OF PRESENTATION

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles (“GAAP”) applicable to enterprise funds of state and local governments.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 2 – BASIS OF PRESENTATION - Continued

The Authority's financial statements include all the accounts of all the Authority's operations. The primary criterion for including activities within a reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is whether:

- the organization is legally separate (can sue or be sued in their own name);
- the primary government holds the corporate powers of the organization;
- the primary government appoints a voting majority of the organization's board;
- the primary government is able to impose its will on the organization;
- the organization has the potential to impose a financial benefit/burden on the primary government;
- there is a fiscal dependency by the organization on the primary government;

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments* (Statement No. 34). The Statement provides for the most significant change in financial reporting in over twenty years. The Authority implemented the requirements of Statement No. 34, effective January 1, 2003. The Authority has also implemented GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. The Authority has also adopted GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

The more significant of the Authority's accounting policies are described below.

Financial Statement Presentation and Basis of Accounting

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Statement Presentation and Basis of Accounting - Continued

Non – exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants. Deferred Revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Wastewater Service Contract

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

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

Wastewater Bond Resolutions

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

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, 2004 and 2003, the Construction Fund and Wastewater Trust Fund cash equivalents amounted to \$383,194 and \$176,760 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, 2004 and 2003, the Rebate Fund amounted to \$81,758 and \$81,318 respectively.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Wastewater Bond Resolutions - Continued

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

Debt Service Fund – The Debt Service Fund is to accumulate a balance sufficient to pay the interest and principal to become due at or before the January 15th next ensuing, plus any unpaid principal and interest then due. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. In addition, a sinking fund is included which shall equal the aggregate amount of all sinking fund installments required to redeem bonds on the next January 15th beginning in 2004 for the Sewer Revenue Refunding Bonds (see Note 7). At December 31, 2004 and 2003, the Debt Service Fund cash amounted to \$5,405,617 and \$5,243,813, 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. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. At December 31, 2004 and 2003, the Debt Service Reserve Fund cash amounted to \$2,608,545 and \$2,397,390, respectively. The balance of the Debt Service Reserve Requirement is funded by a surety issued by Ambac Assurance Corporation.

Renewal and Replacement Fund – The balance in this fund shall be maintained equal to 3% of gross revenues or such larger amount as determined by the Consulting Engineer. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. With approval of the Consulting Engineer, this fund may be used to meet reasonable and necessary expenses for major repairs, renewals, replacements or maintenance items of a type not recurring annually. At December 31, 2004 and 2003, the Renewal and Replacement Fund cash amounted to \$5,629,171 and \$5,915,841, respectively. The System Reserve Fund, a component of the Renewal and Replacement Fund, cash requirement at December 31, 2004 and 2003 was \$4,800,000 and \$4,800,000, respectively.

Solid Waste Bond Resolutions

The Solid Waste System Revenue Bonds (Series 1992) were issued pursuant to a General 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, 2004 and 2003, Restricted Cash and Investments included in this Fund amounted to \$0.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Solid Waste Bond Resolutions - Continued

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, 2004 and 2003, the Rebate Fund amounted to \$0.

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

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, 2004 and 2003, the Debt Service Fund cash amounted to \$160,083 and \$1, 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 amount of 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, 2004 and 2003, the Debt Service Reserve Fund cash amounted to \$2,631,532 and \$2,631,532, respectively.

There was a draw on the Debt Service Reserve Fund in 2002 in the amount of \$5,422,237 for the payment of the March 1, 2002 principal and interest. Officials of the State of New Jersey Treasurer's Office directed the Authority to use the Debt Service Reserve Fund for the March 1, 2002 debt service payment. It was indicated that no subsidy would be forthcoming from the State of New Jersey for the March 1, 2002 principal and interest payment, as had been done in prior years, until the Debt Service Reserve fund was depleted.

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 the closure and post closure of any System component, or (c) repairs, renewals, replacements resulting from the occurrence of uncontrollable events or circumstances which are not covered by the proceeds of an insurance policy. At December 31, 2004 and 2003, the Renewal and Replacement Fund cash amounted to \$6,507,058 and \$7,983,521, respectively.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

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

Investments are obligations of the United State Government and are stated at cost, which approximates market. Investments are not considered cash equivalents for purposes of the Statement of Cash Flows.

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 pre-operating costs are amortized over 25 years, the term of the debt which funded such costs.

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.

Unamortized Debt Issue Costs

Debt issue costs are being amortized over the life of the issues.

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.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allocation of Common Costs

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

Restricted Assets

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

Inter - District Agreements

The Solid Waste Division is a party to one agreement which provides for minimum delivery requirements of municipal waste from the Authority.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consisted of the following at December 31, 2004 and 2003:

Wastewater Division:

	<u>2003</u>	<u>Increases</u>	<u>2004</u>
Land	\$ 12,691,336	\$	\$ 12,691,336
Sewer Mains and Interceptors	73,291,532		73,291,532
Buildings and Improvements	31,987,176	(81,919)	31,905,257
Machinery and Equipment	38,757,456	42,386	38,799,842
Incinerator Facility	16,353,524		16,353,524
Atlantic Coastal Alternative	26,629,575		26,629,575
	<u>199,710,599</u>	<u>(39,533)</u>	<u>199,671,066</u>
Less: Accumulated Depreciation	(97,952,789)	(4,895,809)	(102,848,598)
	<u>\$ 101,757,810</u>	<u>\$ (4,935,342)</u>	<u>\$ 96,822,468</u>

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT - Continued

Property, Plant and Equipment consisted of the following at December 31, 2004 and 2003:

Solid Waste Division:

	<u>2003</u>	<u>Increases</u>	<u>2004</u>
Land and Improvements	\$ 12,977,946	\$ 126,700	\$ 13,104,646
Buildings	22,727,963	122,094	22,850,057
Equipment and Vehicles	13,276,560	1,629,905	14,906,465
Landfill Design and Implementation	36,980,073	5,799,654	42,779,727
Planning and Designs	3,314,726	1,114,730	4,429,456
	<u>89,277,268</u>	<u>8,793,083</u>	<u>98,070,351</u>
Less: Accumulated Depreciation	(39,245,084)	(4,016,989)	(43,262,073)
	<u>\$ 50,032,184</u>	<u>\$ 4,776,094</u>	<u>\$ 54,808,278</u>

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

\$9,859,501 pre-operating costs dating back to 1987; \$2,631,532 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.

NOTE 5 – BONDS PAYABLE

Wastewater Revenue and Revenue Refunding Bonds at December 31, 2004 and 2003 consist of the following:

	<u>2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>2004</u>
Wastewater Revenue Bonds, 1991 Series	\$ 1,724,753	\$	\$ 203,642	\$ 1,521,111
Sewer Revenue Refunding and Sewer Revenue Revenue Bonds, 1994 Series A and B	255,000		255,000	-
Wastewater Treatment Trust - 1995	5,471,342		398,722	5,072,620
Wastewater Treatment Trust - 1997	8,297,863		506,124	7,791,739
Wastewater Treatment Trust - 2001	1,864,108		88,353	1,775,755
Environmental Infrastructure Trust - 2004		4,919,402		4,919,402
Wastewater Revenue Refunding Bonds, 1998 Series	38,555,000		2,950,000	35,605,000
Sewer Revenue Refunding Bonds, 2003 Series	10,725,000			10,725,000
	<u>66,893,066</u>	<u>4,919,402</u>	<u>4,401,841</u>	<u>67,410,627</u>
Unamortized Bond Premium	1,142,053		95,170	1,046,883
Unamortized Bond Discount	(309,571)		(309,571)	-
Total	<u>\$ 67,725,548</u>	<u>\$ 4,919,402</u>	<u>\$ 4,187,440</u>	<u>\$ 68,457,510</u>

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 5 – BONDS PAYABLE - Continued

Solid Waste Revenue Bonds and Loans at December 31, 2004 and 2003 consist of the following:

	<u>2003</u>	<u>Decreases</u>	<u>2004</u>
Solid Waste System Revenue Bonds	\$ 68,330,000	\$ 3,325,000	\$ 65,005,000
Loan Payable	1,085,181	1,085,181	-
Unamortized Bond Discount	(421,162)	(57,218)	(363,944)
Total	<u>\$ 68,994,019</u>	<u>\$ 4,352,963</u>	<u>\$ 64,641,056</u>

The following schedule combines the Total Debt, net of unamortized premiums and discounts for the two divisions:

Total Net Debt,	
Wastewater Division	\$ 68,457,510
Solid Waste Division	64,641,056
Total Net Debt of the Authority	<u>\$ 133,098,566</u>
Current Portion of Long Term Debt:	
Wastewater Division	\$ 4,431,029
Solid Waste Division	3,565,000
Noncurrent Portion of Debt:	
Wastewater Division	64,026,481
Solid Waste Division	61,076,056
Total Net Debt of the Authority	<u>\$ 133,098,566</u>

Description of Bonds Payable

At December 31, 2004, bonds payable consisted of the following issues:

Wastewater Division

\$3,691,756 New Jersey Pinelands Infrastructure Trust Fund Loan, dated 1991, due in semiannual installments for principal and interest through January 1, 2011, bearing interest at 3.68% per annum. The balance remaining as of December 31, 2004 is \$1,521,111.

\$12,280,000 Sewer Refunding Bonds, dated June 29, 1994, originally due in annual installments for principal through January 15, 2015, bearing interest at various rates from 4.20% to 5.85% per annum. During 2003 these bonds were partially refunded and defeased. The final maturities on these bonds were paid in 2004. The balance remaining as of December 31, 2004 is \$0.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 5 – BONDS PAYABLE - Continued

Description of Bonds Payable - Continued

Wastewater Division - Continued

\$7,967,538 New Jersey Wastewater Trust Fund Loan dated 1995, due in semiannual installments for principal and interest through August 15, 2015, bearing interest at various rates from 0.00% to 5.25% per annum. The balance remaining as of December 31, 2004 is \$5,072,620.

\$10,602,202 New Jersey Wastewater Trust Fund Loan dated 1997, due in semiannual installments for principal and interest through August 1, 2017, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2004 is \$7,791,740.

\$1,972,543 New Jersey Wastewater Trust Fund Loan dated 2001, due in semiannual installments for principal and interest through August 1, 2021, bearing interest at various rates from 0.00% to 5.50% per annum. The balance remaining as of December 31, 2004 is \$1,775,755.

\$51,405,000 Sewer Refunding Bonds dated January 15, 1998, due in annual installments for principal through January 15, 2015, bearing interest at various rates from 3.75% to 5.25% per annum. The balance remaining as of December 31, 2004 is \$35,605,000.

\$10,725,000 Sewer Refunding Bonds dated October 15, 2003, due in annual installments for principal beginning January 15, 2005 through January 15, 2015, bearing interest at various rates from 2.00% to 5.75% per annum. The balance remaining as of December 31, 2004 is \$10,725,000.

\$4,919,402 New Jersey Environmental Infrastructure Trust Fund Loan dated 1994, due in semiannual installments for principal and interest through August 1, 2024, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2004 is \$4,919,402.

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

Solid Waste Division

\$87,650,000 Solid Waste System Revenue Bonds, dated April 15, 1992, due in annual installments for principal through September 1, 2016, bearing interest at various rates from 5.200% to 7.125% per annum. The balance remaining as of December 31, 2004 is \$65,005,000.

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 5 – BONDS PAYABLE - Continued

Debt service requirements on serial bonds and loans payable at December 31, 2004 are as follows:

Year Ended December 31,	Wastewater Division		Solid Waste Division	
	Principal	Interest	Principal	Interest
2005	\$ 4,431,029	\$ 2,683,898	\$ 3,565,000	\$ 4,486,969
2006	5,038,829	2,501,598	3,825,000	4,228,319
2007	5,234,912	2,295,373	4,100,000	3,950,944
2008	5,439,651	2,076,850	4,400,000	3,653,444
2009	5,677,129	1,844,650	4,720,000	3,331,294
2010 - 2014	30,562,089	5,236,491	29,380,000	10,879,875
2015 - 2019	9,364,268	508,969	15,015,000	1,088,877
2020 - 2024	1,662,720	73,618		
	<u>\$ 67,410,627</u>	<u>\$ 17,221,447</u>	<u>\$ 65,005,000</u>	<u>\$ 31,619,722</u>

Year Ended December 31,	Authority Grand Total		
	Principal	Interest	Total
2005	\$ 7,996,029	\$ 7,170,867	\$ 15,166,896
2006	8,863,829	6,729,917	15,593,746
2007	9,334,912	6,246,317	15,581,229
2008	9,839,651	5,730,294	15,569,945
2009	10,397,129	5,175,944	15,573,073
2010 - 2014	59,942,089	16,116,366	76,058,455
2015 - 2019	24,379,268	1,597,846	25,977,114
2020 - 2024	1,662,720	73,618	1,736,338
	<u>\$ 132,415,627</u>	<u>\$ 48,841,169</u>	<u>\$ 181,256,796</u>

NOTE 6 – LOAN PAYABLE

During 2003, the Authority entered into a loan agreement with Newco Waste Systems of Linwood, New Jersey (“Newco”). Under the agreement authorized by the Department of Environmental Protection, the Authority borrowed \$2,111,600 of which \$111,600 was deferred interest, from Newco’s prepaid asset account. The loan is to be repaid in twenty-four monthly payments, which began on January 31, 2003, and ran through December 31, 2004. The interest rate is 5.58% per annum. The monthly payment for principal and interest is \$93,188. This loan was paid during the year.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 7 – PENSION PLANS

Description of Plans - All required employees of the Authority are covered by either the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State 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.

Vesting and Benefit Provisions - The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B, and N.J.S.A. 18A:6C for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 7 – PENSION PLANS - Continued

Contribution Requirements - The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contributions of 3% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate for the PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

Three Year Trend Information for PERS					
Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation		
12/31/04	\$ -	100%	\$ -	-	-
12/31/03	-	100%	-	-	-
12/31/02	-	100%	-	-	-

NOTE 8 – POST-RETIREMENT BENEFITS

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required PERS, respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2004, there were 64,628 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994 with an additional contribution beginning in fiscal year 1996 to maintain a medical reserve by one half of one percent of the active State payroll.

In accordance with P.L. 2003, c.11 which allowed the State to use available reserves in the Post-Retirement Medical Reserve Funds to cover required pay-as-you-go medical premiums, the State did not make a contribution to the PERS in Fiscal Year 2003 toward the cost of post-retirement medical benefits. This legislation also suspends in Fiscal Years 2003 and 2004 the additional post-retirement medical contribution to increase the fund balance by one half of one percent of active member salaries for the valuation period. State law provides that post retirement medical contributions resume in Fiscal Year 2004 and will be computed to provide an increase in the reserve fund of three fifths of one percent of active member salaries for the valuation period.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 9 – COMPENSATED ABSENCES

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

NOTE 10 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

NOTE 11 – RISK MANAGEMENT

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

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

NOTE 12 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

GASB Statement No. 3 requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments.

The cash deposits held at financial institutions can be categorized as follows:

Category 1 Deposits that are insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3 Deposits which are not collateralized or insured.

At December 31, 2004, the carrying amount of the Authority's deposits (cash and cash equivalents) was \$45,563,931 and the bank balance was \$46,060,559. The entire bank balance throughout the year was covered by federal depository insurance and/or by a collateral pool maintained by the banks as required by New Jersey statutes.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 12 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of credit risk:

Category 1 Investments that are insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

The carrying value of investments owned at year end was \$1,586,674, which are carried at cost, which approximates fair value.

Based on the risk levels described above, all of the Authority's cash deposits and investments are classified as follows:

		Cash and Cash Equivalents		Investments		Total
Category 1	\$	300,000	\$		\$	300,000
Category 2						-
Category 3		45,760,559		1,586,674		47,347,233
	\$	46,060,559	\$	1,586,674	\$	47,647,233

NOTE 13 – AMOUNTS HELD BY THE STATE OF NEW JERSEY

The State of New Jersey holds the Landfill Closure Escrow Account in the name of the Atlantic County Utilities Authority. These Cash and Investments consisted of the following at December 31, 2004:

United State Treasury Notes	\$	2,679,655	
Cash		87,466	
	\$	2,767,121	

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 and 2003
(CONTINUED)**

NOTE 14 – DEFERRED COMPENSATION

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible regular employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights have been removed from the books and accounts of the Authority as they are no longer the property or rights of the Authority.

OTHER SUPPLEMENTARY INFORMATION

WASTEWATER DIVISION

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
COMPARATIVE STATEMENT OF NET ASSETS
MODIFIED GAAP BASIS
DECEMBER 31, 2004 AND 2003**

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash and Cash Equivalents	\$ 8,070,376	\$ 9,665,115
Accrued Interest Receivable	55,910	44,654
Accounts Receivable	2,333,880	868,839
	<hr/>	<hr/>
Total Current Assets	10,460,166	10,578,608
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	12,894,784	12,613,559
Investments	1,586,675	1,593,440
Accrued Interest Receivable	312	76
Loans Receivable	5,397,438	1,162,648
	<hr/>	<hr/>
Total Noncurrent Assets	19,879,209	15,369,723
Capital Assets:		
Property, Plant and Equipment	199,859,451	199,755,099
Less: Accumulated Depreciation	(102,848,598)	(97,952,789)
	<hr/>	<hr/>
Net Capital Assets	97,010,853	101,802,310
Unamortized Bond Issue Costs	3,236,102	3,220,720
	<hr/>	<hr/>
TOTAL ASSETS	\$ 130,586,330	\$ 130,971,361

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
COMPARATIVE STATEMENT OF NET ASSETS
MODIFIED GAAP BASIS
DECEMBER 31, 2004 AND 2003**

<u>LIABILITIES</u>	<u>2004</u>	<u>2003</u>
Current Liabilities Payable from Current Assets:		
Accounts Payable	\$ 2,069,246	\$ 1,845,200
Deferred Revenue	99,859	98,032
Due to Solid Waste Division	651,295	640,429
	<hr/>	<hr/>
Total Current Liabilities Payable from Current Assets	2,820,400	2,583,661
Current Liabilities Payable from Restricted Assets:		
Construction Contracts Payable	209,953	595,040
Current Portion of Long - Term Debt	4,431,029	4,401,840
Accrued Interest	1,231,374	1,275,038
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets:	5,872,356	6,271,918
Noncurrent Liabilities:		
Deferred Revenue	1,597,084	1,698,770
Post Retirement Benefits Payable	535,019	303,163
Accrued Compensated Absences	400,000	400,000
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$1,237,225 and \$832,482 in 2004 and 2003, respectively)	64,026,481	63,323,708
	<hr/>	<hr/>
Total Noncurrent Liabilities	66,558,584	65,725,641
TOTAL LIABILITIES	\$ 75,251,340	\$ 74,581,220
<u>NET ASSETS</u>		
Investment in Capital Assets, Net of Related Debt	28,553,343	34,076,762
Restricted for:		
Renewal and Replacement	4,800,000	4,800,000
Debt Service Fund	5,405,617	4,844,630
Debt Service Reserve Fund	7,754,743	7,456,626
Unrestricted	8,821,287	5,212,123
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 55,334,990	\$ 56,390,141

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
User Service Agreements:		
Operating	\$ 11,946,943	\$ 10,685,178
General	7,181,610	7,455,504
Sludge	1,131,730	1,243,639
Septage and Leachate	410,121	402,390
Other	766,524	613,604
	<u>21,436,928</u>	<u>20,400,315</u>
Total Operating Revenues		
Operating Expenses:		
Salaries	5,165,988	5,141,283
Employee Benefits	1,949,005	1,919,981
Power and Utilities	2,407,739	2,148,490
Chemicals	584,397	612,768
Fuel	1,690,209	1,056,341
Supplies and Miscellaneous Maintenance	1,341,206	1,124,890
Contractual Services	396,492	401,899
Indirect Operating Expenses	282,143	295,096
Administrative	1,071,785	954,955
Licenses and Permits	134,139	140,938
Depreciation	4,895,809	4,879,588
Amortization of Bond Issue Costs	294,190	239,319
	<u>20,213,102</u>	<u>18,915,548</u>
Total Operating Expenses		
Operating Income	<u>1,223,826</u>	<u>1,484,767</u>
Non - Operating Revenues / (Expenses):		
Interest Income	398,938	687,803
Interest Expense	(2,677,915)	(2,487,374)
Unrealized Gain / (Loss) on Investment		(48,268)
Loss on Refunding of Bonds		(128,556)
	<u>(2,278,977)</u>	<u>(1,976,395)</u>
Total Non - Operating Expenses		
Net Income / (Loss)	(1,055,151)	(491,628)
Net Assets, January 1	<u>56,390,141</u>	<u>56,881,769</u>
Net Assets, December 31	<u>\$ 55,334,990</u>	<u>\$ 56,390,141</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED
TO BUDGET - RATE BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	2004 Budget	2004 Actual
Revenues:		
User Service Agreements:		
Operating and General Charge	\$ 19,128,560	\$ 19,128,553
Sludge, Septage, and Leachate	1,498,600	1,441,992
Interest on Investments and Deposits	290,000	398,938
Miscellaneous	608,674	657,822
Fund Balance	678,878	577,407
	<hr/>	<hr/>
Total Revenues	22,204,712	22,204,712
	<hr/>	<hr/>
Expenses:		
Salaries	5,168,038	5,165,988
Employee Benefits	1,713,024	1,949,005
Power and Utilities	2,517,100	2,407,739
Chemicals	620,444	584,397
Fuel	1,668,000	1,690,209
Supplies and Miscellaneous Maintenance	775,568	796,523
Contractual Services	337,970	396,492
Indirect Operating Expenses	481,725	451,576
Administrative	1,192,233	1,107,824
Maintenance Program Expenditures	549,000	543,938
Canceled Purchase Orders		(70,589)
	<hr/>	<hr/>
	15,023,102	15,023,102
	<hr/>	<hr/>
Debt Service	7,181,610	7,181,610
	<hr/>	<hr/>
Total Expenses	22,204,712	22,204,712
	<hr/>	<hr/>
Net Income / (Loss) from Operations	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Description	Face Amount	Interest Rate	Due Date	Cost December 31, 2004
Unrestricted Accounts:				
Cash	\$ 599,360			\$ 599,360
Evergreen Treasury Money Market	1,487,237	0.90%		1,487,237
NJ ARM Pooled Investment	5,983,780	1.00%		5,983,780
Total Unrestricted	8,070,377			8,070,377
Restricted Accounts:				
Wastewater Trust Fund:				
Evergreen Treasury Money Market	128,238	0.90%		128,238
Evergreen Treasury Money Market	3,462	0.90%		3,462
Evergreen Treasury Money Market	117	0.90%		117
Evergreen Treasury Money Market	250,151	0.90%		250,151
	<u>381,968</u>			<u>381,968</u>
Construction Account:				
Evergreen Treasury Money Market	1,226	0.90%		1,226
	<u>1,226</u>			<u>1,226</u>
Rebate Account:				
Evergreen Treasury Money Market	81,758	0.90%		81,758
	<u>81,758</u>			<u>81,758</u>
2003 Investment Settlement Account:				
Evergreen Treasury Money Market	6,748	0.90%		6,748
	<u>6,748</u>			<u>6,748</u>
Debt Service Fund:				
Evergreen Treasury Money Market	3,556,989	0.90%		3,556,989
NJ ARM Pooled Investment	1,848,628	1.00%		1,848,628
	<u>5,405,617</u>			<u>5,405,617</u>
Debt Service Reserve Fund:				
Evergreen Treasury Money Market	88,230	0.90%		88,230
NJ ARM Pooled Investment	1,300,065	0.90%		1,300,065
United States Treasury Bonds	1,149,682	11.25%		1,351,843
United States Treasury Strips	70,568	11.25%		234,832
	<u>2,608,545</u>			<u>2,974,970</u>
Renewal and Replacement Fund:				
Evergreen Treasury Money Market	832,057	0.90%		832,057
NJ ARM Pooled Investment	3,797,114	0.90%		3,797,114
NJ ARM Pooled Investment	1,000,000	0.90%		1,000,000
	<u>5,629,171</u>			<u>5,629,171</u>
Total	\$ 22,185,410			\$ 22,551,835
Unrestricted				
Cash and Cash Equivalents	\$ 8,070,377			\$ 8,070,377
Restricted:				
Cash and Cash Equivalents	12,894,783			12,894,783
Investments	1,220,250			1,586,675
	<u>\$ 22,185,410</u>			<u>\$ 22,551,835</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AND OTHER CAPITALIZED COSTS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, 2002, 2001 AND 2000**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Additions During the Year:					
Property, Plant and Equipment:					
Land	\$	\$	\$	\$	\$
Sewer Mains and Interceptors		13,459	890,500	2,471,094	2,125,405
Buildings and Improvements	61,966	11,581		368,793	2,632,238
Equipment and Vehicles	42,386	54,201	99,558	35,361	200,047
Total Additions	<u>104,352</u>	<u>79,241</u>	<u>990,058</u>	<u>2,875,248</u>	<u>4,957,690</u>
Costs Capitalized at the Beginning of the Year	<u>199,755,099</u>	<u>199,675,858</u>	<u>198,685,800</u>	<u>195,810,552</u>	<u>190,852,862</u>
	199,859,451	199,755,099	199,675,858	198,685,800	195,810,552
Less:					
Accumulated Depreciation and Amortization	<u>(102,848,598)</u>	<u>(97,952,789)</u>	<u>(93,073,201)</u>	<u>(88,178,797)</u>	<u>(81,984,789)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 97,010,853</u>	<u>\$ 101,802,310</u>	<u>\$ 106,602,657</u>	<u>\$ 110,507,003</u>	<u>\$ 113,825,763</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
SCHEDULE OF DEBT ISSUE COSTS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, 2002, 2001 AND 2000**

	<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>
Costs Capitalized at the Beginning of the Year	\$ 5,206,878	\$	4,744,100	\$	4,744,100	\$	4,744,100	\$	4,744,100
Net Effect of Refunding Bond Issue			462,778						
	<u>5,206,878</u>		<u>5,206,878</u>		<u>4,744,100</u>		<u>4,744,100</u>		<u>4,744,100</u>
Less:									
Accumulated Amortization	<u>(1,970,776)</u>		<u>(1,676,586)</u>		<u>(1,437,267)</u>		<u>(1,182,897)</u>		<u>(928,527)</u>
Unamortized Debt Issue Costs	<u>\$ 3,236,102</u>	\$	<u>3,530,292</u>	\$	<u>3,306,833</u>	\$	<u>3,561,203</u>	\$	<u>3,815,573</u>

SOLID WASTE DIVISION

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
COMPARATIVE STATEMENT OF NET ASSETS
MODIFIED GAAP BASIS
DECEMBER 31, 2004 AND 2003**

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash and Cash Equivalents	\$ 15,300,097	\$ 11,232,507
Accrued Interest Receivable	21,352	1,948
Accounts Receivable (net of Allowance \$14,341,890 and \$15,146,115 in 2004 and 2003 respectively)	1,799,806	2,950,703
Other Accounts Receivable	373,126	373,585
Due from Wastewater Division	651,295	640,429
Total Current Assets	<u>18,145,676</u>	<u>15,199,172</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	9,298,674	11,772,675
Amounts Held by State of New Jersey	2,767,121	2,351,779
Accrued Interest Receivable	1,011	1,270
Total Noncurrent Assets	<u>12,066,806</u>	<u>14,125,724</u>
Capital Assets:		
Property, Plant and Equipment	99,694,634	90,958,837
Less: Accumulated Depreciation	(43,262,073)	(39,245,084)
Net Capital Assets	<u>56,432,561</u>	<u>51,713,753</u>
Deferred Costs:		
Preoperating Costs (Net of Accumulated Depreciation of \$8,622,346 and \$7,821,740 in 2004 and 2003, respectively)	1,237,155	2,037,761
Unamortized Bond Discount and Issue Costs	796,748	855,676
Total Deferred Costs	<u>2,033,903</u>	<u>2,893,437</u>
TOTAL ASSETS	\$ <u><u>88,678,946</u></u>	\$ <u><u>83,932,086</u></u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
COMPARATIVE STATEMENT OF NET ASSETS
MODIFIED GAAP BASIS
DECEMBER 31, 2004 AND 2003**

<u>LIABILITIES</u>	<u>2004</u>	<u>2003</u>
Current Liabilities Payable from Current Assets:		
Accounts Payable	\$ 2,690,121	\$ 2,212,337
Customer Deposits	146,129	149,064
	<hr/>	<hr/>
Total Current Liabilities Payable from Current Assets	2,836,250	2,361,401
Current Liabilities Payable from Restricted Assets:		
Construction Contracts Payable	3,785,770	1,686,616
Loan Payable - Current Portion	-	1,085,181
Current Portion of Long - Term Debt	3,565,000	3,325,000
Accrued Interest	1,537,248	1,614,831
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets:	8,888,018	7,711,628
Noncurrent Liabilities Payable from Restricted Assets:		
Accrued Landfill Closure and Post - Closure Care Cost	7,376,011	7,376,011
	<hr/>	<hr/>
Noncurrent Liabilities:		
Accrued Compensated Absences	574,099	574,099
Post Retirement Benefits Payable	800,000	300,000
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$363,944 and \$421,162 in 2004 and 2003, respectively)	61,076,056	64,583,838
	<hr/>	<hr/>
Total Noncurrent Liabilities	69,826,166	72,833,948
TOTAL LIABILITIES	\$ 81,550,434	\$ 82,906,977
<u>NET ASSETS</u>		
Investment in Capital Assets, Net of Related Debt Restricted for:	\$ (8,208,495)	\$ (17,280,266)
Debt Service Reserve Fund	8,053,769	8,053,769
Unrestricted	7,283,238	10,251,606
	<hr/>	<hr/>
TOTAL NET ASSETS (DEFICIT)	\$ 7,128,512	\$ 1,025,109

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>		<u>2003</u>
Operating Revenues:			
Tipping Fees	\$ 24,967,952	\$	24,007,259
Collections and Recycling Income	7,087,113		6,437,156
Composting Income	809,402		723,897
Other	520,769		550,722
	<u>33,385,236</u>		<u>31,719,034</u>
Total Operating Revenues			
Operating Expenses:			
Salaries	6,286,144		6,117,996
Employee Benefits	2,899,600		2,528,813
Power and Utilities	553,946		482,809
Fuel	577,834		415,386
Supplies and Miscellaneous Maintenance	1,365,872		1,452,938
Indirect Operating Expenses	3,942,599		3,326,570
Administrative	697,295		839,732
Community Benefit	2,148,983		2,203,518
Recycling and Other Taxes	688,004		665,494
Bad Debt Expense	2,828,464		1,674,975
Depreciation	4,817,595		4,011,372
Amortization of Bond Issue Costs	58,928		58,928
	<u>26,865,264</u>		<u>23,778,531</u>
Total Operating Expenses			
Operating Income	<u>6,519,972</u>		<u>7,940,503</u>
Non - Operating Revenues / (Expenses):			
Interest Income	142,175		61,975
Interest Expense	(4,683,614)		(4,972,501)
Contributions - State Subsidy	5,630,747		5,630,747
	<u>1,089,308</u>		<u>720,221</u>
Total Non - Operating Expenses			
Net Income / (Loss)	7,609,280		8,660,724
Net Assets (Deficit), January 1	1,025,109		(7,635,615)
Prior Period Adjustment to Fund Deficit	<u>(1,505,877)</u>		
Net Assets (Deficit), December 31	<u>\$ 7,128,512</u>	\$	<u>1,025,109</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
SCHEDULE OF REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED TO BUDGET - RATE
BASIS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004 Budget</u>	<u>2004 Actual</u>
Long Term Debt Related Revenues:		
State Subsidy	\$ 5,630,747	\$ 5,630,747
	<u>5,630,747</u>	<u>5,630,747</u>
Less:		
Long Term Debt Related Expense:		
Principal and Interest	9,293,795	9,293,795
	<u>9,293,795</u>	<u>9,293,795</u>
Net Loss on Debt Related Activities	<u>(3,663,048)</u>	<u>(3,663,048)</u>
Operating Revenues:		
Tipping Fees	23,870,574	23,544,142
Collections and Recycling Income	6,816,907	7,131,484
Composting Income	792,693	809,402
Other	559,711	476,401
Interest Income	113,000	142,175
Total Operating Revenues	<u>32,152,885</u>	<u>32,103,604</u>
Operating Expenses:		
Administration	1,619,313	1,624,410
Solid Waste Administration	734,985	669,853
Transfer Station Operations	2,898,129	2,773,450
Composting Operations	307,733	319,970
Landfill Operations	5,549,654	5,149,442
Recycling Center Processing	1,516,873	1,556,154
Collections	3,889,253	3,972,008
Maintenance Center	2,633,897	2,730,076
Lease Purchase	758,898	758,897
Canceled Purchase Orders		(393,983)
Total Operating Expenses	<u>19,908,735</u>	<u>19,160,277</u>
Net Income from Operating Activities	<u>12,244,150</u>	<u>12,943,327</u>
Prior Year Adjustment	1,404,678	1,505,877
Renewal and Replacement Fund CIP	5,082,048	4,304,046
Allowance for Bad Debt		1,404,655
Cell Closure	2,094,376	2,065,701
Net Income	<u>\$ -</u>	<u>\$ -</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>Description</u>	<u>Face Amount</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Cost December 31, 2004</u>
Unrestricted Accounts:				
Operations:				
Cash	\$ 284,415			\$ 284,415
Revenue Fund:				
Cash	447,383			447,383
NJ ARM Pooled Investment	5,924,449			5,924,449
U.S. Treasury Fund	4,324,226	1.30%		4,324,226
U.S. Treasury Fund	72,186	1.30%		72,186
	<u>10,768,244</u>			<u>10,768,244</u>
E.I.C.:				
U.S. Treasury Fund	261,159	1.37%		261,159
U.S. Treasury Fund	8,302	1.36%		8,302
	<u>269,461</u>			<u>269,461</u>
Operating Reserve:				
NJ ARM Pooled Investment	1,898,382			1,898,382
U.S. Treasury Fund	2,079,594	1.30%		2,079,594
	<u>3,977,976</u>			<u>3,977,976</u>
Restricted Accounts:				
Renewal and Replacement Fund:				
U.S. Treasury Fund	1,027,670	1.30%		1,027,670
U.S. Treasury Fund	49,857	1.30%		49,857
NJ ARM Pooled Investment	379,303			379,303
NJ ARM Pooled Investment	5,050,228			5,050,228
	<u>6,507,058</u>			<u>6,507,058</u>
Debt Service Account:				
U.S. Treasury Fund	160,083	1.30%		160,083
Debt Service Reserve Fund:				
U.S. Treasury Fund	2,631,532	1.30%		2,631,532
Total	\$ <u>24,598,769</u>			\$ <u>24,598,769</u>
Unrestricted				
Cash and Cash Equivalents	\$ 15,300,096			\$ 15,300,096
Restricted:				
Cash and Cash Equivalents	9,298,673			9,298,673
Investments	-			-
	<u>\$ 24,598,769</u>			<u>\$ 24,598,769</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AND OTHER PREOPERATING COSTS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, 2002, 2001 AND 2000**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Waste Disposal:					
Additions (Deletions) During the Year:					
Property, Plant and Equipment:					
Land and Improvements	\$ 93,700	\$	\$	\$	\$ 1,331,240
Buildings and Improvements	41,654	63,422		196,007	
Equipment and Vehicles	2,217,967	599,925		856,785	358,803
Landfill Design and Implementation	4,443,223	5,954,124		1,061,143	2,383,359
Planning and Designs			3,790,005		(2,307)
Total Additions	<u>6,796,544</u>	<u>6,617,471</u>	<u>3,790,005</u>	<u>2,113,935</u>	<u>4,071,095</u>
Costs Capitalized at the Beginning of the Year	<u>70,172,370</u>	<u>63,554,899</u>	<u>59,764,894</u>	<u>57,650,959</u>	<u>53,579,864</u>
	76,968,914	70,172,370	63,554,899	59,764,894	57,650,959
Less:					
Accumulated Depreciation and Amortization	<u>(35,677,378)</u>	<u>(31,858,268)</u>	<u>(28,835,667)</u>	<u>(25,478,169)</u>	<u>(22,467,935)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 41,291,536</u>	<u>\$ 38,314,102</u>	<u>\$ 34,719,232</u>	<u>\$ 34,286,725</u>	<u>\$ 35,183,024</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AND OTHER PREOPERATING COSTS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, 2002, 2001 AND 2000**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Waste Recycling:					
Additions (Deletions) During the Year:					
Property, Plant and Equipment:					
Land and Improvements	\$ 33,000	\$ 22,123	\$ 38,898	\$ 325,516	\$
Buildings and Improvements		33,327		64,808	
Equipment and Vehicles	1,845,226	421,608	100,986	37,548	44,910
Planning and Designs	61,107	2,676			13,442
Total Additions	<u>1,939,333</u>	<u>479,734</u>	<u>139,884</u>	<u>427,872</u>	<u>58,352</u>
Costs Capitalized at the Beginning of the Year	<u>30,645,971</u>	<u>30,166,237</u>	<u>30,026,353</u>	<u>29,598,481</u>	<u>29,540,129</u>
	32,585,304	30,645,971	30,166,237	30,026,353	29,598,481
Less:					
Accumulated Depreciation and Amortization	<u>(16,207,124)</u>	<u>(15,208,559)</u>	<u>(14,219,788)</u>	<u>(13,332,930)</u>	<u>(12,448,760)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 16,378,180</u>	<u>\$ 15,437,412</u>	<u>\$ 15,946,449</u>	<u>\$ 16,693,423</u>	<u>\$ 17,149,721</u>
Grand Total	<u>\$ 57,669,716</u>	<u>\$ 53,751,514</u>	<u>\$ 50,665,681</u>	<u>\$ 50,980,148</u>	<u>\$ 52,332,745</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
SCHEDULE OF DEBT ISSUE COSTS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, 2002, 2001 AND 2000**

	<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>
Costs Capitalized at the Beginning of the Year	\$ 2,182,779	\$	2,182,779	\$	2,182,779	\$	2,182,779	\$	2,182,779
	<u>2,182,779</u>		<u>2,182,779</u>		<u>2,182,779</u>		<u>2,182,779</u>		<u>2,182,779</u>
Less:									
Accumulated Amortization	<u>(1,386,031)</u>		<u>(1,327,103)</u>		<u>(1,268,174)</u>		<u>(1,209,246)</u>		<u>(1,150,317)</u>
Unamortized Debt Issue Costs	<u>\$ 796,748</u>	\$	<u>855,676</u>	\$	<u>914,605</u>	\$	<u>973,533</u>	\$	<u>1,032,462</u>

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

INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman
and Members of the Board
of the Atlantic County Utilities Authority

We have audited the accompanying Special – Purpose Statements of Revenues and Expenses of the Atlantic County Utilities Authority (“Authority”) Wastewater and Solid Waste Divisions for the year ended December 31, 2004. These special – purpose financial statements are the responsibility of the Authority’s management. Our responsibility is to express an opinion on these special – purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as 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 misstatement. 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.

In our opinion, because of the Authority has prepared these special – purpose financial statements on the prescribed basis of accounting discussed in the preceding paragraph, the special – purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Authority, as of December 31, 2004.

However, in our opinion, the special – purpose financial statements referred to above present fairly, in all material respects, the revenues and expenses of the Wastewater and Solid Waste Divisions of the Authority for the year ended December 31, 2004 on the basis of accounting described in Note 1.

Ford, Scott, Seidenburg & Kennedy, L.L.C.
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Edward W. Kennedy
Certified Public Accountant
Registered Municipal Accountant
No. 180

March 24, 2005

WASTEWATER DIVISION

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
SPECIAL - PURPOSE STATEMENT OF REVENUES AND EXPENSES TO COMPLY WITH BOND
RESOLUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Operating Revenues:		
Wastewater		
User Service Agreements:		
Operating	\$	11,946,943
General		7,181,610
Sludge		1,131,730
Septage and Leachate		410,121
Other		766,524
Total Operating Revenues		<u>21,436,928</u>
Operating Expenses:		
Salaries		5,165,988
Employee Benefits		1,949,005
Power and Utilities		2,407,739
Chemicals		584,397
Fuel		1,690,209
Supplies and Miscellaneous Maintenance		1,341,206
Contractual Services		396,492
Indirect Operating Expenses		282,143
Administrative		1,071,785
Licenses and Permits		134,139
Amortization of Bond Issue Costs		294,190
Total Operating Expenses		<u>15,317,293</u>
Excess of Revenues Over Expenses from Operations		<u>6,119,635</u>
Non - Operating Revenues / (Expenses):		
Interest Income		398,938
Interest Expense		(2,677,915)
Total Non - Operating Revenue / (Expenses)		<u>(2,278,977)</u>
Excess of Revenues Over Expenses	\$	<u><u>3,840,658</u></u>

SOLID WASTE DIVISION

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
SPECIAL - PURPOSE STATEMENT OF REVENUES AND EXPENSES TO COMPLY WITH BOND
RESOLUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Operating Revenues:		
Solid Waste		
Tipping Fees	\$	24,967,952
Collections and Recycling Income		7,087,113
Composting Income		809,402
Other		<u>520,769</u>
Total Operating Revenues		<u>33,385,236</u>
Operating Expenses:		
Salaries		6,286,144
Employee Benefits		2,899,600
Power and Utilities		553,946
Fuel		577,834
Supplies and Miscellaneous Maintenance		1,365,872
Indirect Operating Expenses		3,942,599
Administrative		697,295
Community Benefit		2,148,983
Recycling and Other Taxes		688,004
Bad Debt Expense		2,828,464
Amortization of Bond Issue Costs		<u>58,928</u>
Total Operating Expenses		<u>22,047,669</u>
Excess of Revenues Over Expenses from Operations		<u>11,337,567</u>
Non - Operating Revenues / (Expenses):		
Interest Income		142,175
Interest Expense		(4,683,614)
Total Non - Operating Revenue / (Expenses)		<u>(4,541,439)</u>
Excess of Revenues Over Expenses	\$	<u><u>6,796,128</u></u>

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTE TO SPECIAL – PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 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 accounting principles generally accepted in the United States of America, except that the Statement of Revenues and Expenses do not reflect charges for; depreciation of Property, Plant and Equipment as operating expenses, Unrealized Gains or Losses on Investments or State Contributions as non operating revenues, which is contrary to accounting principles generally accepted in the United States of America, but is a requirement of the Bond Resolutions.

DEBT SERVICE REQUIREMENT

INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman
and Members of the Board
of the Atlantic County Utilities Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Atlantic County Utilities Authority ("Authority"), as of and for the year ended December 31, 2004, and have issued our report thereon dated March 19, 2005.

In connection with our audit, nothing came to our attention that caused us to believe that, as of December 31, 2004, the Authority was not in compliance with the accounting requirements 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 Authority, is not intended, and should not be used by anyone other than these parties.

Ford, Scott, Seidenburg & Kennedy, L.L.C.
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Edward W. Kennedy
Certified Public Accountant
Registered Municipal Accountant
No. 180

March 24, 2005

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
DEBT SERVICE REQUIREMENT
FOR THE YEAR ENDED DECEMBER 31, 2004**

Debt Service Requirement:		
Interest Payable During 2004	\$	4,728,119
Principal Payable During 2004		3,325,000
Subtotal		<u>8,053,119</u>
Plus: Coverage Requirement		<u>110%</u>
Debt Service Requirement	\$	<u><u>8,858,431</u></u>
Actual Debt Service Coverage		153.28%
Net Revenues Provided:		
Gross Revenue	\$	34,332,787
Operating Expenses		21,988,741
Net Revenues Provided	\$	<u><u>12,344,046</u></u>

GENERAL COMMENTS AND RECOMMENDATIONS

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

The Honorable Chairman
and Members of the Board
of the Atlantic County Utilities Authority

We have audited the basic financial statements of the Atlantic County Utilities Authority ("Authority") as of and for the year ended December 31, 2004, and have issued our report thereon dated March 24, 2005. 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 audit requirements as 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 Authority's basic 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 basic 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* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. However, we noted several immaterial instances of noncompliance that we have reported to the Authority in a separate report dated March 24, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 basic 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. However, we noted certain matters involving internal control that we have reported to the Authority in a separate report dated March 24, 2005.

This report is intended for the information of the management of the Authority, the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the cognizant audit agency), other state and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these parties.

Ford, Scott, Seidenburg & Kennedy, L.L.C.
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Edward W. Kennedy
Certified Public Accountant
Registered Municipal Accountant
No. 180

March 24, 2005

ATLANTIC COUNTY UTILITIES AUTHORITY
GENERAL COMMENTS AND RECOMMENDATIONS
For the Year ended December 31, 2004

None Noted.

SINGLE AUDIT SECTION

ATLANTIC COUNTY UTILITIES AUTHORITY
SCHEDULE OF STATE ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2004

<u>State Funding Agency</u>	<u>Program</u>	<u>State Account Number</u>	<u>Grant Period</u>		<u>Program Receipts</u>	<u>Program Expenditures</u>
			<u>From</u>	<u>To</u>		
New Jersey Department of Environmental Protection	Wastewater Treatment:					
	Trust 01 Loan	4860-510-4860-007	Open	Open	\$ 392,256	\$ 392,256
	Trust 04 Loan	4860-510-4860-032	Open	Open	292,356	292,356
Total State Assistance					\$ <u>684,612</u>	\$ <u>684,612</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULE OF STATE ASSISTANCE
DECEMBER 31, 2004**

NOTE 1. GENERAL

The accompanying schedule of state assistance presents the activity of all state financial assistance programs of the Atlantic County Utilities Authority, the ("Authority"). The Authority is defined in Note 1 to the Authority's basic financial statements. All assistance received directly from state agencies, as well as state financial assistance passed through other government agencies is included on the schedule of state financial assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of financial assistance is presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the Authority on a GAAP basis. The schedule of state assistance is in agreement with the basic financial statements.

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related state financial reports.

**ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULE OF STATE ASSISTANCE
DECEMBER 31, 2004**

NOTE 1. GENERAL

The accompanying schedule of state assistance presents the activity of all state financial assistance programs of the Atlantic County Utilities Authority, the ("Authority"). The Authority is defined in Note 1 to the Authority's basic financial statements. All assistance received directly from state agencies, as well as state financial assistance passed through other government agencies is included on the schedule of state financial assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of financial assistance is presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the Authority on a GAAP basis. The schedule of state assistance is in agreement with the basic financial statements.

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related state financial reports.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133
AND NEW JERSEY OMB CIRCULAR 04-04**

The Honorable Chairman
and Members of the Board
of the Atlantic County Utilities Authority

Compliance

We have audited the compliance Atlantic County Utilities Authority (“Authority”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Grant Compliance Supplement* that are applicable to each of its major state programs for the year ended December 31, 2004. The Authority’s major state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings 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 Authority’s management. Our responsibility is to express an opinion on the 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; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB’s Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, OMB Circular A-133 and New Jersey OMB’s Circular 04-04, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority’s compliance with those requirements.

In our opinion, the 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, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to 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 New Jersey OMB's Circular 04-04.

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 law, regulations, contracts or grants that would be material in relation to a major federal and state program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the management of the Authority, Division of Local Government Services, Department of Community Affairs, State of New Jersey (cognizant audit agency), other state awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these parties.

Ford, Scott, Seidenburg & Kennedy, L.L.C.
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Edward W. Kennedy
Certified Public Accountant
Registered Municipal Accountant
No. 180

March 24, 2005

**ATLANTIC COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDING DECEMBER 31, 2004**

I. SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion issued on the Basic Financial Statements, dated March 24, 2005

Internal control over financial reporting:

1) Material weakness identified? No

2) Reportable conditions identified that are not considered to be a material weakness? No

Noncompliance material to the basic financial Statements noted? No

Federal Awards

Not Applicable

State Awards

Dollar threshold used to distinguish between type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Type of auditor's report issued on compliance for major programs: An Unqualified Opinion was issued on compliance for major programs, dated March 24, 2005

Internal Control over major programs:

1) Material weakness identified? No

2) Reportable condition identified that are not considered to be material weaknesses? None

Any audit findings disclosed that are required to be reported In accordance with NJ OMB Circular Letter 04-04? No

Identification of major programs:

<u>State Grant Number</u>	<u>Name of State Program</u>
4860-510-4860-007	Wastewater Treatment Trust
4860-510-4860-032	Wastewater Treatment Trust

**ATLANTIC COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDING DECEMBER 31, 2004
(CONTINUED)**

II. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

In accordance with Government Auditing Standards, our audit disclosed no findings relating to the financial statements that are required to be reported under this section. We have also issued a Management Report.

III. FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

Federal:
Not Applicable

State:
Our audit disclosed no material Findings or Questioned Costs. We have also issued a Management Report.

**ATLANTIC COUNTY UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.