

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

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION**

**FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2004**

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INTRODUCTORY SECTION

March 28, 2006

Chairman Gallagher, Authority Board Members and President Dovey:

Presented to you are the audited financial statements for the 2005-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 2005-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, 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, 2005 and 2004. 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, 2005 and 2004, 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, 2005 and 2004, 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 28, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

March 28, 2006

REQUIRED SUPPLEMENTARY INFORMATION

FINANCIAL STATEMENTS

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, 2005.

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 12/31/2005 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 12/31/2005 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 the State Debt Subsidy, Depreciation and Amortization of Bond Issue Costs. These are not 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 \$4,767,266. Net Capital Assets dropped by almost \$1.6 million. Depreciation exceeded new and improved property plant and equipment by that amount. Loans Receivable decreased by \$1.8 million. Non Restricted and Restricted Cash, Cash Equivalents and Investments decreased by about \$947,000. Most of this was Restricted Cash. Further explanation for these changes is discussed later in this report.

Total liabilities decreased \$4,357,512. Short and Long-Term Portion of Bonds Payable went from \$68,457,510 in 2004 to \$63,931,310 in 2005, thereby accounting for the decrease. The Authority did a New Jersey Environmental Infrastructure Trust (NJEIT) borrowing in 2004 in the amount of \$4,919,402. No new debt was added in 2005. Existing debt was paid down in accordance with existing debt service schedules. Liability increases included an increase to Accrued Compensated Absence Benefits payable for \$83,014 and an increase to Accounts Payable of \$462,583. Assets exceed liabilities by \$55,948,769. This compares to 2004 where the division's assets exceeded its liabilities by \$56,358,523. Net change, a decrease in assets over liabilities of \$409,754

The Division's Net Assets of \$55,948,769 is comprised of the following:

- (1) Capital Assets, Net of Related Debt of \$31,297,596 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 \$5,745,237 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 last increased in 2004 due to the 2004 NJEIT Financing.

(5) Unrestricted Net Assets of \$6,351,193 represents the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and current liabilities.

Restricted Net Assets increased \$3,272,258 in 2005 as follows: Investments in Capital Assets Net of Related Debt increased \$2,932,638, and the Reserve for Debt Service Fund increased \$339,620. The Renewal and Replacement Fund and the Debt Service Reserve Fund went unchanged from 2004.

Unrestricted Net Assets decreased \$3,682,012, a factor of Investment in Capital Assets increasing and a draw on the Renewal and Replacement fund to less than the required restricted amount. In 2005 Depreciation exceeded new capital improvements, however principal paid in 2005, with no new debt added, allow for an increase in Investment in Capital Assets.

Total Fund Equity decreased .73% or \$409,754, the reported Net Loss for the 2005-year. It is comprised of Operating Income in the amount of \$1,534,362 and Non-Operating Expenses of \$1,944,116.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Total Current Assets	9,484,360	9,808,871	(324,511)
Total Non Current Assets	17,324,205	19,879,209	(2,555,004)
Net Capital Assets	95,228,906	96,822,468	(1,593,562)
Deferred Costs	2,941,913	3,236,102	(294,189)
Total Assets	<u>124,979,384</u>	<u>129,746,650</u>	<u>(4,767,266)</u>
Total Current Liabilities			
Payable from Current Assets	1,426,219	957,187	469,032
Total Current Liabilities			
Payable from Restricted Assets	6,209,555	5,872,356	337,199
Deferred Revenue	1,484,327	1,597,084	(112,757)
Accrued Compensated Absences			
And Post Retirement Benefits	1,018,033	935,019	83,014
Long-Term Obligations	<u>58,892,481</u>	<u>64,026,481</u>	<u>(5,134,000)</u>
Total Liabilities	<u>69,030,615</u>	<u>73,388,127</u>	<u>(4,357,512)</u>
Net Assets	<u>55,948,769</u>	<u>56,358,523</u>	<u>(409,754)</u>

Cash and Cash Equivalents decreased in 2005 by \$195,739. Accounts Receivable dropped \$118,547.

Non Current Assets such as Restricted Assets decreased \$2,555,004 due to a decrease in cash and investments of \$751,456 or 5% and a 33% decrease in NJEIT Loans Receivable of \$1,805,036. As funds are drawn on the loan, the receivable is reduced. As contractors are paid for capital improvements, cash and investments decline.

There was a \$3.3 million or 1.67% increase to Property, Plant and Equipment for 2005. Depreciation Expense for the year was \$4,930,367, hence a drop in Net Capital Assets by 1.64%.

Total Current Liabilities Payable from Current Assets increased by \$469,032, primarily because year-end Accounts Payable also increased.

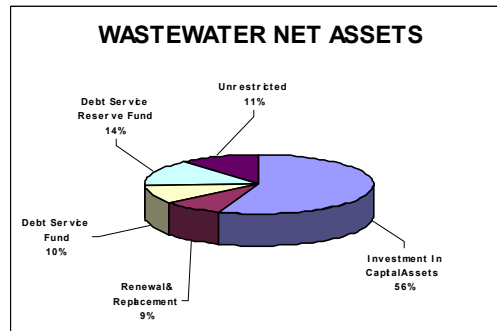
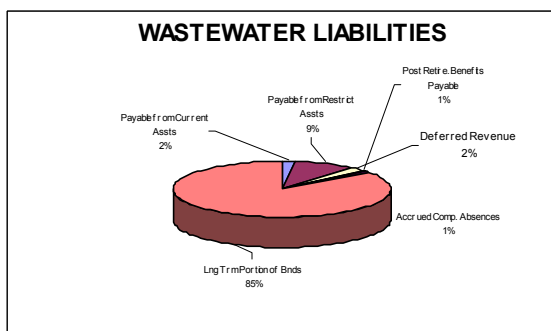
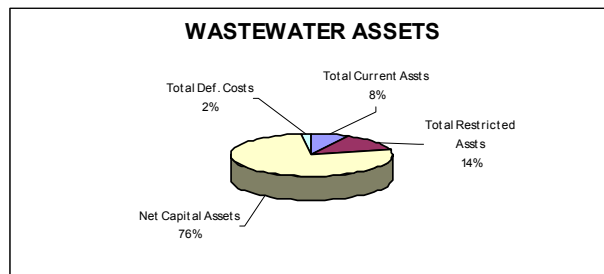
Total Current Liabilities Payable From Restricted Assets increased 5.74% in 2005 primarily because the Current Portion of Long-Term Debt went up 13.7% from 2004.

Deferred Revenue decreased by \$112,757 due to services provided in 2005 for pre-paid leachate disposal.

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 decreased by 8% or \$5.1 million. This was in accordance with the existing debt service schedules, and there was no new financing completed in 2005.

Total Net Assets or Total Fund Equity has decreased as a result of the reported loss for the 2005-year.



Comparative Statement of Revenues, Expenses and Changes in Net Assets

There was a 6% increase to Operating Revenues of the Authority. The user fee charged to the fourteen participants increased by 6% which was a combination of a 2% increase in the anticipated flow, and the balance as an increase to the rate. Sludge income increased 6%. Income from Septage and Leachate disposal increased 16.6%. 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: \$12,875,842 for operating expenses, and \$7,411,072 for annual debt service.

Operating Expenses increased 6.5% from the prior year, a \$1,290,162 increase. The operating expenses were impacted most significantly again by the increases seen in electricity rate increases as well as higher costs for natural gas usage. In 2004, Electricity and Gas cost 61% more than in 2003. In 2005, Electricity and Gas costs 38% more than in 2004. These two commodities cost about \$1.5 million more in 2005 than in 2004 and about \$2.2 million more than the Authority's cost in 2003. Chemicals increased 11% in 2005, just a little more than the increase seen in 2004. Supplies & Maintenance and Capital funded by the operating budget dropped 44% or \$591,450 and primarily as a means to handle the added gas and electric costs. Benefits dropped 5% resulting from a new employee prescription program, and salaries increased 5.2% due to retirements and merit increases. Administrative expenses dropped 2%. Indirect Operating costs increased 25% Contractual Services increased 19% and License and Permits increased 6.8%.

Since the additions to PPE occurred during the latter part of the year, the increase to Depreciation Expense for 2005 is minimal and remained relatively the same, with a slight increase of .70%. Amortization of Bond Issue Costs stayed the same.

Total Operating Revenues exceeded Total Operating Expenses by \$1,534,362. This is a 5.6% increase to Operating Income when compared to the 2004-year.

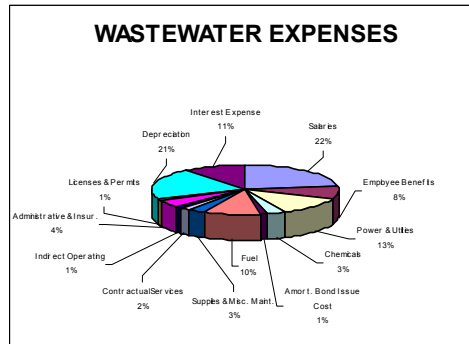
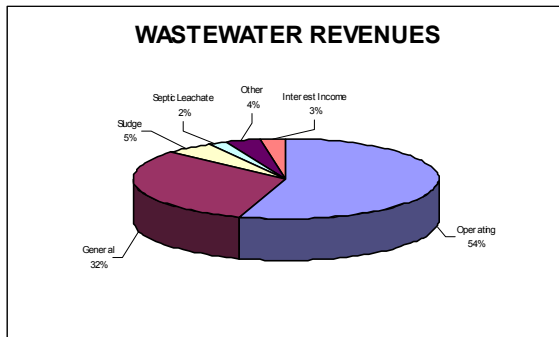
Non Operating Revenues/Expenses, which is comprised of Interest Income, Interest Expense, and Unrealized Gains/Losses on Investments, and other losses or gains, and Contributions showed a 15% decrease in expenses. Interest Income increased 62%, compared to 2004 when it decreased 42%. Interest Expense dropped 3% compared to 2004 when it had increased 7.7%. There were no Unrealized Gains or Losses reported, and no other losses or gains, or contributions reported for 2005.

In dollars Total Non Operating Expenses decreased \$334,861.

Total 2005 Expenses exceeded Total 2005 Income by \$409,754. The Authority had anticipated that expenses would exceed revenues by \$736,048 when compiling the 2005 budget and for the purpose of providing some rate relief to the participants of the Wastewater system.

Total Net Assets decreased \$409,754, from \$56,358,523 in 2004 to \$55,948,769 in 2005.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Total Operating Revenues	22,807,912	21,436,928	1,370,984
Operating Expenses including Depreciation	21,273,550	19,983,388	1,290,162
Operating Income	1,534,362	1,453,540	80,822
Non-Operating Revenues/(Expenses)			
Interest Expense	(2,588,562)	(2,677,915)	89,353
Interest Income	644,446	398,938	245,508
Unrealized Gain/(Loss) on Investment	-0-	-0-	-0-
Loss on Refunding Bonds	-0-	-0-	-0-
Total Non-Operating Expense	(1,944,116)	(2,278,977)	334,861
Net Income/(Loss)	(409,754)	(825,437)	415,683
Net Assets, January 1	56,358,523	57,183,960	(825,437)
Net Assets, December 31	55,948,769	56,358,523	(409,754)



Statement of Cash Flows

Net Cash Provided by Operating Activities increased 41%, an increase of \$2,124,536. Payments to suppliers increased \$776,080 or by about 8% and payments to employees increased 3.5% or \$181,684. Receipts from the participants of the system (Users) and other Customers increased 15.6% or by \$3 million.

Cash used for Capital and Related Financing Activities increased 28% when compared to 2004. Purchases of Capital Assets went from \$485,339 in 2004 to \$3,546,758 in 2005, a \$3 million increase in cash used for capital purposes. Proceeds from Wastewater Trust Funding increased 164%, with proceeds going from \$684,612 in 2004 to \$1,805,036. In 2004 there was a NJEIT Financing done during the latter part of the year, which was drawn on in 2005 and is reflected in the increase to Proceeds from the WW Trust. 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 98% complete. The 2004 NJEIT financing is 75% complete.

There was little change for the payment of debt service.

Net Cash Provided By Investment Activities saw a gain of 48% or \$189,700, mostly due to market changes.

Net Decrease in Cash and Cash Equivalents is \$900,388.

Balance at the Beginning of the Year was \$20,965,160. Balance at the End of the Year was \$20,064,772, a 4.3% decrease.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Net Cash Provided by Operating Activities	7,316,561	5,192,025	2,124,536
Net Cash Provided by Non-capital Financing	<u>21,101</u>	<u>10,866</u>	<u>10,235</u>
Net Cash Used By Capital and Related Financing Activities	(8,821,961)	(6,910,616)	(1,911,345)
Net Cash Provided by Investing Activities	<u>583,911</u>	<u>394,211</u>	<u>189,700</u>
Net (Decrease)/Increase In Cash and Cash Equivalents	(900,388)	(1,313,514)	413,126
Balance – Beginning of the Year	<u>20,965,150</u>	<u>22,278,674</u>	<u>(1,313,514)</u>
Balance – End of Year	<u>20,064,772</u>	<u>20,965,160</u>	<u>(900,388)</u>

Solid Waste Division

Comparative Statement of Net Assets

The Solid Waste Division reports Total Net Assets of \$14,927,656. In 2004 Total Net Assets was \$9,903,404. In 2003 it was \$1,717,688. In 2002 there was a reported Fund Deficit (negative total assets) of \$6,974,455.

The Division's Net Assets of \$ 14,927,656 are comprised of the following:

- (1) Capital Assets, Net of Related Debt of (\$6,680,103), 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 \$13,553,990 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 increased 16%, or \$1,871,577 during 2005.

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 2002 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 since 12/31/02 has been unchanged at \$2,631,532.42.

Investment in Capital Assets, Net of Related Debt, of a negative \$6,680,103, improved by \$3,152,675, or 32%. In 2004 there was a positive change of 48%.

Total Net Assets grew by \$5,024,252, which is comprised of Operating Income of \$3,269,713 and Non- Operating Revenues in the amount of \$1,754,539.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Total Current Assets	21,729,275	18,145,676	3,583,599
Total Restricted Assets	14,636,638	12,066,806	2,569,832
Net Capital Assets	54,449,753	54,808,278	(358,525)
Deferred Costs	<u>1,113,122</u>	<u>2,033,903</u>	<u>(920,781)</u>
Total Assets	91,928,788	87,054,663	4,874,125
Total Current Liabilities			
Payable from Current Assets	1,843,096	1,567,235	275,861
Total Current Liabilities Payable			
From Restricted Assets	5,628,376	5,757,858	(129,482)
Accrued Landfill Closure and			
Post Closure Care Cost	10,850,705	7,376,011	3,474,694
Accrued Compensated Absences			
And Post Retirement Benefit	1,374,099	1,374,099	-0-
Long and Short-Term			
Obligations	<u>57,304,856</u>	<u>61,076,056</u>	<u>(3,771,200)</u>
Total Liabilities	<u>77,001,132</u>	<u>77,151,259</u>	<u>(150,127)</u>
Net Assets	<u>14,927,656</u>	<u>9,903,404</u>	<u>5,024,252</u>

Current Assets increased with an increase in Cash and Cash Equivalents of 22%. Interest Receivable grew \$112,000 and Accounts Receivable increased 1.6%.

Restricted Assets increased \$2,569,832, a 21.3% increase. This is partly due to funds being escrowed to the Renewal and Replacement Fund for future Capital Improvements and for Landfill Closure over and above what is required by the State of NJ to be set aside.

The Authority raises funds for capital improvements from the operating budget and from the tip fee revenue that supports the operating budget. These funds are then deposited to the Renewal and Replacement Fund. In 2005 the R&R fund had deposits and earnings of \$6,167,977 added and withdraws for capital improvement purposes of \$4,102,609. Approximately \$1.1million in additional funds was deposited to R&R when compared to 2004. Approximately \$2m less was expended when compared to 2004.

Capital Assets from Property, Plant and Equipment grew 3.4% in 2005, down from 9.8% in 2004. A 3.3% increase in PP&E amounts to about \$3.3 million in additional improvements and infrastructure. About 2/3's of the added PP&E is for major equipment and the balance for landfill cell construction and landfill design.

Accumulated Depreciation for the 2005- year increased 8.5% when compared to 2004. Therefore, Net Property, Plant and Equipment dropped \$358,525 or 0.7%.

Most of the added depreciation expense is connected to depreciation on individual landfill cells, which has a depreciation schedule of about seven years.

Total Current Liabilities Payable From Current Assets increased 18% to \$1,843,096. Most of the increase was for Accounts Payable related to regular operating expenses.

Total Current Liabilities from Restricted Assets dropped 2.2% or \$129,482. Although the Current Portion of Long-Term Debt, which represents March 1, 2007 Bonds Payable, increased; Construction Contracts Payable dropped 47% and Accrued Interest payable dropped about 6%.

Construction Contracts Payable decreased by \$306,299, Accrued Interest payable decreased \$83,183 and Bonds Payable increased \$260,000. Both Bonds Payable and Accrued Interest Payable have changed in accordance with the existing debt service schedule for the 1992 Solid Waste Revenue Bonds.

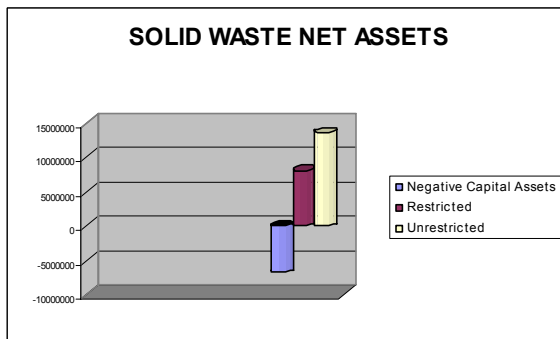
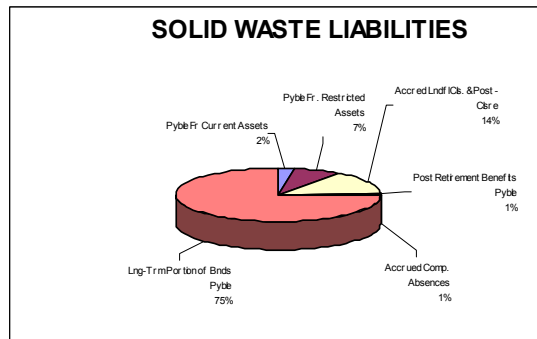
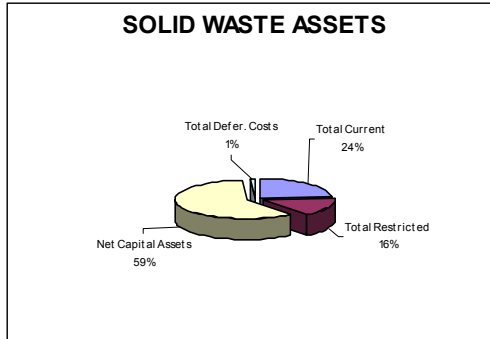
Non Current Liabilities Payable From Restricted Assets increased 47% with an additional charge for Accrued Landfill Closure and Post-Closure Care Cost of \$3,474,694 in accordance with the consulting Engineer's report. This is the reported Balance Sheet liability for Landfill Closure and Post Closure Care costs. The percent of cumulative landfill capacity utilized as of 12/31/05 is 60.7%. 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 and Accrued Compensated Absences of \$574,099. These remains unchanged from 2004.

The Long-Term Portion of Bonds Payable has gone down \$3,771,200 due to the payment of principal in 2005 There was no new debt in 2005.

Total Liabilities decreased \$150,127 or 0.2%.

Total Net Assets or Total Fund Equity has increased 33.66%, or \$5,024,252, the reported Net Income for the 2005 year, and for the reasons described above and further described below.



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

There was a 2% increase to Solid Waste Operating Revenues in 2005. Tipping Fee revenue dropped 0.7%, mostly due to better restriction of receipt of out of county waste. This effort amounted to a \$168,274 decrease in tip fee revenue. Collections and Recycling Income grew again this year by about 4%. There was a 10% growth in this revenue source in 2004. 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, up in 2004 by 11%, stayed just about the same in 2005 with only a slight drop by 0.6%. In 2003 and 2002 this revenue source grew by 6% and 3% respectively. Other Income more than doubled to \$1.1 million. The Authority received \$594,000 in 2005 for its green energy initiative, specifically, the methane gas to electricity project which was completed, dedicated, and put into operation in 2005. The balance of Other Income is primarily comprised of fees related to the rental of non-utilized ACUA property, miscellaneous revenues, and late payment fees.

Total Operating Expenses increased 17.1% or \$4,489,934. Some of the largest changes to Operating Expenses include the additional charge to Landfill Closure Escrow discussed earlier for \$3,474,694. There was also a 68% or \$2.5 million increase to Indirect Operating Expenses in 2005. This is because the Authority elected to ship more waste to other landfills, as a means to preserve landfill capacity. The most space consuming type waste was shipped to other locations. In 2005, this option we have via contract agreements with other landfills grew 185% or \$3 million. In 2004, Bad Debt Expense increased \$1,153,489, or 69%. In 2005 this decreased by 81%. 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. (See Notes to Financial Statements for status of any litigation or resolutions related to Bad Debt).

There was a 48% increase to Fuel costs due to higher fuel and gas prices. There was a 20% increase to Supplies and Miscellaneous Maintenance for vehicle maintenance, building maintenance, and purchase of tires that exceeded 2004 needs. Power and Utilities dropped 20% because the Authority is able to generate quite a bit of its electricity needs as a result of the landfill methane to energy project discussed earlier. There was about an \$80,000 savings in electricity costs due to operating this energy generation fully for part of the 2005 year.

Salaries had a slight increase in 2005 of less than 2%. 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 paid, after decreasing significantly for the last three years, remained at the same level for 2005.

Depreciation Expense increased \$368,550, a 7.7% increase when compared to 2004. Most of this increase is for depreciation on landfill design and cell development. There was a 20% increase for the same reason in 2004.

Host Community Benefit costs dropped 10%. Host Community Benefit is paid to the host community, Egg Harbor Township, for every ton that comes into the facility. Tonnages were down slightly in 2005 by about 3% and in the 2004-year there was a prior year adjustment for payment to Egg Harbor Township causing 2004 expenses to appear greater, and thereby creating a greater variance between 2005 and 2004. Recycling and Other Taxes reported an increase of about 1.4%.

Administrative costs increased 72%. About sixty percent of this increase is related to the following: professional service fees for engineering report previously paid from landfill operations, upgrades to computer system and procurement of GPS system, increase in cost for general liability insurance and some other minor incidental increases. About 40% of this increase is related to purchases made against the 2004 budget but received in 2005, so this is a GAAP adjustment.

Total Operating Revenues exceeded Total Operating Expenses by \$3,269,713, a 54% decrease from last year.

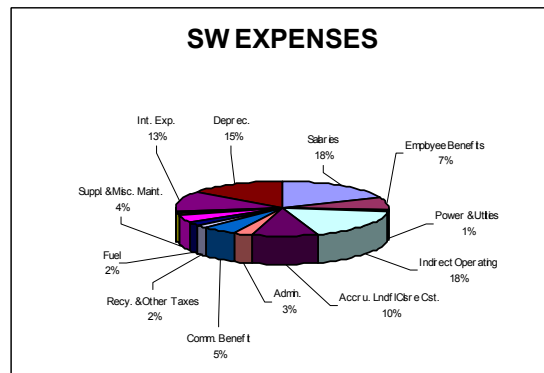
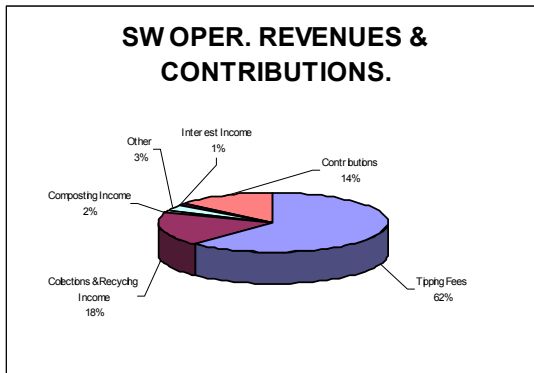
In 2005 the Authority again received \$5,630,747 from the State of New Jersey, in the form of a subsidy for the payment of most of its March 1, 2005 debt service.

Interest Income increased \$385,402, more than doubling from 2004.

Total Non-Operating Revenues/(Expenses) was \$1,754,539. In 2004 Non-Operating Revenues were \$1,089,308 and in 2003 that number was \$720,221.

Total Net Income for the 2005 year is \$5,024,252, 39% less than in 2004. As evidenced above, the primary contributor to the change from 2004 to 2005 was the significant increase to the landfill closure escrow requirement for the 2005 year.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Total Operating Revenues	34,048,475	33,385,236	663,239
Operating Expenses	25,533,689	21,412,305	4,121,384
Depreciation and Amortization	5,245,073	4,876,523	368,550
Total Operating Expenses	30,778,762	26,288,828	4,489,934
Operating Income	3,269,713	7,096,408	(3,826,695)
Non-Operating Revenues/(Expenses)			
Contributions-State Subsidy	5,630,747	5,630,747	-0-
Interest Expense	(4,403,785)	(4,683,614)	279,829
Interest Income	527,577	142,175	385,402
Total Non-Operating Expense	1,754,539	1,089,308	665,231
Net Income/(Loss)	5,024,252	8,185,716	(3,161,464)
Net Assets, January 1	9,903,404	1,717,688	8,185,716
Net Assets, December 31	14,927,656	9,903,404	5,024,252



Statement of Cash Flows

Net Cash Provided by Operating Activities decreased 30% or \$3,883,096. 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 7.3% for an increase of \$2,307,587. Payments to Employees increased 1.9% for an additional \$117,136. Payments to Suppliers increased 50% or \$6,073,547. This includes the fee to haul and dispose certain waste elsewhere, as discussed earlier in this report.

Net Cash Used By Capital and Related Financing Activities decreased 50% or \$5,862,323 when compared to 2004. Within this grouping, Purchases of Capital Assets decreased by \$4.6 million. Principal Paid On Capital Debt increased by \$40,000, in accordance with the debt service schedule for the 1992 Solid Waste Revenue Bonds. Interest Paid on Capital Debt decreased \$241,151, also in accordance with the debt service schedule.

State Contribution remained the same in 2005 at \$5,630,747. See "Comparative Statement of Revenues Expenses, and Changes in Net Assets".

Loan Repayments for 2005 was zero, a decrease of 1,085,181. This loan was fully paid in the 2004 year.

Net Cash Provided By Investment Activities is (\$4,483,645). This is comprised of a reported transfer to Investments of \$4,891,234 and interest income of \$407,589.

Net Decrease in Cash and Cash Equivalents is \$1,043,835 in 2005, which is \$2.6 million less than reported Net Increase for 2004, and mostly attributable to Payments to Suppliers and Transfers to Investments.

Cash and Cash Equivalents at the beginning of the Year was \$24,598,771 and \$23,554,936 at the end of the year, a 4.2% decrease from 2004.

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Net Cash Provided by Operating Activities	9,291,682	13,174,778	(3,883,096)
Net Cash Provided From Noncapital	(21,101)	(10,866)	(10,235)
Net Cash Provided/(Used) By Capital and Related Financing Activities	(5,830,771)	(11,693,094)	5,862,323
Net Cash Provided by Investing Activities	(4,483,645)	122,771	(4,606,416)
Net Increase In Cash and Cash Equivalents	(1,043,835)	1,593,589	(2,637,424)
Balance – Beginning of the Year	<u>24,598,771</u>	<u>23,005,182</u>	<u>1,593,589</u>
Balance – End of Year	<u>23,554,936</u>	<u>24,598,771</u>	<u>(1,043,835)</u>

Core Competencies

Wastewater Division

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

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

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

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

The User Fee, charged to the 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 2005 marked the twenty-seventh 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 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.

Most waste is disposed at the Authority's Landfill. This includes municipal, commercial, construction, and industrial waste. In 2005, over 360,000 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 on a bi-weekly basis and many commercial entities have weekly service. All the recyclables received are processed and marketed. In 2005, the Solid Waste Division collected about 36,000 tons of recyclable material.

Collection of municipal solid waste, bulk waste and yard waste is also provided to municipalities who elect to contract with the Authority for such services.

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 processes leaves, grass clippings, tree branches, clean wood, and brush and Christmas trees. Over 17,000 tons of yard waste was processed in 2005. The branches, brush, and trees are processed into mulch and sold to the public, providing additional income to support the Solid Waste system.

In addition the ACUA accepts and recycles metal, tires, wood electronics, and soils resulting in a total recycling tonnage of 265,000 tons in 2005.

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 \$60 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 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 Deputy 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 served on the Somers Point Planning Board for ten years, five as Board Chair, the New Jersey Pinelands Commission for nine years, and was also a Director on the Board of the New Jersey Association of Recyclers. Currently, 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 New Jersey, 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. Mr. Rutala is active in numerous community organizations and currently serves on several Boards.

Eugene L. Petitt, PE, PP Chief Engineer. The Atlantic County Utilities Authority hired Mr. Petitt 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. Petitt 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 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 also 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.

**ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2005 AND 2004**

ASSETS	2005			2004
	Wastewater Division	Solid Waste Division	Total	
Current Assets:				
Cash and Cash Equivalents	\$ 7,874,637	\$ 13,823,516	\$ 21,698,153	\$ 23,370,473
Investments		4,891,234	4,891,234	-
Accrued Interest Receivable	66,786	133,502	200,288	77,262
Accounts Receivable (net of Allowance \$1,045,074 and \$14,341,890 in 2005 and 2004 respectively)	2,215,333	1,836,600	4,051,933	4,133,686
Other Accounts Receivable		372,027	372,027	373,126
Internal Accounts	(672,396)	672,396	-	-
Total Current Assets	9,484,360	21,729,275	31,213,635	27,954,547
Noncurrent Assets:				
Restricted Assets:				
Cash and Cash Equivalents	12,190,135	9,731,420	21,921,555	22,193,458
Investments	1,539,868	1,722,772	3,262,640	1,586,675
Amounts Held by State of New Jersey		3,136,376	3,136,376	2,767,121
Accrued Interest Receivable	1,800	46,070	47,870	1,323
Loans Receivable	3,592,402		3,592,402	5,397,438
Total Noncurrent Assets	17,324,205	14,636,638	31,960,843	31,946,015
Capital Assets:				
Property, Plant and Equipment (Note 4)	203,007,871	101,373,602	304,381,473	297,741,417
Less: Accumulated Depreciation	(107,778,965)	(46,923,849)	(154,702,814)	(146,110,671)
Net Capital Assets	95,228,906	54,449,753	149,678,659	151,630,746
Deferred Costs:				
Preoperating Costs (Net of Accumulated Depreciation of \$9,484,199 and \$8,622,346 in 2005 and 2004, respectively)		375,302	375,302	1,237,155
Unamortized Bond Issue Costs	2,941,913	737,820	3,679,733	4,032,850
Total Deferred Costs	2,941,913	1,113,122	4,055,035	5,270,005
TOTAL ASSETS	\$ 124,979,384	\$ 91,928,788	\$ 216,908,172	\$ 216,801,313

**ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2005 AND 2004**

LIABILITIES	2005			2004
	Wastewater Division	Solid Waste Division	Total	
Current Liabilities Payable from Current Assets:				
Accounts Payable	\$ 1,319,911	\$ 1,690,117	\$ 3,010,028	\$ 2,278,434
Customer Deposits		152,979	152,979	146,129
Deferred Revenue	106,308		106,308	99,859
Total Current Liabilities Payable from Current Assets	1,426,219	1,843,096	3,269,315	2,524,422
Current Liabilities Payable from Restricted Assets:				
Construction Contracts Payable	-	349,311	349,311	865,563
Current Portion of Long - Term Debt	5,038,829	3,825,000	8,863,829	7,996,029
Accrued Interest	1,170,726	1,454,065	2,624,791	2,768,622
Total Current Liabilities Payable from Restricted Assets:	6,209,555	5,628,376	11,837,931	11,630,214
Noncurrent Liabilities Payable from Restricted Assets:				
Accrued Landfill Closure and Post - Closure Care Cost	-	10,850,705	10,850,705	7,376,011
Noncurrent Liabilities:				
Deferred Revenue	1,484,327		1,484,327	1,597,084
Accrued Compensated Absences	483,014	574,099	1,057,113	974,099
Post Retirement Benefits Payable	535,019	800,000	1,335,019	1,335,019
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$951,713 and \$1,046,883 for Wastewater Bonds and \$310,144 and \$363,944 for Solid Waste Bonds in 2005 and 2004, respectively)	58,892,481	57,304,856	116,197,337	125,102,537
Total Noncurrent Liabilities	61,394,841	69,529,660	130,924,501	136,384,750
TOTAL LIABILITIES	\$ 69,030,615	\$ 77,001,132	\$ 146,031,747	\$ 150,539,386

**ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2005 AND 2004**

NET ASSETS	2005			2004
	Wastewater Division	Solid Waste Division	Total	
Investment in Capital Assets, Net of Related Debt	\$ 31,297,596	\$ (6,680,103)	\$ 24,617,493	\$ 18,532,180
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	5,745,237		5,745,237	5,405,617
Debt Service Reserve Fund	7,754,743		7,754,743	7,754,743
Unrestricted	6,351,193	13,553,990	19,905,183	21,715,618
TOTAL NET ASSETS	<u>55,948,769</u>	<u>14,927,656</u>	<u>70,876,425</u>	<u>66,261,927</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 124,979,384</u>	<u>\$ 91,928,788</u>	<u>\$ 216,908,172</u>	<u>\$ 216,801,313</u>

ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005		Total	2004
	Wastewater Division	Solid Waste Division		
Operating Revenues:				
Wastewater				
User Service Agreements:				
Operating	\$ 12,875,842	\$	\$ 12,875,842	\$ 11,946,943
General	7,411,072		7,411,072	7,181,610
Sludge	1,202,565		1,202,565	1,131,730
Septage and Leachate	478,368		478,368	410,121
Other	840,065		840,065	766,524
Solid Waste				
Tipping Fees		24,799,678	24,799,678	24,967,952
Collections and Recycling Income		7,354,372	7,354,372	7,087,113
Composting Income		804,525	804,525	809,402
Other		1,089,900	1,089,900	520,769
Total Operating Revenues	22,807,912	34,048,475	56,856,387	54,822,164
Operating Expenses:				
Salaries	5,430,686	6,402,494	11,833,180	11,451,346
Employee Benefits	1,857,248	2,627,101	4,484,349	4,872,158
Power and Utilities	3,009,557	448,350	3,457,907	2,974,144
Chemicals	681,710		681,710	613,122
Fuel	2,374,467	766,305	3,140,772	1,992,948
Supplies and Miscellaneous Maintenance	758,426	1,507,499	2,265,925	2,611,074
Contractual Services	395,350		395,350	331,617
Indirect Operating Expenses	343,767	6,166,451	6,510,218	3,941,960
Accrued Landfill Closure Costs		3,474,694	3,474,694	-
Administrative	1,054,557	1,021,285	2,075,842	1,670,038
Community Benefit		1,931,636	1,931,636	2,148,983
Recycling and Other Taxes		644,294	644,294	635,701
Licenses and Permits	143,226		143,226	134,139
Bad Debt Expense		543,580	543,580	2,828,464
Depreciation	4,930,367	5,186,145	10,116,512	9,713,404
Amortization of Bond Issue Costs	294,189	58,928	353,117	353,118
Total Operating Expenses	21,273,550	30,778,762	52,052,312	46,272,216
Operating Income	1,534,362	3,269,713	4,804,075	8,549,948
Non - Operating Revenues / (Expenses):				
Interest Income	644,446	527,577	1,172,023	541,113
Interest Expense	(2,588,562)	(4,403,785)	(6,992,347)	(7,361,529)
Contributions - State Subsidy		5,630,747	5,630,747	5,630,747
Total Non - Operating Revenues / (Expenses)	(1,944,116)	1,754,539	(189,577)	(1,189,669)
Net Income / (Loss)	(409,754)	5,024,252	4,614,498	7,360,279
Net Assets (Deficit), January 1	56,358,523	9,903,404	66,261,927	58,901,648
Net Assets (Deficit), December 31	\$ 55,948,769	\$ 14,927,656	\$ 70,876,425	\$ 66,261,927

**ATLANTIC COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005			2004
	Wastewater Division	Solid Waste Division	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers and Users	\$ 22,819,958	\$ 34,012,780	\$ 56,832,738	\$ 51,442,851
Payments to Employees	(5,347,672)	(6,402,494)	(11,750,166)	(11,451,346)
Payments to Suppliers	(10,155,725)	(18,318,604)	(28,474,329)	(21,624,702)
Net Cash Provided by Operating Activities	<u>7,316,561</u>	<u>9,291,682</u>	<u>16,608,243</u>	<u>18,366,803</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating Subsidies and Transfers to Other Funds	<u>21,101</u>	<u>(21,101)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of Capital Assets	(3,546,758)	(3,609,550)	(7,156,308)	(8,670,880)
Principal Paid on Capital Debt	(4,431,029)	(3,365,000)	(7,796,029)	(7,726,841)
Interest Paid on Capital Debt	(2,649,210)	(4,486,968)	(7,136,178)	(7,436,167)
State Contribution		5,630,747	5,630,747	5,630,747
Loan Repayments			-	(1,085,181)
Proceeds from Wastewater Trust	1,805,036		1,805,036	684,612
Net Cash (Used) by Capital and Related Financing Activities	<u>(8,821,961)</u>	<u>(5,830,771)</u>	<u>(14,652,732)</u>	<u>(18,603,710)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Income	583,911	407,589	991,500	516,982
Transferred to Investments		(4,891,234)	(4,891,234)	-
Net Cash Provided (Used) by Investing Activities	<u>583,911</u>	<u>(4,483,645)</u>	<u>(3,899,734)</u>	<u>516,982</u>
Net Increase (decrease) in Cash and Cash Equivalents	(900,388)	(1,043,835)	(1,944,223)	280,075
Cash and Cash Equivalents, January 1	<u>20,965,160</u>	<u>24,598,771</u>	<u>45,563,931</u>	<u>45,283,856</u>
Cash and Cash Equivalents, December 31	<u>\$ 20,064,772</u>	<u>\$ 23,554,936</u>	<u>\$ 43,619,708</u>	<u>\$ 45,563,931</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income	\$ 1,534,362	\$ 3,269,713	\$ 4,804,075	\$ 8,549,948
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	4,930,367	5,186,145	10,116,512	9,713,404
Amortization of Bond Issuance Costs	294,189	58,928	353,117	353,118
Bad Debt Expense		543,580	543,580	2,828,464
(Increase) Decreases in Accounts Receivable	130,911	633,009	763,920	(3,378,205)
Increase (Decrease) in:				
Accounts and Other Payables	320,424	(37,288)	283,136	716,524
Deferred Revenue	106,308		106,308	1,827
Customer Deposits		6,850	6,850	(2,935)
Amounts Held by the State		(369,255)	(369,255)	(415,342)
	<u>\$ 7,316,561</u>	<u>\$ 9,291,682</u>	<u>\$ 16,608,243</u>	<u>\$ 18,366,803</u>
Unrestricted Cash and Cash Equivalents	\$ 7,874,637	\$ 13,823,516	\$ 21,698,153	\$ 23,370,474
Restricted Cash and Cash Equivalents	12,190,135	9,731,420	21,921,555	22,193,457

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004**

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, 2005 and 2004
(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

Financial Statement Presentation and Basis of Accounting

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, 2004. 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 ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Statement Presentation and Basis of Accounting - Continued

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

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.

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.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2005 and 2004, the Construction Fund and Wastewater Trust Fund cash equivalents amounted to \$841,528 and \$383,194 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, 2005 and 2004, the Rebate Fund amounted to \$83,591 and \$81,758 respectively.

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 2005 for the Sewer Revenue Refunding Bonds (see Note 7). At December 31, 2005 and 2004, the Debt Service Fund cash amounted to \$5,745,237 and \$5,405,617, 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, 2005 and 2004, the Debt Service Reserve Fund cash and investments amounted to \$2,931,596 and \$2,608,545, 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, 2005 and 2004, the Renewal and Replacement Fund cash amounted to \$4,208,699 and \$5,629,171, respectively. The System Reserve Fund, a component of the Renewal and Replacement Fund, cash requirement at December 31, 2005 and 2004 was \$4,800,000 and \$4,800,000, respectively.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2005 and 2004, Restricted Cash and Investments included in this Fund amounted to \$0.

Rebate Fund – The balance in this Fund shall be maintained in an amount sufficient to make payments to the United States Treasury for investment earnings above levels permitted by Section 148(f) of The Internal Revenue Code of 1986, as amended. At December 31, 2005 and 2004, 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, 2005 and 2004, the Debt Service Fund cash amounted to \$250,233 and \$160,083, 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, 2005 and 2004, the Debt Service Reserve Fund cash amounted to \$2,631,533.

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.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Solid Waste Bond Resolutions - Continued

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, 2005 and 2004, the Renewal and Replacement Fund cash amounted to \$6,447,656 and \$6,507,058, respectively.

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.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2005 and 2004:

Wastewater Division:					
	2004	Increases	Decreases	2005	
Land	\$ 12,691,336	\$	\$	\$ 12,691,336	
Sewer Mains and Interceptors	73,291,532		11,978	73,279,554	
Buildings and Improvements	31,905,257	3,288,254		35,193,511	
Machinery and Equipment	38,799,842	60,529		38,860,371	
Incinerator Facility	16,353,524			16,353,524	
Atlantic Coastal Alternative	26,629,575			26,629,575	
	<u>199,671,066</u>	<u>3,348,783</u>	<u>11,978</u>	<u>203,007,871</u>	
Less: Accumulated Depreciation	(102,848,598)	(4,930,367)		(107,778,965)	
	<u>\$ 96,822,468</u>	<u>\$ (1,581,584)</u>	<u>\$ 11,978</u>	<u>\$ 95,228,906</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, 2005 and 2004
(CONTINUED)**

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT - Continued

Property, Plant and Equipment consisted of the following at December 31, 2005 and 2004:

Solid Waste Division:								
		2004		Increases		Decreases		2005
Land and Improvements	\$	13,104,646	\$		\$	1,874	\$	13,102,772
Buildings		22,850,057		168,504				23,018,561
Equipment and Vehicles		14,906,465		2,818,951				17,725,416
Landfill Design and Implementation		42,779,727		317,670				43,097,397
Planning and Designs		4,429,456						4,429,456
		<u>98,070,351</u>		<u>3,305,125</u>		<u>1,874</u>		<u>101,373,602</u>
Less: Accumulated Depreciation		(43,262,073)		(3,661,776)				(46,923,849)
	\$	<u>54,808,278</u>	\$	<u>(356,651)</u>	\$	<u>1,874</u>	\$	<u>54,449,753</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, 2005 and 2004 consist of the following:

		2004		Decreases		2005
Wastewater Revenue Bonds, 1991 Series	\$	1,521,111	\$	211,205	\$	1,309,906
Wastewater Treatment Trust - 1995		5,072,620		401,435		4,671,185
Wastewater Treatment Trust - 1997		7,791,739		515,946		7,275,793
Wastewater Treatment Trust - 2001		1,775,755		87,444		1,688,311
Environmental Infrastructure Trust - 2004		4,919,402				4,919,402
Wastewater Revenue Refunding Bonds, 1998 Series		35,605,000		3,095,000		32,510,000
Sewer Revenue Refunding Bonds, 2003 Series		10,725,000		120,000		10,605,000
		<u>67,410,627</u>		<u>4,431,030</u>		<u>62,979,597</u>
Unamortized Bond Premium		1,046,883		95,170		951,713
Total	\$	<u>68,457,510</u>	\$	<u>4,526,200</u>	\$	<u>63,931,310</u>

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 5 – BONDS PAYABLE - Continued

Solid Waste Revenue Bonds and Loans at December 31, 2005 and 2004 consist of the following:

	2004	Decreases	2005
Solid Waste System Revenue Bonds	\$ 65,005,000	\$ 3,565,000	\$ 61,440,000
Unamortized Bond Discount	(363,944)	(53,800)	(310,144)
Total	\$ 64,641,056	\$ 3,511,200	\$ 61,129,856

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

Total Net Debt,				
Wastewater Division	\$	63,931,310		
Solid Waste Division		61,129,856		
Total Net Debt of the Authority	\$	125,061,166		
Current Portion of Long Term Debt:				
Wastewater Division	\$	5,038,829		
Solid Waste Division		3,825,000		
Noncurrent Portion of Debt:				
Wastewater Division		58,892,481		
Solid Waste Division		57,304,856		
Total Net Debt of the Authority	\$	125,061,166		

Description of Bonds Payable

At December 31, 2005, 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, 2005 is \$1,309,906.

\$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, 2005 is \$4,671,185.

\$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, 2005 is \$7,275,793.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 5 – BONDS PAYABLE - Continued

Description of Bonds Payable - Continued

Wastewater Division – Continued

\$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, 2005 is \$1,688,311.

\$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, 2005 is \$32,510,000.

\$10,725,000 Sewer Refunding Bonds dated October 15, 2003, due in annual installments for principal beginning January 15, 2006 through January 15, 2015, bearing interest at various rates from 2.00% to 5.75% per annum. The balance remaining as of December 31, 2005 is \$10,605,000.

\$4,919,402 New Jersey Environmental Infrastructure Trust Fund Loan dated 2004, due in semiannual installments for principal and interest through August 1, 2024, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2005 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, 2005 is \$61,440,000.

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, 2005 and 2004
(CONTINUED)**

NOTE 5 – BONDS PAYABLE - Continued

Debt service requirements on serial bonds and loans payable at December 31, 2005 are as follows:

Year Ended December 31,	Wastewater Division		Solid Waste Division	
	Principal	Interest	Principal	Interest
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	6,010,559	1,597,459	5,070,000	2,982,525
2011 - 2015	31,016,703	3,903,876	31,550,000	8,709,244
2016 - 2020	3,298,905	272,194	7,775,000	276,983
2021 - 2024	1,262,909	45,549		
	<u>\$ 62,979,597</u>	<u>\$ 14,537,549</u>	<u>\$ 61,440,000</u>	<u>\$ 27,132,753</u>
Year Ended	Authority Grand Total			
December 31,	Principal	Interest	Total	
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	11,080,559	4,579,984	15,660,543	
2011 - 2015	62,566,703	12,613,120	75,179,823	
2016 - 2020	11,073,905	549,177	11,623,082	
2021 - 2024	1,262,909	45,549	1,308,458	
	<u>\$ 124,419,597</u>	<u>\$ 41,670,302</u>	<u>\$ 166,089,899</u>	

NOTE 6 – PENSION PLANS

Description of Plans - All required employees of the Authority are covered by 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.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 6 – PENSION PLANS - Continued

Vesting and Benefit Provisions - The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B. 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.

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.

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 5% 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	
12/31/2005	\$ 72,663.00	100%	\$ -	-
12/31/2004	-	100%	-	-
12/31/2003	-	100%	-	-

NOTE 7 – POST-RETIREMENT BENEFITS

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required PERS, 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.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 8 – 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 9 – 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.

As of December 31, 2005 the Authority changed its estimate for calculating the accrued post closure liability resulting in an additional charge of \$3,474,694.

NOTE 10 – 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 11 – AMOUNTS HELD BY THE STATE OF NEW JERSEY

The State of New Jersey holds the Landfill Closure Escrow Account in the name of the Atlantic County Utilities Authority. These Cash and Investments consisted of the following at December 31, 2005:

United State Treasury Notes	\$	2,734,378		
Cash		401,998		
	\$	<u>3,136,376</u>		

NOTE 12 – DEFERRED COMPENSATION

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

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 13 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds, bank deposits and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

Additionally, the Authority has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

GASB Statement No. 3 amended by Statement No. 40 requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments.

The cash deposits not covered by depository insurance held at financial institutions are categorized as follows:

- a. Deposits are uncollateralized.
- b. Deposits are collateralized with securities held by the pledging financial institution.
- c. Deposits collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(CONTINUED)**

NOTE 13 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

At December 31, 2005, the carrying amount of the Authority's deposits (cash and cash equivalents) was \$43,619,708 and the bank balance was \$43,732,649.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it.

As of December 31, 2005, the Authority's bank balance was exposed to custodial credit risk as follows:

	Cash and Cash Equivalents	Investments
Insured	\$ 1,321,380	\$
Collateralized with securities held by the pledging financial Institution	42,411,269	8,153,873
	\$ 43,732,649	\$ 8,153,873

OTHER SUPPLEMENTARY INFORMATION

WASTEWATER DIVISION

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
COMPARATIVE STATEMENT OF NET ASSETS
MODIFIED GAAP BASIS
DECEMBER 31, 2005 AND 2004**

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash and Cash Equivalents	\$ 7,874,637	\$ 8,070,376
Accrued Interest Receivable	66,786	55,910
Accounts Receivable	2,215,333	2,333,880
	<hr/>	<hr/>
Total Current Assets	10,156,756	10,460,166
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	12,190,135	12,894,784
Investments	1,539,868	1,586,675
Accrued Interest Receivable	1,800	312
Loans Receivable	3,592,402	5,397,438
	<hr/>	<hr/>
Total Noncurrent Assets	17,324,205	19,879,209
Capital Assets:		
Property, Plant and Equipment	205,437,084	199,859,451
Less: Accumulated Depreciation	(107,778,965)	(102,848,598)
	<hr/>	<hr/>
Net Capital Assets	97,658,119	97,010,853
Unamortized Bond Issue Costs	2,941,913	3,236,102
	<hr/>	<hr/>
TOTAL ASSETS	\$ 128,080,993	\$ 130,586,330

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
COMPARATIVE STATEMENT OF NET ASSETS
MODIFIED GAAP BASIS
DECEMBER 31, 2005 AND 2004**

<u>LIABILITIES</u>	<u>2005</u>	<u>2004</u>
Current Liabilities Payable from Current Assets:		
Accounts Payable	\$ 2,301,302	\$ 2,069,246
Deferred Revenue	106,308	99,859
Due to Solid Waste Division	672,396	651,295
	<hr/>	<hr/>
Total Current Liabilities Payable from Current Assets	3,080,006	2,820,400
Current Liabilities Payable from Restricted Assets:		
Construction Contracts Payable	2,625,709	209,953
Current Portion of Long - Term Debt	5,038,829	4,431,029
Accrued Interest	1,170,726	1,231,374
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets:	8,835,264	5,872,356
Noncurrent Liabilities:		
Deferred Revenue	1,484,327	1,597,084
Post Retirement Benefits Payable	535,019	535,019
Accrued Compensated Absences	483,014	400,000
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$951,713 and \$1,046,883 in 2005 and 2004, respectively)	58,892,481	64,026,481
	<hr/>	<hr/>
Total Noncurrent Liabilities	61,394,841	66,558,584
TOTAL LIABILITIES	\$ 73,310,111	\$ 75,251,340
<u>NET ASSETS</u>		
Investment in Capital Assets, Net of Related Debt	\$ 33,726,809	\$ 28,553,343
Restricted for:		
Renewal and Replacement	4,800,000	4,800,000
Debt Service Fund	5,745,237	5,405,617
Debt Service Reserve Fund	7,754,743	7,754,743
Unrestricted	2,744,093	8,821,287
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 54,770,882	\$ 55,334,990

**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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
User Service Agreements:		
Operating	\$ 12,875,842	\$ 11,946,943
General	7,411,072	7,181,610
Sludge	1,202,565	1,131,730
Septage and Leachate	478,368	410,121
Other	840,065	766,524
	<u>22,807,912</u>	<u>21,436,928</u>
Total Operating Revenues		
Operating Expenses:		
Salaries	5,430,686	5,165,988
Employee Benefits	1,859,781	1,949,005
Power and Utilities	2,997,829	2,407,739
Chemicals	697,039	584,397
Fuel	2,229,116	1,690,209
Supplies and Miscellaneous Maintenance	1,063,748	1,341,206
Contractual Services	374,391	396,492
Indirect Operating Expenses	321,013	282,143
Administrative	1,086,519	1,071,785
Licenses and Permits	143,226	134,139
Depreciation	4,930,367	4,895,809
Amortization of Bond Issue Costs	294,189	294,190
	<u>21,427,904</u>	<u>20,213,102</u>
Total Operating Expenses		
Operating Income	<u>1,380,008</u>	<u>1,223,826</u>
Non - Operating Revenues / (Expenses):		
Interest Income	644,446	398,938
Interest Expense	(2,588,562)	(2,677,915)
	<u>(1,944,116)</u>	<u>(2,278,977)</u>
Total Non - Operating Expenses		
Net Income / (Loss)	(564,108)	(1,055,151)
Net Assets, January 1	<u>55,334,990</u>	<u>56,390,141</u>
Net Assets, December 31	<u>\$ 54,770,882</u>	<u>\$ 55,334,990</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, 2005**

	2005 Budget	2005 Actual
Revenues:		
User Service Agreements:		
Operating and General Charge	\$ 20,286,913	\$ 20,286,914
Sludge, Septage, and Leachate	1,513,700	1,574,625
Interest on Investments and Deposits	290,000	644,446
Miscellaneous	873,528	840,065
Fund Balance	736,048	268,370
	<hr/>	<hr/>
Total Revenues	23,700,189	23,614,420
	<hr/>	<hr/>
Expenses:		
Salaries	5,510,183	5,430,686
Employee Benefits	1,947,208	1,859,781
Power and Utilities	2,704,676	2,997,829
Chemicals	812,286	697,039
Fuel	1,737,518	2,229,116
Supplies and Miscellaneous Maintenance	758,195	627,920
Contractual Services	492,510	374,391
Indirect Operating Expenses	499,665	489,777
Administrative	1,198,976	1,112,057
Maintenance Program Expenditures	627,900	435,828
Canceled Purchase Orders		(51,076)
	<hr/>	<hr/>
	16,289,117	16,203,348
	<hr/>	<hr/>
Debt Service	7,411,072	7,411,072
	<hr/>	<hr/>
Total Expenses	23,700,189	23,614,420
	<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, 2005**

Description	Face Amount	Interest Rate	Due Date	Cost December 31, 2005
Unrestricted Accounts:				
Cash	\$ 235,299			\$ 235,299
Evergreen Treasury Money Market	1,475,919	2.80%		1,475,919
NJ ARM Pooled Investment	2,000,000	4.23%		2,000,000
NJ ARM Pooled Investment	4,163,419	4.14%		4,163,419
Total Unrestricted	<u>7,874,637</u>			<u>7,874,637</u>
Restricted Accounts:				
Wastewater Trust Fund:				
Evergreen Treasury Money Market	134,643	2.80%		134,643
Evergreen Treasury Money Market	119	2.50%		119
Evergreen Treasury Money Market	623,175	2.80%		623,175
	<u>757,937</u>			<u>757,937</u>
Rebate Account:				
Evergreen Treasury Money Market	83,591	2.80%		83,591
	<u>83,591</u>			<u>83,591</u>
2003 Investment Settlement Account:				
Evergreen Treasury Money Market	2,943	2.80%		2,943
	<u>2,943</u>			<u>2,943</u>
Debt Service Fund:				
Evergreen Treasury Money Market	5,136,374	2.80%		5,136,374
NJ ARM Pooled Investment	608,863	4.14%		608,863
	<u>5,745,237</u>			<u>5,745,237</u>
Debt Service Reserve Fund:				
Evergreen Treasury Money Market	50,052	2.80%		50,052
NJ ARM Pooled Investment	1,341,676	4.14%		1,341,676
United States Treasury Strips	70,568	11.25%	2/15/2015	245,026
United States Treasury Bonds	1,149,682	11.25%	2/15/2015	1,294,842
	<u>2,611,978</u>			<u>2,931,596</u>
Renewal and Replacement Fund:				
Evergreen Treasury Money Market	10,989	2.80%		10,989
NJ ARM - Term	500,000	4.13%		500,000
NJ ARM Pooled Investment	3,697,710	4.14%		3,697,710
	<u>4,208,699</u>			<u>4,208,699</u>
Total	<u>\$ 21,285,022</u>			<u>\$ 21,604,640</u>
Unrestricted				
Cash and Cash Equivalents	\$ 7,874,637			\$ 7,874,637
Restricted:				
Cash and Cash Equivalents	12,190,135			12,190,135
Investments	1,220,250			1,539,868
	<u>\$ 21,285,022</u>			<u>\$ 21,604,640</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, 2005, 2004, 2003, 2002 AND 2001**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Additions During the Year:					
Property, Plant and Equipment:					
Land	\$	\$	\$	\$	\$
Sewer Mains and Interceptors	(11,978)		13,459	890,500	2,471,094
Buildings and Improvements	5,589,611	61,966	11,581		368,793
Equipment and Vehicles		42,386	54,201	99,558	35,361
Total Additions	<u>5,577,633</u>	<u>104,352</u>	<u>79,241</u>	<u>990,058</u>	<u>2,875,248</u>
Costs Capitalized at the Beginning of the Year	<u>199,859,451</u>	<u>199,755,099</u>	<u>199,675,858</u>	<u>198,685,800</u>	<u>195,810,552</u>
	205,437,084	199,859,451	199,755,099	199,675,858	198,685,800
Less:					
Accumulated Depreciation and Amortization	<u>(107,778,965)</u>	<u>(102,848,598)</u>	<u>(97,952,789)</u>	<u>(93,073,201)</u>	<u>(88,178,797)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 97,658,119</u>	<u>\$ 97,010,853</u>	<u>\$ 101,802,310</u>	<u>\$ 106,602,657</u>	<u>\$ 110,507,003</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
WASTEWATER DIVISION
SCHEDULE OF DEBT ISSUE COSTS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, 2003, 2002 AND 2001**

	<u>2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</u>
Costs Capitalized at the Beginning of the Year	\$ 5,206,878	\$	5,206,878	\$	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>5,206,878</u>		<u>4,744,100</u>		<u>4,744,100</u>
Less:									
Accumulated Amortization	<u>(2,264,965)</u>		<u>(1,970,776)</u>		<u>(1,676,586)</u>		<u>(1,437,267)</u>		<u>(1,182,897)</u>
Unamortized Debt Issue Costs	<u>\$ 2,941,913</u>	\$	<u>3,236,102</u>	\$	<u>3,530,292</u>	\$	<u>3,306,833</u>	\$	<u>3,561,203</u>

SOLID WASTE DIVISION

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
COMPARATIVE STATEMENT OF NET ASSETS
MODIFIED GAAP BASIS
DECEMBER 31, 2005 AND 2004**

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash and Cash Equivalents	\$ 13,823,516	\$ 15,300,097
Investments	4,891,234	-
Accrued Interest Receivable	133,502	21,352
Accounts Receivable (net of Allowance \$1,045,074 and \$14,341,890 in 2005 and 2004 respectively)	1,836,600	1,799,806
Other Accounts Receivable	372,027	373,126
Due from Wastewater Division	672,396	651,295
Total Current Assets	<u>21,729,275</u>	<u>18,145,676</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	9,731,420	9,298,674
Investments	1,722,772	-
Amounts Held by State of New Jersey	3,136,376	2,767,121
Accrued Interest Receivable	46,070	1,011
Total Noncurrent Assets	<u>14,636,638</u>	<u>12,066,806</u>
Capital Assets:		
Property, Plant and Equipment	102,435,085	99,694,634
Less: Accumulated Depreciation	(46,923,849)	(43,262,073)
Net Capital Assets	<u>55,511,236</u>	<u>56,432,561</u>
Deferred Costs:		
Preoperating Costs (Net of Accumulated Depreciation of \$9,484,199 and \$8,622,346 in 2005 and 2004, respectively)	375,302	1,237,155
Unamortized Bond Discount and Issue Costs	737,820	796,748
Total Deferred Costs	<u>1,113,122</u>	<u>2,033,903</u>
TOTAL ASSETS	\$ <u><u>92,990,271</u></u>	\$ <u><u>88,678,946</u></u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
COMPARATIVE STATEMENT OF NET ASSETS
MODIFIED GAAP BASIS
DECEMBER 31, 2005 AND 2004**

<u>LIABILITIES</u>	<u>2005</u>	<u>2004</u>
Current Liabilities Payable from Current Assets:		
Accounts Payable	\$ 2,892,085	\$ 2,690,121
Customer Deposits	152,979	146,129
	<hr/>	<hr/>
Total Current Liabilities Payable from Current Assets	3,045,064	2,836,250
Current Liabilities Payable from Restricted Assets:		
Construction Contracts Payable	2,916,671	3,785,770
Current Portion of Long - Term Debt	3,825,000	3,565,000
Accrued Interest	1,454,065	1,537,248
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets:	8,195,736	8,888,018
Noncurrent Liabilities Payable from Restricted Assets:		
Accrued Landfill Closure and Post - Closure Care Cost	10,850,705	7,376,011
	<hr/>	<hr/>
Noncurrent Liabilities:		
Accrued Compensated Absences	574,099	574,099
Post Retirement Benefits Payable	800,000	800,000
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$310,144 and \$363,944 in 2005 and 2004, respectively)	57,304,856	61,076,056
	<hr/>	<hr/>
Total Noncurrent Liabilities	69,529,660	69,826,166
TOTAL LIABILITIES	\$ 80,770,460	\$ 81,550,434
<u>NET ASSETS</u>		
Investment in Capital Assets, Net of Related Debt Restricted for:	\$ (5,618,620)	\$ (8,208,495)
Debt Service Reserve Fund	8,053,769	8,053,769
Unrestricted	9,784,662	7,283,238
	<hr/>	<hr/>
TOTAL NET ASSETS (DEFICIT)	\$ 12,219,811	\$ 7,128,512

**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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Tipping Fees	\$ 24,799,678	\$ 24,967,952
Collections and Recycling Income	7,354,372	7,087,113
Composting Income	804,525	809,402
Other	1,089,900	520,769
	<u>34,048,475</u>	<u>33,385,236</u>
Total Operating Revenues		
Operating Expenses:		
Salaries	6,422,913	6,286,144
Employee Benefits	2,630,185	2,899,600
Power and Utilities	423,867	553,946
Fuel	742,484	577,834
Supplies and Miscellaneous Maintenance	1,530,213	1,365,872
Indirect Operating Expenses	6,283,079	3,942,599
Accrued Landfill Closure Costs	3,474,694	-
Administrative	892,000	697,295
Community Benefit	1,931,636	2,148,983
Recycling and Other Taxes	591,991	688,004
Bad Debt Expense	543,580	2,828,464
Depreciation	5,186,145	4,817,595
Amortization of Bond Issue Costs	58,928	58,928
	<u>30,711,715</u>	<u>26,865,264</u>
Total Operating Expenses		
Operating Income	<u>3,336,760</u>	<u>6,519,972</u>
Non - Operating Revenues / (Expenses):		
Interest Income	527,577	142,175
Interest Expense	(4,403,785)	(4,683,614)
Contributions - State Subsidy	5,630,747	5,630,747
	<u>1,754,539</u>	<u>1,089,308</u>
Total Non - Operating Expenses		
Net Income / (Loss)	5,091,299	7,609,280
Net Assets (Deficit), January 1	7,128,512	1,025,109
Prior Period Adjustment to Fund Deficit		<u>(1,505,877)</u>
Net Assets (Deficit), December 31	<u>\$ 12,219,811</u>	<u>\$ 7,128,512</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, 2005 AND 2004**

	<u>2005 Budget</u>	<u>2005 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	8,185,452	8,185,452
	<u>8,185,452</u>	<u>8,185,452</u>
Net Loss on Debt Related Activities	(2,554,705)	(2,554,705)
Operating Revenues:		
Tipping Fees	22,374,754	24,325,075
Collections and Recycling Income	6,561,470	7,354,372
Composting Income	790,318	804,525
Other	1,097,457	1,089,900
Interest Income	141,225	527,577
Total Operating Revenues	<u>30,965,224</u>	<u>34,101,449</u>
Operating Expenses:		
Administration	1,878,767	1,875,921
Solid Waste Administration	816,475	732,310
Transfer Station Operations	6,444,721	5,633,675
Composting Operations	318,386	272,854
Landfill Operations	5,363,905	4,791,108
Recycling Center Processing	1,591,798	1,565,630
Collections	4,123,133	3,797,463
Maintenance Center	2,705,020	3,035,336
Lease Purchase	723,689	723,589
Canceled Purchase Orders		(683,522)
Total Operating Expenses	<u>23,965,894</u>	<u>21,744,364</u>
Net Income from Operating Activities	<u>6,999,330</u>	<u>12,357,085</u>
Renewal and Replacement Fund CIP	4,444,625	4,610,351
Allowance for Bad Debt		543,580
Net Income, before Adjustment	<u>\$ -</u>	<u>\$ 4,648,449</u>
Landfill Closure Adjustment		(3,474,694)
Net Income		<u><u>1,173,755</u></u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Description	Face Amount	Interest Rate	Due Date	Cost December 31, 2005
Unrestricted Accounts:				
Operations:				
Cash	\$ 973,139			\$ 973,139
Revenue Fund:				
Cash	137,052			137,052
NJ ARM - Term	2,971,826	3.690%	5/26/06	2,971,826
NJ ARM Pooled Investment	3,075,815	4.070%		3,075,815
U.S. Treasury Fund	7,282,574	3.400%		7,282,574
	<u>13,467,267</u>			<u>13,467,267</u>
E.I.C.:				
U.S. Treasury Fund	275,342	3.400%		275,342
	<u>275,342</u>			<u>275,342</u>
Operating Reserve:				
U.S. Treasury Fund	2,079,594	3.400%		2,079,594
NJ ARM - Term	1,905,523	3.690%	5/26/06	1,905,523
NJ ARM Pooled Investment	13,885	4.140%		13,885
	<u>3,999,002</u>			<u>3,999,002</u>
Restricted Accounts:				
Renewal and Replacement Fund:				
U.S. Treasury Fund	1,243,149	3.400%		1,243,149
NJ ARM Pooled Investment	5,204,507	4.070%		5,204,507
	<u>6,447,656</u>			<u>6,447,656</u>
Landfill Closure Fund:				
NJ ARM - Term	1,000,000	3.590%	4/18/06	1,000,000
NJ ARM - Term	849,093	3.690%	5/26/06	849,093
NJ ARM - Term	275,677	4.080%	9/19/06	275,677
	<u>2,124,770</u>			<u>2,124,770</u>
Standard Escrow Fund:				
US Treasury Notes	1,675,654	0.000%	11/15/16	1,675,654
US Treasury Notes	197,409	4.625%	5/15/06	197,409
US Treasury Notes	275,670	2.000%	5/15/06	275,670
US Treasury Notes	168,419	6.625%	5/15/07	168,419
US Treasury Notes	141,023	3.125%	10/15/08	141,023
US Treasury Notes	276,203	3.250%	1/15/09	276,203
Cash	401,998	1.400%		401,998
	<u>3,136,376</u>			<u>3,136,376</u>
Debt Service Account:				
U.S. Treasury Fund	250,233	3.410%		250,233
Debt Service Reserve Fund:				
U.S. Treasury Fund	2,631,533	3.410%		2,631,533
Total	<u>\$ 33,305,318</u>			<u>\$ 33,305,318</u>
Unrestricted:				
Cash and Cash Equivalents	\$ 13,823,516			\$ 13,823,516
Investments	4,891,234			4,891,234
Restricted:				
Cash and Cash Equivalents	9,731,420			9,731,420
Investments	1,722,772			1,722,772
Cash and Investments held by the State of New Jersey	3,136,376			3,136,376
	<u>\$ 33,305,318</u>			<u>\$ 33,305,318</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, 2005, 2004, 2003, 2002 AND 2001**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Waste Disposal:					
Additions (Deletions) During the Year:					
Property, Plant and Equipment:					
Land and Improvements	\$ (1,874)	\$ 93,700	\$	\$	\$
Buildings and Improvements	168,504	41,654	63,422		196,007
Equipment and Vehicles	613,064	2,217,967	599,925		856,785
Landfill Design and Implementation	1,017,183	4,443,223	5,954,124		1,061,143
Planning and Designs				3,790,005	
Total Additions	<u>1,796,877</u>	<u>6,796,544</u>	<u>6,617,471</u>	<u>3,790,005</u>	<u>2,113,935</u>
Costs Capitalized at the Beginning of the Year	<u>76,968,914</u>	<u>70,172,370</u>	<u>63,554,899</u>	<u>59,764,894</u>	<u>57,650,959</u>
	78,765,791	76,968,914	70,172,370	63,554,899	59,764,894
Less:					
Accumulated Depreciation and Amortization	<u>(39,093,397)</u>	<u>(35,677,378)</u>	<u>(31,858,268)</u>	<u>(28,835,667)</u>	<u>(25,478,169)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 39,672,394</u>	<u>\$ 41,291,536</u>	<u>\$ 38,314,102</u>	<u>\$ 34,719,232</u>	<u>\$ 34,286,725</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, 2005, 2004, 2003, 2002 AND 2001**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</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	943,574	1,845,226	421,608	100,986	37,548
Planning and Designs		61,107	2,676		
Total Additions	<u>943,574</u>	<u>1,939,333</u>	<u>479,734</u>	<u>139,884</u>	<u>427,872</u>
Costs Capitalized at the Beginning of the Year	<u>32,585,304</u>	<u>30,645,971</u>	<u>30,166,237</u>	<u>30,026,353</u>	<u>29,598,481</u>
	33,528,878	32,585,304	30,645,971	30,166,237	30,026,353
Less:					
Accumulated Depreciation and Amortization	<u>(17,314,734)</u>	<u>(16,207,124)</u>	<u>(15,208,559)</u>	<u>(14,219,788)</u>	<u>(13,332,930)</u>
Total Property, Plant and Equipment, End of Year	\$ <u><u>16,214,144</u></u>	\$ <u><u>16,378,180</u></u>	\$ <u><u>15,437,412</u></u>	\$ <u><u>15,946,449</u></u>	\$ <u><u>16,693,423</u></u>
Grand Total	\$ <u><u>55,886,538</u></u>	\$ <u><u>57,669,716</u></u>	\$ <u><u>53,751,514</u></u>	\$ <u><u>50,665,681</u></u>	\$ <u><u>50,980,148</u></u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
SCHEDULE OF DEBT ISSUE COSTS
MODIFIED GAAP BASIS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, 2003, 2002 AND 2001**

	<u>2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</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>(1,444,959)</u>		<u>(1,386,031)</u>		<u>(1,327,103)</u>		<u>(1,268,174)</u>		<u>(1,209,246)</u>
Unamortized Debt Issue Costs	<u>\$ 737,820</u>	\$	<u>796,748</u>	\$	<u>855,676</u>	\$	<u>914,605</u>	\$	<u>973,533</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, 2005. 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, 2005.

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, 2005 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

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

March 28, 2006

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, 2005**

Operating Revenues:		
Wastewater		
User Service Agreements:		
Operating	\$	12,875,842
General		7,411,072
Sludge		1,202,565
Septage and Leachate		478,368
Other		840,065
Total Operating Revenues		<u>22,807,912</u>
Operating Expenses:		
Salaries		5,430,686
Employee Benefits		1,859,781
Power and Utilities		2,997,829
Chemicals		697,039
Fuel		2,229,116
Supplies and Miscellaneous Maintenance		1,063,748
Contractual Services		374,391
Indirect Operating Expenses		321,013
Administrative		1,086,519
Licenses and Permits		143,226
Amortization of Bond Issue Costs		294,189
Total Operating Expenses		<u>16,497,537</u>
Excess of Revenues Over Expenses from Operations		<u>6,310,375</u>
Non - Operating Revenues / (Expenses):		
Interest Income		644,446
Interest Expense		(2,588,562)
Total Non - Operating Revenue / (Expenses)		<u>(1,944,116)</u>
Excess of Revenues Over Expenses	\$	<u><u>4,366,259</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, 2005**

Operating Revenues:		
Solid Waste		
Tipping Fees	\$	24,799,678
Collections and Recycling Income		7,354,372
Composting Income		804,525
Other		<u>1,089,900</u>
Total Operating Revenues		<u>34,048,475</u>
Operating Expenses:		
Salaries		6,422,913
Employee Benefits		2,630,185
Power and Utilities		423,867
Fuel		742,484
Supplies and Miscellaneous Maintenance		1,530,213
Indirect Operating Expenses		6,283,079
Accrued Landfill Closure Costs		3,474,694
Administrative		892,000
Community Benefit		1,931,636
Recycling and Other Taxes		591,991
Bad Debt Expense		543,580
Amortization of Bond Issue Costs		<u>58,928</u>
Total Operating Expenses		<u>25,525,570</u>
Excess of Revenues Over Expenses from Operations		<u>8,522,905</u>
Non - Operating Revenues / (Expenses):		
Interest Income		527,577
Interest Expense		(4,403,785)
Total Non - Operating Revenue / (Expenses)		<u>(3,876,208)</u>
Excess of Revenues Over Expenses	\$	<u><u>4,646,697</u></u>

**THE ATLANTIC COUNTY UTILITIES AUTHORITY
NOTE TO SPECIAL – PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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, 2005, and have issued our report thereon dated March 28, 2006.

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

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

March 28, 2006

**ATLANTIC COUNTY UTILITIES AUTHORITY
SOLID WASTE DIVISION
DEBT SERVICE REQUIREMENT
FOR THE YEAR ENDED DECEMBER 31, 2005**

Debt Service Requirement:		
Interest Payable During 2005	\$	4,486,969
Principal Payable During 2005		3,565,000
Subtotal		<u>8,051,969</u>
Plus: Coverage Requirement		<u>110%</u>
Debt Service Requirement	\$	<u><u>8,857,166</u></u>
Actual Debt Service Coverage		113.13%
Net Revenues Provided:		
Gross Revenue	\$	34,576,052
Operating Expenses		25,466,642
Net Revenues Provided	\$	<u><u>9,109,410</u></u>

GENERAL COMMENTS AND RECOMMENDATIONS

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

The 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, 2005, and have issued our report thereon dated March 28, 2006. 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.

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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters 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.

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 as well as other federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

March 28, 2006

ATLANTIC COUNTY UTILITIES AUTHORITY
GENERAL COMMENTS AND RECOMMENDATIONS
For the Year ended December 31, 2005

None Noted.

SINGLE AUDIT SECTION

ATLANTIC COUNTY UTILITIES AUTHORITY
SCHEDULE OF STATE ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2005

<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	\$ 56,056	\$ 56,056
	Trust 04 Loan	4860-510-4860-032	Open	Open	1,748,980	1,748,980
Total State Assistance					\$ <u>1,805,036</u>	\$ <u>1,805,036</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULE OF STATE ASSISTANCE
DECEMBER 31, 2005**

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, 2005. 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, 2005.

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 reportable 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 caused by error or fraud 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

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

March 28, 2006

**ATLANTIC COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDING DECEMBER 31, 2005**

I. SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion issued on the Basic Financial Statements, dated March 28, 2006

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 28, 2006

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, 2005
(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.

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

Federal:

Not Applicable

State:

Our audit disclosed no material Findings or Questioned Costs.

**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, 2005**

STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.