

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY  
YEARS ENDED DECEMBER 31, 2000 AND 1999

FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORTS

and

COMMENTS AND RECOMMENDATIONS

THE ATLANTIC COUNTY UTILITIES AUTHORITY  
YEAR ENDED DECEMBER 31, 2000

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

	<u>Page</u>
Independent Auditor's Report	1-2
FINANCIAL STATEMENTS:	
Wastewater Division:	
Comparative Balance Sheet	3
Comparative Statement of Revenues, Expenses and Changes in Fund Equity	4
Comparative Statement of Cash Flows	5
Solid Waste Division:	
Comparative Balance Sheet	6
Comparative Statement of Revenues, Expenses and Changes in Fund Equity	7
Comparative Statement of Cash Flows	8
Notes to Financial Statements	9-28
Supplemental Information:	
Wastewater Division:	
Comparative Balance Sheet – Modified GAAP Basis	29
Comparative Statement of Revenues, Expenses and Changes in Fund Equity – Modified GAAP Basis	30
Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget – Rate Basis	31
Schedule of Cash Receipts, Cash Disbursements and Changes in Cash Investments	32

	<u>Page</u>
Supplemental Information (cont'd):	
Wastewater Division (cont'd):	
Schedule of Investments	33
Schedule of Property, Plant and Equipment and Other Capitalized Costs – Modified GAAP Basis	34
Schedule of Debt Issue Costs	35
Solid Waste Division:	
Comparative Balance Sheet – Modified GAAP Basis	36
Comparative Statement of Revenues, Expenses and Changes in Fund Equity – Modified GAAP Basis	37
Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget	38
Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments	39
Schedule of Investments	40
Schedule of Property, Plant and Equipment and Preoperating Costs – Modified GAAP Basis	41
Schedule of Debt Issue Costs	42
 SPECIAL PURPOSE STATEMENTS OF REVENUES AND EXPENSES TO COMPLY WITH REVENUE BOND RESOLUTION:	
Independent Auditor's Report	43-44
Wastewater Division:	
Special-Purpose Statement of Revenues and Expenses	45
Solid Waste Division:	
Special-Purpose Statement of Revenues and Expenses	46
Note to Special-Purpose Financial Statements	47
 DEBT SERVICE REQUIREMENT:	
Independent Auditor's Report	48
Debt Service Requirement	49

Page

GENERAL COMMENTS AND RECOMMENDATIONS:

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Audit Standards</u>	50-51
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and State OMB Circular Letter 98-07	52-53
General Comments and Recommendations	54

STATE FINANCIAL ASSISTANCE PROGRAMS:

Schedule of State Assistance	55
Schedule of Noncompliance and Questioned Costs	56-57



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the separate financial statements of the Wastewater and Solid Waste Divisions (the "Divisions") of the Atlantic County Utilities Authority (the "Authority") as of December 31, 2000 and 1999 and for the years then ended, as listed in the foregoing Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; the provisions of State OMB Circular 98-07, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid; and in compliance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Atlantic County Utilities Authority as of December 31, 2000 and 1999, and the results of operations of such funds for the years then ended, in accordance with accounting principles and practices described in Note 2A.

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

*Hutchins Laezza Farrell + Allison*

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

March 30, 2001  
(Except as to Notes 9 and 12, which are as of April 26, 2001)

## FINANCIAL STATEMENTS

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

COMPARATIVE BALANCE SHEET

December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>	<u>Liabilities, Reserves and Fund Equity</u>	<u>2000</u>	<u>1999</u>
<b>Assets</b>					
Unrestricted Assets:			Current Liabilities Payable From		
Cash	\$ 2,780,871	\$ 2,357,026	Unrestricted Assets:	1,985,691	2,395,300
Investments (Note 10)	5,930,589	6,353,444	Accounts Payable - Operations	\$ 1,261,724	\$ 1,706,639
Accrued Interest Receivable	73,858	95,601	Deferred Revenue	79,605	68,645
Accounts Receivable	965,706	464,053	Due To Solid Waste Division	644,362	620,016
<b>Total Unrestricted Assets</b>	<u>9,751,024</u>	<u>9,270,124</u>	<b>Total Current Liabilities Payable From</b>	<u>1,985,691</u>	<u>2,395,300</u>
			Unrestricted Assets		
Restricted Assets:			Current Liabilities Payable From		
Investments (Note 10)	14,980,548	13,940,141	Restricted Assets:	1,220,361	3,667,847
Accrued Interest Receivable	6,625	1,778	Construction Contracts Payable	3,794,396	1,804,558
Loans Receivable	4,571,243	7,064,131	Current Maturities of Long-Term Debt (Note 5)	1,673,557	1,804,558
<b>Total Restricted Assets</b>	<u>19,558,416</u>	<u>21,006,050</u>	Accrued Interest	6,688,314	5,472,405
			<b>Total Current Liabilities Payable From</b>	<u>6,688,314</u>	<u>5,472,405</u>
			Restricted Assets		
			Long-Term Portion of Bonds Payable (Note 5)		
			(Net of Unamortized Bond Premium and Discount of	74,035,786	77,915,120
			\$1,274,363 and \$1,359,301 in 2000 and 1999,	1,482,041	1,572,605
			respectively)	84,191,832	87,355,430
			<b>Total Liabilities</b>	<u>111,961,686</u>	<u>111,961,686</u>
			Fund Equity:	(64,162,966)	(63,352,519)
			Contributed Capital	47,798,720	48,609,167
			Less: Accumulated Depreciation		
			<b>Net Contributed Capital</b>	<u>3,800,000</u>	<u>3,800,000</u>
			Retained Earnings:	4,722,040	4,344,464
			Reserved For:	2,398,605	2,398,605
			Renewal and Replacement	3,017,190	1,375,365
			Debt Service Fund	13,937,835	11,918,434
			Debt Service Reserve Fund	61,736,555	60,527,601
			Unreserved:	<u>\$ 145,928,387</u>	<u>\$ 147,883,031</u>
			Retained Earnings		
			<b>Total Retained Earnings</b>		
			<b>Total Fund Equity</b>		
			<b>Total Liabilities, Reserves and Fund Equity</b>		
Property, Plant and Equipment (Note 4)	194,788,163	191,430,242			
Less: Accumulated Depreciation	<u>(81,984,789)</u>	<u>(77,893,308)</u>			
<b>Net Property, Plant and Equipment</b>	<u>112,803,374</u>	<u>113,536,934</u>			
Other Assets:					
Unamortized Costs	3,815,573	4,069,923			
<b>Total Other Assets</b>	<u>3,815,573</u>	<u>4,069,923</u>			
<b>Total Assets</b>	<u>\$ 145,928,387</u>	<u>\$ 147,883,031</u>			

See notes to financial statements



ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating Revenues:		
User Service Agreements:		
Operating	\$ 10,263,187	\$ 10,294,853
General	7,295,429	7,263,763
Sludge	1,100,281	1,074,071
Septic and Leachate	423,321	527,359
Other	<u>577,162</u>	<u>592,112</u>
Total Operating Revenues	<u>19,659,380</u>	<u>19,752,158</u>
Operating Expenses:		
Salaries	5,055,591	4,981,808
Employee Benefits	1,823,655	1,317,051
Power and Utilities	1,968,274	2,169,282
Chemicals	414,479	496,680
Fuel	640,529	735,087
Supplies and Miscellaneous Maintenance	1,029,254	1,254,270
Contractual Services	229,066	349,645
Indirect Operating	123,270	81,498
Administrative	693,573	620,364
Licenses and Permits	<u>154,468</u>	<u>162,288</u>
Total Operating Expenses	12,132,159	12,167,973
Depreciation	<u>4,091,481</u>	<u>4,034,055</u>
Total Operating Expenses	<u>16,223,640</u>	<u>16,202,028</u>
Operating Income	<u>3,435,740</u>	<u>3,550,130</u>
Non-Operating Revenues/(Expenses):		
Interest Expense	(3,419,323)	(3,740,021)
Interest Income	1,155,111	872,963
Amortization of Bond Issue Costs	<u>(254,370)</u>	<u>(248,648)</u>
Total Non-Operating Revenues/(Expenses)	<u>(2,518,582)</u>	<u>(3,115,706)</u>
Net Income/(Loss) Before Transfer of Depreciation on Assets Purchased With Contributed Capital	917,158	434,424
Unrealized Gain on Investment	291,796	
Transfer of Depreciation To Contributed Capital	<u>810,447</u>	<u>931,824</u>
Net Income	2,019,401	1,366,248
Retained Earnings, January 1	<u>11,918,434</u>	<u>10,552,186</u>
Retained Earnings, December 31	<u>13,937,835</u>	<u>11,918,434</u>
Contributed Capital - Net, January 1	48,609,167	49,540,991
Transfer of Depreciation From Operations To Contributed Capital	<u>(810,447)</u>	<u>(931,824)</u>
Contributed Capital - Net, December 31	<u>47,798,720</u>	<u>48,609,167</u>
Fund Equity, December 31	<u>\$ 61,736,555</u>	<u>\$ 60,527,601</u>

See notes to financial statements

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

COMPARATIVE STATEMENT OF CASH FLOWS

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash Flows From Operating Activities:		
Operating Income	\$ 2,019,401	\$ 1,366,248
Adjustments To Reconcile Net Income To Net Cash		
Provided By Operating Activities:		
Depreciation	3,281,034	3,102,231
Amortization	254,370	248,648
Unrealized Gain on Investments	(291,796)	
Changes in Assets and Liabilities:		
(Increase)/Decrease in Accounts Receivable	(484,757)	1,901,470
Increase/(Decrease) Due To Solid Waste Division	24,346	(55,264)
Increase/(Decrease) in Accounts Payable - Operations	(575,916)	296,691
Increase/(Decrease) in Construction Contracts Payable	1,220,361	(181,295)
(Decrease) in Deferred Revenue	(79,604)	(68,646)
	<u>3,348,038</u>	<u>5,243,835</u>
Total Adjustments To Operating Income		
	<u>5,367,439</u>	<u>6,610,083</u>
Net Cash Provided By Operating Activities		
Cash Flows From Capital and Related Financing Activities:		
Property, Plant and Equipment Additions	(3,357,941)	(1,643,259)
Repayment of Bonds	(3,752,785)	(3,543,187)
Proceeds From Wastewater Trust	2,492,888	1,654,045
	<u>(4,617,838)</u>	<u>(3,532,401)</u>
Net Cash Used By Financing Activities		
Cash Flows From Investing Activities:		
Decrease/(Increase) in Investments	(325,756)	(1,227,353)
	<u>(325,756)</u>	<u>(1,227,353)</u>
Net Increase/(Decrease) in Cash And Cash Equivalents	423,845	1,850,329
Cash and Cash Equivalents at Beginning of Year	<u>2,357,026</u>	<u>506,697</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,780,871</u>	<u>\$ 2,357,026</u>

See notes to financial statements



ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating Revenues:		
Tipping Fees	\$ 18,615,213	\$ 19,738,514
Recycling Income	5,962,443	5,092,383
Grant Income	134,047	142,435
Composting Income	609,279	687,918
Other	<u>756,697</u>	<u>592,564</u>
Total Operating Revenues	<u>26,077,679</u>	<u>26,253,814</u>
Operating Expenses:		
Salaries	5,481,761	5,170,324
Employee Benefits	1,899,079	1,541,166
Power And Utilities	466,445	450,630
Indirect Operating	2,929,335	2,192,434
Administrative	695,248	702,597
Community Benefit	1,310,951	1,258,533
Recycling and Other Taxes	378,879	400,521
Fuel	336,965	193,114
Supplies and Miscellaneous Maintenance	<u>1,263,361</u>	<u>1,163,752</u>
	14,762,024	13,073,071
Depreciation	<u>3,567,430</u>	<u>3,113,358</u>
Total Operating Expenses	<u>18,329,454</u>	<u>16,186,429</u>
Operating Income	<u>7,748,225</u>	<u>10,067,385</u>
Non-Operating Revenues/(Expenses):		
Interest Income	740,715	571,952
Interest Expense	(5,592,771)	(5,956,070)
Amortization Bond Issue Costs	<u>(58,928)</u>	<u>(58,928)</u>
Total Non-Operating Revenues Expenses	<u>(4,910,984)</u>	<u>(5,443,046)</u>
Net Income before Transfer of Depreciation on Assets Purchased with Contributed Capital	2,837,241	4,624,339
Transfer of Depreciation to Contributed Capital	<u>343,443</u>	<u>285,557</u>
Net Income	3,180,684	4,909,896
Deficit, January 1	(15,117,892)	(18,824,160)
Prior Period Adjustment to Fund Deficit (Note 13)	<u>(1,457,458)</u>	<u>(1,203,628)</u>
Deficit, December 31	<u>(13,394,666)</u>	<u>(15,117,892)</u>
Contributed Capital, Net, January 1	8,126,943	7,312,500
Additions	<u>7,800,000</u>	<u>1,100,000</u>
	15,926,943	8,412,500
Transfer of Depreciation from Operations to Contributed Capital	<u>(343,443)</u>	<u>(285,557)</u>
Contributed Capital, Net, December 31	<u>15,583,500</u>	<u>8,126,943</u>
Fund Equity, December 31	<u>\$ 2,188,834</u>	<u>\$ (6,990,949)</u>

See notes to financial statements

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

COMPARATIVE STATEMENT OF CASH FLOWS

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash Flows From Operating Activities:		
Operating Income	\$ 3,180,684	\$ 4,909,896
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities:		
Depreciation	3,223,987	2,827,801
Amortization of Bond Issuance Costs	58,928	58,928
Landfill Closure	1,140,778	447,719
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(2,599,300)	(2,769,378)
(Increase)/Decrease Due From Wastewater Division	(24,346)	55,264
(Increase)/Decrease in Interest Receivable	(15,690)	72,454
Decrease in Accounts Payable	(435,878)	(350,416)
Increase/(Decrease) in Customer Deposits	37,968	(18,503)
(Decrease) in Prepaid Expenses		(24,575)
Increase in Deferred Revenue	34,426	2,240
Total Adjustments To Operating Income	<u>1,420,873</u>	<u>301,534</u>
Net Cash Provided By Operating Activities	<u>4,601,557</u>	<u>5,211,430</u>
Cash Flows From Capital and Related Financing Activities:		
Property, Plant and Equipment Additions	(3,114,847)	(3,411,940)
Notes Payable	(6,862,000)	(700,000)
Repayment of Bonds	(2,443,032)	(2,270,909)
State Contribution	7,800,000	1,100,000
Net Cash Used By Financing Activities	<u>(4,619,879)</u>	<u>(5,282,849)</u>
Cash Flows From Investing Activities:		
Decrease/(Increase) in Investments	<u>46,796</u>	<u>(14,203)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	28,474	(85,622)
Cash and Cash Equivalents at Beginning of Year	<u>72,497</u>	<u>158,119</u>
Cash and Cash Equivalents at End of Year	<u>\$ 100,971</u>	<u>\$ 72,497</u>

See notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

# THE ATLANTIC COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

### 1. AUTHORITY DESCRIPTION AND GENERAL INFORMATION

#### GENERAL

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

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

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

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

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

The Authority's financial statements include the accounts of all Authority's operations. The Authority, as a component unit of the County of Atlantic, is financially accountable to the County. As set forth in Government Accounting Standards Board ("GASB") 14, financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will be the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The Authority, as a component unit, issues separate financial statements from the County. However, if the County presented its financial statements in accordance with generally accepted accounting principles, these financial statements would be includable with the County's on a blended basis.

B. WASTEWATER SERVICE CONTRACT

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

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



THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

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

C. WASTEWATER BOND RESOLUTIONS

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

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

**CONSTRUCTION FUND** – All costs pertaining to the acquisition or construction of a designated project shall be paid from this Fund and capitalized herein. The proceeds from the sale of bonds and certain receipts are deposited herein to pay for all such construction costs. Interest earned on investments in this Fund is credited to project costs. At December 31, 2000 and 1999, the Construction Fund and Wastewater Trust Fund cash equivalents amounted to \$1,009,919 and \$445,456, 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 Review Code of 1986, as amended. At December 31, 2000 and 1999, the Rebate Fund amounted to \$153,261 and \$144,489, respectively. No arbitrage rebate is owed to the U.S. Government at December 31, 2000 or 1999.

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

**DEBT SERVICE FUND** – The Debt Service Fund is to accumulate a balance sufficient to pay the interest and principal to become due at or before the January 15 next ensuing, plus any unpaid principal and interest then due. In addition, a sinking fund is included which shall equal the aggregate amount of all sinking fund installments required to redeem bonds on the next January 15 beginning in 2004 for the Sewer Revenue Refunding Bonds (see Note 6). At December 31, 2000 and 1999, the Debt Service Fund cash amounted to \$5,063,508 and \$4,920,315, respectively.

**DEBT SERVICE RESERVE FUND (1991, 1994 and 1998 Series)** – The balance in this Reserve Fund shall be maintained equal to the maximum amount of principal and interest payable in any one year on the Wastewater Revenue Bonds (1991, 1994 and 1998 Series) less any surety. At December 31, 2000 and 1999, the Debt Service Reserve Fund cash amounted to \$2,893,782 and \$2,447,676, respectively. The balance of the Debt Service Reserve Requirement is funded by a surety issued by Ambac Assurance Corporation.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

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

C. WASTEWATER BOND RESOLUTIONS (cont'd)

RENEWAL AND REPLACEMENT FUND – The balance in this Fund shall be maintained equal to 3% of gross revenues or such larger amount as determined by the Consulting Engineer. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. With the approval of the Consulting Engineer, this Fund may be used to meet reasonable and necessary expenses for major repairs, renewals, replacement, or maintenance items of a type not recurring annually. At December 31, 2000 and 1999, the Renewal and Replacement Fund cash amounted to \$5,866,580 and \$5,982,205, respectively. The System Reserve Fund, a component of the Renewal and Replacement Fund, cash requirement was \$3,800,000 as of December 31, 2000 and 1999.

D. SOLID WASTE BOND RESOLUTIONS

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

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

CONSTRUCTION FUND – All costs pertaining to the acquisition or construction of a designated project shall be paid from this Fund and capitalized herein. The proceeds from the sale of bonds and certain receipts are deposited herein to pay for all such construction costs. At December 31, 2000 and 1999, Restricted Cash and Investments included in this Fund amounted to \$1,684,499 and \$2,706,186, respectively.

REBATE FUND – The balance in this Reserve Fund shall be maintained in an amount equal to the rebatable arbitrage with respect to the 1992 bonds as set forth in the opinion of the financial consultant retained by the Authority. No balance was required in this Fund at December 31, 2000 and 1999.

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

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

D. SOLID WASTE BOND RESOLUTIONS (cont'd)

DEBT SERVICE FUND – The balance in the Debt Service Fund shall be maintained in an amount sufficient to pay the interest and principal currently due on the 1992 Bonds. At December 31, 2000 and 1999, the Debt Service Fund cash amounted to \$45 and \$2,034,536, respectively.

DEBT SERVICE RESERVE FUND – The balance in this Reserve Fund shall be maintained in an amount equal to the lesser of (a) 10% of the principal amount of Bonds which are outstanding from time to time, (b) maximum annual principal and interest which is payable during the current or any subsequent fiscal year with respect to all Series of Bonds, including the 1992 Bonds, or (c) 125% of the average annual principal and interest which is payable with respect to all Series of Bonds, including the 1992 Bonds. The Debt Service Reserve Fund must be marked to market not less than annually. At December 31, 2000 and 1999, the Debt Service Reserve Fund cash amounted to \$8,064,091 and \$8,070,029, respectively.

RENEWAL AND REPLACEMENT FUND – The balance in this Fund shall be maintained in an amount equal to the System Improvement Requirement (the "Requirement"). The Requirement is equal to the amount, as certified by the Independent Consulting Engineer, which is reasonably necessary to be held as a Reserve for Expenses with respect to the System for (a) nonrecurring major repairs, renewals, replacements or maintenance items, or (b) expenses relating to closure and post-closure of any System component, or (c) repairs, renewals or replacements resulting from the occurrence of uncontrollable events or circumstances which are not covered by the proceeds of an insurance policy. At December 31, 2000 and 1999, the Renewal and Replacement Fund cash amounted to \$1,519,202 and \$1,193,154, respectively.

GENERAL AUTHORITY POLICIES

E. INVESTMENTS

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

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

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

F. CONCENTRATIONS OF CREDIT RISK – SOLID WASTE DIVISION

The Authority's accounts receivable are primarily from municipal and commercial customers in Atlantic County, New Jersey. Concentrations of credit risk with respect to accounts receivable are normally limited due to the variety of customers and the maintenance of customer deposit accounts. In addition, the Authority performs ongoing credit evaluations of its customers' financial condition. However, at December 31, 2000, Mercer County and Somerset County represented \$8,057,599 and \$2,538,370, respectively, of the total receivables. These obligations are being resolved through litigation. Mercer County receivables may be offset by a liability due from the Authority, although amounts have not yet been determined.

G. GRANTS

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

H. PROPERTY, PLANT AND EQUIPMENT AND OTHER CAPITALIZED COSTS

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

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

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

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

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

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

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

I. UNAMORTIZED DEBT ISSUE COSTS

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

J. 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.

K. ALLOCATION OF COMMON COSTS

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

L. RESTRICTED ASSETS

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

M. INTERDISTRICT AGREEMENTS

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

3. GRANTS

Grants have been awarded to the Wastewater Division in prior years by the United States Environmental Protection Agency and the New Jersey Department of Environmental Protection aggregating \$100,750,290 for construction of the Atlantic County Coastal Region and Coastal Alternative projects. Through December 31, 2000, all such amounts have been received.

During 2000, the Solid Waste Division recognized grant income of \$134,047 from the New Jersey Department of Environmental Protection and Energy for operating purposes.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

4. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consisted of the following at December 31, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Wastewater Division:		
Land	\$ 12,691,336	\$ 12,691,336
Sewer Mains and Interceptors	68,268,616	67,742,863
Buildings and Improvements	32,019,030	29,386,792
Machinery and Equipment	38,826,082	38,626,152
Incinerator Facility	16,353,524	16,353,524
Atlantic County Coastal Alternative	<u>26,629,575</u>	<u>26,629,575</u>
	194,788,163	191,430,242
Less: Accumulated Depreciation	<u>(81,984,789)</u>	<u>(77,893,308)</u>
	<u>\$ 112,803,374</u>	<u>\$ 113,536,934</u>

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

Property, Plant and Equipment consisted of the following at December 31, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Solid Waste Division:		
Land and Improvements	\$ 12,607,741	\$ 11,276,501
Buildings	22,450,839	22,450,839
Equipment and Vehicles	11,622,213	11,218,500
Landfill Design and Implementation	25,481,183	24,218,246
Planning and Designs	<u>2,900,776</u>	<u>2,792,324</u>
	75,062,752	71,956,410
Less: Accumulated Depreciation	<u>(29,112,695)</u>	<u>(26,146,619)</u>
	<u>\$ 45,950,057</u>	<u>\$ 45,809,791</u>

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

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

5. BONDS PAYABLE

Wastewater Revenue and Revenue Refunding Bonds at December 31, 2000 and 1999 consist of the following:

	<u>2000</u>	<u>1999</u>
Wastewater Revenue Bonds, 1991 Series	\$ <u>2,292,961</u>	\$ <u>2,468,964</u>
Sewer Revenue Refunding and Sewer Revenue Bonds, 1994 Series A and B	11,330,000	11,540,000
Unamortized Bond Discount	<u>(153,205)</u>	<u>(163,271)</u>
	<u>11,176,795</u>	<u>11,376,729</u>
Wastewater Treatment Trust – 1995	<u>6,608,269</u>	<u>6,969,435</u>
Wastewater Treatment Trust – 1997	<u>9,744,589</u>	<u>10,215,267</u>
Wastewater Revenue Refunding Bonds, 1998 Series	46,580,000	49,030,000
Unamortized Bond Premium	<u>1,427,568</u>	<u>1,522,572</u>
	<u>48,007,568</u>	<u>50,552,572</u>
	<u>\$ 77,830,182</u>	<u>\$ 81,582,967</u>

Solid Waste Revenue Bonds and other long-term debt at December 31, 2000 and 1999 consist of the following:

	<u>2000</u>	<u>1999</u>
Solid Waste System Revenue Bonds	\$ 77,015,000	\$ 79,525,000
Unamortized Bond Discount	<u>(610,948)</u>	<u>(677,916)</u>
	76,404,052	78,847,084
Pooled Governmental Loan	<u>                    </u>	<u>6,862,000</u>
	<u>\$ 76,404,052</u>	<u>\$ 85,709,084</u>

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

5. BONDS PAYABLE (cont'd)

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

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

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

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

The maturity amount of the Series 1994A Bonds ranges from \$25,000 in 2001 to \$50,000 in 2013, \$2,850,000 in 2014, with final maturity in the amount of \$3,720,000 in year 2015. The maturity amount on the Series 1994B Bonds ranges from \$190,000 in 2001 to \$390,000 in 2014, with a final maturity of \$415,000 in 2015. The interest rates on the Series 1994A and 1994B Bonds range from 4.20% to 5.95%.

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



THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

5. BONDS PAYABLE (cont'd)

During 1995, the Authority entered into an agreement with the New Jersey Wastewater Treatment Trust which provides for borrowing up to \$4,085,000 at interest rates varying from 4.60% to 5.25% for the Series 1995A bonds and are payable in varying amounts ranging from \$165,000 in 2001 to \$325,000 in 2015. The Series 1995B provides for borrowing up to \$3,882,538 and is a zero interest loan and is payable in varying semiannual installments.

During 1997, the Authority entered into an agreement with the New Jersey Wastewater Treatment Trust which provides for borrowing as follows: up to \$1,545,000 with interest rates varying from 4.00% to 5.00% which are payable in varying amounts ranging from \$55,000 in 2001 to \$120,000 in 2017; and up to \$3,910,000 with interest rates varying from 4.00% to 5.00% which are payable in varying amounts ranging from \$145,000 in 2001 to \$305,000 in 2017. Two additional series provide for borrowing up to \$1,487,663 and \$3,659,539 at zero interest and are payable in varying semiannual installments.

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

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 3,794,396	\$ 3,441,147	\$ 7,235,543
2002	3,950,735	3,277,418	7,228,153
2003	4,111,731	3,105,622	7,217,353
2004	4,313,487	2,924,600	7,238,087
2005	4,488,586	2,733,562	7,222,148
Thereafter	<u>55,896,884</u>	<u>14,621,162</u>	<u>70,518,046</u>
	<u>\$76,555,819</u>	<u>\$30,103,511</u>	<u>\$ 106,659,330</u>

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

5. BONDS PAYABLE (cont'd)

SOLID WASTE REVENUE BONDS

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

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

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

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

A summary of debt service to maturity is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 2,695,000	\$ 5,358,119	\$ 8,053,119
2002	2,890,000	5,162,644	8,052,644
2003	3,100,000	4,952,994	8,052,994
2004	3,325,000	4,728,119	8,053,119
2005	3,565,000	4,486,969	8,051,969
Thereafter	<u>61,440,000</u>	<u>27,132,753</u>	<u>88,572,753</u>
	<u>\$ 77,015,000</u>	<u>\$ 51,821,598</u>	<u>\$ 128,836,598</u>

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

6. SURETY BOND

When the Authority issued its 1998 Sewer Revenue Refunding Bonds, a surety bond guaranteed by AMBAC Indemnity Corporation ("AMBAC") was issued for surety bond coverage defined as the lesser of \$5,012,116 or the Debt Service Reserve requirement of \$7,277,803.

7. PENSION PLAN

DESCRIPTION OF THE SYSTEM

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

MEMBERSHIP

Membership in the PERS is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

CONTRIBUTIONS

The contribution policy for the PERS is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members are required to contribute 4.5% of their annual covered salary. Employers are required to contribute at an actuarially determined rate. There was no required employer contribution for 2000. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

7. PENSION PLAN (cont'd)

Contributions to the PERS for the years 2000 and 1999 were as follows:

<u>Year</u>	<u>Amount</u>	<u>Employees</u>
		<u>Percent of Covered Payroll</u>
12/31/00	\$ 256,735	3.00%
12/31/99	\$ 392,440	4.50%

8. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

State and federal laws and regulations require that the Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$4,549,583 which is based on 26.67% usage of total permitted landfill capacity. In addition, the Authority charges \$1 per ton for use towards closure and postclosure costs and expects to fund postclosure costs and certain closure costs from this fund. There is \$1,177,831 related to this Fund held by a trustee as of December 31, 2000. The Authority expects to fund remaining closure costs from its Capital Improvement Fund. It is estimated that an additional \$12,506,419 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2029). The estimated present worth of total cost of the landfill closure and postclosure care (\$17,056,002) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2000. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

9. CONTINGENCIES

A. SOLID WASTE DIVISION

Counsel retained by management has provided the following synopsis:

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

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

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

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

9. CONTINGENCIES (continued)

A. SOLID WASTE DIVISION (continued)

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

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

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

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

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

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

9. CONTINGENCIES (continued)

A. SOLID WASTE DIVISION (continued)

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

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

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

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

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

As of December 31, 2000, Accounts Receivable related to this charge amounted to \$3,461,072, comprised of:

Casinos	\$ 983,880
Account Customers	589,020
Residential/Commercial Customers	519,240*
Municipal Customers	<u>1,368,932</u>
	<u>\$ 3,461,072</u>

\* Approximately 21% are Residential Customers

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

9. CONTINGENCIES (continued)

B. WASTEWATER DIVISION

There are no matters potentially affecting the Wastewater Division.

10. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GENERAL AUTHORIZATION

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

TYPES OF INVESTMENTS

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

SECURITY

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

VIOLATIONS

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



THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

10. CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

INVESTMENTS

As of December 31, 2000, balances on deposit are entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

As of December 31, 2000, the investments of the Authority are listed by appropriate risk category as follows:

Category 1 Cash or investments which are insured or registered or held by the Authority or its agent in the Authority's name.

Category 2 Investments which are uninsured and unregistered, with securities held by others in the Authority's name.

Category 3 Investments which are uninsured and unregistered, with securities held by others, but not in the Authority's name.

As of December 31, 2000, Cash and Cash Equivalents and Investments of the Authority consisted of the following:

	Carrying Amount			Market Value
	Category			
	1	2	3	
Checking/Savings A/C	\$ 2,881,322			\$ 2,881,322
Cash on Hand	620			620
Money Market Fund	170,029			170,029
Certificate of Deposit	5,796,940			5,796,940
U.S. Treasury Fund	13,724,839			13,737,425
New Jersey ARM	11,129,540			11,129,540
Evergreen Treasury	8,177,129			8,177,129
	<u>\$41,880,419</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$41,893,005</u>

The carrying amount of the Authority's Cash and Cash Equivalents and Investments as of December 31, 2000 was \$41,880,419 and the bank balance was \$43,009,428. Of the bank balance, \$100,000 was covered by federal depository insurance and \$42,909,428 was covered by a collateral pool maintained by the banks as required by New Jersey statutes.

THE ATLANTIC COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

11. CONTRIBUTED CAPITAL

The State of New Jersey contributed \$7,800,000 towards the repayment of debt service in 2000.

12. ENVIRONMENTAL INVESTMENT CHARGE ("EIC")

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

13. CONTRIBUTED CAPITAL

The Authority receives aid from the State of New Jersey. These funds were used towards the retirement of debt and development and implementation of the Authority's Systems.

	<u>Solid Waste</u>	<u>Wastewater</u>
December 31, 1999	\$ 8,412,500	\$ 111,961,686
Additions	<u>7,800,000</u>	<u>                    </u>
	16,212,500	111,961,686
Accumulated Depreciation	<u>(629,000)</u>	<u>(64,162,966)</u>
December 31, 2000	<u>\$ 15,583,500</u>	<u>\$ 47,798,720</u>

14. PRIOR PERIOD ADJUSTMENTS – SOLID WASTE DIVISION

The Authority has recorded a prior period adjustment for 2000 and 1999 due to the consulting engineers not providing the necessary information in a timely manner in 1998, and revising and updating their analysis related to 2000.

	<u>2000</u>	<u>1999</u>
Charged to Operations	\$ 1,140,778	\$ 447,719
Relating to Prior Period	1,457,458	1,203,628
Previously Funded	<u>1,951,347</u>	<u>300,000</u>
Accrued Liability for Closure/ Postclosure	<u>\$ 4,549,583</u>	<u>\$ 1,951,347</u>

## SUPPLEMENTAL INFORMATION

WASTEWATER DIVISION

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

## WASTEWATER DIVISION

COMPARATIVE BALANCE SHEET  
MODIFIED GAAP BASIS

December 31, 2000 and 1999

	2000	1999	2000	1999
<u>Assets</u>			<u>Liabilities, Reserves and Fund Equity</u>	
Unrestricted Assets:			Current Liabilities Payable From	
Cash	\$ 2,780,871	\$ 2,357,026	Unrestricted Assets:	
Investments	5,930,589	6,353,444	Accounts Payable - Operations	\$ 2,321,220
Accrued Interest Receivable	73,858	95,601	Deferred Revenue	79,605
Accounts Receivable	965,706	464,053	Due To Solid Waste Division	644,362
Total Unrestricted Assets	<u>9,751,024</u>	<u>9,270,124</u>	Total Current Liabilities Payable From	<u>3,045,187</u>
			Unrestricted Assets	<u>2,871,508</u>
Restricted Assets:			Current Liabilities Payable From	
Investments	14,980,548	13,940,141	Restricted Assets:	
Accrued Interest Receivable	6,625	1,778	Construction Contracts Payable	3,154,158
Loans Receivable	4,571,243	7,064,131	Current Maturities of Long-Term Debt	3,794,396
Total Restricted Assets	<u>19,558,416</u>	<u>21,006,050</u>	Accrued Interest	1,673,557
			Total Current Liabilities Payable From	<u>8,622,111</u>
			Restricted Assets	<u>5,806,433</u>
Property, Plant and Equipment	195,810,552	190,852,862	Long-Term Portion of Bonds Payable	
Less: Accumulated Depreciation	<u>(81,984,789)</u>	<u>(77,893,308)</u>	(Net of Unamortized Bond Premium and Discount of	
Net Property, Plant and Equipment	<u>113,825,763</u>	<u>112,959,554</u>	\$1,274,363 and \$1,359,301 in 2000 and 1999, respectively)	<u>77,915,120</u>
			Deferred Revenue	<u>1,482,041</u>
			Total Liabilities	<u>87,185,125</u>
			Fund Equity:	
			Contributed Capital	111,961,686
			Less: Accumulated Depreciation	<u>(64,162,966)</u>
			Net Contributed Capital	<u>47,798,720</u>
			Retained Earnings:	
			Reserved For:	
			Renewal and Replacement	3,800,000
			Debt Service Fund	4,722,040
			Debt Service Reserve Fund	2,893,783
			Unreserved:	
			Retained Earnings/(Deficit)	551,108
			Total Retained Earnings	<u>11,966,931</u>
Other Assets:			Total Fund Equity	<u>59,139,985</u>
Unamortized Costs	3,815,573	4,069,923	Total Liabilities, Reserves and Fund Equity	<u>\$ 146,950,776</u>
Total Assets	<u>\$ 146,950,776</u>	<u>\$ 147,305,651</u>		<u>\$ 147,305,651</u>

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

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

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

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating Revenues:		
User Service Agreements:		
Operating	\$ 10,263,187	\$ 10,294,853
General	7,295,429	7,263,763
Sludge	1,100,281	1,074,071
Septic and Leachate	423,321	527,359
Other	<u>577,162</u>	<u>592,112</u>
Total Operating Revenues	<u>19,659,380</u>	<u>19,752,158</u>
Operating Expenses:		
Salaries	5,055,591	4,981,808
Employee Benefits	1,702,496	1,311,107
Power and Utilities	2,080,902	2,192,889
Chemicals	487,380	415,179
Fuel	778,534	671,244
Supplies and Miscellaneous Maintenance	1,338,052	1,353,192
Contractual Services	274,027	309,021
Indirect Operating	139,900	63,656
Administrative	704,097	635,605
Licenses and Permits	<u>154,468</u>	<u>162,288</u>
Total Operating Expenses	<u>12,715,447</u>	<u>12,095,989</u>
Depreciation	<u>4,091,481</u>	<u>4,034,055</u>
Total Operating Expenses	<u>16,806,928</u>	<u>16,130,044</u>
Operating Income	<u>2,852,452</u>	<u>3,622,114</u>
Non-Operating Revenues/(Expenses):		
Interest Expense	(3,419,323)	(3,740,021)
Interest Income	1,155,111	872,963
Amortization of Bond Premium	<u>(254,370)</u>	<u>(248,648)</u>
Total Non-Operating Expenses	<u>(2,518,582)</u>	<u>(3,115,706)</u>
Net Income Before Transfer of Depreciation on Assets Purchased With Contributed Capital	333,870	506,408
Unrealized Gain on Investment	291,796	
Transfer of Depreciation To Contributed Capital	<u>810,447</u>	<u>931,824</u>
Net Income	1,436,113	1,438,232
Retained Earnings, January 1	<u>10,530,818</u>	<u>9,092,586</u>
Retained Earnings, December 31	<u>11,966,931</u>	<u>10,530,818</u>
Contributed Capital - Net, January 1	48,609,167	49,540,991
Transfer of Depreciation From Operations To Contributed Capital	<u>(810,447)</u>	<u>(931,824)</u>
Contributed Capital - Net, December 31	<u>47,798,720</u>	<u>48,609,167</u>
Fund Equity, December 31	<u>\$ 59,765,651</u>	<u>\$ 59,139,985</u>

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

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

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

Year ended December 31, 2000

	<u>2000 Budget</u>	<u>2000 Actual</u>
Revenues:		
User Service Agreements:		
Operating Charge	\$ 10,263,189	\$ 10,263,187
General Charge	7,295,429	7,295,429
Interest on Investments and Deposits	650,000	1,155,112
Sludge, Septage and Leachate Disposal Fees	1,540,000	1,443,996
Miscellaneous	432,944	468,461
Fund Balance	<u>283,572</u>	<u>                    </u>
Total Revenues	<u>20,465,134</u>	<u>20,626,185</u>
Expenses:		
Operating Expenses:		
Salaries and Wages	5,167,156	5,055,591
Employee Benefits	1,468,145	1,702,496
Power and Utilities	2,212,500	2,080,902
Chemicals	564,755	487,380
Fuel	757,000	778,534
Supplies and Maintenance	734,075	719,245
Contractual Services	309,229	274,027
Indirect Operating	210,200	178,051
Licenses and Permits	221,600	154,468
Administrative	863,045	743,973
Maintenance Program Expenditures	662,000	617,082
Cancelled Purchase Orders	<u>                    </u>	<u>(76,303)</u>
	<u>13,169,705</u>	<u>12,715,446</u>
Debt Service	<u>7,295,429</u>	<u>7,295,429</u>
Total Expenses	<u>\$ 20,465,134</u>	<u>\$ 20,010,875</u>
Net Income From Operations		<u>\$ 615,310</u>

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

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

Year ended December 31, 2000

Cash and Investments, December 31, 1999	\$ 22,650,611
Cash Receipts:	
Accounts Receivable	18,490,001
Other	577,162
Proceeds From Wastewater Trust	2,492,888
Due From Solid Waste Division	24,346
Interest Received	<u>1,463,803</u>
Total Cash and Investments Available	<u>45,698,811</u>
Cash Disbursements:	
Operations	12,618,507
Additions to Property, Plant and Equipment/ Contracts Payable	2,137,560
Bond Principal	3,667,847
Bond Interest	<u>3,582,889</u>
Total Cash Disbursements	<u>22,006,803</u>
Cash and Investments, December 31, 2000	<u><u>\$ 23,692,008</u></u>
Balance Comprised of:	
Unrestricted Cash	\$ 2,780,871
Unrestricted Investments	5,930,589
Restricted Investments	<u>14,980,548</u>
	<u><u>\$ 23,692,008</u></u>



ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

SCHEDULE OF INVESTMENTS

Year ended December 31, 2000

<u>Description</u>	<u>Face Amount</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Cost December 31, 2000</u>
Unrestricted Accounts				
Evergreen Treasury Money Market	\$ 3,774,465	6.40%		\$ 3,774,465
NJ ARM Pooled Investment	<u>2,156,124</u>	5.45%		<u>2,156,124</u>
Total Unrestricted	<u>5,930,589</u>			<u>5,930,589</u>
Restricted Accounts:				
Wastewater Trust Fund:				
Evergreen Treasury Money Market	<u>478,194</u>	5.40%		<u>478,194</u>
Construction Account:				
Evergreen Treasury Money Market	341,370	5.40%		341,370
Evergreen Treasury Money Market	<u>183,853</u>	5.40%		<u>183,853</u>
	<u>525,223</u>			<u>525,223</u>
Rebate Account:				
Evergreen Treasury	3,261	5.40%		3,261
Certificate of Deposit	<u>150,000</u>	6.60%	01/29/01	<u>150,000</u>
	<u>153,261</u>			<u>153,261</u>
Debt Service Fund:				
Evergreen Treasury	1,994,208	5.40%		1,994,208
NJ ARM Pooled Investment	<u>3,069,300</u>	6.40%		<u>3,069,300</u>
	<u>5,063,508</u>			<u>5,063,508</u>
Debt Service Reserve Fund:				
Certificate of Deposit	1,379,960	6.55%	02/28/01	1,379,960
Evergreen Treasury	1,777	5.40%		1,777
United States Treasury Bonds	1,149,682	11.25%	02/15/15	1,344,017
United States Treasury Strips	<u>70,568</u>		02/15/15	<u>168,029</u>
	<u>2,601,986</u>			<u>2,893,783</u>
Renewal and Replacement Fund:				
Certificate of Deposit	1,896,980	6.55%	02/28/01	1,896,980
NJ ARM Pooled Investment	2,569,599	6.40%		2,569,599
Evergreen Treasury	<u>1,400,001</u>	5.40%		<u>1,400,001</u>
	<u>5,866,580</u>			<u>5,866,580</u>
Total Restricted	<u>14,688,752</u>			<u>14,980,548</u>
Total - Wastewater Division	<u>\$ 20,619,341</u>			<u>\$ 20,911,138</u>

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

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

For The Years Ended December 31, 2000, 1999, 1998, 1997 and 1996

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Additions During The Year:					
Property, Plant and Equipment:					
Land		\$ 43,432			
Sewer Mains and Interceptors	\$ 2,125,405				
Buildings and Improvements	2,632,238	62,336	\$ 623,319	\$ 2,408,627	\$ 8,239,220
Equipment and Vehicles	200,047	112,751	27,255	(147,722)	248,349
Atlantic County Coastal Alternative					
Total Additions	<u>4,957,690</u>	<u>218,519</u>	<u>650,574</u>	<u>2,260,905</u>	<u>8,487,569</u>
Cost Capitalized at the Beginning of the Year	<u>190,852,862</u>	<u>190,634,343</u>	<u>189,983,769</u>	<u>187,722,864</u>	<u>179,235,295</u>
	195,810,552	190,852,862	190,634,343	189,983,769	187,722,864
Less:					
Accumulated Depreciation and Amortization	<u>(81,984,789)</u>	<u>(77,893,308)</u>	<u>(73,859,253)</u>	<u>(69,836,940)</u>	<u>(64,937,062)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 113,825,763</u>	<u>\$ 112,959,554</u>	<u>\$ 116,775,090</u>	<u>\$ 120,146,829</u>	<u>\$ 122,785,802</u>

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

SCHEDULE OF DEBT ISSUE COSTS

For The Years Ended December 31, 2000, 1999, 1998, 1997 and 1996

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Costs Capitalized at Beginning of Year	\$ 4,744,100	\$ 4,744,100	\$ 2,289,730	\$ 2,289,730	\$ 2,289,730
Net Effect of 1998 Refunding Bond Issue	<u>4,744,100</u>	<u>4,744,100</u>	<u>2,454,370</u>	<u>2,289,730</u>	<u>2,289,730</u>
Less:					
Accumulated Amortization	<u>(928,527)</u>	<u>(674,177)</u>	<u>(425,529)</u>	<u>(1,294,241)</u>	<u>(1,148,914)</u>
Unamortized Debt Issue Costs	<u>\$ 3,815,573</u>	<u>\$ 4,069,923</u>	<u>\$ 4,318,571</u>	<u>\$ 995,489</u>	<u>\$ 1,140,816</u>

SOLID WASTE DIVISION

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

## SOLID WASTE DIVISION

COMPARATIVE BALANCE SHEET  
MODIFIED GAAP BASIS

December 31, 2000 and 1999

Assets	2000	1999	Liabilities, Reserves and Fund Equity	2000	1999
Unrestricted Assets:			Current Liabilities Payable From		
Cash	\$ 100,971	\$ 72,497	Unrestricted Assets:		
Investments	6,819,502	4,130,230	Accounts Payable - Operations	\$ 1,965,921	\$ 2,098,955
Accrued Interest Receivable	154,907	141,361	Customer Deposits	333,973	296,005
Accounts Receivable	16,662,775	13,945,307	Deferred Revenue	36,666	2,240
Other Accounts Receivable	15,953	134,121			
Due From Wastewater Division	644,362	620,016	Total Current Liabilities Payable From	2,336,560	2,397,200
Prepaid Expenses	24,575	24,575	Unrestricted Assets		
Total Unrestricted Assets	<u>24,423,045</u>	<u>19,068,107</u>	Current Liabilities Payable From		
			Restricted Assets:		
Restricted Assets:			Bond Anticipation Notes Payable	2,695,000	6,862,000
Investments	11,267,837	14,003,905	Bonds Payable - Current Portion	2,767,498	2,510,000
Accrued Interest Receivable	10,985	8,841	Construction Contracts Payable	1,817,481	1,858,182
Total Restricted Assets	<u>11,278,822</u>	<u>14,012,746</u>	Accrued Interest Payable		1,897,548
			Total Current Liabilities Payable From	7,279,979	13,127,730
			Restricted Assets		
			Long-Term Portion of Bonds Payable		
			(Net of Unamortized Premium and Discount of		
			\$610,948 and \$677,916 in 2000 and 1999,		
			respectively)	73,709,052	76,337,084
Property, Plant and Equipment	77,389,939	73,260,476	Accrued Landfill Closure and Postclosure		
Less: Accumulated Depreciation	<u>(29,112,695)</u>	<u>(26,146,619)</u>	Care Cost (Note 8)	4,549,583	1,951,347
Net Property, Plant and Equipment	<u>48,277,244</u>	<u>47,113,857</u>	Total Liabilities	87,875,174	93,813,361
			Fund Equity:		
			Net Contributed Capital	16,212,500	8,412,500
			Less: Accumulated Depreciation	<u>(629,000)</u>	<u>(285,557)</u>
Other Assets:			Reserved for:		
Preoperating Costs			Debt Service Reserve	15,583,500	8,126,943
(Net of Accumulated Depreciation of			Unreserved Deficit	8,053,769	8,053,769
\$5,804,000 and \$5,211,151 in 2000	4,055,501	4,648,350	Total Deficit	<u>(22,445,369)</u>	<u>(24,059,623)</u>
and 1999, respectively)	1,032,462	1,091,390	Total Fund Equity	1,191,900	(7,878,911)
Unamortized Bond Discount and Costs	5,087,963	5,739,740	Total Liabilities, Reserves and Fund Equity	<u>\$ 89,067,074</u>	<u>\$ 85,934,450</u>
Total Other Assets	<u>89,067,074</u>	<u>85,934,450</u>			
Total Assets	<u>\$ 89,067,074</u>	<u>\$ 85,934,450</u>			

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

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

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

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating Revenues:		
Tipping Fees	\$ 18,615,213	\$ 19,738,514
Collections and Recycling Income	5,962,443	5,092,383
Grant Income	134,047	142,435
Composting Income	609,279	687,918
Other	<u>756,697</u>	<u>592,564</u>
Total Operating Revenues	<u>26,077,679</u>	<u>26,253,814</u>
Operating Expenses:		
Contractual Services:		
Salaries	5,481,761	5,170,324
Employee Benefits	1,937,019	1,541,166
Power And Utilities	461,071	478,776
Indirect Operating	2,942,375	2,225,029
Administrative	695,640	708,302
Community Benefit	1,313,741	1,348,055
Recycling and Other Taxes	410,323	400,521
Fuel	367,719	195,244
Supplies and Miscellaneous Maintenance	<u>1,261,348</u>	<u>1,187,608</u>
	14,870,997	13,255,025
Depreciation	<u>3,567,430</u>	<u>3,113,358</u>
Total Operating Expenses	<u>18,438,427</u>	<u>16,368,383</u>
Operating Income	<u>7,639,252</u>	<u>9,885,431</u>
Non-Operating Revenues/(Expenses):		
Interest Income	740,715	571,952
Interest Expense	(5,592,770)	(5,956,070)
Amortization Bond Issue Costs and Premium	<u>(58,928)</u>	<u>(58,928)</u>
Total Non-Operating Expenses	<u>(4,910,983)</u>	<u>(5,443,046)</u>
Net Income before Transfer of Depreciation on Assets Purchased with Contributed Capital	2,728,269	4,442,385
Transfer of Depreciation to Contributed Capital	<u>343,443</u>	<u>285,557</u>
Net Income	3,071,712	4,727,942
Deficit, January 1	(16,005,854)	(19,530,168)
Prior Period Adjustment	<u>(1,457,458)</u>	<u>(1,203,628)</u>
Deficit, December 31	<u>(14,391,600)</u>	<u>(16,005,854)</u>
Contributed Capital, Net, January 1	8,126,943	7,312,500
Additions	<u>7,800,000</u>	<u>1,100,000</u>
	15,926,943	8,412,500
Transfer of Depreciation from Operations to Contributed Capital	<u>(343,443)</u>	<u>(285,557)</u>
Contributed Capital - Net, December 31	<u>15,583,500</u>	<u>8,126,943</u>
Fund Equity, December 31	<u>\$ 1,191,900</u>	<u>\$ (7,878,911)</u>

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

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

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

Year ended December 31, 2000

	2000 <u>Budget</u>	2000 <u>Actual</u>
Long Term Debt Related Revenues:		
State Subsidy	\$ 1,400,000	\$ 1,400,000
Environmental Investment Charge	<u>5,394,445</u>	<u>5,921,689</u>
	6,794,445	7,321,689
Long Term Debt Related Expenses:		
Principal and Interest	<u>8,145,394</u>	<u>8,145,394</u>
Net Loss on Debt Related Activities	<u>(1,350,949)</u>	<u>(823,705)</u>
Operational Revenues:		
Tipping Fees-C&D	2,554,020	2,726,019
Tipping Fees - Landfill	7,736,762	7,700,009
Tipping Fees - Other	686,588	843,687
Composting - Eco Product	770,248	609,279
Collections and Recycling Income	6,170,544	6,038,254
Earnings on Investments	720,000	807,684
State Subsidy	6,400,000	6,400,000
Other	<u>638,677</u>	<u>838,228</u>
Total Operating Revenues	<u>25,676,839</u>	<u>25,963,160</u>
Operating Expenses:		
Administration	1,145,748	1,079,992
Solid Waste Administration	661,454	626,274
Transfer Station Operations	775,771	821,919
Composting Operations	356,324	368,368
Landfill Operations	6,027,404	5,807,429
Recycling Processing	1,499,566	1,461,640
Collections	3,649,918	3,607,553
Maintenance Center	2,278,894	2,283,383
Cancelled Purchase Orders		<u>(156,121)</u>
Total Operating Expenses	<u>16,395,079</u>	<u>15,900,437</u>
Net Income on Operating Activities	<u>9,281,760</u>	<u>10,062,723</u>
Other Debt Related Expenses:		
Principal and Interest	<u>6,973,043</u>	<u>6,973,043</u>
Net Operating Income From Operational Activities	<u>2,308,717</u>	<u>3,089,680</u>
Net Income Before Transfers	957,768	2,265,975
Transfer to Renewal and Replacement	<u>427,394</u>	<u>427,394</u>
Net Income After Transfers	<u>\$ 530,374</u>	<u>\$ 1,838,581</u>

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

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

Year ended December 31, 2000

Cash and Investments, December 31, 1999	\$ 18,206,632
Cash Receipts:	
Accounts Receivable	22,469,467
Interest Received	725,025
Grants	134,047
State Subsidy	7,800,000
Deferred Revenue	34,426
Customer Deposits	37,968
Miscellaneous	874,865
Total Cash and Investments	50,282,430
Cash Disbursements:	
Operations	13,937,333
Additions To Property, Plant and Equipment and Other Capitalized Costs	3,220,147
Due From Wastewater Division	24,346
Bond Principal	2,510,000
Interest on Debt	5,540,294
Note Payable	6,862,000
Total Cash Disbursements	32,094,120
Cash and Investments, December 31, 2000	\$ 18,188,310
Balance Comprised of:	
Unrestricted Cash	\$ 100,971
Unrestricted Investments	6,819,502
Restricted Investments	11,267,837
	\$ 18,188,310



ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

## SOLID WASTE DIVISION

## SCHEDULE OF INVESTMENTS

Year ended December 31, 2000

<u>Description</u>	<u>Face Amount</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Cost December 31, 2000</u>
Revenue Fund:				
M/M Funds	\$ 170,029			\$ 170,029
NJ ARM Pooled Investment	1,119,868	6.40%		1,119,868
U.S. Treasury Fund	<u>1,679,478</u>	5.57%		<u>1,679,478</u>
	<u>2,969,375</u>			<u>2,969,375</u>
EIC:				
U.S. Treasury Fund	<u>1,895,411</u>	5.57%		<u>1,895,411</u>
Operating Reserve:				
NJ ARM Pooled Investment	1,284,716	6.40%		1,284,716
Certificate of Deposit	<u>670,000</u>	6.60%	01/29/01	<u>670,000</u>
	<u>1,954,716</u>			<u>1,954,716</u>
Construction Fund:				
U.S. Treasury Fund	14,056	5.57%		14,056
U.S. Treasury Fund	270,443	5.57%		270,443
U.S. Treasury Fund	289,269	4.56%		289,269
U.S. Treasury Fund	45	5.70%		45
NJ ARM Pooled Investment	929,933	6.40%		929,933
Certificate of Deposit	200,000	6.60%	01/29/01	200,000
Certificate of Deposit	1,200,000	6.55%	03/02/01	1,200,000
Certificate of Deposit	<u>300,000</u>	6.55%	03/02/01	<u>300,000</u>
	<u>3,203,746</u>			<u>3,203,746</u>
Reserve Fund:				
U.S. Treasury Note	8,039,897	5.63%	02/28/01	8,039,897
U.S. Treasury Fund	<u>24,194</u>	5.57%		<u>24,194</u>
	<u>8,064,091</u>			<u>8,064,091</u>
Total	<u>\$ 18,087,339</u>			<u>\$ 18,087,339</u>
Unrestricted	\$ 6,819,502			\$ 6,819,502
Restricted	<u>11,267,837</u>			<u>11,267,837</u>
	<u>\$ 18,087,339</u>			<u>\$ 18,087,339</u>

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

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

For The Years Ended December 31, 2000, 1999, 1998, 1997 and 1996

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Waste Disposal:					
Additions/(Deletions) During the Year:					
Property, Plant and Equipment:					
Land and Improvements	\$ 1,331,240	\$ 4,769	\$ (7,952)	\$ 60,051	\$ 154,896
Buildings and Improvements	358,803	49,522	799,476	(56,000)	91,187
Equipment and Vehicles	2,383,359	3,213,925	4,443,496	36,245	39,147
Landfill Design and Implementation	(2,307)	(6,433)	(30)	(19,016)	(239,821)
Planning and Designs					
	<u>4,071,095</u>	<u>3,261,783</u>	<u>5,234,990</u>	<u>21,280</u>	<u>45,409</u>
Property, Plant and Equipment, and Preoperating Costs, Beginning of Year	<u>53,579,864</u>	<u>50,318,081</u>	<u>45,083,091</u>	<u>45,061,811</u>	<u>45,016,402</u>
Less:					
Accumulated Depreciation and Amortization	<u>(22,467,935)</u>	<u>53,579,864</u>	<u>50,318,081</u>	<u>45,083,091</u>	<u>45,061,811</u>
	<u>(22,467,935)</u>	<u>(19,783,323)</u>	<u>(17,671,747)</u>	<u>(16,831,566)</u>	<u>(13,952,502)</u>
Total Property, Plant and Preoperating Costs, End of Year	<u>\$ 35,183,024</u>	<u>\$ 33,796,541</u>	<u>\$ 32,646,334</u>	<u>\$ 28,251,525</u>	<u>\$ 31,109,309</u>
Waste Recycling:					
Additions/(Deletions) During the Year:					
Property, Plant and Equipment:					
Buildings					
Equipment and Motor Vehicles	\$ 44,910		\$ 3,857	\$ 29,808	\$ 255,995
Planning and Design	13,442			(6,207)	5,000
	<u>58,352</u>		<u>3,857</u>	<u>18,475</u>	<u>260,995</u>
Property, Plant and Equipment, and Preoperating Costs, Beginning of Year	<u>29,540,129</u>	<u>\$ 29,540,129</u>	<u>29,536,272</u>	<u>29,517,797</u>	<u>29,256,802</u>
Less:					
Accumulated Depreciation and Amortization	<u>(2,448,760)</u>	<u>29,540,129</u>	<u>29,540,129</u>	<u>29,536,272</u>	<u>29,517,797</u>
	<u>(2,448,760)</u>	<u>(11,574,447)</u>	<u>(10,572,666)</u>	<u>(8,974,235)</u>	<u>(7,396,900)</u>
Total Property, Plant and Preoperating Costs, End of Year	<u>\$ 17,149,721</u>	<u>\$ 17,965,682</u>	<u>\$ 18,967,463</u>	<u>\$ 20,562,037</u>	<u>\$ 22,120,897</u>

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

SCHEDULE OF DEBT ISSUE COSTS

For The Years Ended December 31, 2000, 1999, 1998, 1997 and 1996

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Costs Capitalized at Beginning of Year	\$ 2,182,779	\$ 2,182,779	\$ 2,182,779	\$ 2,182,779	\$ 2,182,778
Less:					
Accumulated Amortization	<u>(1,150,317)</u>	<u>(1,091,389)</u>	<u>(1,032,461)</u>	<u>(973,532)</u>	<u>(914,601)</u>
Unamortized Debt Issue Costs	<u>\$ 1,032,462</u>	<u>\$ 1,091,390</u>	<u>\$ 1,150,318</u>	<u>\$ 1,209,247</u>	<u>\$ 1,268,177</u>

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



# Hutchins, Laezza, Farrell & Allison, P.A.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Special-Purpose Statements of Revenues and Expenses of the Atlantic County Utilities Authority (the "Authority") Wastewater and Solid Waste Divisions for the year ended December 31, 2000. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and in compliance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the revenues and expenses of the Atlantic County Utilities Authority Wastewater and Solid Waste Divisions for the year ended December 31, 2000, except that the special-purpose statements do not include expenses for depreciation of Property, Plant and Equipment as Operating Expenses which is not in accordance with generally accounting principles as described in Note 1. In addition, because of the special purpose of the bond resolution statements, financial statement footnotes included in the annexed annual report have not been provided.

*Hutchins Laezza Farrell + Allison*

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

March 30, 2001

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

WASTEWATER DIVISION

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

Year ended December 31, 2000

Operating Revenues:	
User Service Agreements:	
Operating	\$ 10,263,187
General	7,295,429
Sludge	1,100,281
Septic and Leachate	423,321
Other	<u>577,162</u>
Total	<u>19,659,380</u>
Operating Expenses:	
Salaries	5,055,591
Employee Benefits	1,823,655
Power and Utilities	1,968,274
Chemicals	414,479
Fuel	640,529
Supplies and Miscellaneous Maintenance	1,029,254
Contractual Services	229,066
Indirect Operating	123,270
Administrative	693,573
Licenses and Permits	<u>154,468</u>
Total Operating Expenses	<u>12,132,159</u>
Excess of Revenues Over Expenses From Operations	<u>7,527,221</u>
Nonoperating Revenues/(Expenses):	
Interest Expense	(3,419,323)
Interest Income	1,155,111
Amortization Bond Discount	<u>(254,370)</u>
	<u>(2,518,582)</u>
Excess of Revenues Over Expenses	<u><u>\$ 5,008,639</u></u>

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

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

Year ended December 31, 2000

Operating Revenues:	
Tipping Fees	\$ 18,615,213
Collections and Recycling Income	6,096,490
Grant Income	
Composting Income	609,279
Other	<u>756,697</u>
Total	<u>26,077,679</u>
Operating Expenses:	
Salaries	5,481,761
Employee Benefits	1,899,079
Power and Utilities	466,445
Indirect Operating	1,788,557
Administrative	695,248
Community Benefit	1,310,951
Recycling and Other Taxes	378,879
Fuel	336,965
Supplies and Miscellaneous Maintenance	<u>1,263,361</u>
Total Operating Expenses	<u>13,621,246</u>
Excess of Revenues Over Expenses From Operations	<u>12,456,433</u>
Nonoperating Revenues/(Expenses):	
Interest Income	740,715
Interest Expense	(5,592,771)
Amortization Bond Issue Costs and Premiums	<u>(58,928)</u>
	<u>(4,910,984)</u>
Excess of Revenues Over Expenses	<u><u>\$ 7,545,449</u></u>



THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTE TO SPECIAL-PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2000

1. BASIS OF PRESENTATION

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

## DEBT SERVICE REQUIREMENT



# Hutchins, Laezza, Farrell & Allison, P.A.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with generally accepted auditing standards, the Balance Sheets of the Atlantic County Utilities Authority (the "Authority") as of December 31, 2000, and the related Statements of Revenues, Expenses and Changes in Fund Equity and Cash Flows for the year then ended, and have issued our report thereon dated March 30, 2001.

In connection with our audit, nothing came to our attention that caused us to believe that, as of December 31, 2000, the Authority was not in compliance with the accounting requirements (see annexed) of Section 6.10(b)(ii) of the Authority's Resolution Authorizing Solid Waste System Revenue Bonds, adopted January 23, 1992, as supplemented and restated March 5 and April 6, 1992. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of such non-compliance with such accounting requirements.

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

*Hutchins Laezza Farrell + Allison*

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Hutchins, Laezza, Farrell & Allison, P.A

March 30, 2001

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SOLID WASTE DIVISION

DEBT SERVICE REQUIREMENT

December 31, 2000

Debt Service Requirement:	
Interest Payable During 2000	\$ 5,540,294
Principal Maturing During 2000	<u>2,510,000</u>
Subtotal	<u>8,050,294</u>
Plus: Coverage Requirement	110%
Debt Service Requirement	<u>\$ 8,855,323</u>
Actual Debt Service Coverage	173.41%
Net Revenues Provided:	
Gross Revenues	\$ 27,690,368
Operating Expenses	<u>13,730,220</u>
Net Revenues Provided	<u>\$ 13,960,148</u>

## COMMENTS AND RECOMMENDATIONS



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

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

We have audited the financial statements of the Atlantic County Utilities Authority (the "Authority") as of and for the year ended December 31, 2000, and have issued our report thereon dated March 30, 2001. We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and in compliance with audit standards prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

### Compliance

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

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

Internal Control over Financial Reporting

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

This report is intended for the information of the audit committee, management, federal and state awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Hutchins Laezza Farrell + Allison*

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

March 30, 2001



# Hutchins, Laezza, Farrell & Allison, P.A.

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

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

### Compliance

We have audited the compliance of the Atlantic County Utilities Authority with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement and State Grant Compliance Supplement that are applicable to each of its major state programs for the year ended December 31, 2000. The Atlantic County Utilities Authority's major state programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Noncompliance and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Atlantic County Utilities Authority's management. Our responsibility is to express an opinion on the Atlantic County Utilities Authority's compliance based on our audit.

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



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

In our opinion, the Atlantic County Utilities Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended December 31, 2000. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and State OMB Circular Letter 98-07.

Internal Control over Compliance

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

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

This report is intended for the information of the audit committee, management, federal and state awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Hutchins Laezza Farrell + Allison*

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

March 30, 2001

THE ATLANTIC COUNTY UTILITIES AUTHORITY  
GENERAL COMMENTS AND RECOMMENDATIONS

Findings and Recommendations

None

## STATE FINANCIAL ASSISTANCE PROGRAMS

ATLANTIC COUNTY UTILITIES AUTHORITY  
CITY OF ATLANTIC, NEW JERSEY

SCHEDULE OF STATE ASSISTANCE

For The Year Ended December 31, 2000

<u>State Funding Agency</u>	<u>Program</u>	<u>State Account Number</u>	<u>Grant Award Amount</u>	<u>Received</u>	<u>Expended</u>
New Jersey Department of Environmental Protection	Wastewater Treatment:				
	Trust 95 Loan	4860-510-4860-12	\$ 7,967,538	\$ 640,698	\$ 509,311
	Trust 97 Loan	4860-510-4860-12	10,602,202	1,852,190	2,678,542
	Solid Waste Service Tax Entitlement Grant	4900-758-042-4900	134,047	134,047	134,047
	Total State Assistance		\$ 18,703,787	\$ 2,626,935	\$ 3,321,900

THE ATLANTIC COUNTY UTILITIES AUTHORITY  
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2000

SUMMARY OF AUDIT RESULTS

1. Type of report issues on financial statements – Qualified because reports on two Divisions separately.
2. No reportable conditions in internal control were disclosed by the audit.
3. The audit did not disclose any noncompliance that is material to the financial statements.
4. No reportable conditions in internal control over major programs were noted.
5. Type of report issued on compliance for major programs – Unqualified opinion.
6. The audit disclosed no findings required to be reported under generally accepted government auditing standards.
7. Identification of major programs:  
State:  
Wastewater Treatment Trust 95 and 97      4860-510-4860-12
8. Dollar threshold for Type A Programs - \$300,000.
9. We determined the Authority to be a low-risk auditee based on our assessment of risk.

THE ATLANTIC COUNTY UTILITIES AUTHORITY  
SCHEDULE OF NONCOMPLIANCE AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2000 (Continued)

FINDINGS RELATED TO FINANCIAL STATEMENTS

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

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AND STATE AWARDS

None.