

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

FINANCIAL STATEMENTS AND  
ADDITIONAL INFORMATION

FOR THE YEARS ENDED  
DECEMBER 31, 2003 AND 2002

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

**FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION**

**with**

**INDEPENDENT AUDITOR'S REPORTS**

**and**

**COMMENTS AND RECOMMENDATIONS**

**FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002**

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## **INTRODUCTORY SECTION**



**Atlantic County Utilities Authority**

P.O. Box 996 • Pleasantville, New Jersey, 08232-0996

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Wastewater Division  
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fax: 609/344-6609

Administration  
Engineering  
609/272-6950  
fax: 609/272-6946

Finance  
609/272-6931  
fax: 609/272-6942

Human Resources  
609/272-6950  
fax: 609/272-6946

Law  
609/272-6950  
fax: 609/272-6956

Purchasing  
609/272-6931  
fax: 609/272-6936

March 19, 2004

Chairman Gallagher, Authority Board Members and President Dovey:

Presented to you are the audited financial statements for the 2003-year. There are separate financial statements for the Wastewater Division and Solid Waste Division, as has been done in prior years. The financial statements are presented separately for each division because the Divisions are separate and distinct for ratemaking, operating, and public financing purposes. New this year and for the purpose of meeting certain accounting standards, the separate and distinct Solid Waste Division and Wastewater Division statements have been presented together on each exhibit for the Comparative Statement of Net Assets, the Comparative Statement of Revenues, Expenses, and Changes in Net Assets, and Comparative Statement of Cash Flows.

Government Auditing Standards and State law requires that the Atlantic County Utilities Authority publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. The financial statements for the 2003-year are presented as required.

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

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

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

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

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



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

The staff of the Finance Department prepared the basic financial statements and the supplemental financial statements and schedules discussed above. Ford Scott Seidenburg and Kennedy, L.L.C., a firm of licensed certified public accountants, has audited and opined on the Authority's financial statements. The goal of an independent audit is to provide reasonable assurance as to the validity of the financial statements. This involves examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing any estimates and calculations utilized, assessing supplemental information provided or gathered by the auditors, and assessing the overall financial statement presentation. The auditors have opined that the basic financial statements which were prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards present fairly, in all material respects, the financial position of the Atlantic County Utilities Authority at December 31, 2003 and 2002. There were no recommendations noted.

Sincerely,

*Maria Mento*

Maria Mento  
Chief Financial Officer

## **FINANCIAL SECTION**





Edward W. Kennedy, C.P.A., R.M.A.  
Donald E. Cheatele, C.P.A.  
Glen J. Ortman, C.P.A., R.M.A.

Leon P. Costello, C.P.A., R.M.A.  
John A. Sabella, C.P.A., M.S.T.

Retired

Arthur T. Ford, Jr., C.P.A.  
Harry M. Scott, C.P.A., R.M.A.  
John J. Seidenburg, C.P.A.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Atlantic County Utilities Authority ("Authority"), a component unit of the County of Atlantic, as of and for the year ended December 31, 2003, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the Authority as of and for the year ended December 31, 2002, were audited by other auditors whose report dated April 1, 2003, expressed an unqualified opinion on those statements.

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

As further discussed in Note 10 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 positions in each of these matters have substantial merit, the amounts involved in several of these 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2003, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



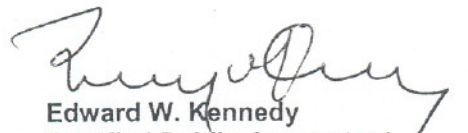
**FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.**  
Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2004 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5 through 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and the presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying financial information listed as Other Supplementary Information is not a required part of the basic financial statements, but is presented as additional analytical data. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole. Additionally, the schedule of state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and New Jersey OMB's Circular 98-07, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, and are not a required part of the basic financial statements

  
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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

March 19, 2004

## **REQUIRED SUPPLEMENTARY INFORMATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Within this section of the Atlantic County Utilities Authority's (the Authority or the ACUA) annual financial report, the management of the Authority provides narrative discussion and analysis of the financial activities of the Authority for the audit year ending December 31, 2003.

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

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

### **Discussion of Financial Statements Included in Annual Audit**

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

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

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

The primary difference between the statements is the recording and reporting of accounts payable. On the "Modified GAAP Basis" statements, all encumbrances as of 12/31/2003 are reported as Accounts Payable or Construction Contracts Payable, and as Property, Plant and Equipment. On the "GAAP Basis" statements, only those encumbrances that have been received as of 12/31/2003 are reported as Accounts Payable or Construction Contracts Payable, and as Property, Plant and Equipment. The difference between the two statements and methodologies presents itself in Net Assets- Unrestricted.

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

Also contained in the supplemental information are statements for each Division that reports the "Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to

Budget-Rate Basis". This statement compares the "Budget" revenues and expenses to "Actual" revenues and expenses. This includes operating revenues and expenses, non-operating revenues, and non-operating expenses. Principal and Interest are reported in this statement as Debt Service expense, and Depreciation is not reported as an expense. On the "GAAP" and "Modified GAAP" statements, Depreciation Expense is included as an expense, and only the Interest Expense component of the Debt Service expense is reported.

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

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

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

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

## **Wastewater Division**

### Comparative Statement of Net Assets

The Wastewater Division's Total Assets decreased \$3,838,033, mostly due to an approximate \$4.9 million increase in depreciation of Capital Assets. Loans and Loans Receivable decreased by \$971,758, Cash and Investments including accrued interest receivable decreased by \$190,960, and gross Property, Plant and Equipment increased by \$1,904,240. Total liabilities decreased \$3,411,851, mostly due to the payment of bond principal. Long-Term Portion of Bonds Payable went from \$67,667,513 in 2002 to \$63,323,708 in 2003. Assets exceed liabilities by \$57,183,960. This compares to 2002 where the division's assets exceeded its liabilities by \$57,610,142. Net change, a decrease in assets over liability by \$426,182.

The Division's Net Assets of \$ 57,183,960 are comprised of the following:

(1) Capital Assets, Net of Related Debt of \$34,032,262 include property plant and equipment, net of accumulated depreciation, and net of long-term debt and short-term debt related to the purchase or construction of capital assets. Calculated as: (Net Capital Assets-Long-Term Portion of Bonds Payable -Current Maturities of Long-Term Debt = Investment in Capital Assets, Net of Related Debt).

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

### Wastewater Division - Continued

(3) Net Assets of \$4,434,459 restricted for the purpose of forthcoming debt service payments.

(4) Net Assets of \$7,462,955 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority's debt covenants, and of which part is in the form of a Surety Bond. This number increased slightly in 2003 due to the refunding of the 1994 Series A and B bonds, and a resulting change in the debt service schedule.

(5) Unrestricted Net Assets of \$6,454,284 represent the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and current liabilities.

Restricted Net Assets increased \$755,389 in 2003 as follows: Investments in Capital Assets Net of Related Debt increased \$1,159,231, the Reserve for Debt Service Fund decreased by \$410,171 and the Reserve for Debt Service Reserve Fund increased by \$6,329.

Unrestricted Net Assets decreased by \$1,181,571, which is a combination of the decrease in Total Fund Equity and the increase to Restricted Net Assets.

Total Fund Equity decreased about 0.74 % or \$426,182, the reported Net Loss for the 2003-year.

	<u>2003</u>	<u>2002</u>
Total Current Assets	\$ 9,938,179	\$ 9,611,337
Total Restricted Assets	15,369,723	16,473,137
Net Capital Assets	101,757,810	104,733,158
Deferred Costs	3,220,720	3,306,833
Total Assets	<u>\$ 130,286,432</u>	<u>\$ 134,124,465</u>
Total Current Liabilities		
Payable from Current Assets	\$ 1,149,413	\$ 395,761
Total Current Liabilities		
Payable from Restricted Assets	6,227,418	6,269,636
Deferred Revenue	1,698,770	1,804,327
Accrued Compensated Balances And Post Retirement Benefits	703,163	377,086
Long-Term Obligations	63,323,708	67,667,513
Total Liabilities	<u>73,102,472</u>	<u>76,514,323</u>
Net Assets	<u>57,183,960</u>	<u>57,610,142</u>
Total Liabilities and Net Assets	<u>\$ 130,286,432</u>	<u>\$ 134,124,465</u>

Current Assets increased because accounts receivable increased by \$326,842 due to a late payment by one municipality.

Restricted Assets have decreased primarily because Loans and Loans Receivable has decreased by 46% or \$971,758. This is due to the Authority's draw on its 2001 New Jersey Environmental Infrastructure Trust Loan for capital improvements of Property, Plant and Equipment. Cash and Cash Equivalents plus Investments are down 0.92%. Although

## Wastewater Division - Continued

Property, Plant and Equipment have increased by \$1.9 million, Depreciation has also increased by almost \$4.9 million. Consequently, Net Capital Assets are down \$2,975,348.

Total Current Liabilities Payable from Current Assets increased by \$753,652 because year-end Accounts Payable increased.

Total Current Liabilities Payable From Restricted Assets decreased in 2003 primarily because of a 31% decrease in Accrued Interest on Bonds Payable. Construction Contracts Payable increased by 133% and is related to the completion of capital improvements. Current Maturities of Long-Term Debt has increased in accordance with the debt service schedule by 5%

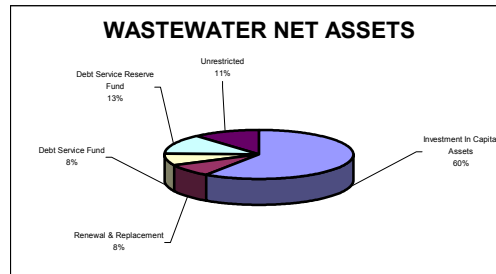
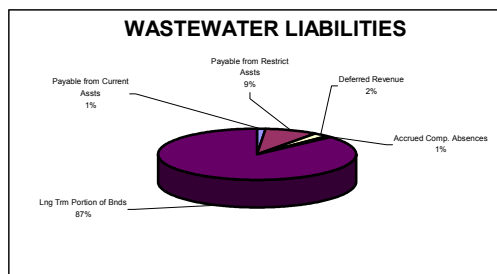
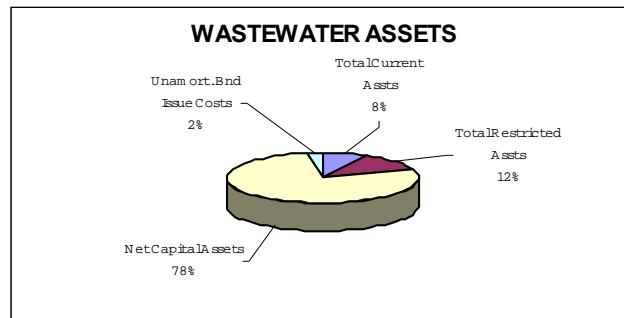
Deferred Revenue has decreased by \$105,557 due to services provided in 2003 for leachate disposal.

Accrued Compensated Absences increased slightly due to analyses and projections prepared by Authority staff for payment of sick and vacation balances. The Authority does not pay employees for their unused sick time hours at retirement.

In 2003, the Authority began to fund a potential and expected future liability for Post Retirement Benefits. The amount of \$303,163 was accrued for this purpose.

Long-Term Obligations decreased by \$4,343,805 due to the payment of scheduled bond principal, no current year borrowings, and the refunding of the Authority's 1994 Series A & B Revenue Bonds.

Total Net Assets or Total Fund Equity has decreased as a result of the reported loss for the 2003 year.



## Wastewater Division - Continued

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

There was an increase to Operating Revenues of the Authority of 0.31%. There was an increase in Sludge, Septage and Scum disposal income in 2003 of 7%. The Authority refers to this as its outside income, and uses this income to reduce or stabilize the user fee charged to the Authority's 14 direct participants. The user fee charged to the participants increased in 2003 by 4%, raising \$722,264 more when compared to 2002. The user fee supports the expenses of the Authority as follows: \$10,685,178 for operating expenses, and \$7,455,504 for annual debt service.

Operating Expenses increased 3% from the prior year. The largest increase was in Employee Benefit costs due to an accrual for future "Post Retirement Benefit" costs in the amount of \$303,163. Indirect Operating costs increased 34% and are related to ash disposal costs and vehicle expense, including hauling costs related to one of the Authority's sludge hauling contracts. Licensing and Permit Fees increased 22% over 2002. This number fluctuates from year to year and reflects the number of permits issued during the year and the rating factor applied which varies year to year. Contractual Expenses saw an increase from 2002 of 21%. Most of this increase was in consulting engineering expenses. Some of this added expense was for a health risk assessment, observation stack testing, and developing test protocol for emissions. The above are the major areas of increases. There was an 11% drop in Power and Utilities costs. This is primarily due to reduced Electricity costs.

Total Operating Revenues exceeded Total Operating Expenses by \$1,550,213. This is a decrease of operating revenues over operating expenses when compared to 2002 by \$545,794, or a 26% decrease.

Non Operating Revenues/Expenses, which is comprised of Interest Income, Interest Expense, and Miscellaneous Gains/Losses, decreased 25%. There was a 48% gain in Interest Income. The Authority realized some Interest Income from the New Jersey Infrastructure Trust Program financing of earlier years. The Interest Expense component of Non Operating Revenues/Expenses on the comparative statement was down about 24%. Last years Interest Expense included Accrued Interest for January and July 2003. The 2003 interest expense includes an accrual for January 2004 only. In 2002, there was an "Unrealized Gain on Investment" of \$154,439. In 2003, there was an "Unrealized Loss on Investment" of \$48,268. In 2003 there was also a "Loss on Refunding Bonds" of \$128,556 and related to the refunding of the 1994 A and B bonds completed later in the year.

In total, Non Operating Expenses decreased by \$674,013.

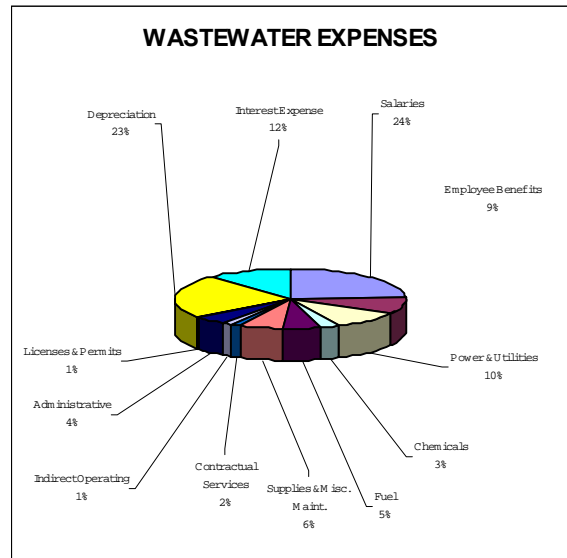
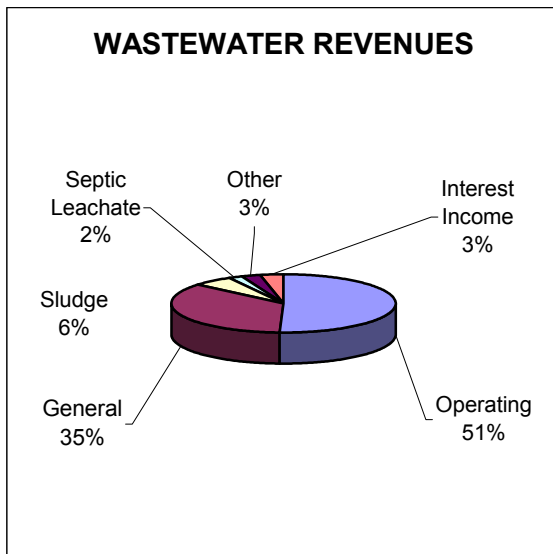
Total Expenses exceeded Total Income in 2003 by \$426,182. The Authority's Net Loss in 2002 was \$554,401

Total Net Assets decreased \$426,182, from \$57,610,142 in 2002 to \$57,183,960 in 2003.



### Wastewater Division - Continued

	<u>2003</u>	<u>2002</u>
Total Operating Revenues	\$ 20,400,315	\$ 20,337,814
Operating Expenses including Depreciation	18,850,102	18,241,807
Operating Income	1,550,213	2,096,007
Non-Operating Revenues/(Expenses)		
Interest Expense	(2,487,374)	(3,268,865)
Interest Income	687,803	464,018
Unrealized Gain/(Loss) on Investment	(48,268)	154,439
Loss on Refunding Bonds	(128,556)	
Total Non-Operating Expense	(1,976,395)	(2,650,408)
Net Income/(Loss)	(426,182)	(554,401)
Net Assets, January 1	57,610,142	58,164,543
Net Assets, December 31	<u>\$ 57,183,960</u>	<u>\$ 57,610,142</u>



## Wastewater Division - Continued

### Statement of Cash Flows

Net Cash Provided by Operating Activities decreased 5%, a reduction in net cash of \$394,266. This relates back to the increase in Accounts Receivable discussed earlier and this is seen in the decrease in reported Receipts From Customers and Users. Payments to Employees increased 3%. Employees received their annual cost of living increases based on performance reviews. Payments to vendors decreased 6%, which is partially due to timing differences as Accounts Payable has increased significantly over the prior year.

Cash used for Capital and Related Financing Activities decreased 5% when compared to 2002. Purchases of Capital Assets went from \$1,903,775 in 2002 to \$1,590,427 in 2003, a 16% decrease. At the same time, proceeds from Wastewater Trust Funding dropped 39%, with proceeds being \$1,601,703 in 2002, and \$971,758 in 2003. The Authority has three Wastewater Trust Financings outstanding to date. The proceeds related to the improvements from the 1995 Wastewater Trust Financing is 100% complete. The 1997 financing was 83% complete going into the 2002-year and 93% drawn on at the close of the 2003-year. 76% of the 2001 financing has been drawn on.

Payment of debt service decreased \$62,776 in accordance with loan repayment schedules.

Net Cash Provided By Investment Activities was up 48% and attributable to the added Interest Income earned this year and discussed above.

Net Decrease in Cash and Cash Equivalents is \$136,922, or 0.61%.

Balance at the Beginning of the Year was \$22,415,596. Balance at the End of the Year was \$22,278,674, a 0.61% decrease.

		<u>2003</u>		<u>2002</u>
Net Cash Provided by Operating Activities	\$	7,236,688	\$	7,630,954
Net Cash Used by Capital and Related Financing Activities		(8,067,506)		(7,685,129)
Net Cash Provided by Investing Activities		693,896		468,389
Net (Decrease)/Increase In Cash and Cash Equivalents		<u>(136,922)</u>		<u>414,214</u>
Balance – Beginning of the Year		<u>22,415,596</u>		<u>22,001,382</u>
Balance – End of Year	\$	<u><u>22,278,674</u></u>	\$	<u><u>22,415,596</u></u>

## Solid Waste Division

### Comparative Statement of Net Assets

The Solid Waste Division reports Total Net Assets of \$1,717,688. In 2002, there was a reported Fund Deficit (negative total assets) of \$6,974,455. Total Assets increased by 8% or \$5,772,915. Total Liabilities decreased \$2,919,228 or 3%. Assets exceeded Liabilities by \$1,717,688. This compares to 2002 where the division's Liabilities exceeded Assets by \$6,974,455

The Division's Net Assets of \$ 1,717,688 are comprised of the following:

- (1) Capital Assets, Net of Related Debt of (\$18,961,835), include Property, Plant and Equipment, net of Accumulated Depreciation, and net of Long-Term Debt and Short-Term Debt related to the purchase or construction of Capital Assets. Calculated as: (Net Capital Assets-Long-Term Portion of Bonds Payable – Current Maturities of Long-Term Debt = Investment in Capital Assets, Net of Related Debt).
- (2) Net Assets of \$8,053,769 restricted for the purpose of Debt Service Reserve Fund, in accordance with the Authority's debt covenants.
- (3) Unrestricted Net Assets of \$12,625,754 represents the portion available to maintain the Authority's continuing obligations to the Authority's service area, certain creditors, and current liabilities.

Unrestricted Net Assets increased 9%, or \$1,024,939 over 2002.

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

Investment in Capital Assets, Net of Related Debt, of a negative \$18,961,835, improved by \$7,667,204, or 29%.

Total Fund Equity improved by \$8,692,143, which is comprised of Operating Income of \$7,971,922 and Non-Operating Revenues in the amount of \$720,221.

### Solid Waste Division - Continued

	2003	2002
Total Current Assets	\$ 15,199,172	\$ 13,877,992
Total Restricted Assets	14,125,724	12,549,967
Net Capital Assets	50,032,184	46,430,652
Deferred Costs	2,893,437	3,618,991
Total Assets	\$ 82,250,517	\$ 76,477,602
Total Current Liabilities	\$	
Payable from Current Assets	1,601,402	600,862
Total Current Liabilities Payable		
from Restricted Assets	6,097,479	5,967,813
Post Closure Care Cost - Landfill	7,376,011	7,376,011
Accrued Compensated Absences		
And Post Retirement Benefit	874,099	574,099
Long -Term Obligations	64,583,838	68,933,272
Total Liabilities	\$ 80,532,829	\$ 83,452,057
Net Assets (Deficit)	\$ 1,717,688	\$ (6,974,455)
Total Liabilities and Net Assets	\$ 82,250,517	\$ 76,477,602

Current Assets increased because Cash and Cash Equivalents grew 16%. This is due to a 12% growth in tonnage received at the ACUA facilities and a 4% average rate increase to the tip fee as well as the significant increase in Accounts Payable. Accounts Receivable dropped 8% from \$3,601,983 to \$3,324,288.

Restricted Assets increased mostly because of deposits made to Cash and Cash Equivalents, primarily to the Renewal and Replacement Fund, in the amount of \$1,164,278 and deposits made to the Landfill Closure Fund in the amount of \$420,285. To a lesser extent, Restricted Assets increased for Interest Income earned. The Authority raises money for capital improvements from the operating budget and from the tip fee revenue that supports the operating budget. This money is then deposited to the Renewal and Replacement Fund.

Capital Assets from Property Plant and Equipment grew 8% in 2003, representing a dollar increase of \$6,946,279. Depreciation Expense for the 2003 year dropped 6% when compared to 2002, but overall Accumulated Depreciation increased \$3,344,747, or 9%. Net Property, Plant and Equipment grew \$3,601,532 or 8%. Most of the growth for Property Plant and Equipment is from new or ongoing cell construction at the ACUA landfill. The additional Depreciation is a result of a partial year of Depreciation for the same, and for a full year's Depreciation of the additional landfill improvements for cell construction completed in 2002.

Total Current Liabilities Payable From Current Assets increased \$1,000,540 as a direct result of the Accounts Payable increase of \$942,409. These increases relate to purchases received or services or projects completed that were not paid as of 12/18/03, the date of the Authority's last board meeting for the 2003 year, when bills can be approved by the Board of Directors for payment.

## Solid Waste Division - Continued

Customer Escrow Deposits grew 64% in 2003, meaning deposits were left on account with the ACUA for anticipated business.

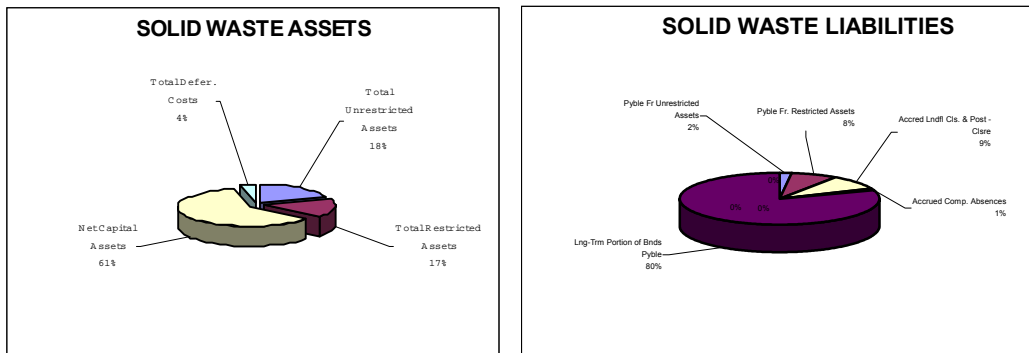
Total Current Liabilities from Restricted Assets increased 2% or \$129,666. The Current Portion of Long-Term Debt, meaning the principal payment due on March 1, 2004, for the 1992 Solid Waste Revenue Bonds is \$3,325,000 versus \$3,100,000, reported for the 2002 year. Accordingly, Accrued Interest Payable decreased \$72,334 as a result of principal payments made during 2003. Both Bonds Payable and Accrued Interest Payable have changed in accordance with the existing debt service schedule for the 1992 Solid Waste Revenue Bonds. Other less significant changes include a decrease in Construction Contracts Payable of \$81,762 and an increase to Loan Payable-Current Portion, of \$58,762. The Loan Payable-Current Portion represents the amount of principal and interest to be paid in 2004 on a two-year loan payment schedule that commenced in January 2003 and will be fully satisfied by December 2004.

Non Current Liabilities Payable From Restricted Assets remains the same at \$7,376,011. This is the reported liability for Landfill Closure and Post Closure Care costs, which is based on 41% usage. Indications are that this liability will decrease as changes to operations and available technology allow for greater capacity at the ACUA landfill, thereby potentially reducing the percent of usage by a significant amount. The Authority's independent consulting engineer will make the final determination and calculate the estimated liability in accordance with provisions of Statement No. 18 of the Government Accounting Standards Board, Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs.

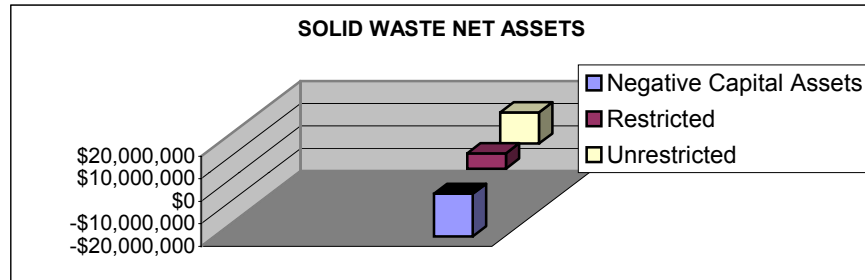
Other Non-current Liabilities include an accrual for expected future Post Retirement Benefit costs in the amount of \$300,000.

As indicated above, the Authority will make its final principal and interest payment on a two-year loan, which commenced in 2003, therefore, there is no Long-Term Portion of Loan Payable reported for 2003.

The Long-Term Portion of Bonds Payable has gone down \$3,264,253 due to the payment of principal in 2003. Total Net Assets or Total Fund Equity has increased as a result of the \$8,692,143 reported Net Income for the 2003 year, and for the reasons described above and further described below.



## Solid Waste Division - Continued



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

There was a 14% increase to Solid Waste Operating Revenues in 2003. Tipping Fee revenue grew by \$3,252,476 or 16%. Last year Tipping Fees increased 18% over 2001. The 2003 growth is attributable to a 12% increase in the waste stream and a 4% increase in the Tip Fee rate. In 2002, the Solid Waste operation experienced a 17% increase in the waste stream. Recycling Income grew 12%, for an additional \$667,781 in income. Composting Income, which is income from the disposal of grass and leaves, and the income from the sale of eco products, like mulch and soil, increased 6%. In 2002 this income increased by 3%. Other Income grew 7% from \$512,996 to \$550,722. Other Income is primarily comprised of fees related to the rental of property not utilized in the solid waste operations, miscellaneous revenues, and late payment fees. Both rental fees and miscellaneous income increased in 2003. Late payment fees went down in 2003.

Total Operating Expenses increased 8% or \$1,669,808. Of this amount, 36% is for Benefit costs, of which about half of that amount is for the accrual done for anticipated future post retirement benefits, such as retiree health benefit costs. Host Community Benefit costs is 33% of the total increase amount and is directly reflective of the additional tonnage received. Supplies and Maintenance represents 17% of the total. A major portion of this increase is related to certain unanticipated repairs to heavy equipment as well as additional operational supplies. Bad Debt Expense is 15% of the total increase. The Authority continues to record revenues for charges billed to Mercer County Improvement Authority, and then records a Bad Debt Expense for the same, which is offset to Allowance for Doubtful Accounts. This has been handled as such each year for charges billed since the inception of the agreement, which billing is in accordance with the Interdistrict Agreement between Atlantic County Utilities Authority and the Mercer County Improvement Authority. (See Notes to Financial Statements for status of litigation of this agreement). The new Bad Debt Expense in 2003 was mostly for late payment fees charged to municipal government that the Authority granted in exchange for full payment of their late outstanding balances.

Compared to last year, salaries increased 1%, Benefits increased 32%, Power and Utilities increased 13%, Fuel increased 30%, Supplies and Maintenance increased 23%, Indirect Operating dropped 5%, Administration increased 16%, Host Community Benefit fees increased 31%, Recycling and Other Taxes increased 8%, Bad Debt increased 18%, and Depreciation dropped 5%.

Salaries increased in accordance with the union contract and cost of living non-union increases, however; overtime decreased by about 2%. In 2002, overtime was 17% of the total Solid Waste payroll. In 2003, overtime was 15% of the total payroll.

## **Solid Waste Division - Continued**

In addition to the increase to benefit costs for post retirement benefits, health benefit costs for health insurance and prescription benefits increased 27%, and workers compensation costs rose 11%. Administrative costs increased for bank fees related to increased credit card usage by Authority customers. In 2002, Administrative costs increased for the same reason. The increase to Recycling and Other Taxes is also directly related to the increase in the waste tonnage received for the 2003 year.

Fuel cost grew due to rate increases, and Power and Utilities increased as a result of added sewer processing costs from the additional leachate at the ACUA landfill, which was brought on by increased rainfall.

Depreciation and Amortization of Bond Issue Costs for the year dropped \$232,983 or 5% and in accordance with the depreciation schedule where certain improvements reached full Depreciation coming into the 2003 year. A \$5 million expansion to the landfill was added on in 2003, and partly depreciated for the 2003 year.

Total Operating Revenues exceeded Total Operating Expenses by \$7,971,922. This is a 40% increase in Operating Income when compared to 2002.

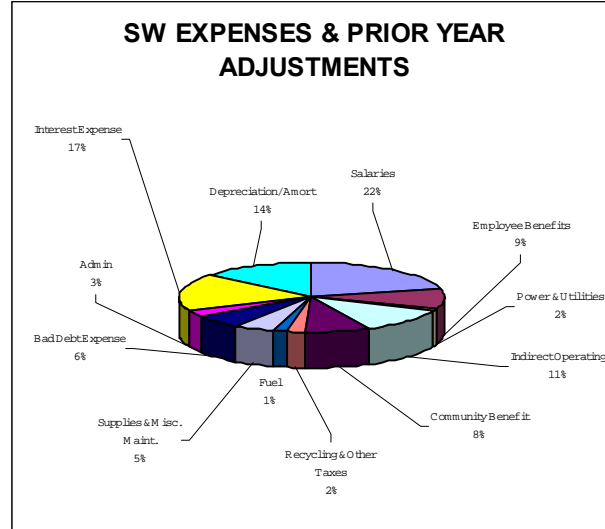
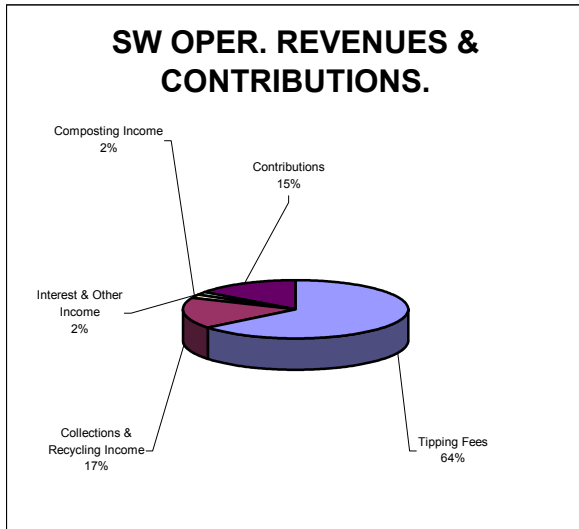
Total Non-Operating Revenues/(Expenses) netted \$720,221. In 2002, Non-Operating Revenues/(Expenses) netted \$3,817,152. The biggest change is in the Contributions from the State. In 2002, the Authority received \$8,700,000 from the State of New Jersey for the purpose of refunding Environmental Investment Charges (EIC) to those who were billed in 1998 or later, and had paid the billed amount to the Atlantic County Utilities Authority. This was a charge that was ordered by the State of New Jersey Local Finance Board, later litigated by parties billed, and then ordered by the Courts to refund. (See Notes to the Financial Statements). Because the State provided \$8.7 million for EIC refunds in 2002, they did not provide a subsidy for the March 1, 2002 debt service payment, requiring the Authority to draw the amount from the Debt Service Reserve Fund.

In 2003, the Authority received \$5,630,747 for payment of the March 1, 2003 debt service. Interest Income dropped 59% primarily due to a decrease in interest rates paid on investments.

Net Income after contributions is \$8,692,143.

### Solid Waste Division – Continued

	<u>2003</u>	<u>2002</u>
Total Operating Revenues	\$ 31,719,034	\$ 27,759,810
Operating Expenses	19,676,812	17,774,021
Depreciation and Amortization	<u>4,070,300</u>	<u>4,303,283</u>
Total Operating Expenses	<u>23,747,112</u>	<u>22,077,304</u>
Operating Income	7,971,922	5,682,506
Non-Operating Revenues/(Expenses)		
Contributions-State Subsidy	5,630,747	8,700,000
Interest Expense	(4,972,501)	(5,034,742)
Interest Income	61,975	151,894
Total Non-Operating Expense	<u>720,221</u>	<u>3,817,152</u>
Net Income/(Loss)	8,692,143	9,499,658
Net Assets, January 1	(6,974,455)	(8,780,006)
Prior Period Adjustment		<u>(7,694,107)</u>
Net Assets, December 31	<u>\$ 1,717,688</u>	<u>\$ (6,974,455)</u>



**Statement of Cash Flows**

Net Cash Provided by Operating Activities increased by \$2,141,224 or 19%. In 2002, there was a 29% increase or \$2,524,169 increase to Cash Flows From Operating Activities. Receipts from Customers and Users grew 10% for an increase of \$2,856,872. Payments to Employees increased a mere 1% for an additional \$62,772. Payments to Suppliers increased 6% or \$652,876. Operating expenses, net of Depreciation, Amortization and Salaries grew 16% in 2003.



## Solid Waste Division – Continued

Net Cash Provided By Capital and Related Financing Activities increased \$8,936,927 or 547% as compared to \$1,631,621 reported in 2002. Within this grouping, Purchases of Capital Assets increased by \$2,686,820 in 2003. Principal Paid On Capital Debt increased by \$210,000 or 7%, similar to the increase in 2002, and in accordance with the debt service schedule for the 1992 Solid Waste Revenue Bonds. Interest Paid on Capital Debt decreased by \$167,165 or 3%, and in accordance with the debt service schedule. State Contribution decreased from \$8,700,000 in 2002 to \$5,630,747 in 2003. See “Comparative Statement of Revenues Expenses, and Changes in Net Assets”.

A Loan Payable of \$2,111,600 to the Cash Flows in 2002 is now a Loan Repayment of \$1,023,419. This loan will be fully paid at the end of 2004.

Net Cash Provided By Investment Activities is \$74,710. In 2002, Net Cash Provided by Investment Activities was \$152,191.

Net Increase in Cash and Cash Equivalents is \$2,746,950 in 2003 and \$1,926,027 in 2002.

Cash and Cash Equivalents balance at the beginning of the Year was \$20,258,232 and \$23,005,182 balance at the end of the year, a 14% increase over 2002.

	2003	2002
Net Cash Provided by Operating Activities	\$ 13,240,788	\$ 11,099,564
Net Cash Provided/(Used) From Non Capital Financing Activities		(7,694,107)
Net Cash Provided/(Used) By Capital and Related Financing Activities	(10,568,548)	(1,631,621)
Net Cash Provided by Investing Activities	74,710	152,191
Net Increase In Cash and Cash Equivalents	2,746,950	1,926,027
Balance – Beginning of the Year	20,258,232	18,332,205
Balance – End of Year	\$ 23,005,182	\$ 20,258,232

### **Core Competencies**

#### Wastewater Division

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

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

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

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

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

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

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

The Wastewater Division also provides some maintenance on a contractual basis for a local municipal utility.

The year 2003 marked the twenty-five year anniversary of the Wastewater system.

#### Solid Waste Division

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

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

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

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

All waste, with the exception of yard waste and recyclable material, is disposed at the Authority's Landfill. This includes municipal solid waste and non-putrescible (bulky and industrial) waste. In 2003, over 371,000 tons of waste was sent to the ACUA Landfill. Tipping Fees charged and paid for every ton of waste that comes into the solid waste facility is the primary source of revenue for the Solid Waste Division.

Recyclable material is processed at the Solid Waste Division's 58,500 square foot Recycling Center. Collection is provided to about twenty Atlantic County Municipalities and many commercial entities on a bi-weekly basis. Material received is recycled at the recycling center and then sold. In 2003, the Solid Waste Division collected over 35,000 tons of recyclable material. This material includes newspaper, plastic, aluminum, glass, and cardboard.

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

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

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

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

### **Accountability**

The Atlantic County Utilities Authority mission statement is:

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

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

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

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

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

## **Governing Body**

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

No action taken at a meeting of the Authority can be effective until approved by the County Executive or until ten days after the minutes of the meeting of the Authority Board Members have been delivered to the County Executive. In addition, no resolution or other action of the Authority Board providing for the issuance or refunding of bonds or other financial obligations of the Authority can be adopted or made effective without the prior written approval of the County Executive.

The Authority Board Members are:

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

## **Management of the Authority**

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

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

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

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

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

Leslie Houston, Authority Board Secretary (Retired November 2003). Ms. Houston was hired by the Atlantic County Utilities Authority in 1978 and has served in various capacities. In 1999, Ms. Houston was promoted to the position of Board Secretary. Prior to that, she was the Assistant Board Secretary. Ms. Houston was responsible for Human Resources and Personnel Management, Health Benefits and Insurance. She received her Bachelor of Science degree from Trenton State College and her Master of Science degree in Human Resource Management from Widener University.

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

Richard A. Catando, Vice President – Wastewater Division (Retired December 2003). The Authority hired Mr. Catando in 1978, the year the Wastewater Division began operations. In 1988, Mr. Catando was promoted to the position of Vice President. His prior experience includes employment with Mobil Oil Co., RCA Corp., NJ Bell, The Langston Co., and John Reutter Associates, the consulting engineer that designed and built the Authority's treatment facility. He holds a New Jersey State Electrical Contracting License.

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

James M. Rutala, Vice President – Solid Waste Division.

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

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

### **Funding of Infrastructure and Debt Management**

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

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

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

### **Auditors**

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

Prior audits can be obtained by contacting the Atlantic County Utilities Authority or the ACUA web site at [www.ACUA.com](http://www.ACUA.com).

## **FINANCIAL STATEMENTS**

**ATLANTIC COUNTY UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**December 31, 2003 and 2002**

<b>ASSETS</b>	<b>2003</b>			<b>2002 as Restated</b>
	<b>Wastewater Division</b>	<b>Solid Waste Division</b>	<b>Total</b>	
Current Assets:				
Cash and Cash Equivalents	\$ 9,665,115	\$ 11,232,507	\$ 20,897,622	\$ 19,368,812
Accrued Interest Receivable	44,654	1,948	46,602	56,299
Accounts Receivable (net of Allowance \$15,146,115 and \$13,722,305 in 2003 and 2002 respectively)	868,839	2,950,703	3,819,542	3,688,451
Other Accounts Receivable		373,585	373,585	375,767
Internal Accounts	(640,429)	640,429	-	-
<b>Total Current Assets</b>	<b>9,938,179</b>	<b>15,199,172</b>	<b>25,137,351</b>	<b>23,489,329</b>
Noncurrent Assets:				
Restricted Assets:				
Cash and Cash Equivalents	12,613,559	11,772,675	24,386,234	23,305,017
Investments	1,593,440		1,593,440	1,641,710
Amounts Held by State of New Jersey		2,351,779	2,351,779	1,931,494
Accrued Interest Receivable	76	1,270	1,346	10,477
Loans Receivable	1,162,648		1,162,648	2,134,406
<b>Total Noncurrent Assets</b>	<b>15,369,723</b>	<b>14,125,724</b>	<b>29,495,447</b>	<b>29,023,104</b>
Capital Assets:				
Property, Plant and Equipment (Note 4)	199,710,599	89,277,268	288,987,867	280,137,348
Less: Accumulated Depreciation	(97,952,789)	(39,245,084)	(137,197,873)	(128,973,538)
<b>Net Capital Assets</b>	<b>101,757,810</b>	<b>50,032,184</b>	<b>151,789,994</b>	<b>151,163,810</b>
Deferred Costs:				
Preoperating Costs (Net of Accumulated Depreciation of \$7,821,740 and \$7,155,115 in 2003 and 2002, respectively)		2,037,761	2,037,761	2,704,386
Unamortized Bond Issue Costs	3,220,720	855,676	4,076,396	4,221,438
<b>Total Deferred Costs</b>	<b>3,220,720</b>	<b>2,893,437</b>	<b>6,114,157</b>	<b>6,925,824</b>
<b>TOTAL ASSETS</b>	<b>\$ 130,286,432</b>	<b>\$ 82,250,517</b>	<b>\$ 212,536,949</b>	<b>\$ 210,602,067</b>



**ATLANTIC COUNTY UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**December 31, 2003 and 2002**

<b>LIABILITIES</b>	<b>2003</b>			<b>2002 as Restated</b>
	<b>Wastewater Division</b>	<b>Solid Waste Division</b>	<b>Total</b>	
Current Liabilities Payable from Current Assets:				
Accounts Payable	\$ 1,051,381	\$ 1,452,338	\$ 2,503,719	\$ 815,372
Customer Deposits		149,064	149,064	90,933
Deferred Revenue	98,032		98,032	90,318
	<u>1,149,413</u>	<u>1,601,402</u>	<u>2,750,815</u>	<u>996,623</u>
Total Current Liabilities Payable from Current Assets				
Current Liabilities Payable from Restricted Assets:				
Construction Contracts Payable	550,540	72,467	623,007	390,956
Loan Payable - Current Portion		1,085,181	1,085,181	1,026,419
Current Portion of Long - Term Debt	4,401,840	3,325,000	7,726,840	7,292,614
Accrued Interest	1,275,038	1,614,831	2,889,869	3,527,460
	<u>6,227,418</u>	<u>6,097,479</u>	<u>12,324,897</u>	<u>12,237,449</u>
Total Current Liabilities Payable from Restricted Assets:				
Noncurrent Liabilities Payable from Restricted Assets:				
Accrued Landfill Closure and Post - Closure Care Cost		7,376,011	7,376,011	7,376,011
		<u>7,376,011</u>	<u>7,376,011</u>	<u>7,376,011</u>
Noncurrent Liabilities:				
Deferred Revenue	1,698,770		1,698,770	1,804,327
Accrued Compensated Absences	400,000	574,099	974,099	951,185
Post Retirement Benefits Payable	303,163	300,000	603,163	-
Long - Term Portion of Loan Payable			-	1,085,181
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$832,482 and \$1,104,448 for Wastewater Bonds and \$421,162 and \$481,909 for Solid Waste Bonds in 2003 and 2002, respectively)	63,323,708	64,583,838	127,907,546	135,515,604
	<u>65,725,641</u>	<u>72,833,948</u>	<u>138,559,589</u>	<u>146,732,308</u>
Total Noncurrent Liabilities				
<b>TOTAL LIABILITIES</b>	<u>\$ 73,102,472</u>	<u>\$ 80,532,829</u>	<u>\$ 153,635,301</u>	<u>\$ 159,966,380</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
COMPARATIVE STATEMENT OF NET ASSETS  
December 31, 2003 and 2002**

<b><u>NET ASSETS</u></b>	<b>2003</b>			<b>2002 as Restated</b>
	<b><u>Wastewater Division</u></b>	<b><u>Solid Waste Division</u></b>	<b><u>Total</u></b>	
Investment in Capital Assets, Net of Related Debt	\$ 34,032,262	\$ (18,961,835)	\$ 15,070,427	\$ 6,355,592
Restricted for:				
Solid Waste:				
Debt Service Reserve		8,053,769	8,053,769	8,053,769
Wastewater:				
Renewal and Replacement	4,800,000		4,800,000	4,800,000
Debt Service Fund	4,434,459		4,434,459	4,844,630
Debt Service Reserve Fund	7,462,955		7,462,955	7,456,626
Unrestricted	6,454,284	12,625,754	19,080,038	19,125,070
<b>TOTAL NET ASSETS</b>	<b>\$ 57,183,960</b>	<b>\$ 1,717,688</b>	<b>\$ 58,901,648</b>	<b>\$ 50,635,687</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>130,286,432</u></b>	<b>\$ <u>82,250,517</u></b>	<b>\$ <u>212,536,949</u></b>	<b>\$ <u>210,602,067</u></b>

**ATLANTIC COUNTY UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
For the Years ended December 31, 2003 and 2002

	2003			2002 as Restated
	Wastewater Division	Solid Waste Division	Total	
Operating Revenues:				
Wastewater				
User Service Agreements:				
Operating	\$ 10,685,178	\$	\$ 10,685,178	\$ 10,017,669
General	7,455,504		7,455,504	7,400,749
Sludge	1,243,639		1,243,639	1,105,382
Septage and Leachate	402,390		402,390	435,618
Other	613,604		613,604	1,378,396
Solid Waste			-	
Tipping Fees		24,007,259	24,007,259	20,754,783
Collections and Recycling Income		6,437,156	6,437,156	5,769,375
Grant Income			-	37,815
Composting Income		723,897	723,897	684,841
Other		550,722	550,722	512,996
<b>Total Operating Revenues</b>	<b>20,400,315</b>	<b>31,719,034</b>	<b>52,119,349</b>	<b>48,097,624</b>
Operating Expenses:				
Salaries	5,141,283	6,123,400	11,264,683	11,130,200
Employee Benefits	1,910,131	2,512,391	4,422,522	3,325,736
Power and Utilities	2,046,019	478,304	2,524,323	2,727,071
Chemicals	558,632		558,632	557,256
Fuel	1,153,695	419,183	1,572,878	1,390,010
Supplies and Miscellaneous Maintenance	1,175,483	1,487,061	2,662,544	2,335,452
Contractual Services	384,956		384,956	319,461
Indirect Operating Expenses	316,265	3,158,578	3,474,843	3,566,542
Administrative	900,187	823,750	1,723,937	1,581,989
Community Benefit		2,333,676	2,333,676	1,775,103
Recycling and Other Taxes		665,494	665,494	615,796
Licenses and Permits	144,544		144,544	118,629
Bad Debt Expense		1,674,975	1,674,975	1,423,809
Depreciation	4,879,588	4,011,372	8,890,960	9,138,759
Amortization of Bond Issue Costs	239,319	58,928	298,247	313,298
<b>Total Operating Expenses</b>	<b>18,850,102</b>	<b>23,747,112</b>	<b>42,597,214</b>	<b>40,319,111</b>
<b>Operating Income</b>	<b>1,550,213</b>	<b>7,971,922</b>	<b>9,522,135</b>	<b>7,778,513</b>
Non - Operating Revenues / (Expenses):				
Interest Income	687,803	61,975	749,778	615,912
Interest Expense	(2,487,374)	(4,972,501)	(7,459,875)	(8,303,607)
Unrealized Gain / (Loss) on Investment	(48,268)		(48,268)	154,439
Loss on Refunding Bonds	(128,556)		(128,556)	
Contributions - State Subsidy		5,630,747	5,630,747	8,700,000
<b>Total Non - Operating Revenues / (Expenses)</b>	<b>(1,976,395)</b>	<b>720,221</b>	<b>(1,256,174)</b>	<b>1,166,744</b>
<b>Net Income / (Loss)</b>	<b>(426,182)</b>	<b>8,692,143</b>	<b>8,265,961</b>	<b>8,945,257</b>
<b>Net Assets (Deficit), January 1, as Restated</b>	<b>57,610,142</b>	<b>(6,974,455)</b>	<b>50,635,687</b>	<b>49,384,537</b>
<b>Prior Period Adjustment to Fund Balance (Deficit)</b>			<b>-</b>	<b>(7,694,107)</b>
<b>Net Assets (Deficit), December 31</b>	<b>\$ 57,183,960</b>	<b>\$ 1,717,688</b>	<b>\$ 58,901,648</b>	<b>\$ 50,635,687</b>

**ATLANTIC COUNTY UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**For the Years ended December 31, 2003 and 2002**

	2003			2002
	Wastewater Division	Solid Waste Division	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from Customers and Users	\$ 19,895,868	\$ 30,210,765	\$ 50,106,633	\$ 47,939,062
Payments to Employees	(5,215,206)	(6,123,400)	(11,338,606)	(11,130,200)
Payments to Suppliers	(7,443,974)	(10,846,577)	(18,290,551)	(18,078,344)
Net Cash Provided by Operating Activities	<u>7,236,688</u>	<u>13,240,788</u>	<u>20,477,476</u>	<u>18,730,518</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Operating Subsidies and Transfers to Other Funds			-	(7,694,107)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase of Capital Assets	(1,590,427)	(7,028,041)	(8,618,468)	(6,244,996)
Principal Paid on Capital Debt	(4,192,614)	(3,100,000)	(7,292,614)	(6,868,286)
Interest Paid on Capital Debt	(3,127,667)	(5,044,835)	(8,172,502)	(8,616,771)
State Contribution		5,630,747	5,630,747	8,700,000
Loan Receipts			-	2,111,600
Loan Repayments		(1,026,419)	(1,026,419)	
Proceeds from Wastewater Trust	971,758		971,758	1,601,703
Net Refunding Bond Proceeds	(128,556)		(128,556)	
Net Cash Provided / (Used) by Capital and Related Financing Activities	<u>(8,067,506)</u>	<u>(10,568,548)</u>	<u>(18,636,054)</u>	<u>(9,316,750)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest Income	693,896	74,710	768,606	620,580
Net Cash Provided by Investing Activities	<u>693,896</u>	<u>74,710</u>	<u>768,606</u>	<u>620,580</u>
Net Increase in Cash and Cash Equivalents	(136,922)	2,746,950	2,610,028	2,340,241
Cash and Cash Equivalents, January 1	22,415,596	20,258,232	42,673,828	40,333,587
Cash and Cash Equivalents, December 31	<u>\$ 22,278,674</u>	<u>\$ 23,005,182</u>	<u>\$ 45,283,856</u>	<u>\$ 42,673,828</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating Income	\$ 1,550,213	\$ 7,971,922	\$ 9,522,135	7,778,513
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	4,879,588	4,011,372	8,890,960	9,138,759
Amortization of Bond Issuance Costs	239,319	58,928	298,247	313,298
Bad Debt Expense		1,674,975	1,674,975	1,423,809
(Increase) in Accounts Receivable	(406,604)	(1,146,115)	(1,552,719)	(1,026,189)
Increase (Decrease) in:				
Landfill Closure Costs			-	1,503,584
Accounts and Other Payables	1,072,015	1,031,860	2,103,875	(175,846)
Deferred Revenue	(97,843)		(97,843)	411,822
Customer Deposits		58,131	58,131	(227,802)
Amounts Held by the State		(420,285)	(420,285)	(409,430)
	<u>\$ 7,236,688</u>	<u>\$ 13,240,788</u>	<u>\$ 20,477,476</u>	<u>\$ 18,730,518</u>

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002**

**NOTE 1 – AUTHORITY DESCRIPTION AND GENERAL INFORMATION**

The Atlantic County Utilities Authority (the “Authority”) is a public body corporate and politic of the State of New Jersey and was organized as a sewerage authority having the name “The Atlantic County Sewerage Authority” by a resolution of the Board of Chosen Freeholders of the County of Atlantic (the “County”) adopted on May 14, 1969, pursuant to the New Jersey Sewerage Authorities Law of 1946 and a Regional Sewerage Feasibility Study recommending division of the County into regions on the basis of natural drainage features. On August 19, 1981, the Freeholders filed with the State an ordinance reorganizing the Authority as a county authority pursuant to the New Jersey Municipal and County Utilities Authorities Law, Chapter 183 of the Laws of 1957 of the State of New Jersey, as amended and supplemented, and changed the name 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 the waters, bordering, or entering the areas within the territorial boundaries of the County and for the improvement of conditions affecting the public health. The Authority’s Wastewater Division operates the Wastewater System. In 1986, the Authority was designated by Atlantic County as its implementing agency for solid waste management pursuant to the Solid Waste Management Act of the State of New Jersey. The Solid Waste Division operates a regional landfill, transfer station, recycling center, composting site, and collection operations.

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

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

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

**NOTE 2 – BASIS OF PRESENTATION**

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 2 – BASIS OF PRESENTATION - Continued**

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

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

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

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

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments* (Statement No. 34). The Statement provides for the most significant change in financial reporting in over twenty years. The Authority implemented the requirements of Statement No. 34, effective January 1, 2002. The Authority has also implemented GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. The Authority has also adopted GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

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

**Financial Statement Presentation and Basis of Accounting**

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Financial Statement Presentation and Basis of Accounting - Continued**

accounting. Revenues from operations, investments and other sources are recorded when earned and expenses are recorded when liabilities are incurred.

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

**Wastewater Service Contract**

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

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

**Wastewater Bond Resolutions**

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

**Construction Fund** – All costs pertaining to the acquisition or construction of a designated project shall be paid from this Fund and capitalized herein. The proceeds from the sale of bonds and certain receipts are deposited herein to pay for all such construction costs. Interest earned on investments in this Fund is credited to project costs. At December 31, 2003 and 2002, the Construction Fund and Wastewater Trust Fund cash equivalents amounted to \$176,760 and \$185,187, respectively.

**Rebate Fund** – The balance in this Fund shall be maintained in an amount sufficient to make payments to the United States Treasury for investment earnings above levels permitted by Section 148(f) of The Internal Revenue Code of 1986, as amended. At December 31, 2003 and 2002, the Rebate Fund amounted to \$81,318 and \$161,728, respectively.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Wastewater Bond Resolutions - Continued**

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

Debt Service Fund – The Debt Service Fund is to accumulate a balance sufficient to pay the interest and principal to become due at or before the January 15<sup>th</sup> next ensuing, plus any unpaid principal and interest then due. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. *In addition, a sinking fund is included which shall equal the aggregate amount of all sinking fund installments required to redeem bonds on the next January 15<sup>th</sup> beginning in 2004 for the Sewer Revenue Refunding Bonds (see Note 7).* At December 31, 2003 and 2002, the Debt Service Fund cash amounted to \$5,243,813 and \$5,251,532, respectively.

Debt Service Reserve Fund (1991, 1994 and 1998 Series) – The balance in this Reserve Fund shall be maintained equal to the maximum amount of principal and interest payable in any one year on the Wastewater Revenue Bonds (1991, 1994 and 1998 Series) less any surety. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. At December 31, 2003 and 2002, the Debt Service Reserve Fund cash amounted to \$2,397,390 and \$2,401,432, respectively. The balance of the Debt Service Reserve Requirement is funded by a surety issued by Ambac Assurance Corporation.

Renewal and Replacement Fund – The balance in this fund shall be maintained equal to 3% of gross revenues or such larger amount as determined by the Consulting Engineer. Interest earnings in excess of the required fund balance may be paid to the Revenue Fund. With approval of the Consulting Engineer, this fund may be used to meet reasonable and necessary expenses for major repairs, renewals, replacements or maintenance items of a type not recurring annually. At December 31, 2003 and 2002, the Renewal and Replacement Fund cash amounted to \$5,915,841 and \$5,916,991, respectively. The System Reserve Fund, a component of the Renewal and Replacement Fund, cash requirement at December 31, 2003 and 2002 was \$4,800,000 and \$4,800,000, respectively.

**Solid Waste Bond Resolutions**

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

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

Construction Fund – All costs pertaining to the acquisition or construction of a designated project shall be paid from this Fund and capitalized herein. The proceeds from the sale of bonds and certain receipts are deposited herein to pay for all such construction costs. At December 31, 2003 and 2002, Restricted Cash and Investments included in this Fund amounted to \$0.



**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Solid Waste Bond Resolutions - Continued**

Rebate Fund – The balance in this Fund shall be maintained in an amount sufficient to make payments to the United States Treasury for investment earnings above levels permitted by Section 148(f) of The Internal Revenue Code of 1986, as amended. At December 31, 2003 and 2002, the Rebate Fund amounted to \$0.

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

Debt Service Fund – The balance in the Debt Service Fund shall be maintained in an amount sufficient to pay the interest and principal currently due on the 1992 Bonds. At December 31, 2003 and 2002, the Debt Service Fund cash amounted to \$1 and \$0, respectively.

Debt Service Reserve Fund – The balance in this Reserve Fund shall be maintained in an amount equal to the lesser of (a) 10% of the principal amount of Bonds which are outstanding from time to time, (b) maximum amount of principal and interest which is payable during the current or any subsequent fiscal year with respect to all Series of Bonds, including the 1992 Bonds, or (c) 125% of the average annual principal and interest which is payable with respect to all Series of Bonds, including the 1992 Bonds. The Debt Service Reserve Fund must be marked to market not less than annually. At December 31, 2003 and 2002, the Debt Service Reserve Fund cash amounted to \$2,631,532 and \$2,631,532.

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

Renewal and Replacement Fund – The balance in this fund shall be maintained in an amount equal to the System Improvement Requirement (the "Requirement"). The Requirement is equal to the amount, as certified by the independent consulting engineer, which is reasonably necessary to be held as a Reserve for Expenses with respect to the System for (a) nonrecurring major repairs, renewals, replacements or maintenance items, or (b) expenses relating to the closure and post closure of any System component, or (c) repairs, renewals, replacements resulting from the occurrence of uncontrollable events or circumstances which are not covered by the proceeds of an insurance policy. At December 31, 2003 and 2002, the Renewal and Replacement Fund cash amounted to \$7,983,521 and \$6,827,322, respectively.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Investments**

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

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

**Property, Plant and Equipment And Other Capitalized Costs**

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

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

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

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

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

**Unamortized Debt Issue Costs**

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

**Wastewater Revenues**

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

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Allocation of Common Costs**

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

**Restricted Assets**

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

**Inter - District Agreements**

The Solid Waste Division is a party to agreements with certain other New Jersey counties, which provide for a minimum delivery requirements of municipal waste from the Authority and bulky waste to the Authority.

**Allowance for Doubtful Accounts**

The Authority has established an allowance for doubtful accounts \$13,722,305 as of December 31, 2002 relating to the EIC and the Mercer County Improvement Authority. This was increased by \$1,423,810, which represents the amounts billed to Mercer County Improvement Authority in 2003 and currently outstanding. The amount billed is related to the inter-district Agreement between the MCIA and the ACUA, in which the parties are currently in litigation for.

**NOTE 4 – PROPERTY, PLANT AND EQUIPMENT**

Property, Plant and Equipment consisted of the following at December 31, 2003 and 2002:

Wastewater Division:

	<b>2002</b>		<b>Increases</b>		<b>2003</b>
	<b>as Restated</b>				
Land	\$ 12,691,336	\$		\$	12,691,336
Sewer Mains and Interceptors	71,408,574		1,882,958		73,291,532
Buildings and Improvements	31,975,595		11,581		31,987,176
Machinery and Equipment	38,747,755		9,701		38,757,456
Incinerator Facility	16,353,524				16,353,524
Atlantic Coastal Alternative	26,629,575				26,629,575
	<u>197,806,359</u>		<u>1,904,240</u>		<u>199,710,599</u>
Less: Accumulated Depreciation	(93,073,201)		(4,879,588)		(97,952,789)
	<u>\$ 104,733,158</u>	\$	<u>(2,975,348)</u>	\$	<u>101,757,810</u>

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 4 – PROPERTY, PLANT AND EQUIPMENT - Continued**

Property, Plant and Equipment consisted of the following at December 31, 2003 and 2002:

Solid Waste Division:

	<u>2002</u>		<u>Increases</u>		<u>2003</u>
	<u>as Restated</u>				
Land and Improvements	\$ 12,972,154	\$	5,792	\$	12,977,946
Buildings	22,711,654		16,309		22,727,963
Equipment and Vehicles	12,617,532		659,028		13,276,560
Landfill Design and Implementation	30,717,599		6,262,474		36,980,073
Planning and Designs	3,312,050		2,676		3,314,726
	<u>82,330,989</u>		<u>6,946,279</u>		<u>89,277,268</u>
Less: Accumulated Depreciation	(35,900,337)		(3,344,747)		(39,245,084)
	<u>\$ 46,430,652</u>	\$	<u>3,601,532</u>	\$	<u>50,032,184</u>

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

\$9,859,501 pre-operating costs dating back to 1987; \$2,631,532 Debt Service Reserve; \$4,010,000 Transfer to Operating Reserve; \$2,951,898 capitalized interest; \$2,235,211 underwriters discount and \$434,695 cost of bond issuance.

**NOTE 5 – BONDS PAYABLE**

Wastewater Revenue and Revenue Refunding Bonds at December 31, 2003 and 2002 consist of the following:

	<u>2002</u>	<u>Decreases</u>	<u>Refunded</u>	<u>2003</u>
Wastewater Revenue Bonds, 1991 Series	\$ 1,921,103	\$ (196,350)	\$	\$ 1,724,753
Sewer Revenue Refunding and Sewer Revenue Revenue Bonds, 1994 Series A and B	10,890,000	(240,000)	(10,395,000)	255,000
Unamortized Bond Discount	(132,778)		132,778	-
Wastewater Treatment Trust - 1995	5,859,012	(387,670)		5,471,342
Wastewater Treatment Trust - 1997	8,785,574	(487,711)		8,297,863
Wastewater Treatment Trust - 2001	1,944,991	(80,883)		1,864,108
Wastewater Revenue Refunding Bonds, 1998 Series	41,355,000	(2,800,000)		38,555,000
Sewer Revenue Refunding Bonds, 2003 Series			10,725,000	10,725,000
	<u>70,622,902</u>	<u>(4,192,614)</u>	<u>462,778</u>	<u>66,893,066</u>
Unamortized Bond Premium	1,237,225	(95,172)		1,142,053
Unamortized Bond Discount			(309,571)	(309,571)
Total	<u>\$ 71,860,127</u>	<u>\$ (4,287,786)</u>	<u>\$ 153,207</u>	<u>\$ 67,725,548</u>

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 5 – BONDS PAYABLE - Continued**

Solid Waste Revenue Bonds and Loans at December 31, 2003 and 2002 consist of the following:

	<u>2002</u>	<u>Decreases</u>	<u>2003</u>
Solid Waste System Revenue Bonds	\$ 71,430,000	\$ 3,100,000	\$ 68,330,000
Loan Payable	2,111,600	1,026,419	1,085,181
Unamortized Bond Discount	(481,909)	(60,747)	(421,162)
Total	<u>\$ 73,059,691</u>	<u>\$ 4,065,672</u>	<u>\$ 68,994,019</u>

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

Total Net Debt,	
Wastewater Division	\$ 67,725,548
Solid Waste Division	68,994,019
Total Net Debt of the Authority	<u>\$ 136,719,567</u>
Current Portion of Long Term Debt:	
Wastewater Division	\$ 4,401,840
Solid Waste Division	3,325,000
Solid Waste Loan Payable	1,085,181
Noncurrent Portion of Debt:	
Wastewater Division	63,323,708
Solid Waste Division	64,583,838
Total Net Debt of the Authority	<u>\$ 136,719,567</u>

**Description of Bonds Payable**

At December 31, 2003, bonds payable consisted of the following issues:

**Wastewater Division**

\$3,691,756 New Jersey Pinelands Infrastructure Trust Fund Loan, dated 1991, due in semiannual installments for principal and interest through January 1, 2011, bearing interest at 3.68% per annum. The balance remaining as of December 31, 2003 is \$1,724,753.

\$12,280,000 Sewer Refunding Bonds, dated June 29, 1994, originally due in annual installments for principal through January 15, 2015, bearing interest at various rates from 4.20% to 5.85% per annum. During 2003 these bonds were partially refunded and defeased. The balance remaining as of December 31, 2003 is \$255,000.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 5 – BONDS PAYABLE - Continued**

**Description of Bonds Payable - Continued**

**Wastewater Division - Continued**

\$7,967,538 New Jersey Wastewater Trust Fund Loan dated 1995, due in semiannual installments for principal and interest through August 15, 2015, bearing interest at various rates from 0.00% to 5.25% per annum. The balance remaining as of December 31, 2003 is \$5,471,342.

\$10,602,202 New Jersey Wastewater Trust Fund Loan dated 1997, due in semiannual installments for principal and interest through August 1, 2017, bearing interest at various rates from 0.00% to 5.00% per annum. The balance remaining as of December 31, 2003 is \$8,297,863.

\$1,972,543 New Jersey Wastewater Trust Fund Loan dated 2001, due in semiannual installments for principal and interest through August 1, 2021, bearing interest at various rates from 0.00% to 5.50% per annum. The balance remaining as of December 31, 2003 is \$1,864,108.

\$51,405,000 Sewer Refunding Bonds, dated January 15, 1998, due in annual installments for principal through January 15, 2015, bearing interest at various rates from 3.75% to 5.25% per annum. The balance remaining as of December 31, 2003 is \$38,555,000.

\$10,725,000 Sewer Refunding Bonds, dated October 15, 2003, due in annual installments for principal beginning January 15, 2005 through January 15, 2015, bearing interest at various rates from 2.00% to 5.75% per annum. The balance remaining as of December 31, 2003 is \$10,725,000. These bonds were issued to refund all but \$255,000 of the 1994 Sewer Revenue Bonds as well as to pay the costs and expenses incidental to this issue including the municipal bond insurance premium.

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

**Solid Waste Division**

\$87,650,000 Solid Waste System Revenue Bonds, dated April 15, 1992, due in annual installments for principal through September 1, 2016, bearing interest at various rates from 5.200% to 7.125% per annum. The balance remaining as of December 31, 2003 is \$68,330,000.

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

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 5 – BONDS PAYABLE - Continued**

Debt service requirements on serial bonds and loans payable at December 31, 2003 are as follows:

Year Ended December 31,	Wastewater Division		Solid Waste Division	
	Principal	Interest	Principal	Interest
2004	\$ 4,401,840	\$ 2,708,049	\$ 3,325,000	\$ 4,728,119
2005	4,431,029	2,635,682	3,565,000	4,486,969
2006	4,797,647	2,443,154	3,825,000	4,228,319
2007	4,996,290	2,238,279	4,100,000	3,950,944
2008	5,204,443	2,021,557	4,400,000	3,653,444
2009 - 2013	29,449,322	6,327,083	27,360,000	12,901,236
2014 - 2018	13,235,676	816,620	21,755,000	2,398,810
2019 - 2021	376,819	21,312		
	<u>\$ 66,893,066</u>	<u>\$ 19,211,736</u>	<u>\$ 68,330,000</u>	<u>\$ 36,347,841</u>

Year Ended December 31,	Authority Grand Total		
	Principal	Interest	Total
2004	\$ 7,726,840	\$ 7,436,168	\$ 15,163,008
2005	7,996,029	7,122,651	15,118,680
2006	8,622,647	6,671,473	15,294,120
2007	9,096,290	6,189,223	15,285,513
2008	9,604,443	5,675,001	15,279,444
2009 - 2013	56,809,322	19,228,319	76,037,641
2014 - 2018	34,990,676	3,215,430	38,206,106
2019 - 2021	376,819	21,312	398,131
	<u>\$ 135,223,066</u>	<u>\$ 55,559,577</u>	<u>\$ 190,782,643</u>

**NOTE 6 – LOAN PAYABLE**

During 2002, the Authority entered into a loan agreement with Newco Waste Systems of Linwood, New Jersey ("Newco"). Under the agreement authorized by the Department of Environmental Protection, the Authority borrowed \$2,111,600 of which \$111,600 was deferred interest, from Newco's prepaid asset account. The loan is to be repaid in twenty-four monthly payments, which began on January 31, 2003, and runs through December 31, 2004. The interest rate is 5.58% per annum. The monthly payment for principal and interest is \$93,188. The remaining balance on this loan at December 31, 2003 is \$1,085,181.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002**  
**(CONTINUED)**

**NOTE 7 – PENSION PLANS**

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

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

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

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

Significant Legislation - During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) that changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by 1/2 of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the Authority's normal contributions to the Fund may be reduced based on the revaluation of assets.

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



**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 7 – PENSION PLANS - Continued**

Three Year Trend Information for PERS				
Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
12/31/03	\$ -	100%	\$ -	-
12/31/02	-	100%	-	-
12/31/01	-	100%	-	-

**NOTE 8 – POST-RETIREMENT BENEFITS**

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required PERS, respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2002, there were 54,493 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994 with an additional contribution beginning in fiscal year 1996 to maintain a medical reserve by one half of one percent of the active State payroll.

In accordance with P.L. 2002, c.11 which allowed the State to use available reserves in the Post-Retirement Medical Reserve Funds to cover required pay-as-you-go medical premiums, the State did not make a contribution to the PERS in Fiscal Year 2002 toward the cost of post-retirement medical benefits. This legislation also suspends in Fiscal Years 2002 and 2003 the additional post-retirement medical contribution to increase the fund balance by one half of one percent of active member salaries for the valuation period. State law provides that post retirement medical contributions resume in Fiscal Year 2004 and will be computed to provide an increase in the reserve fund of three fifths of one percent of active member salaries for the valuation period.

The State is also responsible for the cost attributable to Chapter 126, P.L. 1992, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$42.8 million toward Chapter 126 benefits for 7,604 eligible retired members in fiscal year 2002.

**NOTE 9 – COMPENSATED ABSENCES**

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

**NOTE 10 – LITIGATION**

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 positions in each of these matters have substantial merit, the amounts involved in several of these 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.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 10 – LITIGATION - Continued**

Counsel retained by management has provided the following synopsis.

**Solid Waste Division**

Mercer County Improvement Authority v. ACUA: Superior Court of New Jersey, Law Division, Docket No. L-4476-96. This action consists of claims by MCIA and 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 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 other. While there is a potential for 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 the matter. Since the election of a new County Executive in Mercer, a number of management conferences have been scheduled and adjourned.

Environmental Investment Charge (“EIC”) Cases: In January of 2002, the State of New Jersey transferred to an escrow account the amount of \$8,700,000 to finance refunding of EIC payments collected by the Authority pursuant to an Order of the Local Finance Board dated January 14, 1998. The following actions have been brought against the Authority to require the refunding of EIC payments made between March of 1998 and December 31, 2003 pursuant to that Local Finance Board Order. Refunds have been made pursuant to Court Orders. While the potential for significant adverse determination is present, the availability of the escrow funds insures the continued viability of the Authority.

Galloway Township v. ACUA: This is a class action suit where the refund had been delivered to plaintiff's counsel in October 2002. An adverse Order in the Appellate Division was entered in July of 2003. It was not appealed and became final.

Trump Taj Mahal Associates, Trump Plaza Associates and Trump Castle Associates, LP v. ACUA and Adamar of New Jersey, Inc., dba Tropicana Casino and Resort v. ACUA: These are two separate but related actions. Refunds were paid. The Appellate Division affirmed.

Park Place Entertainment v. ACUA: Refunds were paid. The July 2003 Appellate Order is a final order in this matter.

Township of Hammonton v. ACUA: Refunds were paid. The July 2003 Appellate Order is a final order in this matter.

Marina Associates t/a Harrah's v. ACUA: Refunds were paid. The July 2003 Appellate Order is a final order in this matter.

Resorts International Hotel, Inc. v. ACUA: Refunds were paid. The July 2003 Appellate Order is a final order in this matter.

City of Brigantine v. ACUA: Refunds were paid. The July 2003 Appellate Order is a final order in this matter.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 10 – LITIGATION - Continued**

**Solid Waste Division - Continued**

K & H Auto Supply v. ACUA: An action on behalf of all entities that paid an EIC in response to a bill and have not yet been reimbursed. It has been certified as a class and summary judgment has been entered. A certification and order have been filed with the Department of Treasury for the release of funds in escrow in satisfaction of the judgment.

**Wastewater Division**

None

**NOTE 11 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

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

**NOTE 12 – RISK MANAGEMENT**

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

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

**NOTE 13 – CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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

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

Category 3      Deposits which are not collateralized or insured.

At December 31, 2003, the carrying amount of the Authority's deposits (cash and cash equivalents) was \$45,283,856 and the bank balance was \$47,028,689. The entire bank balance throughout the year was covered by federal depository insurance and/or by a collateral pool maintained by the banks as required by New Jersey statutes.

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 13 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued**

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

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

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

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

The carrying value of investments owned at year end was \$1,593,440, which are carried at cost, which approximates fair value.

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

		Cash and Cash Equivalents		Investments		Total
Category 1	\$	300,000	\$		\$	300,000
Category 2						-
Category 3		46,728,689		1,593,440		48,322,129
	\$	47,028,689	\$	1,593,440	\$	48,622,129

**NOTE 14 – AMOUNTS HELD BY THE STATE OF NEW JERSEY**

The State of New Jersey holds the Landfill Closure Escrow Account in the name of the Atlantic County Utilities Authority. These Cash and Investments consisted of the following at December 31, 2003:

United State Treasury Notes	\$	2,281,494		
Cash		70,285		
	\$	2,351,779		

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003 and 2002  
(CONTINUED)**

**NOTE 15 – DEFERRED COMPENSATION**

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

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

**NOTE 16 – RESTATEMENT OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS**

The Authority maintains its books and records on the budgetary basis of accounting. This basis recognizes expenditures when the goods or services are ordered or the budget is encumbered. This differs from GAAP where expenditures are recognized when the goods or services are provided. Annually, an adjustment is made to the budgetary basis books and records to reflect the GAAP Expenditures and Accounts Payable for financial reporting purposes. Previously an error was made in this adjustment resulting in the restatement of the amounts originally reported in 2002. The effect of the restatement is detailed in the following table:

	<b>Originally Reported as of, and for the year ended December 31, 2002</b>	<b>Adjustment</b>	<b>As Restated as of, and for the year ended December 31, 2002</b>
Property Plant and Equipment	\$ <u>282,302,956</u>	\$ <u>(2,165,608)</u>	\$ <u>280,137,348</u>
Investment in Capital Assets, Net of Related Debt	8,521,200	(2,277,208)	6,243,992
Net Assets, Unrestricted	19,125,070	111,600	19,236,670
	\$ <u>27,646,270</u>	\$ <u>(2,165,608)</u>	\$ <u>25,480,662</u>

## **OTHER SUPPLEMENTARY INFORMATION**

## **WASTEWATER DIVISION**

**ATLANTIC COUNTY UTILITIES AUTHORITY  
WASTEWATER DIVISION  
COMPARATIVE STATEMENT OF NET ASSETS**

**MODIFIED GAAP BASIS**

**December 31, 2003 and 2002**

<b><u>ASSETS</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Current Assets:		
Cash and Cash Equivalents	\$ 9,665,115	\$ 9,718,976
Accrued Interest Receivable	44,654	50,422
Accounts Receivable	868,839	462,235
	<hr/>	<hr/>
Total Current Assets	<u>10,578,608</u>	<u>10,231,633</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	12,613,559	12,696,620
Investments	1,593,440	1,641,710
Accrued Interest Receivable	76	401
Loans Receivable	1,162,648	2,134,406
	<hr/>	<hr/>
Total Noncurrent Assets	<u>15,369,723</u>	<u>16,473,137</u>
Capital Assets:		
Property, Plant and Equipment	199,755,099	199,675,858
Less: Accumulated Depreciation	(97,952,789)	(93,073,201)
	<hr/>	<hr/>
Net Capital Assets	<u>101,802,310</u>	<u>106,602,657</u>
Unamortized Bond Issue Costs	<u>3,220,720</u>	<u>3,306,833</u>
<b>TOTAL ASSETS</b>	<b>\$ <u><u>130,971,361</u></u></b>	<b>\$ <u><u>136,614,260</u></u></b>



**ATLANTIC COUNTY UTILITIES AUTHORITY  
WASTEWATER DIVISION  
COMPARATIVE STATEMENT OF NET ASSETS**

**MODIFIED GAAP BASIS**

**December 31, 2003 and 2002**

<b><u>LIABILITIES</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Current Liabilities Payable from Current Assets:		
Accounts Payable	\$ 1,845,200	\$ 1,582,008
Deferred Revenue	98,032	90,318
Due to Solid Waste Division	640,429	620,296
	<hr/>	<hr/>
Total Current Liabilities Payable from Current Assets	2,583,661	2,292,622
Current Liabilities Payable from Restricted Assets:		
Construction Contracts Payable	595,040	1,558,034
Current Portion of Long - Term Debt	4,401,840	4,192,614
Accrued Interest	1,275,038	1,840,295
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets:	6,271,918	7,590,943
Noncurrent Liabilities:		
Deferred Revenue	1,698,770	1,804,327
Post Retirement Benefits Payable	303,163	-
Accrued Compensated Absences	400,000	377,086
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$832,482 and \$1,104,448 in 2003 and 2002, respectively)	63,323,708	67,667,513
	<hr/>	<hr/>
Total Noncurrent Liabilities	65,725,641	69,848,926
<b>TOTAL LIABILITIES</b>	<b>\$ 74,581,220</b>	<b>\$ 79,732,491</b>
<b><u>NET ASSETS</u></b>		
Investment in Capital Assets, Net of Related Debt	34,076,762	34,742,530
Restricted for:		
Renewal and Replacement	4,800,000	4,800,000
Debt Service Fund	4,434,459	4,844,630
Debt Service Reserve Fund	7,462,955	7,456,626
Unrestricted	5,615,965	5,037,983
	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<b>\$ 56,390,141</b>	<b>\$ 56,881,769</b>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
WASTEWATER DIVISION  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

**MODIFIED GAAP BASIS**

**For the Years ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Operating Revenues:		
User Service Agreements:		
Operating	\$ 10,685,178	\$ 10,017,669
General	7,455,504	7,400,749
Sludge	1,243,639	1,105,382
Septage and Leachate	402,390	435,618
Other	613,604	1,378,396
	<u>20,400,315</u>	<u>20,337,814</u>
Total Operating Revenues		
Operating Expenses:		
Salaries	5,141,283	5,069,572
Employee Benefits	1,919,981	1,415,163
Power and Utilities	2,148,490	2,151,935
Chemicals	612,768	571,376
Fuel	1,056,341	1,150,428
Supplies and Miscellaneous Maintenance	1,124,890	1,022,351
Contractual Services	401,899	314,628
Indirect Operating Expenses	295,096	262,176
Administrative	954,955	860,901
Licenses and Permits	140,938	121,976
Depreciation	4,879,588	4,894,404
Amortization of Bond Issue Costs	239,319	254,370
	<u>18,915,548</u>	<u>18,089,280</u>
Total Operating Expenses		
Operating Income	<u>1,484,767</u>	<u>2,248,534</u>
Non - Operating Revenues / (Expenses):		
Interest Income	687,803	464,018
Interest Expense	(2,487,374)	(3,268,865)
Unrealized Gain / (Loss) on Investment	(48,268)	154,439
Loss on Refunding of Bonds	(128,556)	-
	<u>(1,976,395)</u>	<u>(2,650,408)</u>
Total Non - Operating Expenses		
Net Income / (Loss)	(491,628)	(401,874)
Net Assets, January 1	<u>56,881,769</u>	<u>57,283,643</u>
Net Assets, December 31	<u>\$ 56,390,141</u>	<u>\$ 56,881,769</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
WASTEWATER DIVISION  
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED  
TO BUDGET - RATE BASIS**

**For the Year ended December 31, 2003**

	<b>2003 Budget</b>	<b>2003 Actual</b>
Revenues:		
User Service Agreements:		
Operating and General Charge	\$ 18,140,687	\$ 18,140,682
Sludge, Septage, and Leachate	1,543,000	1,547,997
Interest on Investments and Deposits	259,000	639,535
Miscellaneous	603,947	613,604
Fund Balance - Renewal and Replacement	705,511	507,165
	<hr/>	<hr/>
Total Revenues	21,252,145	21,448,983
	<hr/>	<hr/>
Expenses:		
Salaries	5,198,343	5,141,283
Employee Benefits	1,648,009	1,919,981
Power and Utilities	2,277,250	2,148,490
Chemicals	617,122	612,768
Fuel	1,060,000	1,056,341
Supplies and Miscellaneous Maintenance	782,660	830,415
Contractual Services	382,322	401,899
Indirect Operating Expenses	481,590	462,822
Administrative	1,075,345	982,703
Maintenance Program Expenditures	274,000	293,516
Canceled Purchase Orders		(53,577)
	<hr/>	<hr/>
	13,796,641	13,796,641
	<hr/>	<hr/>
Debt Service	7,455,504	7,455,504
	<hr/>	<hr/>
Total Expenses	21,252,145	21,252,145
	<hr/>	<hr/>
Net Income / (Loss) from Operations	\$ -	\$ 196,838
	<hr/> <hr/>	<hr/> <hr/>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
WASTEWATER DIVISION  
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS**

**For the Year ended December 31, 2003**

<u>Description</u>	<u>Face Amount</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Cost December 31, 2003</u>
Unrestricted Accounts:				
Cash	\$ 2,337,519			\$ 2,337,519
Evergreen Treasury Money Market	5,402,690	0.20%		5,402,690
NJ ARM Pooled Investment	1,924,906	1.00%		1,924,906
<b>Total Unrestricted</b>	<b>9,665,115</b>			<b>9,665,115</b>
Restricted Accounts:				
Wastewater Trust Fund:				
Evergreen Treasury Money Market	127,546	0.20%		127,546
Evergreen Treasury Money Market	3,444	0.20%		3,444
Evergreen Treasury Money Market	117	0.20%		117
	<u>131,107</u>			<u>131,107</u>
Construction Account:				
Evergreen Treasury Money Market	45,653	0.20%		45,653
	<u>45,653</u>			<u>45,653</u>
Rebate Account:				
Evergreen Treasury Money Market	81,318	0.20%		81,318
	<u>81,318</u>			<u>81,318</u>
2003 Investment Settlement Account:				
Evergreen Treasury Money Market	18,687	0.20%		18,687
	<u>18,687</u>			<u>18,687</u>
Debt Service Fund:				
Evergreen Treasury Money Market	4,875,352	0.20%		4,875,352
NJ ARM Pooled Investment	368,461	1.00%		368,461
	<u>5,243,813</u>			<u>5,243,813</u>
Debt Service Reserve Fund:				
Evergreen Treasury Money Market	1,177,140	0.20%		1,177,140
United States Treasury Bonds	1,149,682	11.25%	02/15/2015	1,376,541
United States Treasury Strips	70,568	11.25%	02/15/2015	216,899
	<u>2,397,390</u>			<u>2,770,580</u>
Renewal and Replacement Fund:				
Evergreen Treasury Money Market	3,163,961	0.20%		3,163,961
NJ ARM Pooled Investment	2,751,880	1.00%		2,751,880
	<u>5,915,841</u>			<u>5,915,841</u>
<b>Total</b>	<b>\$ 23,498,924</b>			<b>\$ 23,872,114</b>
Unrestricted				
Cash and Cash Equivalents	\$ 9,665,115			\$ 9,665,115
Restricted:				
Cash and Cash Equivalents	12,613,559			12,613,559
Investments	1,220,250			1,593,440
	<u>\$ 23,498,924</u>			<u>\$ 23,872,114</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
WASTEWATER DIVISION  
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AND OTHER CAPITALIZED COSTS**

**MODIFIED GAAP BASIS**

**For the Years ended December 31, 2003, 2002, 2001, 2000, 1999**

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Additions During the Year:					
Property, Plant and Equipment:					
Land	\$ 13,459	\$ 890,500	\$ 2,471,094	\$ 2,125,405	\$ 43,432
Sewer Mains and Interceptors	11,581	368,793	2,632,238	62,336	112,751
Buildings and Improvements	54,201	99,558	35,361	200,047	112,751
Equipment and Vehicles					
Total Additions	<u>79,241</u>	<u>990,058</u>	<u>2,875,248</u>	<u>4,957,690</u>	<u>218,519</u>
Costs Capitalized at the Beginning of the Year	<u>199,675,858</u>	<u>198,685,800</u>	<u>195,810,552</u>	<u>190,852,862</u>	<u>190,634,343</u>
	199,755,099	199,675,858	198,685,800	195,810,552	190,852,862
Less:					
Accumulated Depreciation and Amortization	<u>(97,952,789)</u>	<u>(93,073,201)</u>	<u>(88,178,797)</u>	<u>(81,984,789)</u>	<u>(77,893,308)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 101,802,310</u>	<u>\$ 106,602,657</u>	<u>\$ 110,507,003</u>	<u>\$ 113,825,763</u>	<u>\$ 112,959,554</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
WASTEWATER DIVISION  
SCHEDULE OF DEBT ISSUE COSTS**

**MODIFIED GAAP BASIS**

**For the Years ended December 31, 2003, 2002, 2001, 2000, 1999**

	<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>
Costs Capitalized at the Beginning of the Year	\$ 4,744,100	\$	4,744,100	\$	4,744,100	\$	4,744,100	\$	4,744,100
Net Effect of Refunding Bond Issue	153,206								
	<u>4,897,306</u>		<u>4,744,100</u>		<u>4,744,100</u>		<u>4,744,100</u>		<u>4,744,100</u>
Less:									
Accumulated Amortization	<u>(1,676,586)</u>		<u>(1,437,267)</u>		<u>(1,182,897)</u>		<u>(928,527)</u>		<u>(674,177)</u>
Unamortized Debt Issue Costs	<u>\$ 3,220,720</u>	\$	<u>3,306,833</u>	\$	<u>3,561,203</u>	\$	<u>3,815,573</u>	\$	<u>4,069,923</u>

**SOLID WASTE DIVISION**

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SOLID WASTE DIVISION  
COMPARATIVE STATEMENT OF NET ASSETS**

**MODIFIED GAAP BASIS**

**December 31, 2003 and 2002**

<b><u>ASSETS</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Current Assets:		
Cash and Cash Equivalents	\$ 11,232,507	\$ 9,649,836
Accrued Interest Receivable	1,948	5,877
Accounts Receivable (net of Allowance \$15,146,115 and \$13,722,305 in 2003 and 2002 respectively)	2,950,703	3,226,216
Other Accounts Receivable	373,585	375,767
Due from Wastewater Division	640,429	620,296
Total Current Assets	<u>15,199,172</u>	<u>13,877,992</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	11,772,675	10,608,397
Amounts Held by State of New Jersey	2,351,779	1,931,494
Accrued Interest Receivable	1,270	10,076
Total Noncurrent Assets	<u>14,125,724</u>	<u>12,549,967</u>
Capital Assets:		
Property, Plant and Equipment	90,958,837	83,861,632
Less: Accumulated Depreciation	(39,245,084)	(35,900,337)
Net Capital Assets	<u>51,713,753</u>	<u>47,961,295</u>
Deferred Costs:		
Preoperating Costs (Net of Accumulated Depreciation of \$7,821,740 and \$7,155,115 in 2003 and 2002, respectively)	2,037,761	2,704,386
Unamortized Bond Discount and Issue Costs	855,676	914,605
Total Deferred Costs	<u>2,893,437</u>	<u>3,618,991</u>
<b>TOTAL ASSETS</b>	<b>\$ <u><u>83,932,086</u></u></b>	<b>\$ <u><u>78,008,245</u></u></b>



**ATLANTIC COUNTY UTILITIES AUTHORITY  
SOLID WASTE DIVISION  
COMPARATIVE STATEMENT OF NET ASSETS**

**MODIFIED GAAP BASIS**

**December 31, 2003 and 2002**

<b><u>LIABILITIES</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Current Liabilities Payable from Current Assets:		
Accounts Payable	\$ 2,212,337	\$ 1,842,616
Customer Deposits	149,064	90,933
	<hr/>	<hr/>
Total Current Liabilities Payable from Current Assets	2,361,401	1,933,549
Current Liabilities Payable from Restricted Assets:		
Construction Contracts Payable	1,686,616	1,013,345
Loan Payable - Current Portion	1,085,181	1,026,419
Current Portion of Long - Term Debt	3,325,000	3,100,000
Accrued Interest	1,614,831	1,687,165
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets:	7,711,628	6,826,929
Noncurrent Liabilities Payable from Restricted Assets:		
Accrued Landfill Closure and Post - Closure Care Cost	7,376,011	7,376,011
	<hr/>	<hr/>
Noncurrent Liabilities:		
Accrued Compensated Absences	574,099	574,099
Post Retirement Benefits Payable	300,000	-
Long - Term Portion of Loan Payable	-	1,085,181
Long - Term Portion of Bonds Payable (Note 5) (Net of Unamortized Bond Premium and Discount of \$421,162 and \$481,909 in 2003 and 2002, respectively)	64,583,838	67,848,091
	<hr/>	<hr/>
Total Noncurrent Liabilities	72,833,948	76,883,382
<b>TOTAL LIABILITIES</b>	<b>\$ 82,906,977</b>	<b>\$ 85,643,860</b>
	<hr/> <hr/>	<hr/> <hr/>
<b><u>NET ASSETS</u></b>		
Investment in Capital Assets, Net of Related Debt Restricted for:	(17,280,266)	(24,986,796)
Debt Service Reserve Fund	8,053,769	8,053,769
Unrestricted	10,251,606	9,297,412
	<hr/>	<hr/>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ 1,025,109</b>	<b>\$ (7,635,615)</b>
	<hr/> <hr/>	<hr/> <hr/>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SOLID WASTE DIVISION  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

**MODIFIED GAAP BASIS**

**For the Years ended December 31, 2003 and 2002**

	<u>2003</u>		<u>2002</u>
Operating Revenues:			
Tipping Fees	\$ 24,007,259	\$	20,754,783
Collections and Recycling Income	6,437,156		5,769,375
Grant Income			37,815
Composting Income	723,897		684,841
Other	550,722		512,996
	<u>31,719,034</u>		<u>27,759,810</u>
Total Operating Revenues			
Operating Expenses:			
Salaries	6,117,996		6,066,062
Employee Benefits	2,528,813		1,893,544
Power and Utilities	482,809		429,982
Fuel	415,386		318,463
Supplies and Miscellaneous Maintenance	1,452,938		1,248,804
Indirect Operating Expenses	3,326,570		3,480,050
Administrative	839,732		721,078
Community Benefit	2,203,518		1,905,261
Recycling and Other Taxes	665,494		615,796
Bad Debt Expense	1,674,975		1,423,809
Depreciation	4,011,372		4,244,355
Amortization of Bond Issue Costs	58,928		58,928
	<u>23,778,531</u>		<u>22,406,132</u>
Total Operating Expenses			
Operating Income	<u>7,940,503</u>		<u>5,353,678</u>
Non - Operating Revenues / (Expenses):			
Interest Income	61,975		151,894
Interest Expense	(4,972,501)		(5,034,742)
Contributions - State Subsidy	5,630,747		8,700,000
	<u>720,221</u>		<u>3,817,152</u>
Total Non - Operating Expenses			
Net Income / (Loss)	8,660,724		9,170,830
Net Assets (Deficit), January 1	(7,635,615)		(9,112,338)
Prior Period Adjustment to Fund Deficit	-		(7,694,107)
Net Assets (Deficit), December 31	<u>\$ 1,025,109</u>	\$	<u>(7,635,615)</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SOLID WASTE DIVISION  
SCHEDULE OF REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED TO BUDGET  
- RATE BASIS**

**For the Years ended December 31, 2003 and 2002**

	<u>2003 Budget</u>	<u>2003 Actual</u>
Long Term Debt Related Revenues:		
State Subsidy	\$ 5,630,747	\$ 5,630,747
	<u>5,630,747</u>	<u>5,630,747</u>
Less:		
Long Term Debt Related Expense:		
Principal and Interest	9,286,419	9,286,419
	<u>9,286,419</u>	<u>9,286,419</u>
Net Loss on Debt Related Activities	<u>(3,655,672)</u>	<u>(3,655,672)</u>
Operating Revenues:		
Tipping Fees	21,743,874	22,583,451
Collections and Recycling Income	6,474,416	6,437,156
Composting Income	398,615	723,897
Other	478,790	550,722
Interest Income	135,000	61,975
Total Operating Revenues	<u>29,230,695</u>	<u>30,357,201</u>
Operating Expenses:		
Administration	1,695,048	1,619,656
Solid Waste Administration	1,107,103	2,427,961
Transfer Station Operations	2,245,002	1,964,734
Composting Operations	260,703	226,623
Landfill Operations	6,006,016	5,092,440
Recycling Center Processing	1,583,310	1,419,597
Collections	3,693,525	3,744,686
Maintenance Center	2,429,365	2,618,151
Lease Purchase	721,858	663,275
Canceled Purchase Orders		(68,891)
Total Operating Expenses	<u>19,741,930</u>	<u>19,708,232</u>
Net Income from Operating Activities	<u>9,488,765</u>	<u>10,648,969</u>
Prior Year Adjustment	845,615	845,615
Renewal and Replacement Fund CIP	4,750,038	4,633,860
Net Income	<u>\$ 237,440</u>	<u>\$ 1,513,822</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SOLID WASTE DIVISION  
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS**

For the Year ended December 31, 2003

Description	Face Amount	Interest Rate	Due Date	Cost December 31, 2003
Unrestricted Accounts:				
Operations:				
Cash	\$ 687,747			\$ 687,747
Revenue Fund:				
Cash	67,025			67,025
NJ ARM Pooled Investment	869,750	1.00%		869,750
U.S. Treasury Fund	6,891,527	0.22%		6,891,527
U.S. Treasury Fund	55,600	0.22%		55,600
	<u>7,883,902</u>			<u>7,883,902</u>
E.I.C.:				
U.S. Treasury Fund	607,109	0.22%		607,109
U.S. Treasury Fund	7,105	0.22%		7,105
	<u>614,214</u>			<u>614,214</u>
Operating Reserve:				
NJ ARM Pooled Investment	1,375,851	1.00%		1,375,851
U.S. Treasury Fund	670,793	0.22%		670,793
	<u>2,046,644</u>			<u>2,046,644</u>
Restricted Accounts:				
State Subsidy Escrow Account:				
Cash	1,157,621			1,157,621
Renewal and Replacement Fund:				
U.S. Treasury Fund	6,943,915	0.22%		6,943,915
U.S. Treasury Fund	43,707	0.23%		43,707
NJ ARM Pooled Investment	995,899	1.00%		995,899
	<u>7,983,521</u>			<u>7,983,521</u>
Debt Service Account:				
U.S. Treasury Fund	1			1
Debt Service Reserve Fund:				
U.S. Treasury Fund	2,631,532	0.22%		2,631,532
Total	\$ <u>23,005,182</u>			\$ <u>23,005,182</u>
Unrestricted				
Cash and Cash Equivalents	\$ 11,232,507			\$ 11,232,507
Restricted:				
Cash and Cash Equivalents	11,772,675			11,772,675
Investments				
	\$ <u>23,005,182</u>			\$ <u>23,005,182</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SOLID WASTE DIVISION  
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AND OTHER PREOPERATING COSTS**

**MODIFIED GAAP BASIS**

**For the Years ended December 31, 2003, 2002, 2001, 2000, 1999**

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Waste Disposal:					
Additions (Deletions) During the Year:					
Property, Plant and Equipment:					
Land and Improvements	\$ 63,422	\$	\$ 196,007	\$ 1,331,240	\$ 4,769
Buildings and Improvements	599,925		856,785	358,803	49,522
Equipment and Vehicles	5,954,124		1,061,143	2,383,359	3,213,925
Landfill Design and Implementation		3,790,005		(2,307)	(6,433)
Planning and Designs					
Total Additions	<u>6,617,471</u>	<u>3,790,005</u>	<u>2,113,935</u>	<u>4,071,095</u>	<u>3,261,783</u>
Costs Capitalized at the Beginning of the Year	<u>63,554,899</u>	<u>59,764,894</u>	<u>57,650,959</u>	<u>53,579,864</u>	<u>50,318,081</u>
	70,172,370	63,554,899	59,764,894	57,650,959	53,579,864
Less:					
Accumulated Depreciation and Amortization	<u>(31,858,268)</u>	<u>(28,835,667)</u>	<u>(25,478,169)</u>	<u>(22,467,935)</u>	<u>(19,783,323)</u>
Total Property, Plant and Equipment, End of Year	<u>\$ 38,314,102</u>	<u>\$ 34,719,232</u>	<u>\$ 34,286,725</u>	<u>\$ 35,183,024</u>	<u>\$ 33,796,541</u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SOLID WASTE DIVISION  
SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AND OTHER PREOPERATING COSTS**

**MODIFIED GAAP BASIS**

**For the Years ended December 31, 2003, 2002, 2001, 2000, 1999**

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Waste Recycling:					
Additions (Deletions) During the Year:					
Property, Plant and Equipment:					
Land and Improvements	\$ 22,123	\$ 38,898	\$ 325,516	\$	\$
Buildings and Improvements	33,327		64,808		
Equipment and Vehicles	421,608	100,986	37,548	44,910	
Planning and Designs	2,676			13,442	
Total Additions	<u>479,734</u>	<u>139,884</u>	<u>427,872</u>	<u>58,352</u>	<u>-</u>
Costs Capitalized at the Beginning of the Year	<u>30,166,237</u>	<u>30,026,353</u>	<u>29,598,481</u>	<u>29,540,129</u>	<u>29,540,129</u>
	30,645,971	30,166,237	30,026,353	29,598,481	29,540,129
Less:					
Accumulated Depreciation and Amortization	<u>(15,208,559)</u>	<u>(14,219,788)</u>	<u>(13,332,930)</u>	<u>(12,448,760)</u>	<u>(11,574,447)</u>
Total Property, Plant and Equipment, End of Year	\$ <u><u>15,437,412</u></u>	\$ <u><u>15,946,449</u></u>	\$ <u><u>16,693,423</u></u>	\$ <u><u>17,149,721</u></u>	\$ <u><u>17,965,682</u></u>
Grand Total	\$ <u><u>53,751,514</u></u>	\$ <u><u>50,665,681</u></u>	\$ <u><u>50,980,148</u></u>	\$ <u><u>52,332,745</u></u>	\$ <u><u>51,762,223</u></u>

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SOLID WASTE DIVISION  
SCHEDULE OF DEBT ISSUE COSTS**

**MODIFIED GAAP BASIS**

**For the Years ended December 31, 2003, 2002, 2001, 2000, 1999**

	<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>
Costs Capitalized at the Beginning of the Year	\$ 2,182,779	\$	2,182,779	\$	2,182,779	\$	2,182,779	\$	2,182,779
	<u>2,182,779</u>		<u>2,182,779</u>		<u>2,182,779</u>		<u>2,182,779</u>		<u>2,182,779</u>
Less:									
Accumulated Amortization	<u>(1,327,103)</u>		<u>(1,268,174)</u>		<u>(1,209,246)</u>		<u>(1,150,317)</u>		<u>(1,091,389)</u>
Unamortized Debt Issue Costs	<u>\$ 855,676</u>	\$	<u>914,605</u>	\$	<u>973,533</u>	\$	<u>1,032,462</u>	\$	<u>1,091,390</u>

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





Edward W. Kennedy, C.P.A., R.M.A.

Leon P. Costello, C.P.A., R.M.A.

Retired

Donald E. Cheatle, C.P.A.

John A. Sabella, C.P.A., M.S.T.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Special – Purpose Statements of Revenues and Expenses of the Atlantic County Utilities Authority (“Authority”) Wastewater and Solid Waste Divisions for the year ended December 31, 2003. These special – purpose financial statements are the responsibility of the Authority’s management. Our responsibility is to express an opinion on these special – purpose financial statements based on our audit.

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

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

In our opinion, because of the Authority has prepared these special – purpose financial statements on the prescribed basis of accounting discussed in the preceding paragraph, the special – purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Authority, as of December 31, 2003.



**FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.**  
Certified Public Accountants

However, in our opinion, the special – purpose financial statements referred to above present fairly, in all material respects, the revenues and expenses of the Wastewater and Solid Waste Divisions of the Authority for the year ended December 31, 2003 on the basis of accounting described in Note 1.

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

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

March 19, 2004

## **WASTEWATER DIVISION**

## ATLANTIC COUNTY UTILITIES AUTHORITY

## WASTEWATER DIVISION

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

For the Year ended December 31, 2003

Operating Revenues:		
Wastewater		
User Service Agreements:		
Operating	\$	10,685,178
General		7,455,504
Sludge		1,243,639
Septage and Leachate		402,390
Other		613,604
Total Operating Revenues		<u>20,400,315</u>
Operating Expenses:		
Salaries		5,141,283
Employee Benefits		1,910,131
Power and Utilities		2,046,019
Chemicals		558,632
Fuel		1,153,695
Supplies and Miscellaneous Maintenance		1,175,483
Contractual Services		384,956
Indirect Operating Expenses		316,265
Administrative		900,187
Licenses and Permits		144,544
Amortization of Bond Issue Costs		239,319
Total Operating Expenses		<u>13,970,514</u>
Excess of Revenues Over Expenses from Operations		<u>6,429,801</u>
Non - Operating Revenues / (Expenses):		
Interest Income		687,803
Interest Expense		(2,487,374)
Total Non - Operating Revenue / (Expenses)		<u>(1,799,571)</u>
Excess of Revenues Over Expenses	\$	<u><u>4,630,230</u></u>

**SOLID WASTE DIVISION**

## ATLANTIC COUNTY UTILITIES AUTHORITY

## SOLID WASTE DIVISION

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

For the Year ended December 31, 2003

Operating Revenues:		
Solid Waste		
Tipping Fees	\$	24,007,259
Collections and Recycling Income		6,437,156
Composting Income		723,897
Other		<u>550,722</u>
Total Operating Revenues		<u>31,719,034</u>
Operating Expenses:		
Salaries		6,123,400
Employee Benefits		2,512,391
Power and Utilities		478,304
Fuel		419,183
Supplies and Miscellaneous Maintenance		1,487,061
Indirect Operating Expenses		3,158,578
Administrative		823,750
Community Benefit		2,333,676
Recycling and Other Taxes		665,494
Bad Debt Expense		1,674,975
Amortization of Bond Issue Costs		<u>58,928</u>
Total Operating Expenses		<u>19,735,740</u>
Excess of Revenues Over Expenses from Operations		<u>11,983,294</u>
Non - Operating Revenues / (Expenses):		
Interest Income		61,975
Interest Expense		(4,972,501)
Total Non - Operating Expenses		<u>(4,910,526)</u>
Total Non - Operating Revenue / (Expenses)	\$	<u><u>7,072,768</u></u>

**THE ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTE TO SPECIAL – PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Statements of Revenues and Expenses for the Wastewater and Solid Waste Divisions have been prepared for the sole purpose of complying with the respective Division's underlying Bond Resolutions. As the Resolutions require, The Statements of Revenues and Expenses are prepared on the basis of accounting principles generally accepted in the United States of America, except that the Statement of Revenues and Expenses do not reflect charges for; depreciation of Property, Plant and Equipment as operating expenses, Unrealized Gains or Losses on Investments or State Contributions as non operating revenues, which is contrary to accounting principles generally accepted in the United States of America, but is a requirement of the Bond Resolutions.

## **DEBT SERVICE REQUIREMENT**





Edward W. Kennedy, C.P.A., R.M.A.  
Donald E. Cheatle, C.P.A.  
Glen J. Ortman, C.P.A., R.M.A.

Leon P. Costello, C.P.A., R.M.A.  
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### INDEPENDENT AUDITOR'S REPORT

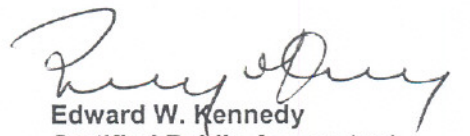
The Honorable Chairman  
and Members of the Board  
of the Atlantic County Utilities Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Atlantic County Utilities Authority ("Authority"), as of and for the year ended December 31, 2003, and have issued our report thereon dated March 19, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that, as of December 31, 2003, the Authority was not in compliance with the accounting requirements of Section 6.10(b)(ii) of the Authority's Resolution Authorizing Solid Waste System Revenue Bonds, adopted January 23, 1992, as supplemented and Restated March 5 and April 6, 1992. However it should be noted that our examination was not directed primarily toward obtaining knowledge of such non-compliance with such accounting requirements.

This report is intended solely for the information and use of the Board of Directors and Management of the Authority, is not intended, and should not be used by anyone other than these parties.

  
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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

March 19, 2004

**ATLANTIC COUNTY UTILITIES AUTHORITY**

**SOLID WASTE DIVISION**

**DEBT SERVICE REQUIREMENT**

**For the Year ended December 31, 2003**

Debt Service Requirement:		
Interest Payable During 2003	\$	4,952,994
Principal Payable During 2003		3,100,000
Subtotal		<u>8,052,994</u>
Plus: Coverage Requirement		<u>110%</u>
Debt Service Requirement	\$	<u><u>8,858,293</u></u>
Actual Debt Service Coverage		159.92%
Net Revenues Provided:		
Gross Revenue	\$	32,586,385
Operating Expenses		19,708,231
Net Revenues Provided	\$	<u><u>12,878,154</u></u>

## **GENERAL COMMENTS AND RECOMMENDATIONS**



Edward W. Kennedy, C.P.A., R.M.A.  
Donald E. Cheadle, C.P.A.  
Glen J. Ortman, C.P.A., R.M.A.

Leon P. Costello, C.P.A., R.M.A.  
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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**

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

We have audited the basic financial statements of the Atlantic County Utilities Authority ("Authority") as of and for the year ended December 31, 2003, and have issued our report thereon dated March 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Compliance

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. However, we noted several immaterial instances of noncompliance that we have reported to the Authority in a separate report dated March 19, 2004.

Internal Control Over Financial Reporting

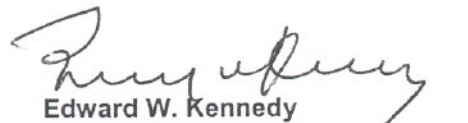
In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving internal control that we have reported to the Authority in a separate report dated March 19, 2004.



**FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.**  
Certified Public Accountants

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

  
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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

March 19, 2004

**ATLANTIC COUNTY UTILITIES AUTHORITY  
GENERAL COMMENTS AND RECOMMENDATIONS**

**For the Year ended December 31, 2003**

**None Noted.**

**SINGLE AUDIT SECTION**

**ATLANTIC COUNTY UTILITIES AUTHORITY**

**SCHEDULE OF STATE ASSISTANCE**

For the Year ended December 31, 2003

<u>State Funding Agency</u>	<u>Program</u>	<u>State Account Number</u>	<u>Grant Period</u>		<u>Program Receipts</u>	<u>Program Expenditures</u>
			<u>From</u>	<u>To</u>		
New Jersey Department of Environmental Protection	Wastewater Treatment:					
	Trust 97 Loan	4860-510-4860-16	Open	Open	\$ 20,174	\$
	Trust 01 Loan	4860-510-4860-07	Open	Open	951,584	749,594
Total State Assistance					\$ <u>971,758</u>	\$ <u>749,594</u>



**ATLANTIC COUNTY UTILITIES AUTHORITY  
NOTES TO THE SCHEDULE OF STATE ASSISTANCE  
DECEMBER 31, 2003**

**NOTE 1. GENERAL**

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

**NOTE 2. BASIS OF ACCOUNTING**

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

**NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

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

**NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS**

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



Edward W. Kennedy, C.P.A., R.M.A.  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133  
AND NEW JERSEY OMB CIRCULAR 98-07**

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

Compliance

We have audited the compliance Atlantic County Utilities Authority ("Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Grant Compliance Supplement* that are applicable to each of its major state programs for the year ended December 31, 2003. The Authority's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 98-07, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, OMB Circular A-133 and New Jersey OMB's Circular 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 Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended December 31, 2003.



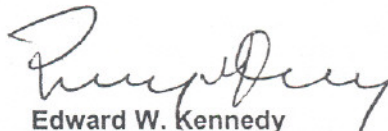
Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, and New Jersey OMB's Circular 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 law, regulations, contracts or grants that would be material in relation to a major federal and state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

  
FORD, SCOTT, SEIDENBURG & KENNEDY, L.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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

March 19, 2004

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDING DECEMBER 31, 2003**

**I SUMMARY OF AUDITORS RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified Opinion issued on the General Purpose Financial Statements, dated March 19, 2004

Internal control over financial reporting:

1) Material weakness identified? No

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

Noncompliance material to the basic financial Statements noted? No

**Federal Awards**

**Not Applicable**

**State Awards**

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

Auditee qualified as low-risk auditee? Yes

Type of auditor's report issued on compliance for major programs: An Unqualified Opinion was issued on compliance for major programs, dated March 19, 2004

Internal Control over major programs:

1) Material weakness identified? No

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

Any audit findings disclosed that are required to be reported In accordance with NJ OMB Circular Letter 98-07? No

Identification of major programs:

**State Grant Number**  
4860-510-4860-07

**Name of State Program**  
Wastewater Treatment Trust 2001

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDING DECEMBER 31, 2003**

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

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

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

Federal:

Not Applicable

State:

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

**ATLANTIC COUNTY UTILITIES AUTHORITY  
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS  
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year findings.