

GLOUCESTER COUNTY UTILITIES AUTHORITY
REPORT OF AUDIT
YEAR ENDED OCTOBER 31, 2006

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INTRODUCTION

The Gloucester County Utilities Authority, hereafter referred to as the “Authority” is pleased to present the Annual Financial Report developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled “Basic Financial Statements – Management’s Discussion and Analysis – For State and Local Governments” (hereafter “GASB 34”), and related standards.

Mission

The mission of the Authority is to contribute toward the high quality of life expected and enjoyed by all residents of the Authority’s service area, the county and the region by creatively applying the Authority’s human, technical and financial resources. By following this general principle, the Authority will provide the facilities and services for meeting today’s and tomorrow’s environmental protection and economic development needs without compromising the accessibility to these resources for meeting the needs and desires of future customers, ratepayers and generations, at a reasonable cost.

Responsibility and Control

The Authority has prepared and is responsible for the financial statements and related information in this report. The opinion of the independent auditors, Petroni & Associates, is included in this report. In management’s opinion the financial statements represent fairly, in all material aspects, the financial position, results of operations and cash flows of the Authority for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2006
UNAUDITED

The Authority has met the requirements of the General Bond Resolution and the following provides management's analysis of the Authority's financial condition for the year. This information should be read in conjunction with the financial statements.

Summary of Organization and Business

The Authority is a public body corporate and politic of the State created under the name The Gloucester County Sewerage Authority, pursuant to a resolution of the Board of Chosen Freeholders of the County adopted July 21, 1967 and the Sewerage Authorities Law, constituting Chapter 138 of the Laws of 1946 of the State of New Jersey, as amended and supplemented. The Authority has been renamed, reorganized and is continued as a public body corporate and politic pursuant to a resolution of the Board of Chosen Freeholders of the County adopted August 7, 1978 and the Act.

The service area of the Authority is the geographical area of the County. Presently, the Authority's service area comprises approximately 166 square miles in the northwestern area of the County and covers all or portions of the Borough of Clayton, the Township of Deptford, the Township of East Greenwich, the Township of Elk, the Borough of Glassboro, the Township of Mantua, the Township of Monroe, the Borough of National Park, the Borough of Paulsboro, the Borough of Pitman, the Township of Washington, the Borough of Wenonah, the Township of West Deptford, the Borough of Westville, the City of Woodbury and the Borough of Woodbury Heights. The total population in the region is approximately 206,875 with the System presently serving an estimated population of 179,600. The service area is predominately residential.

The Authority has the power under the Act to acquire, construct, maintain, operate and use sanitation facilities for the relief of waters in, bordering or entering the areas within the territorial boundaries of the County from pollution or threatened pollution and for the improvement of conditions affecting the public health. Under the Act, the Board of Chosen Freeholders of the County may authorize the Authority to acquire, construct, maintain, operate or improve a water system, a solid waste system or a hydroelectric system.

The System

The existing sewer and wastewater treatment facilities consist of an interceptor system, ten pumping stations, 51 metering and sampling stations and a 24.1 million gallon per day secondary treatment plant and outfall line. The system commenced operation in April 1973 and was upgraded in the years 1978, 1984, 1986, 1999, and 2001.

Financial Highlights

The Authority implemented a 4% increase in rates over fiscal year 2005 to support the 2006 budget. The increase was necessary for the following: contractual obligations, mandated costs, salary and wages, an increase in utilization and costs of services related to health benefits and cost increases for electric, natural gas and chemicals for systems and plant process requirements.

The customer service charge to the Authority's municipal and private customers increased from \$1,778 per million gallons to \$1,849 per million gallons.

The FY2006 budget included a revenue projection of \$13,134,229 for sewer service charges. This projection was based upon projected flow of 17.8 million gallons per day (mgd). The actual flow to the plant averaged 18.7 mgd in FY2006. Revenues were \$12,862,832.21, a decrease of approximately \$271,396.79. It should be noted, that operating cash balances for the year ended met the reserve requirements imposed by the 1978 Bond Resolution.

The Construction Expansion Fund is budgeted to contribute to debt service relative to the expansion of the system capacity and to fund the shortfall in revenue received through sewer service charges which may be utilized to balance the budget. In 2006 the budget was \$2,369,272 of which the actual contribution at year end was \$1,960,583.65.

Connection Expansion Fees (CEF) collected were \$1,797,100.30. This is \$111,899.70 less than the anticipated revenue in the budget for FY2006. The Authority collects a CEF when a new connection is made into the wastewater system due to construction within its service area in the County.

The Authority is involved in multiple litigation challenging the calculation of the connection fee. The original litigation with the South Jersey Builder's League reached settlement, however the decision is under appeal. The multiple litigation may negatively impact the Authority's anticipated revenue for connection fees for FY2007. In addition, slowdown trend in the new construction housing industry may negatively impact the revenue totals as well.

Revenue received in FY2006 from the PSE&G Standard Offer Payment was projected at \$396,060. This is an energy conservation program instituted under contract with Sycom Enterprises, the Gloucester County Improvement Authority and the Gloucester County Utilities Authority. Actual revenue received was \$395,929.01.

Investment income includes the earnings on the Revenue Fund requirement and the Bond Reserve Fund requirement, as well as the available amount in the Investment Fund. The investment fund was established in the 1978 Bond Issue as a rate stabilization measure. The investment income is utilized to offset operating expenses. During fiscal year 2006 \$367,500 was anticipated as revenue in the budget and \$482,872.52 was received. Interest earnings are budgeted at 3.5% annualized percentage rates. The Authority invests in United State Treasury Bonds.

The processing of outside Septage and Industrial Waste produced \$2,468,817.27 in revenue for the Authority, a decrease of \$88,379.05 from fiscal year 2005. Due to an increasingly competitive marketplace the Authority shall continue to process the collection of industrial and merchant waste with appropriate cost increase while authorizing high volume discount pricing. The 2007 budget anticipates continued high volume of revenue from septage/industrial and commercial waste.

The operating budget increased \$1,194,175 or 10.48% from fiscal year 2005. The budget spending was a decrease of \$193,635.80 or 1.54% in comparison to the final budget. Operating revenues were \$16,132,990.07 an increase from fiscal year 2005 in the amount of \$916,420.74 or 6.02%. The operating expenses were \$12,395,314.20 an increase from fiscal year 2005 in the amount of \$1,170,215.31 or 10.42%.

The Authority staff cooperates to maintain expenditures consistent with flow projections to ensure operating costs are within revenue projections. Costs related to sludge disposal, such as fuel, sand, polymer and other chemicals continue to be highly unpredictable. This is due to both the quantity and quality of sludge that is being processed and to the costs associated to gas and energy prices.

The Authority utilizes monies accumulated in the Bond Service Fund to offset total debt service budgeted for the 2006 budget year. The reserve requirements of the 1978 Bond Resolution provides for the funding of the Bond Service Fund based upon cash flow. Despite drought conditions the Authority was able to fund the transfer of \$3,971,900 which resulted in the net balance of \$2,507,928 to be budgeted for principal and interest payments for fiscal year 2006.

During fiscal year 2002 the Authority participated in the New Jersey Environmental Infrastructure Financing Program. The Authority financed funds through the NJEIT for an Odor Control Project. The Authority financed \$4,444,383 in Revenue Series Bonds. The project was completed in FY2005.

The Renewal and Replacement Fund is used for major repairs and/or replacements of non-recurring or unanticipated nature. The beginning balance for fiscal year 2006 was \$1,510,336. The fiscal year 2006 budget established a requirement by the Authority Engineer for \$1,000,000. The fund can be funded over a five year period to meet the requirement. The ending balance for 2006 was \$1,529,541. The detailed five year projection of cash flow is for the air relief valve manhole projects, rehabilitation to the clarifiers and upgrade of the aeration blower.

During 2006 the Authority addressed several projects which included repairs of interceptor manhole rehabilitation, line replacement and manhole replacement. The Authority proceeded with the scheduled repair and replacement of electrical components at pumping stations, roof replacement of the pump stations, upgrades to the variable frequency drives and the engineering and design of the replacement for the impingement tray scrubber. In FY2007, the renewal and replacement fund will provide for ongoing improvements to the plant and collection systems.

The design specifications of a return activated sludge system and the upgrade to the system clarifiers are complete. The funding is projected at \$2.5 million for the projects and will be through debt authorization anticipated for fiscal year 2007.

In 2005 the Authority initiated a system capacity study to address capital planning and permit issues for future development of the system and to specifically review growth and development within the service area. The study has provided projections regarding plant capacity based upon current and committed flow. The Authority has identified capital projects required to upgrade the plant capacity from 24.1 mgd to 27 mgd to meet the flow projections.

The capacity study and an expansion study finalized in 2005 have outlined future capital planning. The Authority intends to upgrade plant capacity and improvements to the collection system. The Authority is required to submit for approval a Wastewater Management Plan to the New Jersey Department of Environmental Protection (NJDEP). The Authority submitted the plan in January 2006 and is providing final comments to NJDEP. It is anticipated the Authority will proceed with engineering and design specifications in FY2007 for application to the New Jersey Environmental Infrastructure Financing Program. The Wastewater Management Plan approval and the application for a re-rate of capacity to 27 mgd is required prior to proceeding with rehabilitation and construction upgrades to the system and plant.

There are several other capital projects that the Authority is considering. The impact to users for these projects would be minimal. Many of the projects relate to the sludge process operation and the cost would be structured with the customer sludge rate at the time of financing.

In addition, the Authority with direction from engineering professionals shall continue to review ongoing and future regulatory programs by the Delaware River Basin Commission (DRBC) and New Jersey Department of Environmental Protection (NJDEP) affecting discharge requirements to the Delaware River.

Final Comments

The budget performance of year ended 2006 has highlighted that future budgets shall require the Authority, the Board of Commissioners and staff to regularly continue to evaluate the sewer service charge flow requirements based upon historical and current trends. In 2006 the actual sewer flow exceeded budgetary projections; however, based upon historical trends this should be monitored closely. The Authority recognizes the importance to compete in the market place to sustain the revenue source of outside commercial and industrial waste and has amended the rate schedule accordingly.

The Authority must regularly continue to prioritize the review and consideration for the capital requirements, regulatory requirements and operation and maintenance costs of the Authority recognizing adherence to the NJDEP permit requirements.

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
of the Authority
Gloucester County Utilities Authority
West Deptford Township, New Jersey

We have audited the accompanying financial statements of the Gloucester County Municipal Utilities Authority as of and for the year ended October 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Gloucester County Utilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gloucester County Utilities Authority as of October 31, 2006, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2006 on our consideration of the Gloucester County Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 28 and 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Gloucester County Utilities Authority taken as a whole. The introductory section and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

PETRONI & ASSOCIATES

Petroni & Associates

December 11, 2006

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

Honorable Chairman and Members
of the Authority
Gloucester County Utilities Authority
West Deptford Township, New Jersey

We have audited the basic financial statements of the Gloucester County Utilities Authority as of and for the year ended October 31, 2006, and have issued our report thereon dated December 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements as prescribed by the Local Finance Board.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Gloucester County Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Gloucester County Utilities Authority's management and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not intended to be and should not be used by anyone other than these specified parties.

PETRONI & ASSOCIATES

A handwritten signature in cursive script that reads "Petroni & Associates".

December 11, 2006

GLOUCESTER COUNTY UTILITIES AUTHORITY
BALANCE SHEET
October 31, 2006

ASSETS

Current Assets:	
Cash and Cash Equivalents	1,811,482.84
Investments	5,279,976.64
Service Charges Receivable	2,581,091.50
Total Current Assets	<u>9,672,550.98</u>
Restricted Assets:	
Cash and Cash Equivalents	368,255.07
Investments	19,625,854.53
Total Restricted Assets	<u>19,994,109.60</u>
Net Capital Assets	24,955,285.00
Bond/Loan Issuance Costs and Discounts, Net	455,050.54
Total Assets	<u><u>55,076,996.12</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	520,426.99
Payroll Taxes Payable	978.42
Compensated Absences Payable	57,052.76
Current Portion of Long Term Debt	2,633,850.18
Accrued Interest Payable	786,185.00
Total Current Liabilities	<u>3,998,493.35</u>
Current Liabilities Payable from Restricted Assets:	
Contracts Payable	640,315.80
Escrow Accounts	262,011.19
Total Current Liabilities Payable from Restricted Assets	<u>902,326.99</u>

See accompanying notes to the basic financial statements.

GLOUCESTER COUNTY UTILITIES AUTHORITY
BALANCE SHEET
October 31, 2006

Long Term Liabilities:	
Bonds and Loans Payable	<u>50,922,587.22</u>
Total Liabilities	<u>55,823,407.56</u>
Net Assets:	
Investment in Capital Assets, Net of Related Liabilities	42,301,421.59
Restricted for Capital Activity and Debt Service	18,039,640.57
Unrestricted	(61,087,473.60)
Total Net Assets	<u>(746,411.44)</u>
Total Liabilities and Net Assets	<u><u>55,076,996.12</u></u>

See accompanying notes to the basic financial statements.

GLOUCESTER COUNTY UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2006

Operating Revenues	
Sewer Service Charges	12,862,832.21
Septage and Industrial Charges	2,468,817.27
PSE&G Standard Offer Payments	395,929.01
Miscellaneous Income	405,411.58
Total Operating Revenues	<u>16,132,990.07</u>
Operating Expenses	
Personnel Services	5,380,241.23
Contractual Services	5,281,087.82
Materials and Supplies	1,526,381.90
Equipment	207,603.25
Depreciation	2,550,949.91
Total Operating Expenses	<u>14,946,264.11</u>
Operating Income (Loss)	<u>1,186,725.96</u>
Non-Operating Revenue (Expense):	
Interest Earned	1,076,607.02
Construction Expansion Fees	1,797,100.30
Earnings, Project Funds and Savings Credit	188,887.33
Cost of Issuance	(7,500.00)
Redemption of Revenue Bonds	(4,272,590.13)
Interest on Revenue Bonds	(2,235,577.34)
Administration Fees	(390.00)
Reimbursements to Participants	(15,945.28)
Contracts Payable	(1,758,504.47)
Contracts Payable Canceled	327,025.66
Loan Deobligated	(218,248.00)
Renewal and Replacement Expenses	(41,525.00)
Prior Year Payables Canceled	13,733.08
Amortization of Bond Issue Costs	(48,096.21)
Total Non-Operating Revenue (Expense)	<u>(5,195,023.04)</u>

See accompanying notes to the basic financial statements.

GLOUCESTER COUNTY UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2006

Increase (Decrease) in Net Assets Before Capital Contributions	(4,008,297.08)
Capital Contributions	4,419,685.13
Increase (Decrease) in Net Assets	<u>411,388.05</u>
Net Assets at Beginning of Year	<u>(1,157,799.49)</u>
Net Assets at End of Year	<u><u>(746,411.44)</u></u>

See accompanying notes to the basic financial statements.

GLOUCESTER COUNTY UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2006

Cash Flows from Operating Activities:	
Cash Received from Customers	15,260,847.52
Cash Paid to Suppliers	(8,678,226.96)
Cash Paid to Employees	(3,474,422.26)
Other Receipts	801,340.59
Net Cash Provided (Used) by Operating Activities	<u>3,909,538.89</u>
Cash Flows from Investing Activities:	
Purchase of Investments	(92,391,796.66)
Proceeds from Sale of Investments	92,473,465.40
Interest Income	1,088,182.25
Net Cash Provided (Used) by Investing Activities	<u>1,169,850.99</u>
Cash Flows from Non-Capital Financing Activities:	
Escrow Fees Received	6,000.00
Escrow Fees Disbursed	(800.00)
Administrative Fees	(2,390.00)
Construction Expansion Fees	1,797,100.30
Reimbursements to Participants	(15,945.28)
Contracts Payable	(1,118,188.67)
Renewal & Replacement Expenses	(41,525.00)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>624,251.35</u>
Cash Flows from Capital and Related Financing Activities:	
Cost of Issuance	(7,500.00)
Principal Payments on Debt	(4,272,590.13)
Interest Paid on Debt	(2,207,235.76)
Earnings, Project Fund and Savings Credits	188,887.33
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(6,298,438.56)</u>
Increase (Decrease) in Cash and Cash Equivalents	(594,797.33)
Cash and Cash Equivalents at Beginning of Year	<u>2,774,535.24</u>
Cash and Cash Equivalents at End of Year	<u><u>2,179,737.91</u></u>

See accompanying notes to the basic financial statements.

GLOUCESTER COUNTY UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2006

Reconciliation to Balance Sheet:

Unrestricted Cash and Cash Equivalents	1,811,482.84
Restricted Cash and Cash Equivalents	368,255.07
	2,179,737.91
	2,179,737.91

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for)

Operating Activities:	
Operating Income (Loss)	1,186,725.96
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by	
(Used for) Operating Activities:	
Depreciation Expense	2,550,949.91
(Increase) Decrease in Accounts Receivable	(70,801.96)
Increase (Decrease) in Accounts Payable	242,664.98
	3,909,538.89
Net Cash Provided (Used) by Operating Activities	3,909,538.89

See accompanying notes to the basic financial statements.

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 1: GENERAL

Introduction

The accounting and reporting framework and the more significant accounting principles of the Gloucester County Utilities Authority are discussed in Note 2. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Authority's financial activities for the fiscal year ended October 31, 2006. The Authority implemented new reporting model standards beginning November 1, 2001. Comparability with reports of all prior years will be affected.

Creation and Governing Body

The Authority was duly created, under the name Gloucester County Sewerage Authority, by resolution of The Board of Chosen Freeholders of the County of Gloucester, New Jersey, duly adopted July 21, 1967, as a public body corporate and politic of the State of New Jersey pursuant to the Sewerage Authorities Law, constituting Chapter 138 of the Laws of 1946 of the State of New Jersey and the acts amendatory thereof and supplemental thereto. The Authority has been renamed, reorganized and is continued pursuant to a resolution of the Board of Chosen Freeholders of the County of Gloucester, New Jersey adopted August 7, 1978 and the Act.

The Act and the resolution creating the Authority provide that the governing body of the Authority shall consist of nine members, appointed by the Board of Chosen Freeholders of the County to five-year terms.

Income Taxes

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Local Finance Board rules as set forth in the New Jersey Administrative Code, including financial oversight and Division regulatory responsibilities, including review and approval of annual budgets pursuant to statute, shall apply and supersede the previous where applicable.

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets are segregated into “invested in capital assets, net of related debt”; “restricted for capital activity and debt service”; and “unrestricted” components.

Budgetary Accounting

The Authority adopts an annual operating budget by resolution prior to October 1. The budget details the Authority’s plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. All unexpended and unencumbered appropriations remaining in the budget at the end of the fiscal year lapse. During the year, management is authorized to transfer budgeted amounts between line items. All amendments to the budget are approved and adopted by resolution of the authority.

Cash Equivalents, Deposits and Investments

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, certificates of deposit and investments with a maturity of three months or less. Investments are reported at cost which approximates market value.

Restricted Assets

Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments and improvements and extensions to the utility system.

Receivables and Payables

Receivables and payables between accounts are eliminated. Customer receivables represent various service fees earned but not yet collected.

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Property, plant and equipment are stated at cost which includes direct construction costs and other expenditures related to construction. System construction costs are charged to construction in progress until such time as given segments of the system are completed and put into operation.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Assets are depreciated over their estimated useful lives using the straight-line method.

Compensation for Future Absences

Accumulated vacation and the portion of sick leave eligible to be paid to employees at termination are recorded as an expense and liability as the benefits are earned.

Claims and Judgments

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

Revenues and Rate Structure

Revenues are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Special and Extraordinary Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net assets.

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consist of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt services consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other assets not included in the above categories.

NOTE 3: DEPOSITS AND INVESTMENTS

Policies and Practices

New Jersey statutes require that authorities deposit public funds in contracted depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Authorities are also permitted to deposit funds in the State of New Jersey Cash Management Fund.

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

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

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are stated at cost which approximates market value. The investment of funds are limited by the various Bond Resolutions to any bond, debenture, note or participation certificate issued by certain agencies identified within the Bond Resolutions, any fully secured or non-negotiable certificates of deposit and repurchase agreements, obligations of the New Jersey Cash Management Fund and other obligations of the United States of America or the State of New Jersey.

Deposits and Investments

At year-end, the carrying amounts of the Authority's deposits were \$2,179,737.91 and the bank balance totaled \$2,197,318.58. Of the bank balance, \$452,623.47 was covered by federal depository insurance (including public and custodial funds) and \$1,744,695.11 was covered by a collateral pool maintained by the bank as required by New Jersey statutes.

Investments at October 31, 2006 were as follows:

	<u>Cost</u>	<u>Market Value</u>
US Government Securities	<u>24,905,831.17</u>	<u>24,835,761.17</u>

The Authority's deposits and investments as of the balance sheet date are classified as to credit risk by the following three categories described below:

Category 1

Insured, registered or collateralized with securities held by the Authority or by its agent in the Authority's name;

Category 2

Uninsured, unregistered or uncollateralized with securities held by the pledging public depository or by its trust department or its agent in the Authority's name;

Category 3

Uninsured, unregistered or uncollateralized, including any deposits that are collateralized with securities held by the pledging public depository or by its trust department or its agent but not in the Authority's name.

At year end, all of the deposits and investment balances were in Category 1.

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the balances sheet:

Disclosures regarding deposits and investments:	
Petty Cash	500.00
Deposits	2,179,237.91
Investments	24,905,831.17
Total	<u><u>27,085,569.08</u></u>
Balance sheet and cash flow statement amounts:	
Cash and cash equivalents:	
Unrestricted	1,811,482.84
Restricted	368,255.07
Total cash and cash equivalents	<u><u>2,179,737.91</u></u>
Investments:	
Unrestricted	5,279,976.64
Restricted	19,625,854.53
Total investments	<u><u>24,905,831.17</u></u>
Total	<u><u>27,085,569.08</u></u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable were composed of the following:

Sewer Service Charges Receivable	2,274,795.03
Septage and Industrial Service Charges Receivable	306,296.47
Total	<u><u>2,581,091.50</u></u>

NOTE 5: RESTRICTED ASSETS

Certain proceeds of revenue bonds and notes, as well as resources set aside for their repayment or to satisfy restrictive covenants of the bond agreements, are classified as restricted assets on the balance sheet because their use is limited by those bond covenants. The “debt service fund” accounts are used to segregate resources accumulated for debt service payments equal to any unpaid interest or principal due, plus any interest or principal to become due at or before the first day of January next ensuing. The “debt service reserve fund” accounts are used to report resources set aside to make up potential future deficiencies in revenue bond debt service funds or to effect whole or partial redemption of the bonds. The “renewal and replacement” account is used to accumulate resources to pay the costs of major repairs, renewals and replacements of the Utility System.

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 5: RESTRICTED ASSETS (CONTINUED)

Amounts required by Section 507 of the Bond Resolution for the above are as follows:

1. At October 31, 2006 the “Bond Service Requirement” was \$3,505,858.94 comprised of interest due January 1, 2007 of \$1,177,008.76 and principal due January 1, 2007 of \$2,328,850.18.
2. At October 31, 2006 the “Bond Service Reserve Requirement” was \$6,868,063.01.
3. At October 31, 2006 the “System Reserve Requirement” was \$1,000,000.

All of the above requirements were met as of October 31, 2006.

NOTE 6: CAPITAL ASSETS

Capital asset activity during the year was as follows:

	October 31, 2005	Additions	Deletions	October 31, June 28, 1905
Site Improvements	4,365,331.00			4,365,331.00
Buildings	10,028,769.00			10,028,769.00
Machinery & Equipment	6,377,220.74	128,000.00	28,462.00	6,476,758.74
Infrastructure	74,232,706.00	19,095.00		74,251,801.00
Total Capital Assets	95,004,026.74	147,095.00	28,462.00	95,122,659.74
Accumulated Depreciation	(67,644,886.83)	(2,550,949.91)	(28,462.00)	(70,167,374.74)
Net Capital Assets	<u>27,359,139.91</u>	<u>(2,403,854.91)</u>		<u>24,955,285.00</u>

NOTE 7: BONDS PAYABLE AND LOANS PAYABLE

Prior Years’ Debt Defeasance

In prior years, the Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Authority’s financial statements. As of October 31, 2006, the amount of defeased debt outstanding but removed from the Authority’s financial statements was \$6,880,000.

Bonds Payable

There were bonds payable on October 31, 2006 in the amount of \$38,810,000.

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 7: BONDS PAYABLE AND LOANS PAYABLE (CONTINUED)

Loans Payable

The Authority issued a total of \$22,257,320 in bonds to finance the Mantua Creek Force Main and Upper Mantua Creek Interceptor Project on November 1, 1995. The financing of these projects was done through participation in the New Jersey Wastewater Treatment Trust. Since actual costs were less than anticipated, the obligation was reduced by \$3,420,418. As of October 31, 2006 the amount of the loans payable were \$8,196,521.55.

On October 15, 1998, the authority issued a total of \$3,815,000 in bonds to finance the Incinerator No. 1 Project and Upgrade and Rehabilitation of the Existing Aeration Tank. The financing of these projects was done through participation in the New Jersey Wastewater Treatment Trust. As of October 31, 2006 the amount of the loans payable were \$2,599,789.19.

On October 15, 1999, the authority issued a total of \$683,411 in bonds to finance the Incinerator No. 1 Project and Upgrade and Rehabilitation of the Existing Aeration Tank. The financing of these projects was done through participation in the New Jersey Wastewater Treatment Trust. As of October 31, 2006 the amount of the loans payable were \$496,498.46.

On October 15, 2001, the authority issued a total of \$4,444,383 in bonds to finance an Odor Control Project. The financing of this project was done through participation in the New Jersey Wastewater Treatment Trust. Since allowable costs were less than anticipated, the obligation was reduced by \$218,248. As of October 31, 2006 the amount of the loans payable were \$3,453,628.20.

	<u>October 31, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>October 31, 2006</u>
Bonds & Loans Payable:				
Bonds	41,520,000.00		2,710,000.00	38,810,000.00
Loans	<u>16,309,027.53</u>		<u>1,562,590.13</u>	<u>14,746,437.40</u>
Total	<u><u>57,829,027.53</u></u>		<u><u>4,272,590.13</u></u>	<u><u>53,556,437.40</u></u>

Remaining debt service payments at October 31, 2006 are as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	2,305,462.52	3,710,488.88	6,015,951.40
2008	2,151,050.02	4,598,865.76	6,749,915.78
2009	1,991,191.89	3,299,359.91	5,290,551.80
2010	1,843,219.39	3,454,374.49	5,297,593.88
2011	1,685,280.64	3,621,823.41	5,307,104.05
2012-2016	6,042,019.39	16,601,821.90	22,643,841.29
2017-2021	2,707,688.75	12,539,703.05	15,247,391.80
2022-2026	695,833.75	4,485,000.00	5,180,833.75
2027-2030	117,500.00	1,245,000.00	1,362,500.00
	<u><u>19,539,246.35</u></u>	<u><u>53,556,437.40</u></u>	<u><u>73,095,683.75</u></u>

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 8: REQUIRED RATES AND CHARGES

Section 612 of the Bond Resolution dated as of August 8, 1978 stipulates that so long as bonds of any series shall be outstanding, the Authority shall make, impose, charge and collect Annual Charges in accordance with the Service Contract and the Customer Agreements and shall charge and collect Service Charges in accordance with the Act to the extent permitted by the Service Contract and Customer Agreements. Such Annual Charges shall be so estimated, computed, made, charged, imposed and collected pursuant to the Customer Agreements or the Service Contract, and such Service Charges shall be so fixed, charged and collected under the Act, that the Revenues collected (including any proceeds to the Authority of use and occupancy insurance) and paid to the Trustee hereunder will be at least sufficient:

1. to provide in each fiscal year a sum equal to the operating fund requirement for such fiscal year in order to maintain, preserve and keep the system in good repair, working order and condition, and
2. to provide in each fiscal year a sum equal to the Bond Service for such fiscal year (except any part thereof the payment of which has been provided for by the deposit of proceeds of Bonds in the Bond Service Fund) calculated as of the beginning of such fiscal year, and
3. at all times, by deposit and application in accordance with the Resolution of said Revenues paid to the Trustee, to pay all interest and principal installments becoming due with respect to the Bonds at the end of each fiscal year, and to maintain in the Bond Reserve Fund an amount at least equal to the Bond Reserve Requirement and in the Renewal and Replacement Fund an amount at least equal to the amount required to be deposited pursuant to Section 507(4), and
4. at all times to provide for any deficits of the Authority resulting from failure to receive any Annual Charges or Service Charges or from any other cause and comply in all respects with the terms and provisions of the Resolution and of the Act and pay and discharge all charges or liens payable out of the Revenues when due and enforceable.

As is reflected in the following calculation, the Authority did not meet the sufficiency of revenue required under Section 612 of the Bond Resolution dated as of August 8, 1978.

Total Revenue	20,373,546.54
Less:	
Operating Expenses	12,395,314.20
Bond Service Requirement	6,479,825.48
Transfer to Construction Expansion Fund	1,797,100.30
Total	20,672,239.98
Deficit in Revenues Realized Required by Section 612	(298,693.44)

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 9: PENSION PLAN

Description of Plan – All required employees of the Authority are covered by the Public Employees’ Retirement System which has been established by state statute and is administered by the New Jersey Department of Pension and Benefits. According to the State of New Jersey Administrative Code, all obligation 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 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 was established in January 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 generally required 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 a member of another state-administered retirement system. Members are eligible for retirement at age 60 with an annual benefit generally determined to be the number of years of service divided by 55, times the final average salary. 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). Early retirement is available to those under age 60 with 25 or more years of credited service. Anyone who retires early and is under age 55 receives retirement benefits as calculated in the above-mentioned formula but at a reduced rate (one quarter of one percent for each month the member lacks of attaining age 55).

The system provides for employee contributions of 5% of employees’ annual base salary. Funding by the State and the Authority are determined by the annual actuarial valuation. The State’s annual contribution approximates the actuarially determined pension cost for the year. Significant actuarial assumptions used to compute the pension contribution requirements are the same as those used to determine the pension benefit obligation.

Trend Information

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total Payroll	3,147,421	3,188,493	3,215,864
PERS Covered Payroll	2,806,060	2,799,915	2,845,313
Employer Required Contribution	57,685	20,147	None
Percentage of Covered Payroll	2.06%	0.72%	0.00%

GLOUCESTER COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2006

NOTE 10: ACCUMULATED ABSENCE BENEFITS

Authority employees are granted vacation benefits in varying amounts depending on their length of service with the Authority. Employees are granted ten sick days per year. The Authority does not permit employees to accrue unused vacation pay. Unused sick days may be carried over for future use or a cash reimbursement may be requested.

The total value of compensate absences owed to employees as of October 31, 2006 was \$57,052.76.

NOTE 11: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage for property, liability and surety bonds.

GLOUCESTER COUNTY UTILITIES AUTHORITY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED OCTOBER 31, 2006

	2006 Budget		2006 Actual	Variance of 2006 Actual Data To Budget	
	Original	Final		Dollars	%
				Favorable (Unfavorable)	
Operating Revenues:					
Sewer Service Charges	12,064,725.00	13,134,229.00	12,862,832.21	(271,396.79)	-2.07%
Septage and Industrial Charges	1,600,000.00	2,390,518.00	2,468,817.27	78,299.27	3.28%
PSE&G Standard Offer Payments	125,000.00	396,060.00	395,929.01	(130.99)	-0.03%
Miscellaneous Income	25,000.00	411,199.00	405,411.58	(5,787.42)	-1.41%
Total Operating Revenues	13,814,725.00	16,332,006.00	16,132,990.07	(199,015.93)	-1.22%
Operating Expenses:					
Personnel Services:					
Salaries and Wages	3,467,500.00	3,242,000.00	3,145,899.65	96,100.35	2.96%
Uniform Rental	20,000.00	22,000.00	20,506.50	1,493.50	6.79%
Contributions to:					
Public Employee's Retirement	58,000.00	58,000.00	57,684.80	315.20	0.54%
Social Security System	255,000.00	250,000.00	241,209.56	8,790.44	3.52%
Unemployment Compensation	25,000.00	23,000.00	19,557.57	3,442.43	14.97%
Employee Benefits	1,727,500.00	1,901,700.00	1,895,383.15	6,316.85	0.33%
Total Personnel Services	5,553,000.00	5,496,700.00	5,380,241.23	116,458.77	2.12%
Contractual Services:					
Advertising	7,000.00	4,500.00	4,339.24	160.76	3.57%
Travel Expense	19,000.00	3,500.00	3,330.24	169.76	4.85%
Postage Expense	12,000.00	6,800.00	5,379.78	1,420.22	20.89%
Telephone Expense	45,000.00	30,000.00	29,456.56	543.44	1.81%
Natural Gas	140,000.00	112,000.00	110,606.02	1,393.98	1.24%
Electricity	1,750,000.00	1,730,000.00	1,727,142.37	2,857.63	0.17%
Water and Sewer	20,000.00	4,400.00	4,173.35	226.65	5.15%
Hunter Street Expense	50,000.00				
Printing	10,000.00	6,000.00	5,845.35	154.65	2.58%
Energy Project Costs	1,172,000.00	1,315,000.00	1,303,747.48	11,252.52	0.86%
Dues and Memberships	13,000.00	8,000.00	7,404.00	596.00	7.45%
Motor Vehicle Maintenance	31,000.00	19,000.00	18,589.41	410.59	2.16%
Equipment Maintenance	334,000.00	315,000.00	313,329.73	1,670.27	0.53%
Interceptor Rehabilitation	75,000.00	36,000.00	34,964.34	1,035.66	2.88%
Equipment Rental	21,000.00	5,800.00	5,503.30	296.70	5.12%
Training And Seminars	29,500.00	17,400.00	17,202.63	197.37	1.13%
Permits and Registrations	125,000.00	77,000.00	76,283.23	716.77	0.93%
Professional Services	175,000.00	136,000.00	135,403.00	597.00	0.44%
Doctor	1,500.00	650.00	590.00	60.00	9.23%
Accounting/ Auditing	95,000.00	69,000.00	69,000.00		
Legal Services	235,000.00	335,000.00	334,772.92	227.08	0.07%
Engineering	200,000.00	105,000.00	104,163.80	836.20	0.80%
Trustee's Fees	95,000.00	85,000.00	84,445.00	555.00	0.65%
Computer Services	111,000.00	33,000.00	32,530.53	469.47	1.42%
Insurance	875,000.00	829,000.00	828,733.43	266.57	0.03%
Sludge Disposal	175,000.00				
Other Expenses	30,000.00	35,000.00	24,152.11	10,847.89	30.99%
Total Contractual Services	5,846,000.00	5,318,050.00	5,281,087.82	36,962.18	0.70%

GLOUCESTER COUNTY UTILITIES AUTHORITY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED OCTOBER 31, 2006

	2006 Budget		2006 Actual	Variance of 2006 Actual Data To Budget	
	Original	Final		Dollars	%
Materials and Supplies:					
Books and Publications	5,500.00	2,200.00	2,139.69	60.31	2.74%
Building and Construction Supplies	17,500.00	1,100.00	965.28	134.72	12.25%
Fuel and Lubricants	80,000.00	65,500.00	64,953.79	546.21	0.83%
Incinerator Fuel	292,000.00	369,000.00	367,099.50	1,900.50	0.52%
Incinerator Sand	52,500.00	53,000.00	52,345.26	654.74	1.24%
Motor Vehicle Parts	46,000.00	19,000.00	18,791.26	208.74	1.10%
Laboratory Services/Supplies	46,000.00	31,000.00	30,402.53	597.47	1.93%
Janitorial Supplies	6,500.00	4,000.00	3,610.12	389.88	9.75%
Office Supplies	24,000.00	13,500.00	12,353.45	1,146.55	8.49%
Electrical/Communication Supplies	154,500.00	96,000.00	93,216.12	2,783.88	2.90%
Hardware/Minor Tools	23,000.00	14,000.00	13,032.63	967.37	6.91%
Equipment/Machinery Parts	279,000.00	249,000.00	245,038.54	3,961.46	1.59%
Plumbing/Heating/HVAC Supplies	34,500.00	14,400.00	14,097.45	302.55	2.10%
Safety Supplies	25,000.00	18,000.00	17,289.23	710.77	3.95%
Chemicals and Gases	16,750.00	17,500.00	16,349.09	1,150.91	6.58%
Sodium Hydroxide	102,000.00	208,000.00	207,290.10	709.90	0.34%
Polymer	138,000.00	158,000.00	156,711.08	1,288.92	0.82%
Sodium Hypochlorite	183,000.00	156,000.00	155,776.09	223.91	0.14%
Ferrous Sulfate	58,000.00	51,000.00	50,362.30	637.70	1.25%
Buildings/Grounds Maintenance Supplies	7,500.00	4,000.00	3,211.89	788.11	19.70%
Interceptor Supplies	17,500.00	1,400.00	1,273.36	126.64	9.05%
Miscellaneous Supplies	750.00	100.00	73.14	26.86	26.86%
Total Materials and Supplies	1,609,500.00	1,545,700.00	1,526,381.90	19,318.10	1.25%
Equipment:					
Vehicles	155,000.00	127,000.00	126,284.64	715.36	0.56%
Laboratory Equipment	10,000.00	3,500.00	2,647.15	852.85	24.37%
Office Equipment	25,000.00				
Electrical/Communication Equipment	105,000.00	10,000.00	9,637.00	363.00	3.63%
General Equipment	157,500.00	88,000.00	69,034.46	18,965.54	21.55%
Safety Equipment	9,000.00				
Total Equipment	461,500.00	228,500.00	207,603.25	20,896.75	9.15%
Total Operating Expenses	13,470,000.00	12,588,950.00	12,395,314.20	193,635.80	1.54%
Operating Income (Loss)	344,725.00	3,743,056.00	3,737,675.87	(5,380.13)	-0.14%
Non-Operating Revenue (Expense):					
Interest Earned	217,000.00	367,500.00	482,872.52	115,372.52	31.39%
CEF Contribution to Debt Service	1,946,203.00	2,369,272.00	1,960,583.65	(408,688.35)	-17.25%
Construction Expansion Fees	2,085,750.00	1,909,000.00	1,797,100.30	(111,899.70)	-5.86%
Debt Service Requirements	(2,507,928.00)	(6,479,828.00)	(6,479,825.48)	2.52	0.00%
Transfers to CEF Fund	(2,085,750.00)	(1,909,000.00)	(1,797,100.30)	111,899.70	5.86%
Total Non-Operating Revenue (Expense)	(344,725.00)	(3,743,056.00)	(4,036,369.31)	(293,313.31)	-7.84%
Increase (Decrease) in Budgeted Net Assets			(298,693.44)	(298,693.44)	

GLOUCESTER COUNTY UTILITIES AUTHORITY
SCHEDULE OF BONDS AND LOANS PAYABLE
FOR THE YEAR ENDED OCTOBER 31, 2006

1993 Series

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>	<u>Balance Oct. 31, 2006</u>
8/1/93	15,400,000.00	Construction of Sewage Treatment Plant and Distribution System	<u>7,645,000.00</u>	<u>805,000.00</u>	<u>6,840,000.00</u>

Schedule of Annual Maturities

<u>Due January 1</u>	<u>Interest Rate</u>	<u>Annual Principal Payment</u>
2007	5.000%	855,000.00
2008	5.125%	880,000.00
2009	5.125%	785,000.00
2010	5.125%	825,000.00
2011	5.125%	875,000.00
2012	5.125%	920,000.00
2013	5.125%	290,000.00
2014	5.250%	250,000.00
2015	5.250%	265,000.00
2016	5.250%	280,000.00
2017	5.250%	300,000.00
2018	5.250%	315,000.00
		<u>6,840,000.00</u>

1996 Advance Refunding Bonds

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>
11/15/96	21,145,000.00	Revenue Refunding Bonds	<u>710,000.00</u>	<u>710,000.00</u>

GLOUCESTER COUNTY UTILITIES AUTHORITY
SCHEDULE OF BONDS AND LOANS PAYABLE
FOR THE YEAR ENDED OCTOBER 31, 2006

Wastewater Trust Fund Loan - Trust Share

Date of Issue	Amount of Issue	Description	Balance Oct. 31, 2005	Redeemed	Balance Oct. 31, 2006
11/1/95	12,330,000.00	Mantua Creek Force Main and Upper Mantua Creek Interceptor Project	7,835,000.00	620,000.00	7,215,000.00

Schedule of Annual Maturities

Due July 1	Interest Rate	Annual Principal Payment
2007	4.900%	650,000.00
2008	5.000%	685,000.00
2009	5.100%	715,000.00
2010	5.200%	755,000.00
2011	5.250%	795,000.00
2012	5.250%	835,000.00
2013	5.250%	880,000.00
2014	5.250%	925,000.00
2015	5.250%	975,000.00
		<u>7,215,000.00</u>

Wastewater Trust Fund Loan - Fund Share

Date of Issue	Amount of Issue	Description	Balance Oct. 31, 2005	Redeemed	Balance Oct. 31, 2006
11/1/95	9,927,320.00	Mantua Creek Force Main and Upper Mantua Creek Interceptor Project	1,503,227.50	521,705.95	981,521.55

Schedule of Annual Maturities

Due	Interest Rate	Annual Principal Payment
1/1/07	0.00%	95,189.63
7/1/07	0.00%	426,638.70
1/1/08	0.00%	87,069.12
7/1/08	0.00%	372,624.10
		<u>981,521.55</u>

GLOUCESTER COUNTY UTILITIES AUTHORITY
SCHEDULE OF BONDS AND LOANS PAYABLE
FOR THE YEAR ENDED OCTOBER 31, 2006

Wastewater Trust Fund Loan - Trust Share

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>	<u>Balance Oct. 31, 2006</u>
10/15/98	1,965,000.00	Incinerator No. 1 Project & Upgrade & Rehabilitation of Existing Aeration Tank	1,505,000.00	90,000.00	1,415,000.00

Schedule of Annual Maturities

<u>Due January 1</u>	<u>Interest Rate</u>	<u>Annual Principal Payment</u>
2007	4.250%	90,000.00
2008	4.250%	95,000.00
2009	4.500%	100,000.00
2010	4.500%	105,000.00
2011	4.500%	110,000.00
2012	4.500%	115,000.00
2013	4.500%	120,000.00
2014	4.500%	125,000.00
2015	4.500%	130,000.00
2016	4.500%	135,000.00
2017	4.500%	140,000.00
2018	4.500%	150,000.00
		<u>1,415,000.00</u>

Wastewater Trust Fund Loan - Fund Share

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>	<u>Balance Oct. 31, 2006</u>
10/15/98	1,850,000.00	Incinerator No. 1 Project & Upgrade & Rehabilitation of Existing Aeration Tank	1,284,733.50	99,944.31	1,184,789.19

Schedule of Annual Maturities

<u>Due</u>	<u>Interest Rate</u>	<u>Annual Principal Payment</u>
1/1/07	0.00%	97,509.94
1/1/08	0.00%	98,257.76
1/1/09	0.00%	98,870.33
1/1/10	0.00%	99,188.54
1/1/11	0.00%	99,363.56
1/1/12	0.00%	99,395.39
1/1/13	0.00%	99,284.01
1/1/14	0.00%	99,029.44
1/1/15	0.00%	98,631.66
1/1/16	0.00%	98,090.69
1/1/17	0.00%	97,406.52
1/1/18	0.00%	99,761.35
		<u>1,184,789.19</u>

GLOUCESTER COUNTY UTILITIES AUTHORITY
SCHEDULE OF BONDS AND LOANS PAYABLE
FOR THE YEAR ENDED OCTOBER 31, 2006

1999 Series

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>	<u>Balance Oct. 31, 2006</u>
7/1/99	3,125,000.00	Shopper Lane Pump Station Project & Ash Dewatering Project	<u>560,000.00</u>	<u>130,000.00</u>	<u>430,000.00</u>

Schedule of Annual Maturities

<u>Due January 1</u>	<u>Interest Rate</u>	<u>Annual Principal Payment</u>
2007	4.60%	135,000.00
2008	4.70%	145,000.00
2009	4.70%	150,000.00
		<u>430,000.00</u>

Wastewater Trust Fund Loan - Trust Share

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>	<u>Balance Oct. 31, 2006</u>
10/15/99	350,000.00	Incinerator No. 1 Project & Upgrade & Rehabilitation of Existing Aeration Tank	<u>285,000.00</u>	<u>15,000.00</u>	<u>270,000.00</u>

Schedule of Annual Maturities

<u>Due January 1</u>	<u>Interest Rate</u>	<u>Annual Principal Payment</u>
2007	4.80%	15,000.00
2008	4.90%	15,000.00
2009	5.00%	15,000.00
2010	5.50%	15,000.00
2011	5.50%	20,000.00
2012	5.50%	20,000.00
2013	5.50%	20,000.00
2014	5.50%	20,000.00
2015	5.50%	25,000.00
2016	5.50%	25,000.00
2017	5.50%	25,000.00
2018	5.70%	25,000.00
2019	5.70%	30,000.00
		<u>270,000.00</u>

GLOUCESTER COUNTY UTILITIES AUTHORITY
SCHEDULE OF BONDS AND LOANS PAYABLE
FOR THE YEAR ENDED OCTOBER 31, 2006

Wastewater Trust Fund Loan - Fund Share

Date of Issue	Amount of Issue	Description	Balance Oct. 31, 2005	Redeemed	Balance Oct. 31, 2006
10/15/99	333,411.00	Incinerator No. 1 Project & Upgrade & Rehabilitation of Existing Aeration Tank	244,319.81	17,821.35	226,498.46

Schedule of Annual Maturities

Due January 1	Interest Rate	Annual Principal Payment
2007	0.00%	17,377.43
2008	0.00%	16,928.83
2009	0.00%	16,470.89
2010	0.00%	16,003.60
2011	0.00%	18,604.84
2012	0.00%	17,919.48
2013	0.00%	17,234.13
2014	0.00%	16,548.77
2015	0.00%	18,978.67
2016	0.00%	18,121.97
2017	0.00%	17,265.28
2018	0.00%	16,408.58
2019	0.00%	18,635.99
		226,498.46

Wastewater Trust Fund Loan - Trust Share

Date of Issue	Amount of Issue	Description	Balance Oct. 31, 2005	Redeemed	Balance Oct. 31, 2006
10/15/01	2,185,000.00	2001 Capital Project	1,965,000.00	80,000.00	1,885,000.00

Schedule of Annual Maturities

Due January 1	Interest Rate	Annual Principal Payment
2007	5.50%	85,000.00
2008	5.50%	90,000.00
2009	5.00%	95,000.00
2010	5.50%	100,000.00
2011	5.50%	105,000.00
2012	5.50%	110,000.00
2013	5.50%	115,000.00
2014	5.00%	125,000.00
2015	5.00%	130,000.00
2016	5.00%	135,000.00
2017	5.00%	145,000.00
2018	5.00%	150,000.00
2019	5.00%	160,000.00
2020	4.75%	165,000.00
2021	4.75%	175,000.00
		1,885,000.00

GLOUCESTER COUNTY UTILITIES AUTHORITY
SCHEDULE OF BONDS AND LOANS PAYABLE
FOR THE YEAR ENDED OCTOBER 31, 2006

Wastewater Trust Fund Loan - Fund Share

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>	<u>Balance Oct. 31, 2006</u>
10/15/01	2,259,383.00	2001 Capital Project	<u>1,686,746.72</u>	<u>118,118.52</u>	<u>1,568,628.20</u>

Schedule of Annual Maturities

<u>Due January 1</u>	<u>Interest Rate</u>	<u>Annual Principal Payment</u>
2007	0.00%	118,773.18
2008	0.00%	118,985.95
2009	0.00%	119,018.69
2010	0.00%	119,182.35
2011	0.00%	118,855.01
2012	0.00%	118,347.65
2013	0.00%	117,660.25
2014	0.00%	120,066.15
2015	0.00%	119,247.82
2016	0.00%	118,265.82
2017	0.00%	120,393.48
2018	0.00%	118,920.48
2019	0.00%	120,557.15
2020	0.00%	20,354.22
		<u>1,568,628.20</u>

2002 Refunding Series

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>	<u>Balance Oct. 31, 2006</u>
3/1/02	4,675,000.00	Revenue Refunding Bonds	<u>2,470,000.00</u>	<u>795,000.00</u>	<u>1,675,000.00</u>

Schedule of Annual Maturities

<u>Due January 1</u>	<u>Interest Rate</u>	<u>Annual Principal Payment</u>
2007	4.00%	820,000.00
2008	4.00%	855,000.00
		<u>1,675,000.00</u>

GLOUCESTER COUNTY UTILITIES AUTHORITY
SCHEDULE OF BONDS AND LOANS PAYABLE
FOR THE YEAR ENDED OCTOBER 31, 2006

2003 Refunding Bonds

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Description</u>	<u>Balance Oct. 31, 2005</u>	<u>Redeemed</u>	<u>Balance Oct. 31, 2006</u>
4/15/03	9,970,000.00	Revenue Refunding bonds	<u>9,970,000.00</u>	<u>270,000.00</u>	<u>9,700,000.00</u>

Schedule of Annual Maturities

<u>Due January 1</u>	<u>Interest Rate</u>	<u>Annual Principal Payment</u>
2007	3.500%	305,000.00
2008	3.500%	315,000.00
2009	3.500%	325,000.00
2010	3.250%	335,000.00
2011	3.500%	350,000.00
2012	3.500%	360,000.00
2013	3.625%	375,000.00
2014	3.750%	385,000.00
2015	3.800%	400,000.00
2016	3.900%	415,000.00
2017	4.000%	430,000.00
2018	4.100%	450,000.00
2019	4.125%	470,000.00
2020	4.200%	490,000.00
2021	4.250%	510,000.00
2022	4.300%	530,000.00
2023	4.350%	555,000.00
2024	4.400%	575,000.00
2025	4.500%	600,000.00
2026	4.500%	280,000.00
2027	4.500%	290,000.00
2028	4.600%	305,000.00
2029	4.600%	320,000.00
2030	4.600%	330,000.00
		<u>9,700,000.00</u>

GLOUCESTER COUNTY UTILITIES AUTHORITY
SCHEDULE OF BONDS AND LOANS PAYABLE
FOR THE YEAR ENDED OCTOBER 31, 2006

2005A Refunding Bonds

Date of Issue	Amount of Issue	Description	Balance Oct. 31, 2005	Balance Oct. 31, 2006
8/18/05	2,125,000.00	Revenue Refunding bonds	<u>2,125,000.00</u>	<u>2,125,000.00</u>

Schedule of Annual Maturities

Due January 1	Interest Rate	Annual Principal Payment
2008	3.050%	20,000.00
2009	3.200%	20,000.00
2010	3.250%	180,000.00
2011	3.400%	180,000.00
2012	3.550%	190,000.00
2013	3.600%	195,000.00
2014	3.700%	200,000.00
2015	3.800%	210,000.00
2016	3.900%	215,000.00
2017	4.050%	230,000.00
2018	4.100%	235,000.00
2019	4.125%	250,000.00
		<u>2,125,000.00</u>

2005B Refunding Bonds

Date of Issue	Amount of Issue	Description	Balance Oct. 31, 2005	Balance Oct. 31, 2006
10/5/05	18,040,000.00	Revenue Refunding bonds	<u>18,040,000.00</u>	<u>18,040,000.00</u>

Schedule of Annual Maturities

Due January 1	Interest Rate	Annual Principal Payment
2008	4.500%	805,000.00
2009	4.500%	860,000.00
2010	5.000%	905,000.00
2011	5.000%	950,000.00
2012	5.000%	1,000,000.00
2013	5.000%	1,045,000.00
2014	5.000%	1,105,000.00
2015	5.000%	1,150,000.00
2016	5.000%	1,210,000.00
2017	5.000%	1,285,000.00
2018	5.000%	1,340,000.00
2019	5.000%	1,410,000.00
2020	5.000%	1,480,000.00
2021	5.000%	1,550,000.00
2022	5.000%	620,000.00
2023	5.000%	645,000.00
2024	5.000%	680,000.00
		<u>18,040,000.00</u>

	Balance October 31, 2005	Redeemed	Balance October 31, 2006
Summary Total of all Bonds and Loans	<u>57,829,027.53</u>	<u>4,272,590.13</u>	<u>53,556,437.40</u>

ROSTER OF OFFICIALS

October 31, 2006

<u>Authority Members</u>	<u>Position</u>	<u>Expiration Of Term</u>
David P. Shields	Chairman	1/31/2010
James A. Sabetta	Vice Chairman	1/31/2007
Howard Bruner	Secretary	1/31/2008
Edna Sullivan	Treasurer	1/31/2010
Edward Nolan	Member	1/31/2007
Josephine Myers	Member	1/31/2008
JoAnn Rothmaller	Member	1/31/2009
Salvatore Fogarino	Member	1/31/2011
Ralph Ross	Member	1/31/2011

Other Officials

Anna Marie Donofrio	Executive Director
Richard A. Alaimo Associates	Consulting Engineer
Timothy W. Chell, Esq.	Solicitor

GENERAL COMMENTS

Contracts and Agreements Required to be Advertised for N.J.S.A. 40A:11-4

N.J.S.A. 40A:11-4 states “Every contract or agreement, for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds, not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate the amount set forth in, or the amount calculated by the Governor pursuant to Section 3 of P.L. 1971, c. 198 (C.40A:11-3), except by contract or agreement”.

The Authority has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the calendar year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Solicitor’s opinion should be sought before a commitment is made.

The minutes indicate that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for “Professional Services” per N.J.S.A. 40A:11-5.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishings of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed.

Our examination of expenditures did not reveal any individual payments, contracts or agreements in excess of the bid threshold “for the performance of any work or the furnishing or hiring of any materials or supplies”, other than those where bids had been previously sought by public advertisements or where a resolution had been previously adopted under the provisions of N.J.S.A. 40A:11-6.

Cash Management Program

The Authority has adopted a cash management plan and deposits its money in accordance with N.J.A.C. 5:31-3.1. All money received by the Authority is deposited within 48 hours in its legal depositories. The investment of Authority funds is in interest bearing accounts. The practice of cashing checks with public funds is prohibited.

All disbursements are made only after the approval of the members of the Authority. All other transfers are made by the Trustee who is also responsible for investing Authority funds in accordance with the Bond Resolution.

Examination of Claims

An examination of claims paid during the period under review indicated no discrepancies with respect to claimant’s certification and acknowledgment of receipt as required by N.J.A.C. 5:31-4.1.

Accounting System

The records maintained by the Authority were found to be in good condition.

A general ledger has been established by the Authority. The general ledger is the official permanent financial record of the Authority which provides a summary of all financial transactions as they have been recorded in the books of original entry utilizing a “double entry” accounting system.

Fixed Assets

A fixed asset accounting and reporting system has been established by the Authority. Fixed assets comprise the most significant investment of the Authority, therefore, it is important that these assets are properly safeguarded. A system for maintaining and verifying fixed assets can provide these safeguards as well as provide valuable management information.

RECOMMENDATIONS

None

Acknowledgment

We received the complete cooperation of all the officials of the Authority and we greatly appreciate the courtesies extended to the members of the audit team.

Respectfully submitted,

PETRONI & ASSOCIATES

Nick L. Petroni
Certified Public Accountant
Registered Municipal Accountant #252