

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT**

**REPORT OF AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1-3
 <u>Financial Statements</u>	
Schedule A Comparative Statements of Assets, Liabilities and Net Assets	4-5
Schedule B Comparative Statements of Revenues, Expenses and Changes in Restricted and Unrestricted Net Assets	6
Schedule C Statements of Changes in Net Assets by Fund	7
Notes to Financial Statements	8-31
 <u>Supplementary Schedules</u>	
Schedule 1 Schedule of Revenues and Expenditures – Budget to Actual	32
Schedule 2 Schedule of Revenues, Expenses and Changes in Restricted and Unrestricted Net Assets by Fund	33
Roster of Officials as of December 31, 2016	34
 <u>Government Auditing Standards</u>	
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 – Independent Auditor's Report	35-36
Schedule of Findings and Responses	37-38
Summary Schedule of Prior Audit Findings	39



# LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA  
GARY J. VINCI, CPA, RMA, PSA  
GARY W. HIGGINS, CPA, RMA, PSA  
JEFFREY C. BLISS, CPA, RMA, PSA  
PAUL J. LERCH, CPA, RMA, PSA  
DONNA L. JAPHET, CPA, PSA  
JULIUS B. CONSONI, CPA, PSA  
ANDREW D. PARENTE, CPA, RMA, PSA

ELIZABETH A. SHICK, CPA, RMA, PSA  
ROBERT W. HAAG, CPA, PSA  
DEBORAH K. LERCH, CPA, PSA  
RALPH M. PICONE, CPA, RMA, PSA  
DEBRA GOLLE, CPA  
CINDY JANACEK, CPA, RMA  
MARK SACO, CPA  
SHERYL M. NICOLosi, CPA, PSA

## INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the Board of Commissioners  
North Jersey District Water Supply Commission  
Wanaque, New Jersey

### *Report on the Financial Statements*

We have audited the accompanying statements of assets, liabilities and net assets - modified accrual basis of the North Jersey District Water Supply Commission (the "Commission")-Wanaque North Project (the "Project"), as of and for the years ended December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in restricted and unrestricted net assets - modified accrual basis and changes in net assets by fund – modified accrual basis for the years then ended and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified accrual basis of accounting, which differs in certain respects from accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditor's Responsibility*

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the financial statements of the Wanaque North Project are prepared by the North Jersey District Water Supply Commission on the modified accrual basis of accounting. This basis of accounting does not present the financial statements in accordance with accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the modified accrual basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### ***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph above, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the North Jersey District Water Supply Commission - Wanaque North Project as of December 31, 2016 and 2015, or changes in financial position, or, where applicable, cash flows for the years then ended.

### ***Opinion on Modified Accrual Basis of Accounting***

In our opinion, the financial statements – modified accrual basis referred to above present fairly, in all material respects, the financial position – modified accrual basis of the North Jersey District Water Supply Commission Wanaque North Project as of December 31, 2016 and 2015, and the respective changes in restricted and unrestricted net assets – modified accrual basis and changes in net assets by fund – modified accrual basis for the years then ended in accordance with the basis of financial accounting and reporting principles and practices as described in Note 1.

### ***Emphasis of Matter***

As discussed in Note 1 (A), the financial statements-modified accrual basis of the North Jersey District Water Supply Commission Wanaque North Project, are intended to present the financial position-modified accrual basis, the changes in restricted and unrestricted net assets-modified accrual basis and the changes in net assets by fund-modified accrual basis of only that portion of the North Jersey District Water Supply Commission that is attributable to the transactions of the Wanaque North Project. They do not purport to, and do not, present fairly the financial position-modified accrual basis of the North Jersey District Water Supply Commission as of December 31, 2016 and 2015, the changes in its restricted and unrestricted net assets-modified accrual basis and the changes in its net assets by fund-modified accrual basis for the years then ended in accordance with the basis of financial accounting and reporting principles and practices as described in Note 1. Our opinion on the financial statements-modified accrual basis is not modified with respect to this matter.

### ***Other Matters***


#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements of the North Jersey District Water Supply Commission Wanaque North Project. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the North Jersey District Water Supply Commission Wanaque North Project.

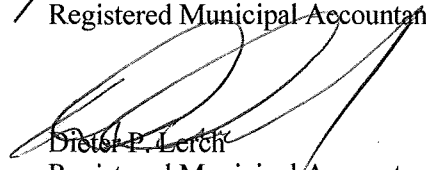
The supplementary schedules listed in the table of contents and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules listed in the table of contents and schedule of expenditures of state financial assistance are fairly stated, in all material respects, in relation to the financial statements as a whole on the basis of accounting described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2017 on our consideration of the North Jersey District Water Supply Commission - Wanaque North Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the North Jersey District Water Supply Commission Wanaque North Project's internal control over financial reporting and compliance.



LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants



Dieter P. Lerch  
Registered Municipal Accountant  
RMA Number CR00398

Fair Lawn, New Jersey  
July 28, 2017

## **Financial Statements**

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION**  
**WANAQUE NORTH PROJECT**  
**COMPARATIVE STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS-**  
**(MODIFIED ACCRUAL BASIS)**  
**AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u> (Restated)
<b>ASSETS</b>		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 37,459,673	\$ 31,841,407
Due from Wanaque South, a Joint Venture	437,100	391,179
Due from Wanaque South Project	1,289,401	2,221,875
Other Receivables	10,233	539,304
Prepaid Expense		13,219
Inventory	<u>119,062</u>	<u>104,142</u>
Total Unrestricted Current Assets	<u>39,315,469</u>	<u>35,111,126</u>
Restricted Current Assets		
Restricted Cash and Cash Equivalents	14,956,702	16,030,969
NJEIT Loans Receivable	<u>7,601,662</u>	<u>54,862</u>
Total Restricted Current Assets	<u>22,558,364</u>	<u>16,085,831</u>
Non Current Assets		
Capital Assets		
Property, Plant and Equipment	<u>142,573,724</u>	<u>134,536,028</u>
Total Non Current Assets	<u>142,573,724</u>	<u>134,536,028</u>
Total Assets	<u>\$ 204,447,557</u>	<u>\$ 185,732,985</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION**  
**WANAQUE NORTH PROJECT**  
**COMPARATIVE STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS-**  
**(MODIFIED ACCRUAL BASIS)**  
**AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u> (Restated)
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable and Other Liabilities	\$ 462,534	\$ 1,114,818
Accrued Salary and Other Related Payroll Liabilities	224,758	239,133
Accrued Compensated Absences	223,585	155,585
Unearned Revenue	<u>1,151,409</u>	<u>1,147,622</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>2,062,286</u>	<u>2,657,158</u>
Current Liabilities (Payable from Restricted Assets)		
Bonds Payable	3,706,449	3,587,453
Temporary Note - EIT	7,601,662	54,862
Encumbrances Payable	10,912,573	3,558,725
Other Liabilities	<u>-</u>	<u>27,285</u>
Total Current Liabilities Payable from Restricted Assets	<u>22,220,684</u>	<u>7,228,325</u>
Non-Current Liabilities		
Bonds Payable	19,375,442	23,081,891
Accrued Compensated Absences	<u>349,700</u>	<u>478,558</u>
Total Non-Current Liabilities	<u>19,725,142</u>	<u>23,560,449</u>
Total Liabilities	<u>44,008,112</u>	<u>33,445,932</u>
<b>NET ASSETS</b>		
Investment in Capital Assets, net of related debt	<u>125,960,731</u>	<u>117,506,805</u>
Restricted For:		
Operating Reserve	8,445,000	8,445,000
Debt Service	823,019	825,839
Debt Reserve	3,680,863	3,680,863
Renewal and Replacement	13,804,938	13,804,938
Unrestricted	<u>7,724,894</u>	<u>8,023,608</u>
Total Restricted and Unrestricted Net Assets	<u>34,478,714</u>	<u>34,780,248</u>
Total Net Assets	<u>160,439,445</u>	<u>152,287,053</u>
Total Liabilities and Net Assets	<u>\$ 204,447,557</u>	<u>\$ 185,732,985</u>

The Accompanying Notes are an Integral Part of these Financial Statements



**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION**  
**WANAQUE NORTH PROJECT**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN**  
**RESTRICTED AND UNRESTRICTED NET ASSETS**  
**(MODIFIED ACCRUAL BASIS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Charges for Services	\$ 25,583,297	\$ 25,583,297
Other User Fees	712,154	713,368
Rental Income	135,445	132,439
Reimbursement - Wanaque South Project, a Joint Venture	5,088,661	5,218,920
Reimbursement - Wanaque South Project	4,576,642	4,321,802
Miscellaneous Income	<u>85,095</u>	<u>218,994</u>
Total Operating Revenues	<u>36,181,294</u>	<u>36,188,820</u>
<b>OPERATING EXPENSES</b>		
Payroll and Related Expenses	10,052,672	10,195,794
Utilities and Fuel	1,891,205	2,042,192
Real Estate Taxes	3,486,146	3,407,800
Insurance	4,731,545	4,730,877
Legal and Accounting	230,372	304,372
Engineering and Consulting	1,216,356	290,917
Supplies and Expenses	2,838,193	3,240,668
Chemicals	2,102,809	2,036,669
Trustee Fees	45,916	36,180
Bond Principal	<u>3,587,453</u>	<u>2,416,802</u>
Total Operating Expenses	<u>30,182,667</u>	<u>28,702,271</u>
<b>Operating Income</b>	<u>5,998,627</u>	<u>7,486,549</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income	94,179	26,773
Interest Expense	(820,746)	(619,713)
NJEIT Earnings Credit		6,160
Capital Outlay	(2,209,839)	(2,478,007)
Costs of Issuance		(250,951)
Excess Trustee Funds	975,166	
FEMA Reimbursements	153,692	98,489
Cancelled Prior Year Liabilities	418,649	139,600
Other Income and (Debits)	<u>(44,789)</u>	<u>(43,167)</u>
Total Non-Operating Revenue (Expenses)	<u>(1,433,688)</u>	<u>(3,120,816)</u>
<b>Excess of Revenues Over Expenditures</b>	4,564,939	4,365,733
Transfer to Investment in Capital Assets, net of related debt	<u>(4,866,473)</u>	<u>-</u>
<b>Change in Restricted and Unrestricted Net Assets</b>	(301,534)	4,365,733
Restricted and Unrestricted Net Assets - Beginning of Year	<u>34,780,248</u>	<u>30,414,515</u>
Restricted and Unrestricted Net Assets - End of Year	<u>\$ 34,478,714</u>	<u>\$ 34,780,248</u>

The Accompanying Notes are an Integral Part of these Financial Statements

**WANAQUE NORTH PROJECT**  
**STATEMENTS OF CHANGES IN NET ASSETS BY FUND**  
**(MODIFIED ACCRUAL BASIS)**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**  
**(Restated)**

	<u>Investment in Capital Assets</u>	<u>Operating Reserve</u>	<u>Debt Service</u>	<u>Restricted Debt Reserve</u>	<u>Renewal and Replacement</u>	<u>Total Restricted</u>	<u>Unrestricted</u>	<u>Total Net Assets</u>
Balance, January 1, 2015	\$ 115,090,003	\$ 6,445,000	\$ 787,245	\$ 3,365,000	\$ 10,804,938	\$ 21,402,183	\$ 9,012,332	\$ 145,504,518
Additions	2,416,802	2,000,000	38,594	315,863	3,000,000	5,354,457		7,771,259
Reductions						-	(5,354,457)	(5,354,457)
Change in Net Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,365,733</u>	<u>4,365,733</u>
Balance, December 31, 2015	117,506,805	8,445,000	825,839	3,680,863	13,804,938	26,756,640	8,023,608	152,287,053
Additions	8,453,926					-	2,820	8,456,746
Reductions			(2,820)			(2,820)	-	(2,820)
Change in Net Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(301,534)</u>	<u>(301,534)</u>
Balance, December 31, 2016	<u>\$ 125,960,731</u>	<u>\$ 8,445,000</u>	<u>\$ 823,019</u>	<u>\$ 3,680,863</u>	<u>\$ 13,804,938</u>	<u>\$ 26,753,820</u>	<u>\$ 7,724,894</u>	<u>\$ 160,439,445</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The North Jersey District Water Supply Commission (the "Commission") is a public body politic and corporate established by Chapter 70 and 71, New Jersey Public Law 1916, and amended by Title 58 Chapter 5 of the Revised Statutes of 1937 (Section 58:5-1 et seq.). The law authorized the Commission to supply and distribute water to the counties of Sussex, Warren, Hunterdon, Passaic, Morris, Monmouth, Somerset, Bergen, Hudson, Essex, Union and Middlesex (the "District"). The Commission is empowered to finance, construct, and operate facilities necessary for the treatment, filtration, transmission, and distribution of potable water within the District.

The Commission is governed by a Board of Commissioners ("the Board") consisting of seven members appointed by the Governor, with the advice and consent of the Senate, to serve over-lapping four year terms. An executive director is appointed by the Board and functions as chief executive officer responsible for the daily operations of the Commission.

The Commission has no stockholders and its investment in water supply facilities is jointly owned by the participating municipalities in proportion to the amount of water to be taken in the contract between each of the municipalities and the Commission.

The cost of operations of the several water supply projects is apportioned at the end of each year among the participating municipalities based on the amount of actual water consumed by each, but such amount shall not be less than the quantity contracted for. In apportioning operating costs, no participating municipality shall be charged with any item of expense or cost of operation of any water supply project, which is not used in supplying water to the respective municipality.

The Commission has the power to sell any unused water to any municipality or person for the amount of any contracting municipality or municipalities (hereinafter call the "interested municipality") having the right to use such water. The sale of unused water shall be at a price determined by the Commission, but not at a price lower than the cost of water to the interested municipality unless such municipality shall consent thereto.

The Governmental Accounting Standards Board (GASB) requires the financial reporting entity to include both the primary government and component units. Component units are legally separate organizations for which the Commission is financially accountable. The Commission is financially accountable for an organization if the Commission appoints a voting majority of the organization's governing board and (1) the Commission is able to significantly influence the programs or services performed or provided by the organization; or (2) the Commission is legally entitled to or can otherwise access the organization's resources; the Commission is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Commission is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Commission in that the Commission approves the budget, the issuance of debt or the levying of taxes. Based on such criteria, the Commission has no component units. Additionally, the Commission is not considered a component unit of any other entity.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Reporting Entity (Continued)**

The Commission, in accordance with its authorization in R.S. 58:5-1 et seq. to supply water to interested municipalities in the North Jersey District, developed the Wanaque North (formerly the Wanaque Ramapo) Project and the Wanaque South Project. The operation of the Wanaque North Project is governed by an agreement executed on December 26, 1940 between the Commission and the participating municipalities. This report contains the financial statements of the Wanaque North Project only. The Commission does not issue entity wide financial statements and is therefore not in compliance with requirements of the Governmental Accounting Standards Board.

As a public body under existing statute, the Commission is exempt from both Federal and State taxes. The municipalities in the North Jersey District Water Supply contracting with the Commission to receive water from the Wanaque River and the allotment to each municipality, as revised in 1982, are as follows:

<u>MUNICIPALITY</u>	<u>ALLOTMENT PER DAY (IN MILLIONS OF GALLONS)</u>
Newark	38.070
*Paterson	18.800
Kearny	11.280
*Passaic	10.340
*Clifton	6.345
Montclair	4.700
Bloomfield	3.760
Glen Ridge	<u>0.705</u>
	<u>94.000</u>

\*Represented by the Passaic Valley Water Commission

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accounts of the Commission are organized on the basis of funds, in accordance with the original Bond Resolution, each of which is considered a separate accounting activity. The operations of each system are accounted for with a separate set of self-balancing accounting records that comprise its assets, liabilities, net assets, revenues and expenses. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various activities are grouped into one generic fund type and one broad fund category, as follows:

**Proprietary Fund Type**

*Enterprise Fund* - The Enterprise Fund is used to account for governmental operations which are financed and operated in a manner similar to private enterprises, where the intent of the governing body is that the costs of providing goods or services to its participants on a continuing basis be financed or recovered primarily through participant charges.

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The Commission's financial transactions are recorded in accounts that are created by various resolutions adopted by the Commission to meet bond or note covenant requirements.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are charges assessed to participants for water supply services. Operating expenses include the cost of operations and services, administrative expenses and bond principal payments. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses and bond principal payments. Transactions or other events that are both unusual in nature and infrequent in occurrence are reported as extraordinary items.

The Commission's financial statements are reported using the *economic resources measurement focus* and the *modified accrual basis of accounting*. Assets and liabilities associated with these operations are included on the Statement of Net Assets, with exceptions noted below. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, with exceptions noted below. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. These accounting principles differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The more significant differences are noted below.

**Revenues** – Revenues are recognized on an accrual basis, with minor exceptions. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

**Expenses** – Expenses are recognized on the accrual basis and include payments for bond principal and capital outlays as expenses. GAAP requires expenses to be recognized in the accounting period in which the liability is incurred, if measurable. GAAP does not recognize bond principal and capital outlay payments as expenses for proprietary fund types.

**Inventories** – The cost of inventories of supplies are recorded as expenses at the time the individual items are purchased. However, there are inventories of minor plant supplies that are included on the statements of net assets.

**Property, Plant and Equipment** – Property, plant and equipment is recorded at cost with no recognition of depreciation. GAAP requires the recognition of depreciation of Property, Plant and Equipment for Proprietary Funds. The Wanaque North Project expenses debt principal payments in lieu of depreciation.

**Loans Receivable** – The Commission has participated in low cost financing through the New Jersey Environmental Infrastructure Trust ("NJEIT"). The Commission is reimbursed for allowable expenditures upon submission of a requisition evidencing actual expenditures.

**Debt Issuance** – Deferred amounts on debt refundings are expensed when incurred. GAAP requires that these costs be deferred and amortized over the life of the related bond issue.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**Unearned Revenue** – Unearned revenue consists primarily of the balance of funds available under the NJEIT loans, net of outstanding requisitions, amounts received from various sources that have not been expended and reserved for capital projects.

**OPEB Liability**-The Commission reports its annual other post-employment benefit expenses on a pay as you go basis. GAAP requires OPEB expenses be based on the annual required contribution (ARC) as determined under GASB 45 and a liability to be recorded for the net OPEB obligation at year end.

**Net Assets** – Net assets are reported in three components:

*Investment in capital assets, net of related debt.* – This category groups all capital assets, including infrastructure, into one component of net assets. The outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

*Restricted net assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations or other governments and restrictions imposed by laws through constitution provisions or enabling legislation.

*Operating Reserve* – Established to provide funds to meet operational needs of the project in the event that budgeted quarterly collections are insufficient. The Reserve may not exceed 6 months of the operating budget, exclusive of debt service.

*Debt Service* – A cash reserve established to provide bond holders with assurance that cash will be available to meet scheduled bond payments in the event there is a shortfall in budgeted collections.

	December 31	
	2016	2015
Debt Service Reserve	\$ 823,019	\$ 825,839
Debt Service Requirement	<u>823,019</u>	<u>825,839</u>
Excess	<u>\$ -0-</u>	<u>\$ -0-</u>

*Debt Reserve* – A Debt Service Reserve Fund is established under the General Bond Resolution for the benefit of all Bonds Outstanding from time to time thereunder. The General Bond Resolution defines the “Debt Service Reserve Fund Requirement” to mean, as of any date of calculation, an amount equal to the aggregate Debt Service Reserve Fund Requirements for each Series of Bonded Indebtedness then Outstanding, as provided for with respect to such Series in the applicable Supplemental Resolution. Accordingly, the aggregate Debt Service Reserve Fund Requirement will be \$3,680,863, which amount will be less than the maximum annual debt service on all Bonds Outstanding under the General Bond Resolution.

*Renewal and Replacement* – Funds which have been appropriated in the budgetary process for various purposes i.e. major plant repairs, upgrades, fleet renewal and replacement, etc.

*Unrestricted net assets* – This category represents net assets of the Wanaque North Project not restricted for any project or other purpose.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**Capital Outlays** – Capital projects that do not relate to infrastructure or other capitalizable assets are expensed in the period incurred. GAAP requires that these costs be capitalized and depreciated over the estimated life of the asset.

**Budget** - In accordance with the Commission's enabling legislation, the Commission holds public hearings and adopts an annual budget for operating expenses and capital outlays. The budget is adopted on a basis consistent with the cash basis of accounting, including no provision for depreciation and amortization. It is monitored at various levels of classification detail within the enterprise funds. Expenses at the fund level may not exceed the total budget.

**Use of Estimates** – The preparation of financial statements requires management of the Commission to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of accrued revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

**Reclassifications** - Certain reclassifications have been made to the December 31, 2015 balances to conform to the December 31, 2016 presentation.

**C. Financial Statements – Modified Accrual Basis**

The GASB Codification also requires the financial statements of a governmental unit to be presented in the basic financial statements in accordance with GAAP. The Commission presents the modified accrual basis financial statements listed in the table of contents which differ from the basic financial statements required by GAAP.

**NOTE 2 CASH DEPOSITS AND INVESTMENTS**

The Commission considers petty cash, change funds, cash in banks, certificates of deposit and deposits with the New Jersey Cash Management Fund as cash and cash equivalents.

**Cash Deposits**

The Commission's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Commission is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued)**

**Cash Deposits (Continued)**

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. NCUSIF insures credit union accounts up to \$250,000 in the aggregate for each financial institution. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2016 and 2015, the book value of the Commission's deposits for the Wanaque North Project were \$37,459,673 and \$31,841,407 and bank and brokerage firm balances of the Commission's deposits for the Wanaque North Project amounted to \$37,802,273 and \$32,405,885 at year end. The Commission's deposits which are displayed on the balance sheet as "cash and cash equivalents" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2016</u>	<u>2015</u>
Insured	\$ <u>37,802,273</u>	\$ <u>32,405,885</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Commission does not have a formal policy for custodial credit risk. As of December 31, 2016 and 2015, the Commission's Wanaque North Project bank balances were not exposed to custodial credit risk.

**Investments**

The Commission is required by its Bond Resolutions to maintain each of its Wanaque North investments in the fund (account) in which the investment is made. In all accounts, except the operating accounts, the securities and the underlying collateral are held by the Bond Trustees and are within their care, custody and control. The type, quality and length of time of investment are regulated by the Bond Resolution.

Investments permitted under the Commission's Bond Resolution include the following:

- Direct obligations of the United States of America or obligations which are unconditionally guaranteed by the United States of America.
- Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are back by the full faith and credit of the United States of America: (1) U.S. Export-Import Bank; (2) Farmers Home Administration; (3) Federal Financing Bank; (4) Federal Housing Administration Debentures; (5) General Services Administration; (6) Government National Mortgage Association; (7) U.S. Maritime Administration; and (8) U.S. Department of Housing and Urban Development.
- Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies: (1) Federal Home Loan Bank System; (2) Federal Home Loan Mortgage Corporation; (3) Federal National Mortgage Association; (4) Student Loan Marketing Association; (5) Resolution Funding Corp. obligations; and (6) Farm Credit System.
- Money market funds registered under the Federal Investment Company Act of 1940.
- Certificates of deposit secured at all times by collateral described above.



**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued)**

**Investments (Continued)**

- Certificates of deposit, savings accounts, deposit accounts, or money market deposits which are fully insured by FDIC, including Bank Insurance Fund ("BIF") and Savings Association Insurance Fund ("SAIF").
- Investment Agreements, including Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to Municipal Bond Insurance Association ("MBIA").
- Commercial paper rated, at the time of purchase "Prime – 1" by Moody's and "A-1" or better by Standard & Poor's ("S&P").
- Bonds or Notes issued by any state or municipality, which are rated, by Moody's and S&P in one of the two highest rating categories assigned by such agencies.
- Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1" or "A" or better by S&P.
- The New Jersey Cash Management Fund and Repurchase Agreements for 30 days or less. Repurchase agreements, which exceed 30 days, must be acceptable to the insurer.

As of December 31, 2016 and 2015, the Commission had the following Wanaque North Project investments:

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2016</u>	<u>2015</u>
U.S. Government Security Funds		
Restricted	<u>\$ 14,956,702</u>	<u>\$ 16,030,969</u>

Custodial Credit Risk - Investments – For an investment, this is the risk, that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are held by an outside party. The Commission does not have a policy for custodial risk. As of December 31, 2016 and 2015, \$14,956,702 and \$16,030,969, respectively of the Commission's Wanaque North Project investments were exposed to custodial credit risk as follows:

	<u>Fair Value</u>	
	<u>2016</u>	<u>2015</u>
Uninsured and Collateralized		
Collateral Held by Pledging Financial		
Institutions' Trust Department or Agent		
But Not in the Commission's Name	<u>\$ 14,956,702</u>	<u>\$ 16,030,969</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued)**

**Investments (Continued)**

Interest Rate Risk – The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Bond Resolution limits investments as noted above. The Commission does not have an investment policy that would further limit its investment choices.

Concentration of Credit Risk – The Commission places no limit in the amount the Commission may invest in any one issuer. 100% of the Commission's Wanaque North Project investments are in U.S. Government Security Funds.

The fair value of the above-listed investments were based on market prices and values provided by the respective financial institution.

**NOTE 3 RESTRICTED ASSETS**

Bond covenants of the Commission require portions of the debt proceeds as well as other resources to be set aside for various purposes under the control of the Bond Trustee. These amounts are reported as restricted assets. The "Revenue Fund" account reserves all revenues received for future distribution to the various accounts of the Commission in accordance with the Bond Resolution. The "Construction Fund" account segregates cash and investments that are restricted for use in construction or capital asset acquisitions. Cash and investments restricted for debt service payment on bonds are segregated in "Bond Service Fund" and "Sinking Fund" accounts. Cash and investments reserved to meet future debt service contingencies are segregated in "Bond Reserve Fund" accounts. Cash and investments reserved for major repairs, renewals, replacements and non-routine maintenance items are segregated in "Renewal and Replacement Fund" accounts. Cash and investments reserved for funding any deficiencies under the bond resolution are segregated in the "General Fund" accounts. Cash and investments reserved to pay debt issuance costs on revenue bonds are segregated in the "Cost of Issuance" accounts.

**NOTE 4 LOANS RECEIVABLE**

The Commission has participated in low cost financing through the New Jersey Environmental Infrastructure Trust ("NJEIT"). The Commission is reimbursed for allowable expenditures upon submission of a requisition evidencing actual expenditures. At December 31, 2016 and 2015, the available balances are as follows:

	<u>2016</u>	<u>2015</u>
2006 Project Bonds	\$ 54,862	54,862
2016 Project Notes	<u>7,546,800</u>	<u>-</u>
	<u>\$ 7,601,662</u>	<u>\$ 54,862</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2016 and 2015 was as follows:

<u>2016</u>	Balance, December 31, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2016</u>
Land	\$ 4,406,112			\$ 4,406,112
Buildings	91,326,648			91,326,648
Machinery and Equipment	23,510,661		\$ 85,958	23,424,703
Construction in Progress	<u>15,292,607</u>	<u>\$ 8,123,654</u>	<u>-</u>	<u>23,416,261</u>
	<u>\$ 134,536,028</u>	<u>\$ 8,123,654</u>	<u>\$ 85,958</u>	<u>\$ 142,573,724</u>

<u>2015</u>	Balance, December 31, <u>2014</u>	Prior Period <u>Adjustment</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2015</u>
Land	\$ 4,406,112				\$ 4,406,112
Buildings	91,326,648				91,326,648
Machinery and Equipment	23,641,324			\$ 130,663	23,510,661
Construction in Progress	<u>15,297,065</u>	<u>\$ (1,338,963)</u>	<u>\$ 1,334,505</u>	<u>-</u>	<u>15,292,607</u>
	<u>\$ 134,671,149</u>	<u>\$ (1,338,963)</u>	<u>\$ 1,334,505</u>	<u>\$ 130,663</u>	<u>\$ 134,536,028</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 6 LONG TERM DEBT**

**A. Revenue Bonds**

Revenue bonds outstanding as of December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
\$872,395, 2000 Project Revenue Bonds due in annual installments of \$52,803 to \$57,427 through August 1, 2020, interest at 5.05% to 5.25%	\$ 218,856	\$ 268,915
\$10,634,026, 2003A Project Revenue Bonds, due in annual installments of \$574,181 to \$656,612 through August 1, 2023, interest at 3% to 5%	4,295,890	4,864,327
\$1,431,464, 2006 Project Revenue Bonds, due in annual installments of \$73,958 to \$84,872 through August 1, 2026, interest at 3% to 5%	792,145	866,102
\$14,460,000, 2009 Project Revenue Refunding Bonds, due in annual installments of \$405,000 to \$1,640,000 through November 15, 2021, interest at 3% to 4%	5,570,000	7,025,000
\$10,715,000, 2015A Project Revenue Bonds, due in annual installments of \$640,000 to \$1,005,000 through November 15, 2034, interest at 3% to 5%	10,715,000	10,715,000
\$3,270,000, 2015B Project Revenue Refunding Bonds, due in annual installments of \$1,440,000 to \$1,490,000 through November 15, 2017, interest at 2% to 3%	<u>1,490,000</u>	<u>2,930,000</u>
	23,081,891	26,669,344
Less:		
Current Portion of Long-Term Debt	<u>(3,706,449)</u>	<u>(3,587,453)</u>
Non-Current Portion of Long-Term Debt	<u>\$ 19,375,442</u>	<u>\$ 23,081,891</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 6 LONG TERM DEBT (Continued)**

**A. Revenue Bonds (Continued)**

(a) The Series I and II Bonds of 2000 shall be subject to optional redemption prior to maturity by or on behalf of the Commission in accordance with the terms and provisions set forth in the loan agreement and in accordance with the terms and provisions of Article IV of the General Bond Resolutions. Interest is calculated at rates ranging from 5.0% to 5.25% at various intervals through August 2020 and interest payments are due February 1<sup>st</sup> and August 1<sup>st</sup> each year.

(b) The Series 2003 Refunding Bonds maturing on and before November 15, 2013 are not subject to optional redemption. The Series 2003 Refunding Bonds maturing on and after November 15, 2014 are subject to redemption, at the option of the Commission prior to maturity, upon the giving of notice as provided in the North Bond Resolution, as a whole or at any time or in part on any interest payment date in such order of maturity and the Commission shall direct and by lot within any maturity, on or after November 15, 2013 at the redemption price of 100% of the principle amount of the Series 2003 Refunding Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. Interest is calculated at rates ranging from 2% to 4.125% at various intervals through November 2017 and interest payments are due May 15<sup>th</sup> and November 15 each year. These bonds were refunded during 2015.

(c) The A Series I and II Bonds of 2003 shall be subject to optional redemption prior to maturity by or on behalf of the Commission in accordance with the terms and provisions set forth in the loan agreement and in accordance with the terms and provisions of Article IV of the General Bond Resolutions. Interest is calculated at rates ranging from 4% to 5% at various intervals through August 2023 and interest payments are due February 1<sup>st</sup> and August 1<sup>st</sup> each year.

(d) The Series I and II Bonds of 2006 shall be subject to optional redemption prior to maturity by or on behalf of the Commission in accordance with the terms and provisions set forth in the loan agreement and in accordance with the terms and provisions of Article IV of the General Bond Resolutions. Interest is calculated at rates ranging from 3% to 5% at various intervals through August 2026 and interest payments are due February 1<sup>st</sup> and August 1<sup>st</sup> each year.

(e) The 2009 Refunding Bonds refunded all of the outstanding 1997 Project Revenue Bonds totaling \$13,900,000 and provided for the costs associated with the issuance plus the required debt service reserve. \$13,585,000 Serial Bonds Series 2009 bearing interest ranging from 2% to 4% maturing at various intervals to November 2019 and \$835,000 of term bonds maturing November 2021 at 4.50% interest with mandatory redemptions in 2020 and 2021.

(f) The 2015 Series A Project Revenue Bonds shall be subject to optional redemption prior to maturity by or on behalf of the Commission in accordance with the terms and provisions set forth in the official statement. Interest is calculated at rates ranging from 3% to 5% at various intervals through November 2034 and interest payments are due May 15<sup>th</sup> and November 15<sup>th</sup> each year.

(g) The 2015 Series B Refunding Bonds refunded all of the outstanding 2003 Project Revenue Refunding Bonds totaling \$4,480,000 and provided for the costs associated with the issuance. Interest is calculated at rates ranging from 2% to 3% through November 15, 2017 and interest payments are due May 15<sup>th</sup> and November 15<sup>th</sup> each year.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 6 LONG TERM DEBT (Continued)**

**A. Revenue Bonds (Continued)**

The Commission's schedule of principal and interest requirements for long-term debt of the Wanaque North project issued and outstanding as of December 31, 2016 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Year Ended December 31</u>			
2017	\$ 3,706,449	\$ 791,948	\$ 4,498,397
2018	2,295,983	673,232	2,969,215
2019	2,365,491	595,914	2,961,405
2020	1,155,028	513,622	1,668,650
2021	1,134,337	887,305	2,021,642
2022-2026	5,239,603	1,756,440	6,996,043
2027-2031	4,265,000	950,550	5,215,550
2032-2034	<u>2,920,000</u>	<u>206,675</u>	<u>3,126,675</u>
	<u>\$ 23,081,891</u>	<u>\$ 6,375,686</u>	<u>\$ 29,457,577</u>

**B. Changes in Long Term Liabilities**

The Commission's long-term liability activity for the Wanaque North Project for the years ended December 31, 2016 and 2015 are as follows:

	Balance, December 31, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2016</u>
<u>2016</u>				
Revenue Bonds	<u>\$ 26,669,344</u>	<u>\$ -</u>	<u>\$ 3,587,453</u>	<u>\$ 23,081,891</u>
	Balance, December 31, <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2015</u>
<u>2015</u>				
Revenue Bonds	<u>\$ 19,581,146</u>	<u>\$ 13,985,000</u>	<u>\$ 6,896,802</u>	<u>\$ 26,669,344</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 7 ACCRUED COMPENSATED ABSENCES**

As of December 31, 2016 and 2015, employees of the Commission earn .83% of a day after the first six months of service for each full month worked to a maximum of five weeks for non-union employees and six weeks for union employees for vacation time.

Sick leave is earned at the rate of 1 to 1.25 days per month for each full month of employment up to 12 and 15 days, per year, for non-union and union employees, respectively.

The Commission has a policy of reimbursing an employee for any accumulated sick leave upon the employee's retiring after rendering a minimum of 10 years of service and is paid at the rate of the lesser of 50% current salary rate or \$15,000. It is estimated that the current cost of such unpaid compensation and salary related payments at December 31, 2016 and 2015 is \$573,285 and \$634,143, respectively. The Commission has accrued a liability of \$573,285 and \$634,143 at December 31, 2016 and 2015, respectively, to fund any potential payments.

**NOTE 8 UNEARNED REVENUE**

Unearned revenue consists of the balance of funds available which have not been realized as revenue. The unearned revenue for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
<u>Unrestricted</u>		
Unrealized FEMA Grant Revenue	\$ 98,454	\$ 98,454
Security Deposit - T-Mobile	3,000	3,000
Unrealized NJ DEP-Oakland Flood Gates Maintenance	1,042,000	1,042,000
Unrealized Accounts Receivable	<u>7,955</u>	<u>4,168</u>
	<u>\$ 1,151,409</u>	<u>\$ 1,147,622</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 9 RELATED COMPANY TRANSACTIONS**

There are common infrastructure components (“water treatment”) of the Commission shared by the participating municipalities of the Wanaque North and Wanaque South Projects. The costs associated with the maintenance of these common infrastructure components are shared by the Wanaque South Project based upon a predetermined formula for prorating water treatment costs, as well as allocation of general overhead costs. At December 31, 2016 and 2015, the amounts due from/(to) the Wanaque South Project are as follows:

	<u>2016</u>	<u>2015</u>
Operating	\$(186,290)	\$ 189,102
Loan Reallocation	841,291	288,012
Construction	<u>634,400</u>	<u>1,744,761</u>
	<u>\$ 1,289,401</u>	<u>\$ 2,221,875</u>

The Wanaque North Project advances funds for construction costs on behalf of the Wanaque South Project to the Wanaque South Project, a Joint Venture (the “JV”). The JV is a joint venture between Wanaque South Project and United Water New Jersey. As of December 31, 2016 and 2015, the amount due from the JV is \$437,100 and \$391,179, respectively. The advances are non-interest bearing, payable on demand and usually paid within 30 days.

**NOTE 10 EMPLOYEE RETIREMENT SYSTEMS**

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement system (retirement system) covering substantially all state and local government employees which includes those Commission employees who are eligible for pension coverage.

**Public Employees’ Retirement System (PERS)** – established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement healthcare for those eligible employees whose local employers elected to do so, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and, if applicable, 25 years for post-retirement healthcare coverage. PERS is a cost-sharing multi-employer defined benefit pension plan.

**Other Pension Funds**

The state established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local governmental employers do not appropriate funds to SACT.

The cost of living increase for PERS is funded directly by the system, but is currently suspended as a result of reform legislation.

According to state law, all obligations of the retirement system will be assumed by the State of New Jersey should the retirement system be terminated.



**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Other Pension Funds (Continued)**

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above systems, funds, and trust. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

**Basis of Accounting**

The financial statements of the retirement system is prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits and refunds are recognized when due and payable in accordance with the terms of the retirement systems.

**Investment Valuation**

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290, or at [www.state.nj.us/treasury/doinvest](http://www.state.nj.us/treasury/doinvest).

**Funded Status and Funding Progress**

As of July 1, 2015, the most recent actuarial valuation date, which was rolled forward to June 30, 2016, the aggregate funded ratio for all the State administered retirement systems, including local PERS is 45.7 percent with an unfunded actuarial accrued liability of \$50.3 billion. The aggregate funded ratio and unfunded accrued liability for the local PERS system is 40.14 percent and \$29.6 billion, respectively.

The funded status and funding progress of the retirement systems includes actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Actuarial Methods and Assumptions**

In the July 1, 2015 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (a) 7.65% for investment rate of return for PERS and (b) changes to projected salary increases applied through the year 2026 of 1.65-5.15 percent based on age for PERS.

**Employer and Employee Pension Contributions**

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the PERS retirement system requires employee contributions based on 7.06% of employee's annual compensation for fiscal year 2016.

**Annual Pension Cost (APC)**

Per the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employees*, for the years ended December 31, 2016 and 2015 for PERS, which is cost sharing multi-employer defined benefit pension plan, annual pension cost equals contributions made.

During the years ended December 31, 2016, 2015 and 2014, the Commission, was required to contribute for normal cost pension contributions, accrued liability pension contributions, early retirement incentive program contributions, and non-contributory life insurance premiums the following amounts which equaled the required contributions for each respective year:

<u>Years Ended</u> <u>December 31,</u>	<u>PERS</u>	<u>Allocated to</u> <u>Wanaque North</u>
2016	\$ 889,338	\$ 664,691
2015	905,582	676,832
2014	971,063	749,369

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

**Public Employees Retirement System (PERS)**

At December 31, 2016 and 2015, the Commission had a liability of \$30,784,143 and \$22,055,874, respectively, for its proportionate share of the PERS net pension liability. This liability is not reflected in the financial statements of the Commission, but is disclosed in the footnotes only. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 and 2014, respectively. The Commission's proportionate share of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. As of the measurement date of June 30, 2016, the Commission's proportionate share was .10394 percent, which was an increase of .00569 percent from its proportionate share measured as of June 30, 2015 of .09825 percent.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

For the years ended December 31, 2016 and 2015, the pension system has determined the Commission's pension expense to be \$2,373,457 and \$678,491, respectively, for PERS based on the actuarial valuation which is more than, and less than, respectively, the actual contributions reported in the Commission's financial statements of \$889,338 and \$905,582, respectively. At December 31, 2016 and 2015, the Commission's deferred outflows of resources and deferred inflows of resources related to PERS pension which are not reported on the Commission's financial statements are from the following sources:

	2016		2015	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 572,492		\$ 526,176	
Changes of Assumptions	6,376,830		2,368,625	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,173,827			\$ 354,616
Changes in Proportion and Differences Between Commission Contributions and Proportionate Share of Contributions	<u>926,812</u>	<u>\$ 2,702,955</u>	<u>-</u>	<u>3,471,328</u>
Total	<u>\$ 9,049,961</u>	<u>\$ 2,702,955</u>	<u>\$ 2,894,801</u>	<u>\$ 3,825,944</u>

At December 31, 2016 the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2017	\$ 1,257,444
2018	1,257,444
2019	1,549,202
2020	1,584,278
2021	698,638
Thereafter	<u>-</u>
	<u>\$ 6,347,006</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

*Actuarial Assumptions*

The Commission's total pension liability reported for the year ended December 31, 2016 was based on the June 30, 2016 measurement date as determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The total pension liability reported for the year ended December 31, 2015 was based on the June 30, 2015 measurement date as determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

<u>PERS</u>	<u>2016</u>	<u>2015</u>
Inflation Rate	3.08%	3.04%
Salary Increases:		
2012-2021		2.15-4.40%
		Based on Age
Through 2026	1.65-4.15%	
	Based on Age	
Thereafter	2.65-5.15%	3.15-5.40%
	Based on Age	Based on Age
Investment Rate of Return	7.65%	7.90%
Mortality Rate Table	RP-2000	RP-2000

Assumptions for mortality improvements are based on Society of Actuaries Scale AA.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial study for the period July 1, 2008 to June 30, 2011.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

***Long-Term Expected Rate of Return***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2016 and 2015, as reported for the years ended December 31, 2016 and 2015, respectively, are summarized in the following table:

<u>Asset Class</u>	<u>2016</u>		<u>2015</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%	5.00%	1.04%
U.S. Treasuries	1.50%	1.74%	1.75%	1.64%
Investment Grade Credit	8.00%	1.79%	10.00%	1.79%
Mortgages	2.00%	1.67%	2.10%	1.62%
High Yield Bonds	2.00%	4.56%	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.44%	1.50%	3.25%
Broad US Equities	26.00%	8.53%	27.25%	8.52%
Developed Foreign Equities	13.25%	6.83%	12.00%	6.88%
Emerging Market Equities	6.50%	9.95%	6.40%	10.00%
Private Equity	9.00%	12.40%	9.25%	12.41%
Hedge Funds/Absolute Return	12.50%	4.68%	12.00%	4.72%
Real Estate (Property)	2.00%	6.91%	2.00%	6.83%
Commodities	0.50%	5.45%	1.00%	5.32%
Global Debt ex US	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	4.25%	5.12%

***Discount Rate***

The discount rate used to measure the total pension liabilities of the PERS plan was as follows:

<u>Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2016	June 30, 2016	3.98%
2015	June 30, 2015	4.90%

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

***Discount Rate (Continued)***

The following table represents the crossover period, if applicable, for the PERS defined benefit plan:

Period of Projected Benefit

Payments for which the Following

Rates were Applied:

Long-Term Expected Rate of Return Through June 30, 2034

Municipal Bond Rate \* From July 1, 2034  
and Thereafter

\* The municipal bond return rate used is 2.85% and 3.80% as of the measurement dates of June 30, 2016 and 2015, respectively. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

***Sensitivity of Net Pension Liability***

The following presents the Commission's proportionate share of the PERS net pension liability as of December 31, 2016 and 2015 calculated using the discount rate of 3.98% and 4.90%, respectively, as well as what the Commission's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.98% and 3.90%, respectively) or 1-percentage-point higher (4.98% and 5.90%, respectively) than the current rate:

	<b>1% Decrease (2.98%)</b>	<b>Current Discount Rate (3.98%)</b>	<b>1% Increase (4.98%)</b>
<b>2016</b>			
Commission's Proportionate Share of the PERS Net Pension Liability	<u>\$ 37,722,374</u>	<u>\$ 30,784,143</u>	<u>\$ 25,056,032</u>
	<b>1% Decrease (3.90%)</b>	<b>Current Discount Rate (4.90%)</b>	<b>1% Increase (5.90%)</b>
<b>2015</b>			
Commission's Proportionate Share of the PERS Net Pension Liability	<u>\$ 27,412,753</u>	<u>\$ 22,055,874</u>	<u>\$ 17,564,706</u>

The sensitivity analysis was based on the proportionate share of the Commission's net pension liability at December 31, 2016 and 2015. A sensitivity analysis specific to the Commission's net pension liability was not provided by the pension system.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

***Pension Plan Fiduciary Net Position***

Detailed information about the PERS pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial report may be accessed via the New Jersey, Division of Pensions and Benefits, website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

**NOTE 11 DEFERRED COMPENSATION PLAN**

The Commission offers its employees a Deferred Compensation Plan (the "DCP Plan") created in accordance with Internal Revenue Code Section 457. The DCP plan is administered by the Nationwide Retirement Solutions and The Hartford. The DCP plan permits employees to defer a portion of their salary to future years. Individuals are one hundred percent vested. The DCP Plan, which began formal operations November 1990, is funded solely from voluntary employee deductions. Distribution is available to employees upon termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan are solely property and rights of the individual contributors and are not subject to the claims of the Commission's general creditors.

**NOTE 12 POST RETIREMENT MEDICAL BENEFITS**

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for participating municipalities including the Commission. The plans are classified as either single employer plans or cost sharing multiple employer defined benefit plans depending on the plan the eligible employee is covered under.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS and the Teacher's Pension and Annuity (TPAF) are combined and reported as Pension and Other Employee Benefit Trust Funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, PDP-State, and the PRM of the PERS are combined and reported as Health Benefits Program Fund – State classified as a single employer plan. The SHBP-Local, PDP-Local, and the PRM of the TPAF-Local are combined and reported as Health Benefits Program Fund –Local Government classified as a cost sharing multiple-employer plan. The post-retirement benefit programs had a total of 584 state and local participating employers and contributing entities for Fiscal Year 2016.

The State of New Jersey sponsors and administers the following health benefit program covering substantially all local government employees from local participating employers.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 12 POST-RETIREMENT MEDICAL BENEFITS (Continued)**

**State Health Benefits Program Funds (HBPF) – Local Government** (including Prescription Drug Program Fund) – Certain local employers who participate in the State Health Benefits Program provide health insurance coverage to their employees at retirement. Under provisions of P.L. 1997, c.330, the State of New Jersey provides partially funded benefits to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. Also, local employees are eligible for the PDP coverage after 60 days of employment.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above Fund. The financial reports may be assessed via, the New Jersey, Division of Pensions and Benefits website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

**Basis of Accounting**

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

**Investment Valuation**

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

**Funded Status and Funding Progress**

As of July 1, 2015, the most recent actuarial valuation date, the State had a \$84.3 billion unfunded actuarial liability for other postemployment benefits (OPEB) which is made up of \$25.9 billion for state active and retired members, \$16.8 billion for local active and retired members, and \$41.6 billion for education employees and retirees that become the obligation of the State of New Jersey upon retirement.

The funded status and funding progress of the OPEB includes actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the OPEB in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at the point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

**Actuarial Methods and Assumptions**

In the July 1, 2015 OPEB actuarial valuation, the projected unit credit was used as the actuarial cost method, and the market value was used as asset valuation method for the OPEB. The actuarial assumptions included an assumed investment rate of return of 4.50 percent.



**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 12 POST-RETIREMENT MEDICAL BENEFITS (Continued)**

**Post-Retirement Medical Benefits Contribution**

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2016, there were 110,512 retirees receiving post-retirement medical benefits, and the State contributed \$1.37 billion on their behalf. The cost of these benefits is funded through contributions by the State and participating local governments in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

P.L. 1977, c. 136 provides for the State and participating local governments to pay health benefits on a pay-as-you-go basis for all enrolled retired employees, regardless of retirement date, under two provisions. The first is for employees whose pensions are based on 25 years or more of credited service (except those who elect a deferred retirement). The second is for retired employees who are eligible for a disability retirement regardless of years of service. The State and participating local governments contributed \$181.9 million for 10,725 eligible retired members for Fiscal Year 2016. This benefit covers the Police and Firemen's Retirement System.

P.L. 1997, c. 330 provides paid post-retirement health benefits to qualified retirees of the Police and Firemen's Retirement System and the Consolidated Police and Firemen's Pension Fund and to dependents of qualified retirees. The State and participating local governments are responsible for 80 percent of the premium for the category of coverage elected by the retiree under the State managed care plan or a health maintenance organization participating in the program, whichever provides the lower charge. The State and participating local governments contributed \$48.3 million in Fiscal Year 2016 to provide benefits under Chapter 330 to qualified retirees.

The State sets the employer contribution rate based on a pay-as-you-go basis rather than the *annual required contribution of the employers (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Commission's contributions to the State Health Benefits Program Fund-Local Government for post-retirement benefits for the year ended December 31, 2016, 2015 and 2014 were \$1,087,624, \$1,071,822, and \$1,097,204, which equaled the required contributions for that year.

**NOTE 13 RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to general liability, automobile coverage, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; termination of employees and natural disasters. The Commission has obtained commercial insurance coverage to guard against these events to minimize the exposure to the Commission should they occur.

There has been no significant reduction in insurance coverage from the previous year.

**NOTE 14 CONTINGENT LIABILITIES**

The Commission is a party defendant in some lawsuits, none of a kind unusual for a entity of its size and scope of operation. In the opinion of the Commission's Attorney, the potential claims against the Commission not covered by insurance policies would not materially affect the financial condition of the Commission.

The Commission is subject to various regulations promulgated by the U.S. and State of New Jersey Department of Environmental Protection (collectively, "DEP"). Laws and regulations governing DEP are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines and penalties. The Commission is not aware of non-compliance of said laws and regulations.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE NORTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 14 CONTINGENT LIABILITIES (Continued)**

**State Awards** - The Commission participates in state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Commission may be required to reimburse the grantor government. As of December 31, 2016 and 2015, significant amounts of grant expenditure have not been audited by the various grantor agencies but the Commission believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Commission.

**NOTE 15 FEDERAL ARBITRAGE REGULATIONS**

The Commission is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At December 31, 2016 and 2015, the Commission has not estimated its estimated arbitrage earnings due to the IRS, if any, pertaining to the Wanaque North Project.

**NOTE 16 RESTATEMENT**

The December 31, 2015 Statement of Assets, Liabilities and Net Assets has been restated to reflect the amount of additional expenses to be capitalized.

	Balance, Prior to <u>Restatement</u>	<u>Adjustment</u>	Balance Subsequent to <u>Restatement</u>
Assets			
Non Current Assets			
Capital Assets			
Property, Plant and Equipment	\$ 135,874,991	\$ (1,338,963)	\$ 134,536,028
Total Non Current Assets	135,874,991	(1,338,963)	134,536,028
Total Assets	187,071,948	(1,338,963)	185,732,985
Net Assets			
Investment in Capital Assets,			
Net of Related Debt	118,845,768	(1,338,963)	117,506,805
Total Net Assets	153,626,016	(1,338,963)	152,287,053
Total Liabilities and Net Assets	187,071,948	(1,338,963)	185,732,985

## **Supplementary Schedules**

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION**  
**WANAQUE NORTH PROJECT**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(With Comparative Amounts for the Year Ended December 31, 2015)**

	2016 <u>Budget</u>	2016 <u>Actual</u>	<u>Variance</u>	2015 <u>Actual</u>
<b>Revenues:</b>				
Assessments	\$ 25,583,297	\$ 25,583,297		\$ 25,583,297
Anticipated Income	740,000	2,574,379	\$ 1,834,379	1,335,823
United Water New Jersey Participation	3,015,002	2,544,331	(470,671)	2,609,460
Wanaque South Participation	<u>8,964,424</u>	<u>7,120,973</u>	<u>(1,843,451)</u>	<u>6,931,262</u>
Total Revenues	<u>38,302,723</u>	<u>37,822,980</u>	<u>(479,743)</u>	<u>36,459,842</u>
<b>Expenses:</b>				
Salaries and Wages	9,544,360	8,529,389	1,014,971	8,438,738
Non-Departmental Expenses	17,435,508	13,969,831	3,465,677	14,000,315
Materials and Supplies	299,950	231,731	68,219	176,398
Services Contractual	3,272,600	2,927,883	344,717	2,993,061
Repairs and Maintenance	935,250	689,189	246,061	507,691
Purchase of Equipment	200,200	194,820	5,380	161,819
Miscellaneous	111,400	97,160	14,240	301,565
Debt Service	4,293,616	4,408,199	(114,583)	4,181,821
Capital Items	<u>2,209,839</u>	<u>2,209,839</u>	<u>-</u>	<u>2,478,007</u>
Total Expenditures	<u>38,302,723</u>	<u>33,258,041</u>	<u>5,044,682</u>	<u>33,239,415</u>
Total Budget Income	<u>\$ -</u>	<u>\$ 4,564,939</u>	<u>\$ 4,564,939</u>	<u>\$ 3,220,427</u>
Reconciliation to Change in <u>Restricted and Unrestricted Net Assets</u>				
Transfer to Investment in Capital Assets, net		(4,866,473)		
Payment to Refunded Escrow Agent		<u>-</u>		<u>1,145,306</u>
Change in Restricted and Unrestricted Net Assets		<u>\$ (301,534)</u>		<u>\$ 4,365,733</u>

Note: Wanaque South Participation includes amounts allocated to Wanaque South Project and Wanaque South Project, a Joint Venture.

**WANAQUE NORTH PROJECT**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED AND UNRESTRICTED NET ASSETS BY FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>Operating</u>	<u>Revenue</u>	<u>Construction</u>	<u>Operating Reserve</u>	<u>Debt Service</u>	<u>Debt Service Reserve</u>	<u>Renewal &amp; Replacement</u>	<u>Total (Memo Only)</u>	
								<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>									
Municipal Assessments	\$ 19,079,841		\$ 2,209,839		\$ 4,293,617			\$ 25,583,297	\$ 25,583,297
Other User Fees	712,154							712,154	713,368
Rental Income	135,445							135,445	132,439
Reimbursement - Wanaque South Project, a Joint Venture	5,088,661							5,088,661	5,218,920
Reimbursement - Wanaque South Project	4,576,642							4,576,642	4,321,802
Miscellaneous	85,095	-	-	-	-	-	-	85,095	218,994
<b>TOTAL OPERATING REVENUES</b>	<u>29,677,838</u>	<u>-</u>	<u>2,209,839</u>	<u>-</u>	<u>4,293,617</u>	<u>-</u>	<u>-</u>	<u>36,181,294</u>	<u>36,188,820</u>
<b>OPERATING EXPENDITURES</b>									
Payroll and Related Expenses	10,052,672							10,052,672	10,195,794
Utilities and Fuel	1,891,205							1,891,205	2,042,192
Real Estate Taxes	3,486,146							3,486,146	3,407,800
Insurances	4,731,545							4,731,545	4,730,877
Legal and Accounting	230,372							230,372	304,372
Engineering and Consulting	1,216,356							1,216,356	290,917
Supplies and Expenses	2,838,193							2,838,193	3,240,668
Chemicals	2,102,809							2,102,809	2,036,669
Trustee Fees	27,390				18,526			45,916	36,180
Bond Principal	-	-	-	-	3,587,453	-	-	3,587,453	2,416,802
<b>TOTAL OPERATING EXPENDITURES</b>	<u>26,576,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,605,979</u>	<u>-</u>	<u>-</u>	<u>30,182,667</u>	<u>28,702,271</u>
<b>OPERATING INCOME</b>	<u>3,101,150</u>	<u>-</u>	<u>2,209,839</u>	<u>-</u>	<u>687,638</u>	<u>-</u>	<u>-</u>	<u>5,998,627</u>	<u>7,486,549</u>
<b>NON OPERATING REVENUES (EXPENSES)</b>									
Interest Income	49,295	\$ 4,274	23,545		12,477	\$ 4,588		94,179	26,773
Interest Expense					(820,746)			(820,746)	(619,713)
NJ EIT Earnings Credit								-	6,160
Capital Outlay			(2,209,839)					(2,209,839)	(2,478,007)
Costs of Issuance								-	(250,951)
Excess Trustee Funds	975,166							975,166	-
FEMA Reimbursements	153,692							153,692	98,489
Cancelled Prior Year Accounts Payable	418,649							418,649	139,600
Other Income and (Debits)	(44,789)							(44,789)	(43,167)
Transfer in					117,811			117,811	6,705,156
Transfer out	(85,404)	(4,274)	(23,545)	-	-	(4,588)	-	(117,811)	(6,705,156)
<b>TOTAL NON OPERATING REVENUES (EXPENSES)</b>	<u>1,466,609</u>	<u>-</u>	<u>(2,209,839)</u>	<u>-</u>	<u>(690,458)</u>	<u>-</u>	<u>-</u>	<u>(1,433,688)</u>	<u>(3,120,816)</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<u>\$ 4,567,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,820)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,564,939</u>	<u>\$ 4,365,733</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
ROSTER OF OFFICIALS  
DECEMBER 31, 2016**

The following officials were in office at December 31, 2016:

**COMMISSIONERS**

Charles P. Shotmeyer, Chairman

Carmen A. Orechio, Vice-Chairman

Jerome P. Amedeo

Alan S. Ashkinaze

Howard L. Burrell

Robert Garofalo

Donald C. Kuser

**EXECUTIVE OFFICERS**

Todd Caliguire

Executive Director

Joseph E. Stroin, Jr.

Chief Operating Officer

William Schaffner

Chief Financial Officer

Kim Diamond

Commission Secretary

## **Government Auditing Standards**



# LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA  
GARY J. VINCI, CPA, RMA, PSA  
GARY W. HIGGINS, CPA, RMA, PSA  
JEFFREY C. BLISS, CPA, RMA, PSA  
PAUL J. LERCH, CPA, RMA, PSA  
DONNA L. JAPHET, CPA, PSA  
JULIUS B. CONSONI, CPA, PSA  
ANDREW D. PARENTE, CPA, RMA, PSA

ELIZABETH A. SHICK, CPA, RMA, PSA  
ROBERT W. HAAG, CPA, PSA  
DEBORAH K. LERCH, CPA, PSA  
RALPH M. PICONE, CPA, RMA, PSA  
DEBRA GOLLE, CPA  
CINDY JANACEK, CPA, RMA  
MARK SACO, CPA  
SHERYL M. NICOLOSI, CPA, PSA

## 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

### INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the Board of Commissioners  
North Jersey District Water Supply Commission  
Wanaque, New Jersey

We have audited, in accordance with the 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, the financial statements –modified accrual basis of the North Jersey District Water Supply Commission Wanaque North Project, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated July 28, 2017. Our report on the financial statements – modified accrual basis indicated that the financial statements were not prepared in accordance with accounting principles generally accepted in the United States of America but rather prepared in accordance with the modified accrual basis of accounting as described in Note 1.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the North Jersey District Water Supply Commission Wanaque North Project's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the North Jersey District Water Supply Commission Wanaque North Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Jersey District Water Supply Commission Wanaque North Project's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

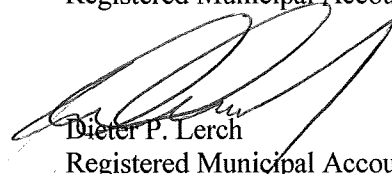
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Jersey District Water Supply Commission Wanaque North Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Jersey District Water Supply Commission Wanaque North Project's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the North Jersey District Water Supply Commission Wanaque North Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants

  
Dieter P. Lerch  
Registered Municipal Accountant  
RMA Number CR00398

Fair Lawn, New Jersey  
July 28, 2017

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

*Part I – Summary of Auditor's Results*

**Financial Statement Section (Wanaque North)**

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
1) Material weakness(es) identified?	<u>          </u> yes	<u>    X    </u> no
2) Were significant deficiency(ies) identified that were not considered to be material weaknesses?	<u>          </u> yes	<u>    X    </u> none reported
Noncompliance material to the basic financial statements noted?	<u>          </u> yes	<u>    X    </u> no

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

***Part 2 – Schedule of Financial Statement Findings***

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements in accordance with Government Auditing Standards.

There are none.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE NORTH PROJECT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*.

There were none.