



WANAQUE NORTH PROJECT
(a component unit of the
North Jersey District Water Supply Commission)

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

AND
REPORT ON INTERNAL CONTROL AND COMPLIANCE

DECEMBER 31, 2011 AND 2010**

WANAQUE NORTH PROJECT
(a component unit of the
North Jersey District Water Supply Commission)

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2011 AND 2010

WANAQUE NORTH PROJECT
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DECEMBER 31, 2011 AND 2010

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WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
ROSTER OF OFFICIALS
DECEMBER 31, 2011

The following officials were in office at December 31, 2011:

COMMISSIONERS

Carmen A. Orechio, Chairman

Charles P. Shotmeyer

Brenda C. Sherman

Alan S. Ashkinaze

EXECUTIVE OFFICERS

Joseph E. Stroin Jr.	Acting Executive Director
Colleen C. DeStefano	Deputy Executive Director
Angelo M. Valente	Secretary to the Commission

Independent Auditors' Report

The Commissioners
North Jersey District Water Supply Commission
Wanaque, New Jersey

We have audited the financial statements of the Wanaque North Project, a component unit of the North Jersey District Water Supply Commission (the "Commission"), as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of management of the Commission. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As described in Note 2, these financial statements were prepared in conformity with the modified accrual basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the Commission's policy of preparing its financial statements for the Wanaque North Project on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Wanaque North Project as of December 31, 2011 and 2010, or the results of its operations for the years then ended.

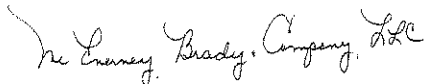
However, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wanaque North Project as of December 31, 2011 and 2010, and the results of operations for the years then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 12, 2012 on our consideration of the Commission's internal control structure over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the State of New Jersey OMB Circular Letter 04-04 "Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid" and is not a required part of the basic financial statements of the Commission. The financial statements and the schedule of expenditures of state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

This report is intended solely for the use of the Management, Commissioners, and Participants of the Wanaque North Project of the North Jersey District Water Supply Commission and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Livingston, New Jersey
July 12, 2012

WANAQUE NORTH PROJECT
(a component of the North Jersey District Water Supply Commission)
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u> (as restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 14,488,547	\$ 11,195,167
Due from Wanaque South, a Joint Venture	2,329,455	924,031
Other receivables	236,194	259,026
Other current assets	262,334	227,822
Interproject receivable	<u>1,272,891</u>	<u>1,426,404</u>
Total current assets	18,589,421	14,032,450
Restricted cash and cash equivalents	4,439,215	4,420,244
Due from NJEIT	-	951,152
Loans receivable	2,505,338	7,417,993
Property, plant and equipment	<u>131,133,177</u>	<u>126,239,154</u>
Total Assets	<u>\$ 156,667,151</u>	<u>\$ 153,060,993</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Current portion of bonds payable	\$ 3,288,380	\$ 3,200,393
Accounts payable	973,967	2,399,609
Accrued expenses	578,540	527,046
Retainage payable	<u>230,546</u>	<u>130,770</u>
Total current liabilities	5,071,433	6,257,818
Long-term debt	26,976,853	30,265,233
Deferred revenue	<u>3,761,030</u>	<u>8,381,312</u>
Total liabilities	<u>35,809,316</u>	<u>44,904,363</u>
NET ASSETS		
Investment in capital assets, net of related debt	<u>100,867,949</u>	<u>92,773,532</u>
Restricted:		
Operating reserve	5,345,000	3,839,438
Debt service	1,043,670	1,043,670
Debt service reserve	3,365,000	3,365,000
Capital outlay	<u>4,947,039</u>	<u>4,336,396</u>
	<u>14,700,709</u>	<u>12,584,504</u>
Unrestricted	<u>5,289,177</u>	<u>2,798,594</u>
Total net assets	<u>120,857,835</u>	<u>108,156,630</u>
Total Liabilities and Net Assets	<u>\$ 156,667,151</u>	<u>\$ 153,060,993</u>

The Notes to Financial Statements are an integral part of these statements

WANAQUE NORTH PROJECT**(a component of the North Jersey District Water Supply Commission)****STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN****RESTRICTED AND UNRESTRICTED NET ASSETS****YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010 (as restated)
OPERATING REVENUES		
Charges for services	\$ 26,020,096	\$ 26,318,989
Reimbursement - Wanaque South Project	2,857,291	4,011,370
Total operating revenues	28,877,387	30,330,359
OPERATING EXPENSES		
Payroll and related expenses	8,196,693	10,032,133
Utilities	1,567,273	1,946,891
Real estate taxes	2,504,944	2,446,400
Insurance	4,816,239	5,372,210
Legal and accounting	217,604	414,341
Engineering and consulting	102,824	110,905
Supplies and expenses	1,876,417	2,654,934
Trustee fees	34,035	46,015
Bond principal	3,200,393	2,782,545
Interest	1,059,083	1,154,264
Chemicals	1,673,257	1,508,032
Fuel	140,976	112,198
Capital outlay	5,096,234	3,694,441
Total operating expenses	30,485,972	32,275,309
Operating loss	(1,608,585)	(1,944,950)
NON-OPERATING REVENUES (EXPENSES)		
Rental income	142,940	146,015
Use fees	659,082	660,177
NJ DEP reimbursement	412,542	435,684
Cost of issuance	-	(1,977)
Other income and credits	39,590	25,304
NJEIT loan proceeds	4,894,023	2,554,134
Interest and investment income	67,196	69,923
Change in net assets	4,606,788	1,944,310
Restricted and unrestricted net assets - beginning of year	15,383,098	13,438,788
Restricted and unrestricted net assets - end of year	\$ 19,989,886	\$ 15,383,098

The Notes to Financial Statements are an integral part of these statements

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	Investment in Capital Assets	Restricted					Total Restricted	Unrestricted	Total Net Assets
		Operating Reserve	Debt Service	Debt Service Reserve	Capital Outlay				
Balance, January 1, 2010, as restated	\$ 86,640,299	\$ 3,839,438	\$ 1,343,920	\$ 3,366,536	\$ 4,144,915		\$ 12,694,809	\$ 743,979	\$ 100,079,087
Additions	6,133,233	-	-	-	1,103,431		1,103,431	410,090	7,646,754
Reductions	-	-	(300,250)	(1,536)	(911,950)		(1,213,736)	(299,759)	(1,513,495)
Change in net assets	-	-	-	-	-		-	1,944,284	1,944,284
Balance, December 31, 2010	92,773,532	3,839,438	1,043,670	3,365,000	4,336,396		12,584,504	2,798,594	108,156,630
Additions	8,094,417	1,505,562	-	-	1,517,347		3,022,909	2,096,249	13,213,575
Reductions	-	-	-	-	(906,704)		(906,704)	(4,212,454)	(5,119,158)
Change in net assets	-	-	-	-	-		-	4,606,788	4,606,788
Balance, December 31, 2011	\$ 100,867,949	\$ 5,345,000	\$ 1,043,670	\$ 3,365,000	\$ 4,947,039		\$ 14,700,709	\$ 5,289,177	\$ 120,857,835

The Notes to Financial Statements are an integral part of these statements

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

1. Organization

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 this 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 consists of a board of seven members appointed by the Governor with the advice and consent of the Senate. The Commission, in accordance with its authorization in R.S. 58:5-1 et seq. to supply water to interested municipalities in 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.

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 called the "interested municipality") having the right to use such water. Any such sale is subject, however, to the prior right of the interested municipality 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.

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	0.705
	<u>94.000</u>

*Represented by the Passaic Valley Water Commission

WANAQUE NORTH PROJECT
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

For financial statement purposes, the Wanaque North Project is a component unit of the North Jersey District Water Supply Commission. There are no component units included in the accompanying statements. All component units of the Commission issue separately audited financial statements.

The financial statements of the component units of Commission are not presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14. If the provisions of GASB No. 14 had been complied with, the financial statements of all component units would have been either blended or discretely presented with the financial statements of the Commission.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The Proprietary Funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary Fund equity is classified as net assets.

The Commission's funds are Enterprise Funds. Enterprise Funds are Proprietary Funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Basis of Accounting

The term basis of accounting is used to determine when a transaction or event is recognized in the Wanaque North Project's financial statements. The Commission uses the modified accrual basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, with exceptions as noted below.

The Wanaque North Project has elected not to follow the pronouncements of the Governmental Accounting Standards Board.

The accounting principles and practices of the Commission differ in certain respects from accounting principles generally accepted in the United States of America ("GAAP") applicable to local government units. The more significant differences are as follows:

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

Expenditures – Expenditures are recognized on the accrual basis. GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

Inventories – The cost of inventories of supplies are recorded as expenditures 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.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 – Debt issue costs and deferred charges on advance refundings are expensed when incurred. GAAP requires that these costs be capitalized and amortized over the life of the related bond issue.

Deferred Revenue - Deferred 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 reserves for capital projects.

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 of other governments and restrictions imposed by laws through constitutional 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 approximates one fourth of the annual operating budget.

Debt service reserve – 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.

Capital outlay – 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.

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 amortized over the estimated life of the asset.

Reclassification

Certain 2010 amounts were reclassified to conform to the current year presentation.

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 of 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.

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NOTES TO FINANCIAL STATEMENTS
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Use of Estimates

The preparation of financial statements in conformity with the modified accrual basis of accounting requires management 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 revenues and expenditures/expenses during the reporting period. The collectability of receivables, property, plant and equipment, accounts payable and accrued expenses, and deferred revenue, among other accounts, require the significant use of estimates. Actual results could differ from those estimates.

Financial Instruments

The carrying values of the Wanaque North Project's financial instruments as of December 31, 2011 and 2010 include cash and cash equivalents, other receivables, and accounts payable and accrued expenses and approximate their fair value due to the relatively short maturity of these instruments.

Concentrations of Credit Risk

Financial instruments which potentially subject the Commission to concentrations of credit risk consist principally of cash and temporary cash investments and receivables. The Commission places its cash with high credit quality financial institutions. At times, such amounts exceed the current insured amount under the Federal Deposit Insurance Corporation (FDIC) of \$250,000. The Commission monitors the financial condition of the banking institutions, along with their cash balances, to minimize this risk.

For the years ended December 31, 2011 and 2010, four municipalities accounted for approximately 78%, respectively, of charges for services.

3. Cash and Cash Equivalents

New Jersey Statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the FDIC, the Savings Association Insurance Fund (SAIF), or by any other agencies of the United States, that insures deposits, or the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5% of the average daily balance of public funds; or

If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

At December 31, 2011 and 2010, cash and cash equivalents of the Wanaque North Project consist of the following:

	2011	2010
Unrestricted	\$ 14,488,547	\$ 11,195,167
Restricted	4,439,215	4,420,244
	<u>\$ 18,927,762</u>	<u>\$ 15,615,411</u>

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Cash equivalents include money market funds, mutual funds, and certificate of deposits with maturity dates of less than three months. Cash equivalents are stated at cost, which approximates market. Cash equivalents are held by the Commission's Trustee in the Commission's name.

GASB Statement No. 40, Deposit and Investment Risk Disclosure, requires disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of failure of a depository institution, the Wanaque North Project will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. As of December 31, 2011, the Wanaque North Project's bank deposits are insured or covered by the State's Government Unit Deposit Protection Act ("GUDPA").

Restricted cash equivalents are assets held by trustees under bond indenture agreements. (See Note 7).

4. Investments

The funds of the Commission can be invested in:

- 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 backed 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.
- 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 & Poors ("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.

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DECEMBER 31, 2011 AND 2010

- 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.

5. Loans Receivable

The Commission has participated in low cost financing through the NJEIT. The Commission is reimbursed for allowable expenditures upon submission of a requisition evidencing actual expenditures. At December 31, 2011 and 2010, the available balances are as follows:

	2011	2010
1999	\$ 589,413	\$ 589,413
2003	1,821,187	5,903,912
2006	94,738	924,668
	<u>\$ 2,505,338</u>	<u>\$ 7,417,993</u>

6. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2011 and 2010 consist of the following:

	Land	Buildings	Machinery & Equipment	Construction in Progress	Total
January 1, 2010	\$ 4,406,112	\$ 91,326,648	\$ 23,040,587	\$ 4,115,122	\$ 122,888,469
Additions	-	-	605,922	2,744,763	3,350,685
December 31, 2010	4,406,112	91,326,648	23,646,509	6,859,885	126,239,154
Additions	-	-	-	4,894,023	4,894,023
December 31, 2011	<u>\$ 4,406,112</u>	<u>\$ 91,326,648</u>	<u>\$ 23,646,509</u>	<u>\$ 11,753,908</u>	<u>\$ 131,133,177</u>

Construction in progress represents costs associated with plant expansions and rehabilitations, and other projects that were not completed at year-end. The Wanaque North Project capitalizes assets with a useful life in excess of five years and with a value over \$5,000. The accounts are adjusted for disposition and abandonment.

7. Debt

Long-term debt as of December 31, 2011 and 2010 consist of the following:

	Maturity	2011	2010
<u>Bonds Payable:</u>			
1999 Project Revenue Bonds (a)	2019	\$ 809,711	\$ 900,855
2000 Project Revenue Bonds (b)	2020	460,229	502,777
2003 Project Revenue Bonds (c)	2017	8,480,000	9,720,000
2003A Project Revenue Bonds (d)	2023	7,025,493	7,544,945
2006 Project Revenue Bonds (e)	2026	1,144,800	1,212,029
2009 Project Revenue Refunding Bonds (f)	2019	<u>12,345,000</u>	<u>13,585,000</u>
		30,265,233	33,465,626
Less current installments		<u>3,288,380</u>	<u>3,200,393</u>
		<u>\$26,976,853</u>	<u>\$30,265,233</u>

WANAQUE NORTH PROJECT
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

- (a) The Series 1999 Bonds maturing on or after September 1, 2010, are subject to optional redemption prior to their respective stated maturing dates on or after September 1, 2009, at the option of the Commission upon their terms set forth in the respective Series 1999 Bond Resolution, either in whole or either Series or any date or in part. Interest is calculated at rates ranging from 4.75% to 5.70% at various intervals through August 2019 and interest payments are due February 1st and August 1st each year.
- (b) The Series I and II 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 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 5.05% to 5.25% at various intervals through August 2020 and interest payments are due February 1st and August 1st each year.
- (c) The Series 2003 Bonds maturing on and before November 15, 2013 are not subject to optional redemption. The Series 2003 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 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 15th and November 15th each year.
- (d) The Series I and II 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 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 2023 and interest payments are due February 1st and August 1st each year.
- (e) The Series I and II 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 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 1st and August 1st each year.
- (f) These 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.

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Future annual debt service payments for principal and interest to December 31, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Years Ended December 31</u>			
2012	\$ 3,288,380	\$ 1,010,151	\$ 4,298,531
2013	3,383,348	910,267	4,293,614
2014	3,485,155	805,992	4,291,146
2015	3,608,680	680,376	4,289,056
2016	3,738,757	551,925	4,290,682
2017-2026	<u>12,760,913</u>	<u>1,145,142</u>	<u>13,906,055</u>
	<u>\$ 30,265,233</u>	<u>\$ 5,103,852</u>	<u>\$ 35,369,085</u>

Various debt indentures require reserve accounts to be maintained as part of their debt service requirements. These funds are invested in U.S. Treasury money market accounts. At December 31, 2011 and 2010, the account balances consist of:

	<u>2011</u>	<u>2010</u>
Revenue Fund	\$ 1,062,566	\$ 1,043,644
COI and Expense	11,144	11,144
Debt Service Reserve 2003	<u>3,365,505</u>	<u>3,365,456</u>
	<u>\$ 4,439,215</u>	<u>\$ 4,420,244</u>

8. Deferred Revenue

Deferred revenue consists of the balance of funds available under the NJEIT loans, net of outstanding requisitions, and other deferred revenue. The changes in deferred revenue for the years ended December 31, 2011 and 2010 are as follows:

	<u>NJEIT</u>	<u>Other</u>	<u>Total</u>
January 1, 2010	\$ 10,342,215	\$ 971,014	\$ 11,313,229
Additions	931,691	22,985,865	23,917,556
Reductions	<u>(3,874,545)</u>	<u>(22,974,928)</u>	<u>(26,849,473)</u>
December 31, 2010	7,399,361	981,951	8,381,312
Additions	817,197	22,576,604	23,393,801
Reductions	<u>(5,711,220)</u>	<u>(22,302,863)</u>	<u>(28,014,083)</u>
December 31, 2011	<u>\$ 2,505,338</u>	<u>\$ 1,255,692</u>	<u>\$ 3,761,030</u>

9. Net Assets

There was a cumulative net asset adjustment that reclassified amounts that should have been included in deferred revenue for periods prior to 2009.

Net assets, January 1, 2010, as originally reported	\$ 14,402,686
Reclassification to deferred revenue	<u>(963,898)</u>
Net assets, January 1, 2010, as restated	<u>\$ 13,438,788</u>

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

10. Related Party 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, 2011 and 2010, the amounts due from the Wanaque South Project are as follows:

	2011	2010
Operating	\$ 385,679	\$ 767,402
Loan reallocation	424,880	446,621
Construction	<u>462,332</u>	<u>212,381</u>
	<u>\$ 1,272,891</u>	<u>\$ 1,426,404</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, 2011 and 2010, the amount due from the JV is \$2,329,455 and \$924,031, respectively. The advances are non-interest bearing, payable on demand and usually paid within 30 days.

11. Compensated Absences

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.

12. Lease Revenue

The Commission leases its property to various commercial enterprises under cancelable operating leases, maturing 2016.

Minimum rentals on cancelable leases for the next five years are as follows:

<u>Year</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Amount	<u>\$ 121,775</u>	<u>\$ 121,775</u>	<u>\$ 121,775</u>	<u>\$ 121,775</u>	<u>\$ 121,775</u>	<u>\$ 608,875</u>

13. Pension Plans

Substantially all of the Commission's employees participate in the following contributory defined benefit public employee retirement systems which have been established by State Statute: the Public Employees' Retirement System ("PERS"). This System is sponsored and administered by the New Jersey Division of Pensions and Benefits ("Division of Business"). The PERS is considered a cost sharing multiple-employer plan.

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Public Employees Retirement System

PERS – is a cost-sharing multiple-employer contributory defined plan which was established as of January 1, 1995, under the provision N.J.S.A. 43:15A to provide retirement, death and disability benefits, including post-retirement health care 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 25 years for post-retirement health care coverage.

Other Pension Funds

The State also administers the Pension Adjustment Fund ("PAF") which provides cost of living increases, equal to 60 percent of the change in the average consumer price index, to eligible retirees in all State-sponsored pension systems except Supplementary Annuity Collective Trust ("SACT"). The cost of living increase for PERS is funded directly by the retirement system and is considered in the annual actuarial calculation of the required State contribution for that retirement system.

According to State statutes, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of Treasury, Division of Pensions and Pensions and Benefits issues publicly available financial reports that include the financial statement and required supplementary information of each of the retirement system, funds, and trusts. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

Significant Legislation

Effective July 1, 2003 Chapter 108, P.L. 2003, provided that the State Treasurer shall reduce the normal and accrued liability contributions payable by employers to a percentage of the amount certified annually by the retirement system, which for PERS will be as follows for payments due in SFY ending June 30, 2005, 20%; for payments due in SFY year ending June 30, 2006, not more than 40%; for payments due SFY June 30, 2007 not more than 60%; and for payments due SFY June 30, 2008 not more than 80%.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform: a) established a Defined Contribution Retirement Plan ("DCRP") for elected and certain appointed officials, effective July 1, 2007; b) the new pension loan interest rate became 4.69% per year and an \$8.00 processing fee per loan was charged effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 60 plus 3% for every year under age 55.

Chapter 89, P.L. 2008 increased the PERS eligibility age for unreduced benefits from age 60 to 62 for members hired on or after November 1, 2008; increased the minimum annual compensation required for membership eligibility for new members. Also, it amended the early retirement reduction formula for members hired on or after November 2, 2008 and retiring with 25 years of service to reduced by 1% for every year between age 55 and 62 plus 3% for every year under age 55.

WANAQUE NORTH PROJECT
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Chapter 78, P.L. 2011 became effective October 1, 2011, which requires employee contributions relating to health benefits for employees whose current contract has expired and employees not covered by a union contract. Under the provisions of Chapter 78, the contribution is determined as a specified percentage of the health benefits/prescription drug premiums for a salary range, but not less than 1.5% of salary. The percentage contributed is increased over a four year period.

Funding Policy

Contribution Requirements

The contribution policy for PERS is set by New Jersey State statutes and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members of PERS contribute at a uniform rate of 6.5% of base salary, as defined. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and non-contributory death benefits in the PERS.

In the PERS, the employer contribution includes funding for post-retirement medical premiums.

Contributions

For the years ended December 31, 2011, 2010, and 2009, Wanaque North's contributions to the PERS was \$1,084,231, \$898,090 and \$607,527, respectively.

14. 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.

15. Other Post Retirement Benefits

The Commission offers postretirement medical, prescription drug, dental and vision benefits, to retirees and their eligible dependents. Medicare Part B premiums are reimbursed for Medicare eligible retirees and their spouses.

The following subsections outline the eligibility for retirement that would qualify a retiree for Commission-paid postretirement health benefits for the various groups of Commission employees.

- Age 60,
- After 25 years of service,
- After 25 years or more of service and are age 55 or older,
- After 10 years of service for disability retirement,
- Surviving spouse and dependent children under 26 are covered until spouses death or remarriage

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
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DECEMBER 31, 2011 AND 2010

In accordance with the modified accrual basis of accounting, the costs associated with Other Post-Employment Benefits ("OPEB"), generally should be associated with the periods in which the cost occurs, rather than in future years when it will be paid. In adopting the requirements of GASB Statement No. 45, the cost of OPEB is recognized in the year when the employee services are received and the accumulated liability (as calculated on a triennial basis) is reported from prior years and provides information useful in assessing potential demands on cash flows. Recognition of the liability accumulated from prior years is phased in over 30 years, commencing with the current year. As of December 31, 2008, the Commission adopted the requirements of GASB Statement No. 45 under the Level Percent of Pay approach.

Under GASB Statement No. 45, the latest available three years of data is shown on the following reporting tables:

Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actual Liability	Funded Ratio
1/1/10	\$ -0-	\$41,647,326	\$41,647,326	-0-%
1/1/09	\$ -0-	\$36,438,170	\$36,438,170	-0-%
1/1/08	\$ -0-	\$34,246,329	\$34,246,329	-0-%

Employer Contributions without Advance Funding

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
12/31/10	\$2,682,981	\$1,157,713	43.15%	\$5,594,412
12/31/09	\$2,868,254	\$ 885,474	30.87%	\$4,069,144
12/31/08	\$2,710,667	\$ 624,403	23.03%	\$2,086,364

16. Commitments

Letter of Credit

A resolution adopted by the Commission has provided a Bond Reserve Credit Facility for monies on deposit in the Bond Reserve Account and, upon providing such Bond Reserve Credit Facility, the monies on deposit in the Bond Reserve Account will be available to satisfy any other obligation of the Commission.

17. Legal and Regulatory Matters

Litigation

The Commission has various lawsuits and claims arising from the conduct of its business. While these cases are in either discovery or early stages of discovery, the Commission believes, after consultation with legal counsel and considering the factors that gave rise to such litigation, that the overall results there from would not have a material adverse effect on the financial condition, results of operations and cash flows of the Wanaque North Project.

Regulatory

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

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

regulatory action including fines and penalties. The Commission is not aware of non-compliance of said laws and regulations.

Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to the Commission's employees. These risks, along with medical claims for employees and retirees, are provided for through insurance purchased from private insurance companies.

There have been no reductions in the Commission's insurance coverage for any of its programs since the prior fiscal year. Settlements have not exceeded insurance coverage during the current year or prior three fiscal years.

18. Subsequent Events

The Commission has evaluated subsequent events occurring after the balance sheet date through July 12, 2012, which is the date the financial statements were available to be issued. Based on this evaluation, the Commission has determined that no subsequent events have occurred which require disclosure in the financial statements.

WANAQUE NORTH PROJECT**(a component unit of the North Jersey District Water Supply Commission)****SCHEDULE OF ACTUAL REVENUES AND EXPENDITURES COMPARED TO BUDGET****YEAR ENDED DECEMBER 31, 2011****(with actual information for 2010)**

	2011 Budget	2011 Actual	Favorable (Unfavorable) Variance	2010 Actual
Revenues:				
Assessments	\$ 26,020,096	\$ 26,020,096	\$ -	\$ 26,318,989
Anticipated income	1,634,339	1,476,104	(158,235)	1,408,145
Joint Venture participation	1,658,377	2,762,956	1,104,579	3,143,474
Wanaque South Project participation	10,261,574	7,133,435	(3,128,139)	7,698,646
NJEIT loan proceeds	-	4,894,023	4,894,023	2,554,135
Total Revenues	39,574,386	42,286,614	2,712,228	41,123,389
Expenditures:				
Salaries and wages	12,087,200	10,170,707	1,916,493	11,501,791
Non-departmental expenses	17,688,250	15,436,821	2,251,429	16,119,291
Materials and supplies	355,500	309,167	46,333	332,018
Services contractual	2,708,200	1,310,995	1,397,205	2,390,497
Repairs and maintenance	849,850	850,394	(544)	841,707
Purchase of equipment	317,075	128,258	188,817	220,693
Miscellaneous	117,350	117,774	(424)	121,300
Capital items	1,151,556	5,096,234	(3,944,678)	3,694,441
Debt service	4,299,405	4,259,476	39,929	3,957,341
Total Expenditures	39,574,386	37,679,826	1,894,560	39,179,079
Excess of Revenue over Expenditures	\$ -	\$ 4,606,788	\$ 4,606,788	\$ 1,944,310

Note: Wanaque South and Joint Venture participation is included in this schedule.

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED/UNRESTRICTED NET ASSETS BY FUND
YEAR ENDED DECEMBER 31, 2011

	Operating	Construction	Debt Service	Total (Memo only)	
				2011	2010
REVENUES					
Municipality assessments	\$ 20,569,134	\$ 1,151,558	\$ 4,299,404	\$ 26,020,096	\$ 26,318,989
Wanaque South reimbursements	10,555,472	-	-	10,555,472	11,502,297
TOTAL REVENUES	31,124,606	1,151,558	4,299,404	36,575,568	37,821,286
EXPENDITURES					
Utilities	2,033,992	-	-	2,033,992	2,530,958
Real estate taxes	3,077,552	-	-	3,077,552	3,004,913
Insurances	5,910,593	-	-	5,910,593	6,598,686
Legal and accounting	267,112	-	-	267,112	508,935
Payroll and related expenses	12,065,858	-	-	12,065,858	13,289,768
Engineering and consulting	126,258	67,686	-	193,944	454,746
Supplies and expenses	2,304,662	5,393	-	2,310,055	3,469,841
Trustee fees	15,480	-	18,555	34,035	47,993
Interest	-	-	1,059,083	1,059,083	2,782,545
Bond principal	-	-	3,200,393	3,200,393	1,154,264
Chemicals	2,176,157	-	-	2,176,157	1,960,441
Fuel	173,142	-	-	173,142	137,813
Capital outlays	-	5,023,154	-	5,023,154	3,167,161
TOTAL EXPENDITURES	28,150,806	5,096,233	4,278,031	37,525,070	39,108,063
OPERATING INCOME	2,973,800	(3,944,675)	21,373	(949,502)	(1,286,777)
NON OPERATING REVENUES (EXPENSES)					
Interest and investment income	59,601	16	7,578	67,195	69,923
Other income	39,590	-	-	39,590	460,988
NJEIT loan proceeds	-	4,894,023	-	4,894,023	2,554,135
Rental income	142,940	-	-	142,940	146,015
Service revenue	412,542	-	-	412,542	-
Transfer in	16	-	-	16	240,072
Transfer out	-	(16)	-	(16)	(240,072)
TOTAL NON OPERATING REVENUES	654,689	4,894,023	7,578	5,556,290	3,231,061
EXCESS OF REVENUE OVER EXPENDITURES	\$ 3,628,489	\$ 949,348	\$ 28,951	\$ 4,606,788	\$ 1,944,284

See Independent Auditors' Report

WANAUKE NORTH PROJECT
(component units of the North Jersey District Water Supply Commission)
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2011

Grantor/ Program Title	State Account/Project Number	Program or Award Amount	Cumulative Expenditures December 31, 2010	Funds Received	Funds Available December 31, 2010	Net Disbursement Charges	Funds Available December 31, 2011	Grant Period	
								From	To
Department of Environmental Protection									
New Jersey Environmental Infrastructure Trust									
Facilities Improvements	w1613001-003/010/011	\$ 13,500,000	\$ 6,210,242	\$ 5,764,851	\$ 8,723,335	\$ 7,930,759	\$ 792,576	11/1/2003	Completion
Solar Power	w1613001-015	1,386,910	94,060	1,158,923	1,336,627	1,158,923	177,704	11/1/2006	Completion
Wanaque South Pump Station and Motors	w1613001-017	2,183,362	13,793	-	2,169,570	-	2,169,570	11/1/2006	Completion
Filter Rehabilitation	w1613001-004/005	2,202,184	1,388,830	-	821,104	-	821,104	11/1/2000	Completion
Total Department of Environmental Protection		<u>19,282,456</u>	<u>7,706,925</u>	<u>6,923,774</u>	<u>13,050,636</u>	<u>9,089,682</u>	<u>3,960,954</u>		
Total State Assistance		<u>\$ 19,282,456</u>	<u>\$ 7,706,925</u>	<u>\$ 6,923,774</u>	<u>\$ 13,050,636</u>	<u>\$ 9,089,682</u>	<u>\$ 3,960,954</u>		
Outlay Report and Request for Reimbursement-December 31, 2011								\$ 1,516,978	
Retainage payable-amounts expensed per books, not paid								(193,505)	
Contracts payable-amounts expensed per books, not paid								<u>(530,797)</u>	
Funds available, December 31, 2011								<u>\$ 792,576</u>	

WANAQUE NORTH PROJECT AND WANAQUE SOUTH PROJECT
(component units of the North Jersey District Water Supply Commission)
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
DECEMBER 31, 2011

1. General

The accompanying schedule of expenditures of State of New Jersey awards present the activity of State of New Jersey awards programs of the Wanaque North Project and Wanaque South Project, component units of the North Jersey District Water Supply Commission ("Commission").

2. Basis of Accounting

The accompanying schedule of expenditures of state awards is presented using the modified accrual basis of accounting, as described in Note 2 to the Wanaque North and Wanaque South Project's financial statements.

3. Relationship to General Purpose Financial Statements

Amounts reported in the accompanying schedules agree with or are reconcilable to amounts reported in the Wanaque North Project's and Wanaque South Project's respective financial statements. Expenditures of state awards are reported in the Wanaque North Project's financial statements of the Wanaque North and Wanaque South projects construction funds.

4. Relationship to State of New Jersey Financial Reports

The regulations and guidelines governing the preparation of state financial reports vary by state agency and among programs administered by the same agency. Accordingly, the amounts reported in the state financial reports do not necessarily agree with the amounts reported in the accompanying schedule of expenditures of state awards.



**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***

The Commissioners
North Jersey District Water Supply Commission
Wanaque, New Jersey

We have audited the financial statements of the Wanaque North Project, a component unit of the North Jersey District Water Supply Commission (the "Commission"), as of and for the year ended December 31, 2011 and have issued our report thereon dated July 12, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in as a basis for designing our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

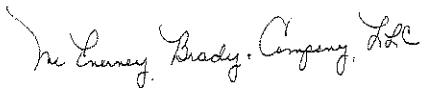
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2011-1, 2011-2, 2011-3 and 2011-4).

Compliance and Other Matters

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

This report is intended solely for the information and use of Management, Commissioners, and awarding pass-through entities and is not to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "McCreary Brady Company, LLC".

Livingston, New Jersey
July 12, 2012

**Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133 and New Jersey OMB Circular 04-04**

The Commissioners
North Jersey District Water Supply Commission
Wanaque, New Jersey

Compliance

We have audited the compliance of the Wanaque North Project, a component unit of the North Jersey District Water Supply Commission (the "Commission"), with the types of compliance requirements described in the "U.S. Office of Management and Budget Circular A-133 Compliance Supplement" and the "New Jersey OMB Circular 04-04 State Aid/Grant Compliance Supplement" (collectively, "OMB") that are applicable to each of its major State programs for the year ended December 31, 2011. The Commission's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and New Jersey OMB Circular 04-04, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid". Those standards and circulars require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the North Jersey District Water Supply Commission – Wanaque North Project complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended December 31, 2011.

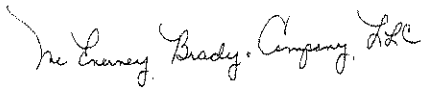
Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a State program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there *is* a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Commission, Management, State of New Jersey awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "The Chesney Brady Company, LLC".

Livingston, New Jersey
July 12, 2012

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

Section 1 – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified that are not considered to be material weaknesses Yes

Noncompliance material to financial statements noted? No

State Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified that are not considered to be material weaknesses No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 No

Identification of major state program:

Contract Number

Name of State Program

W1613001/003,010 and 011

NJ Environmental Infrastructure Trust

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

Auditee qualified as low-risk auditee? Yes

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

Section 2 - Financial Statement Findings

Finding No. 2011-1

General Ledger

Criteria

During the course of our audit, we noted that the Commission did not have various account analysis supporting account balances and activity prior to the issuance of internal financial statements. However, management did provide post-closing adjustments to us and related support after the initial trial balance was provided.

Condition and Effect

Various accounts were not reconciled to the supporting documentation or supporting schedules that were examined.

Cause

The condition is a result of the Commission not implementing and adhering to relevant accounting policies and procedures prior to issuing internal financial statements.

Recommendation

Management should maintain and review a standard monthly transaction and reporting checklist to better ensure that all material adjustments required to be made to the financial statements, as applicable, be recorded by management on a timely basis, thereby resulting in enhanced internal financial reporting.

Questioned Costs

There are no known questioned costs.

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

Finding No. 2011-2

Payroll, Related Expenses and Fringe Benefits

Criteria

During the course of our audit, we noted that the Commission did not adhere to, or did not have written documentation, regarding policies and procedures with respect to payroll, related expenses and fringe benefits, such as health and life insurance benefits, pension and post-retirement benefits.

Condition and Effect

Payroll and fringe benefits were not adequately supported by sufficient documentation or in accordance with Commission policies and procedures. In addition, there were fringe benefits, paid for by the Commission on behalf of employees and outside contractors, that were not authorized by policy or agreement.

Cause

The condition is a result of the Commission not implementing and adhering to existing policies and procedures, as well as agreements and/or documents authorizing payments, with regards to authorized pay rates, eligibility with health insurance coverage, as well as other fringe benefits.

Recommendation

Management should review policies and existing agreements regarding authorized payroll/payrates, including shift differential and overtime, employee eligibility for health and other benefits to ensure that the Commission is in compliance with agreements, the Commission's health plan and other benefit provisions. Periodic reviews of personnel files, payroll reports and the detail supporting payroll amounts, reviews of health insurance premiums and pension reports, as well as periodic reconciliations, would enable management to identify that payroll is properly paid in accordance with agreements, employees are included or excluded, as appropriate, in benefit plans provided by the Commission, that employees are reimbursing the Commission for optional benefits, where applicable, as well as allow management to enhance its ability for cash management and be fiscally responsible for Commission assets.

Questioned Costs

There are no known questioned costs.

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

Finding No. 2011-3

Quotes/Bids

Criteria

During the course of our audit, we noted that the Commission did not adhere to the New Jersey Statutory Bidding Law, which requires that any contracts for goods and services exceeding \$17,500 be put out to bid. In addition, the Commission did not obtain quotes for goods and services below \$17,500 and above \$2,625.

Condition and Effect

Various accounts were not reconciled to the supporting documentation or supporting schedules that were examined.

Cause

The condition is a result of the Commission not implementing and adhering to the New Jersey Statutory Bidding Law with respect to procurement requirements for goods and services.

Recommendation

Management should review its current vendors that are providing goods and services in excess of \$17,500 for bids and between \$2,625 to \$17,500 for quotes to ensure compliance with respective Bidding Law. This will result in competitive bidding for goods and services obtained by the Commission.

Questioned Costs

There are no known questioned costs.

WANAQUE NORTH PROJECT
(a component unit of the North Jersey District Water Supply Commission)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

Finding No. 2011-4

Disaster Recovery Plan

Criteria

During the course of our audit, we noted that the Commission did not have in place a disaster recovery plan for the Commission's computer systems, which includes the accounting and administrative functions.

Condition and Effect

There is no disaster recovery system in the event of a catastrophic event.

Cause

The condition is a result of the Commission not implementing an offsite data backup plan.

Recommendation

Management should consider designing a strategy for an overall data recovery plan to ensure that the business information, which includes the accounting and administrative functions, is stored in an offsite facility in the event information technology is compromised, lost or destroyed.

Questioned Costs

There are no known questioned costs.