

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

REPORT OF AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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WANAQUE NORTH PROJECT
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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 statement of assets, liabilities and net assets of the North Jersey District Water Supply Commission (the "Commission")-Wanaque North Project (the "Project"), as of and for the year ended December 31, 2012, and the related statements of revenues, expenses and changes in restricted and unrestricted net assets and changes in net assets by fund for the year 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 and presented 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 the significance of the North Jersey District Water Supply Commission preparing and presenting its financial statements for the Wanaque North Project on the modified accrual basis of accounting as 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, 2012 or changes in financial position, or, where applicable, cash flows for the year 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, 2012 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 year 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, 2012, 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 year then ended in accordance with the basis for 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

Prior Year's Financial Statements Audited by Other Auditors

The financial statements of the North Jersey District Water Supply Commission Wanaque North Project as of and for the year ended December 31, 2011 were audited by other auditors whose report dated July 12, 2012 expressed an adverse opinion on the financial statements because they were not prepared and presented in accordance with accounting principles generally accepted in the United States of America but rather the modified accrual basis of accounting. Their report also expressed an unqualified opinion on those financial statements – modified accrual basis prepared and presented in accordance with the modified accrual basis of accounting.

Required Supplementary Information

The Commission has not presented a management's discussion and analysis for the Wanaque North Project that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. A management discussion and analysis is not required by the financial accounting and reporting principles and practices utilized by the North Jersey District Water Supply Commission to supplement the modified accrual basis financial statements and therefore it has not been presented by management. Our opinion on the financial statements – modified accrual basis is not affected by this missing information.

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 and schedule of expenditures of state financial assistance as required by NJ OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid 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 June 20, 2013 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
June 20, 2013

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
COMPARATIVE STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS-
(MODIFIED ACCRUAL BASIS)
AS OF DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 19,069,305	\$ 14,488,547
Due from Wanaque South, a Joint Venture	1,068,832	2,329,455
Due from Wanaque South Project	3,110,062	1,272,891
Other Receivables	251,225	236,194
Inventory	111,130	262,334
Prepaid Items	20,840	-
Total Unrestricted Current Assets	<u>23,631,394</u>	<u>18,589,421</u>
Restricted Current Assets		
Restricted Cash and Cash Equivalents	4,526,191	4,439,215
NJEIT Loans Receivable	54,862	2,505,338
Total Restricted Current Assets	<u>4,581,053</u>	<u>6,944,553</u>
Non Current Assets		
Capital Assets		
Property, Plant and Equipment	<u>133,118,658</u>	<u>131,133,177</u>
Total Non Current Assets	<u>133,118,658</u>	<u>131,133,177</u>
Total Assets	<u>\$ 161,331,105</u>	<u>\$ 156,667,151</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 1,763,366	\$ 594,827
Accrued Salary and Related Benefits	216,312	182,446
Accrued Compensated Absences	155,585	175,242
Accrued Expenses	129,964	220,852
Unearned Revenue	<u>1,032,504</u>	<u>932,759</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>3,297,731</u>	<u>2,106,126</u>
Current Liabilities (Payable from Restricted Assets)		
Accounts Payable	43,174	379,140
Bonds Payable	3,289,133	3,288,380
Retainage Payable	205,747	230,546
Encumbrances Payable	508,129	322,933
Unearned Revenue	<u>54,862</u>	<u>2,505,338</u>
Total Current Liabilities Payable from Restricted Assets	<u>4,101,045</u>	<u>6,726,337</u>
Non-Current Liabilities		
Bonds Payable	<u>22,967,527</u>	<u>26,976,853</u>
Total Liabilities	<u>30,366,303</u>	<u>35,809,316</u>
NET ASSETS		
Investment in Capital Assets, net of related debt	<u>106,861,998</u>	<u>100,867,944</u>
Restricted For:		
Operating Reserve	5,345,000	5,345,000
Debt Service	1,089,449	1,043,670
Debt Reserve	3,365,000	3,365,000
Renewal and Replacement	5,819,766	4,947,039
Unrestricted	<u>8,483,589</u>	<u>5,289,177</u>
Total Restricted and Unrestricted Net Assets	<u>24,102,804</u>	<u>19,989,886</u>
Total Net Assets	<u>130,964,802</u>	<u>120,857,830</u>
Total Liabilities and Net Assets	<u>\$ 161,331,105</u>	<u>\$ 156,667,146</u>

**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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Charges for Services	\$ 26,020,096	\$ 26,020,096
Other User Fees	656,992	659,082
Rental Income	142,427	142,940
Reimbursement - Wanaque South Project, a Joint Venture	5,236,272	5,525,911
Reimbursement - Wanaque South Project	4,639,582	4,370,479
Miscellaneous Income	358,488	-
Total Operating Revenues	<u>37,053,857</u>	<u>36,718,508</u>
OPERATING EXPENSES		
Payroll and Related Expenses	11,195,119	12,065,858
Utilities	2,487,398	2,033,992
Real Estate Taxes	3,201,614	3,077,552
Insurance	6,066,976	5,910,593
Legal and Accounting	606,695	267,112
Engineering and Consulting	160,467	193,944
Supplies and Expenses	2,278,122	2,310,055
Chemicals	2,816,046	2,176,157
Fuel	100,466	173,142
Trustee Fees	34,035	34,035
Bond Principal	3,288,380	3,200,393
Total Operating Expenses	<u>32,235,318</u>	<u>31,442,833</u>
Operating Income	<u>4,818,539</u>	<u>5,275,675</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	38,884	67,195
Interest Expense	(961,129)	(1,059,083)
NJEIT Loan Proceeds	2,341,950	4,894,023
Capital Outlay	(1,880,939)	(5,023,154)
Bond Principal Refunded	(720,193)	
NJ DEP Reimbursements	265,709	412,542
FEMA Reimbursements	56,090	
Insurance Reimbursements	153,970	
Cost of Issuance		
Other Income and Credits	37	39,590
Total Non-Operating Revenue (Expenses)	<u>(705,621)</u>	<u>(668,887)</u>
Change in Restricted and Unrestricted Net Assets	4,112,918	4,606,788
Restricted and Unrestricted Net Assets - Beginning of Year	<u>19,989,886</u>	<u>15,383,098</u>
Restricted and Unrestricted Net Assets - End of Year	<u>\$ 24,102,804</u>	<u>\$ 19,989,886</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, 2012 AND 2011

	<u>Investment in Capital Assets</u>	<u>Operating Reserve</u>	<u>Debt Service</u>	<u>Restricted Debt Service Reserve</u>	<u>Capital Outlay</u>	<u>Total Restricted</u>	<u>Unrestricted</u>	<u>Total Net Assets</u>
Balance, January 1, 2011	\$ 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	8,094,412	1,505,562			1,517,347	3,022,909	2,096,249	13,213,570
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	100,867,944	5,345,000	1,043,670	3,365,000	4,947,039	14,700,709	5,289,177	120,857,830
Additions	5,994,054		45,779		907,550	953,329	34,823	6,982,206
Reductions					(34,823)	(34,823)	(953,329)	(988,152)
Change in Net Assets	-	-	-	-	-	-	4,112,918	4,112,918
Balance, December 31, 2012	\$ 106,861,998	\$ 5,345,000	\$ 1,089,449	\$ 3,365,000	\$ 5,819,766	\$ 15,619,215	\$ 8,483,589	\$ 130,964,802

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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
DECEMBER 31, 2012 AND 2011**

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
DECEMBER 31, 2012 AND 2011

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 and include bond and loan proceeds as revenues. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual. GAAP does not recognize bond and loan proceeds as revenue for proprietary fund types.

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 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.

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.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 reserves 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.

	<u>December 31, 2012</u>
Debt Service Reserve	\$1,089,449
Debt Service Requirement	<u>775,850</u>
Excess	<u>\$ 313,599</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 Fund 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 \$3,364,542, 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
DECEMBER 31, 2012 AND 2011**

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 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.

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, 2011 balances to conform to the December 31, 2012 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 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.

Deposits

The Commission's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), 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
 DECEMBER 31, 2012 AND 2011**

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Bank balances for interest bearing accounts are insured up to \$250,000 in the aggregate by the FDIC for each bank. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, temporary unlimited deposit insurance coverage was provided for non-interest bearing accounts from December 31, 2010 through December 31, 2012. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2012 and 2011, the book value of the Commission's deposits for the Wanaque North Project were \$19,069,305 and \$14,488,547 and bank and brokerage firm balances of the Commission's deposits for the Wanaque North Project amounted to \$19,162,294 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>2012</u>
Insured	\$ <u>19,162,294</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, 2012 and 2011, 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
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NOTE 2 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, 2012 and 2011, the Commission had the following Wanaque North Project investments:

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2012</u>	<u>2011</u>
U.S. Government Security Funds		
Restricted	<u>\$ 4,526,191</u>	<u>\$ 4,439,215</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, 2012 and 2011 \$4,526,191 and \$4,439,215, respectively of the Commission's Wanaque North Project investments were exposed to custodial credit risk as follows:

	<u>Fair Value</u>	
	<u>2012</u>	<u>2011</u>
Uninsured and Collateralized		
Collateral Held by Pledging Financial		
Institutions' Trust Department or Agent		
But Not in the Commission's Name	<u>\$ 4,526,191</u>	<u>\$ 4,439,215</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011**

NOTE 2 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, 2012 and 2011, the available balances are as follows:

	<u>2012</u>	<u>2011</u>
1999		\$ 589,413
2003		1,821,187
2006	\$ 54,862	94,738
	<u>\$ 54,862</u>	<u>\$ 2,505,338</u>

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 5 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2012 and 2011 was as follows:

<u>2012</u>	Balance, December 31, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2012</u>
Land	\$ 4,406,112			\$ 4,406,112
Buildings	91,326,648			91,326,648
Machinery and Equipment	23,646,509			23,646,509
Construction in Progress	<u>11,753,908</u>	<u>\$ 1,985,481</u>	<u>-</u>	<u>13,739,389</u>
	<u>\$ 131,133,177</u>	<u>\$ 1,985,481</u>	<u>\$ -</u>	<u>\$ 133,118,658</u>
<u>2011</u>	Balance, December 31, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2011</u>
Land	\$ 4,406,112			\$ 4,406,112
Buildings	91,326,648			91,326,648
Machinery and Equipment	23,646,509			23,646,509
Construction in Progress	<u>6,859,885</u>	<u>\$ 4,894,023</u>	<u>-</u>	<u>11,753,908</u>
	<u>\$ 126,239,154</u>	<u>\$ 4,894,023</u>	<u>\$ -</u>	<u>\$ 131,133,177</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011**

NOTE 6 LONG TERM DEBT

A. Revenue Bonds

Revenue bonds outstanding as of December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
\$1,690,870, 1999 Project Revenue Bonds due in annual installments of \$94,215 to \$113,682 through August 1, 2019, interest at 4.75% to 5.70%. These bonds were retired in 2012.		\$ 809,711
\$872,395, 2000 Project Revenue Bonds due in annual installments of \$46,048 to \$57,427 through August 1, 2020, interest at 5.05% to 5.25%	\$ 412,690	460,229
\$18,615,000, 2003 Project Revenue Refunding Bonds, due in annual installments of \$1,330,000 to \$1,555,000 through November 15, 2017, interest at 2% to 4.125%	7,190,000	8,480,000
\$10,634,026, 2003A Project Revenue Bonds, due in annual installments of \$538,061 to \$656,612 through August 1, 2023, interest at 3% to 5%	6,500,239	7,025,493
\$1,431,464, 2006 Project Revenue Bonds, due in annual installments of \$69,278 to \$14,872 through August 1, 2026, interest at 3% to 5%	1,078,731	1,144,800
\$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%	<u>11,075,000</u>	<u>12,345,000</u>
	26,256,660	30,265,233
Less:		
Current Portion of Long-Term Debt	<u>(3,289,133)</u>	<u>(3,288,380)</u>
Non-Current Portion of Long-Term Debt	<u>\$ 22,967,527</u>	<u>\$ 26,976,853</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 LONG TERM DEBT (Continued)

A. Revenue Bonds (Continued)

(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. These bonds were refunded during 2012.

(b) 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 5.05% 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 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 15th and November 15 each year.

(d) 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 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 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 1st and August 1st each year.

(f) The 2009 Refunding Bonds refunded all of the outstanding 1997 Project Revenue Bonds totalling \$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.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011**

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, 2012 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Year Ended December 31</u>			
2013	\$ 3,289,133	\$ 887,289	\$ 4,176,422
2014	3,386,380	785,773	4,172,153
2015	3,511,802	663,128	4,174,930
2016	3,637,453	537,649	4,175,102
2017	3,771,449	407,203	4,178,652
2018-2022	7,670,646	682,747	8,353,393
2023-2026	<u>989,797</u>	<u>32,443</u>	<u>1,022,240</u>
	<u>\$ 26,256,660</u>	<u>\$ 3,996,232</u>	<u>\$ 30,252,892</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, 2012 and 2011 are as follows:

	Balance, December 31, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2012</u>
<u>2012</u>				
Revenue Bonds	<u>\$ 30,265,233</u>	<u>\$ -</u>	<u>\$ 4,008,573</u>	<u>\$ 26,256,660</u>

	Balance, December 31, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2011</u>
<u>2011</u>				
Revenue Bonds	<u>\$ 33,465,626</u>	<u>\$ -</u>	<u>\$ 3,200,293</u>	<u>\$ 30,265,333</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
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NOTE 7 ACCRUED COMPENSATED ABSENCES

As of December 31, 2012 and 2011, 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, 2012 is \$494,866. The Commission has accrued a liability of \$155,585 and \$175,242 at December 31, 2012 and 2011, respectively, to fund any potential payments.

NOTE 8 UNEARNED REVENUE

Unearned revenue consists of the balance of funds available under the NJEIT loans, net of outstanding requisitions, and other unearned revenue. The unearned revenue for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
<u>Unrestricted</u>		
Unrealized FEMA Grant Revenue	\$ 98,454	\$ 98,454
Unrealized Due from Wanaque South	403,677	424,879
Security Deposit - T-Mobile	3,000	3,000
Unrealized NJ DEP-Oakland Flood Gates Maintenance	<u>527,373</u>	<u>406,426</u>
	1,032,504	932,759
<u>Restricted</u>		
Unrealized NJ EIT Loans	<u>54,862</u>	<u>2,505,338</u>
	<u>\$ 1,087,366</u>	<u>\$ 3,438,097</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
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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, 2012 and 2011, the amounts due from the Wanaque South Project are as follows:

	<u>2012</u>	<u>2011</u>
Operating	\$1,493,221	\$ 385,679
Loan Reallocation	283,399	424,880
Construction	<u>1,333,442</u>	<u>462,332</u>
	<u>\$3,110,062</u>	<u>\$1,272,891</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, 2012 and 2011, the amount due from the JV is \$1,068,832 and \$2,329,455, 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.

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
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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.

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 or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Significant Legislation

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS operates and to the benefit provisions of the system.

This new legislation's provisions impacting employee pension and health benefits include:

- For new members of PERS hired on or after June 28, 2011 (Tier 5 members), the years of creditable service needed for early retirement benefits increased from 25 to 30 years and the early retirement age increased from 55 to 65.
- The eligibility age to qualify for a service retirement in the PERS increased from age 62 to 65 for Tier 5 members.
- It increased the active member contribution rates from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For Fiscal Year 2012, the member contribution rates increase in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law.
- It changed the method for amortizing the pension system's unfunded accrued liability (from a level percent of pay method to a level dollar of pay method).

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.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Investment Valuation (Continued)

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, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. 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.

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS is 67.5 percent with an unfunded actuarial accrued liability of \$41.7 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 60.8 percent and \$30.1 billion, and the aggregate funded ratio and unfunded accrued liability for local systems, including PERS, is 77.5 percent and \$11.6 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.

Actuarial Methods and Assumptions

In the July 1, 2011 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) a revised investment rate of return for all the retirement systems from 8.25 percent to 7.95 percent; and (b) revised projected salary increases which vary by fund (4.52% 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 6.50% of employees' annual compensation.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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NOTE 10 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2012 for PERS, which is a cost sharing multi-employer defined benefit pension plan, annual pension cost equals contributions made.

During the years ended December 31, 2012, 2011 and 2010, 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>Year Ended December 31,</u>	<u>PERS</u>	<u>Allocated to Wanaque North</u>
2012	\$1,204,173	\$929,260
2011	1,163,781	898,090
2010	915,826	706,743

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

Plan Description

The Commission offers post employment 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.

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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NOTE 12 POST RETIREMENT MEDICAL BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Commission's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (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) over a period not to exceed thirty years. The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Commission's net OPEB obligation to the plan.

	<u>Commission-Wide</u>
Annual Required Contribution	\$ 2,399,496
Interest on Net OPEB Obligation	285,693
Adjustment to Annual Required Contribution	<u>212,179</u>
Total (Annual OPEB Cost (Expense)	2,897,368
Contributions Made	<u>(1,296,759)</u>
Increase in Net OPEB Obligation	1,600,609
Net OPEB Obligation - Beginning of Year	<u>7,142,316</u>
Net OPEB Obligation - End of Year	<u><u>\$ 8,742,925</u></u>

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years 2012, 2011 and 2010 were as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>District-Wide</u>		
	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligations</u>
2012	\$ 2,897,368	44.75%	\$ 8,742,925
2011	2,788,824	44.49%	7,142,316
2010	2,682,981	43.15%	5,594,412

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 12 POST RETIREMENT MEDICAL BENEFITS

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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.

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, 2012 and 2011, 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.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011**

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, 2012 and 2011, the Commission has not estimated its estimated arbitrage earnings due to the IRS, if any, pertaining to the Wanaque North Project.

NOTE 16 CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, the Commission had the following commitments in the Wanaque North Project with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Paid as of December 31, 2012</u>	<u>Remaining Commitment</u>	<u>Allocated to Wanaque North</u>
Water Treatment Plant Improvements	\$ 11,197,070	\$ 1,502,230	\$ 1,123,687

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, 2012
(With Comparative Amounts for the Year Ended December 31, 2011)

	2012 <u>Budget</u>	2012 <u>Actual</u>	<u>Variance</u>	2011 <u>Actual</u>
Revenues:				
Assessments	\$ 26,020,096	\$ 26,020,096		\$ 26,020,096
Anticipated Income	819,473	1,672,597	\$ (853,124)	1,476,105
Joint Venture Participation	6,422,954	5,236,272	1,186,682	5,525,911
Wanaque South Project Participation	4,984,111	4,639,582	344,529	4,370,479
NJEIT Loan Proceeds	-	1,621,757	(1,621,757)	4,894,023
	<u>38,246,634</u>	<u>39,190,304</u>	<u>(943,670)</u>	<u>42,286,614</u>
Expenses:				
Salaries and Wages	10,033,000	9,295,384	737,616	10,170,707
Non-Departmental Expenses	18,597,000	16,572,235	2,024,765	15,436,821
Materials and Supplies	329,625	399,864	(70,239)	309,167
Services Contractual	2,494,200	1,805,363	688,837	1,310,995
Repairs and Maintenance	1,031,650	704,639	327,011	850,394
Purchase of Equipment	168,675	67,956	100,719	128,258
Miscellaneous	131,650	101,497	30,153	117,774
Debt Service	4,298,531	4,249,509	49,022	4,259,476
Capital Items	1,162,303	1,880,939	(718,636)	5,096,234
	<u>38,246,634</u>	<u>35,077,386</u>	<u>3,169,248</u>	<u>37,679,826</u>
Excess of Revenue Over Expenditures	<u>\$ -</u>	<u>\$ 4,112,918</u>	<u>\$ (4,112,918)</u>	<u>\$ 4,606,788</u>

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

WANAQUE NORTH PROJECT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED AND UNRESTRICTED NET ASSETS BY FUND
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Operating</u>	<u>Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Debt Service Reserve</u>	<u>Total (Memo Only)</u>
						<u>2012</u> <u>2011</u>
OPERATING REVENUES						
Municipal Assessments	\$ 20,559,262		\$ 1,162,303	\$ 4,298,531		\$ 26,020,096 \$ 26,020,096
Other User Fees	656,992					656,992 659,082
Rental Income	142,427					142,427 142,940
Reimbursement - Wanaque South Project, a Joint Venture	5,236,272					5,236,272 5,525,911
Reimbursement - Wanaque South Project	4,639,582					4,639,582 4,370,479
Miscellaneous	358,488	-	-	-	-	358,488 -
TOTAL OPERATING REVENUES	31,593,023	-	1,162,303	4,298,531	-	37,053,857 36,718,508
OPERATING EXPENDITURES						
Payroll and Related Expenses	11,195,119					11,195,119 12,063,858
Utilities	2,487,398					2,487,398 2,033,992
Real Estate Taxes	3,201,614					3,201,614 3,077,552
Insurances	6,066,976					6,066,976 5,910,593
Legal and Accounting	606,695					606,695 267,112
Engineering and Consulting	160,467					160,467 193,944
Supplies and Expenses	2,278,122					2,278,122 2,310,055
Chemicals	2,816,046					2,816,046 2,176,157
Fuel	100,466					100,466 173,142
Trustee Fees	15,480			18,555		34,035 34,035
Bond Principal	-	-	-	3,288,380	-	3,288,380 3,200,393
TOTAL OPERATING EXPENDITURES	28,928,383	-	-	3,306,935	-	32,235,318 31,442,833
OPERATING INCOME	2,664,640	-	1,162,303	991,596	-	4,818,539 5,275,675
NON OPERATING REVENUES (EXPENSES)						
Interest Income	33,023	\$ 20		5,787	\$ 54	38,884 67,195
Interest Expense				(961,129)		(961,129) (1,059,083)
NJEIT Loan Proceeds			2,341,950			2,341,950 4,894,023
Capital Outlay	(13,900)		(1,867,039)			(1,880,939) (5,023,154)
Bond Principal Refunded				(720,193)		(720,193) 412,542
NJDEP Reimbursements	265,709					265,709 56,090
FEMA Reimbursements	56,090					56,090 153,970
Insurance Reimbursements	153,970					153,970 39,590
Other Income and Credits	37					37 16
Transfer in	20			729,718		729,738 (16)
Transfer out	-	(20)	(729,664)	-	(54)	(729,738) (668,887)
TOTAL NON OPERATING REVENUES (EXPENSES)	494,949	-	(254,753)	(945,817)	-	(705,621) (668,887)
EXCESS OF REVENUE OVER EXPENDITURES	\$ 3,159,589	\$ -	\$ 907,550	\$ 45,779	\$ -	\$ 4,112,918 \$ 4,606,788

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
ROSTER OF OFFICIALS
DECEMBER 31, 2012**

The following officials were in office at December 31, 2012:

COMMISSIONERS

Charles P. Shotmeyer, Chairman
Carmen A. Orechio, Vice-Chairman
Jerome P. Amedeo
Alan S. Ashkinaze
Donald C. Kuser

EXECUTIVE OFFICERS

Todd Caliguire	Executive Director
Joseph E. Stroin, Jr.	Chief Operating Officer
Danielle Holobinko	Chief Financial Officer
Angelo Valente	Commission Secretary

Government Auditing Standards

and

Single Audit

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ROBERT W. HAAG, CPA, PSA
DEBORAH K. LERCH, CPA, PSA
DEBRA GOLLE, CPA
CINDY JANACEK, CPA, RMA
RALPH M. PICONE, CPA, RMA, PSA
EDWARD N. KERE, CPA
LORI T. MANUKIAN, CPA, PSA
MARK SACO, CPA

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, 2012, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2013. Our report on the financial statements – modified accrual basis indicated that the financial statements were not prepared and presented in accordance with accounting principles generally accepted in the United States of America but rather prepared and presented in accordance with the modified accrual basis of accounting as described in Note 1.

Internal Control over Financial Reporting

Management of the North Jersey District Water Supply Commission Wanaque North Project is responsible for establishing and maintaining effective 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2012-1 through 2012-3 that we consider to be significant deficiencies in internal control over financial reporting.

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.

We also noted certain matters that we reported to management of the North Jersey District Water Supply Commission Wanaque North Project in a separate report entitled; "Auditor's Management Report."

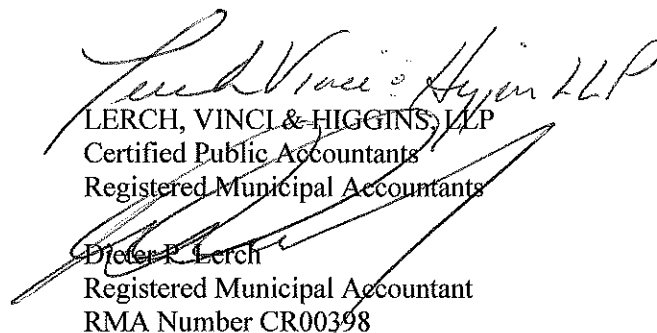
North Jersey District Water Supply Commission Wanaque North Project's Responses to Findings

The North Jersey District Water Supply Commission Wanaque North Project's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The North Jersey District Water Supply Commission Wanaque North Project's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

Fair Lawn, New Jersey
June 20, 2013


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Certified Public Accountants
Registered Municipal Accountants
Dieter R. Lerch
Registered Municipal Accountant
RMA Number CR00398

LERCH, VINCI & HIGGINS, LLP

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REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE AS REQUIRED BY NEW JERSEY OMB CIRCULAR 04-04

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major State Program

We have audited the North Jersey District Water Supply Commission's (Wanaque North and Wanaque South Projects) compliance with the types of compliance requirements described in the New Jersey OMB Circular 04-04 State Aid/Grant Compliance Supplement that could have a direct and material effect on each of the North Jersey District Water Supply Commission's major state programs for the year ended December 31, 2012. The North Jersey District Water Supply Commission's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the North Jersey District Water Supply Commission's major state programs based on our audit of the types of compliance requirements referred to above. 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; 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 North Jersey District Water Supply 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 on compliance for each major state program. However, our audit does not provide a legal determination of the North Jersey District Water Supply Commission's compliance.

Opinion on Each Major State Program

In our opinion, the North Jersey District Water Supply Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the North Jersey District Water Supply Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the North Jersey District Water Supply Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with New Jersey OMB Circular 04-04, 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 North Jersey District Water Supply Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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 state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of New Jersey OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.

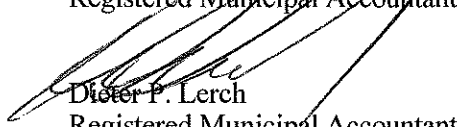
Report on Schedule of Expenditures of State Financial Assistance Required by New Jersey OMB Circular 04-04

We have audited the financial statements - modified accrual basis of the North Jersey District Water Supply Commission Wanaque North and Wanaque South Projects as of and for the year ended December 31, 2012, and the related notes to the financial statements and have issued our reports thereon dated June 20, 2013, which contained a modified opinion on those financial statements because they were not prepared and presented in accordance with accounting principles generally accepted in the United States of America and also contained an unmodified opinion on those financial statements prepared and presented in accordance with the modified accrual basis of accounting. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 04-04 is presented for purposes of additional

analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.



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



Dieter P. Lerch
Registered Municipal Accountant
RMA Number CR00398

Fair Lawn, New Jersey
June 20, 2013

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAUKE NORTH AND WANAUKE SOUTH PROJECTS
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2012

Grantor/Program Title	State Account/ Project Number	Grant Period From To	Program or Award Amount	Cash Received	Balance January 1, 2012	Revenue Realized	Expended	Adjustment(A)	Balance December 31, 2012	Cumulative Expenditures December 31, 2012
Department of Environmental Protection										
New Jersey Environmental Infrastructure Trust										
Filter Rehabilitation	w1613001-004/005	11/1/2000	Completion	\$ 2,202,184	\$ 821,104	-	\$ 792,576	\$ 821,104	\$ 138,080	\$ 1,381,080
Facilities Improvements	w1613001-003/010/011	11/1/2003	Completion	13,500,000	792,576	-	316,680	-	146,024	13,500,000
Solar Power	w1613001-015	11/1/2006	Completion	1,396,910	177,704	-	-	-	146,024	1,250,886
Wanaque South Pump Station and Motors	w1613001-017	11/1/2006	Completion	2,183,362	2,169,570	-	-	-	2,169,570	13,792
Total Department of Environmental Protection				19,282,456	3,960,954	-	1,109,256	821,104	2,315,594	16,145,758
Total State Assistance				\$ 19,282,456	\$ 3,960,954	\$ -	\$ 1,109,256	\$ 821,104	\$ 2,315,594	\$ 16,145,758

(A) Balance was refunded and is no longer available.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH AND SOUTH PROJECTS
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
DECEMBER 31, 2012**

NOTE 1 GENERAL

The accompanying schedules present the activity of all state financial assistance programs of the North Jersey District Water Supply Commission. The Commission is defined in Note 1 to the Commission's Wanaque North and South Project financial statements.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedules are prepared and presented using the modified accrual basis of accounting as prescribed the Board of Commissioners which differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. This basis of accounting is described in Note 1 to the Commission's Wanaque North and South Project financial statements.

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

Amounts reported in the accompanying schedules agree with amounts reported in the Commission's Wanaque North and South Project financial statements. Financial assistance revenues are reported in the Commission's Wanaque North and South Project financial statements on the basis of accounting described above as follows:

	<u>Wanaque North</u>	<u>Wanaque South</u>	<u>Total</u>
State	<u>\$2,341,950</u>	<u>\$218,443</u>	<u>\$2,560,393</u>

NOTE 4 RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules may not necessarily agree with the amounts reported in the related state financial reports due to timing differences between the Commission's fiscal year and grant program year.

NOTE 5 STATE LOANS OUTSTANDING

The Commission's state loans outstanding at December 31, 2012, which are not required to be reported on the schedules of expenditures of state financial assistance, are as follows:

<u>Loan Program</u>	<u>State Account Number</u>	<u>Wanaque North</u>	<u>Wanaque South</u>	<u>Total</u>
2000 New Jersey Environmental Infrastructure Trust	N/A	\$416,290	\$176,867	\$593,157

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part I – Summary of Auditor's Results

Financial Statement Section (Wanaque North)

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

Federal Awards Section

NOT APPLICABLE

State Awards Section (Wanaque North and Wanaque South)

Internal Control over major programs:		
1) Material weakness(es) identified?	_____ yes	<u> X </u> no
2) Were significant deficiency(ies) identified that were not considered to be material weaknesses?	_____ yes	<u> X </u> none reported
Type of auditor's report on compliance for major programs:	<u>Unqualified</u>	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section.510(a))?	_____ yes	<u> X </u> none

Identification of major state programs:

<u>CFDA Number(s)</u>	<u>Name of State Program</u>
W1613001/003,010, 011 and 015	NJ Environmental Infrastructure Trust
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	_____ yes <u> X </u> no

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

Finding 2012-1:

Certain inventory is not being reported on the Commission's financial statements.

Criteria or specific requirement:

Generally Accepted Accounting Principles

Condition:

The Commission reports inventory only for items maintained in Administration. Various other independent inventory locations exist, but are not reported by the Commission.

Context:

An inventory system exists and is reported for items maintained in Administration. Inventory maintained at other locations are not integrated with administration and are not reported on the Commission's financial statements.

Effect:

The Commission's financial statements are misstated due to the underreporting of inventory.

Cause:

Unknown.

Recommendation:

A central warehouse and inventory control system be developed and implemented for the maintenance of inventory and all items be reported on the Commission's financial statements.

Management's Response:

A central warehouse system is being developed for implementation in 2013.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

Finding 2012-2:

The Computer software utilized for the issuance of checks for disbursement is not integrated with the Commission's accounting software. As such, instances were noted where check numbers reported in the accounting system were not in agreement with actual check numbers issued..

Criteria or specific requirement:

Internal controls over cash disbursements

Condition:

Separate software systems are utilized for the accounting and check writing functions. These systems are not integrated.

Context:

Check numbers for disbursements reported in the accounting system were not always in agreement with actual check numbers issued for the respective disbursements.

Effect:

Check numbers in the financial reporting system do not reflect actual check numbers issued.

Cause:

Unknown.

Recommendation:

Internal controls be enhanced, whereby the computer software utilized for the issuance of checks be integrated with the Commission's accounting software.

Management's Response:

A software upgrade is being sought to integrate the systems.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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.

Finding 2012-3:

The payroll clerk has the ability to revise data entered into the time management system subsequent to supervisor approval and prior to payroll processing.

Criteria or specific requirement:

Internal controls over human resources and payroll processing

Condition:

Subsequent to supervisor approval, electronically entered time management data can be accessed and revised by the payroll clerk prior to the processing of payroll.

Context:

Approved hours worked for certain time management entries were revised by the payroll clerk prior to payroll processing.

Effect:

Employees may be paid for hours worked which are not in agreement with hours approved in the time management system..

Cause:

Unknown.

Recommendation:

Internal controls be reviewed and enhanced to ensure that adequate controls are in place to prohibit the payroll clerk from unilaterally altering the time management entries.

Management's Response:

Internal controls over time management entry and approvals will be reviewed and enhanced.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Part 3 – Schedule of Federal and State Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB Circular 04-04.

CURRENT YEAR FEDERAL AWARDS

Not Applicable

CURRENT YEAR STATE AWARDS

There are none.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

This section identifies the status of prior year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, U.S. OMB Circular A-133 (Section .215(a)(b)) and New Jersey OMB Circular 04-04.

Finding 2011-1

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 and related support after the initial trial balance was provided.

Current Status

Corrective action has been taken.

Finding 2011-2

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.

Current Status

Corrective action has been taken.

Finding 2011-3

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.

Current Status

Corrective action has been taken.

Finding 2011-4

The Commission did not have in place a disaster recovery plan for the Commission's computer systems, which includes the accounting and administrative functions.

Current Status

Corrective action has been taken.