

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

REPORT OF AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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 Audit of Financial Statements

Opinions

We have audited the accompanying statements of assets, liabilities and net assets - modified accrual basis of the North Jersey District Water Supply Commission (the "Commission")-Wanaque North Project (the "Project"), as of and for the years ended December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net assets - modified accrual basis and changes in net assets by component - modified accrual basis for the years then ended and the related notes to the financial statements.

Unmodified 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, 2021 and 2020, and the respective changes in net assets - modified accrual basis and changes in net assets by component - modified accrual basis for the years then ended in accordance with the basis of financial accounting and reporting principles and practices as described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, 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, 2021 and 2020, or changes in financial position, or, where applicable, cash flows for the years then ended.

Basis for Opinions

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Jersey District Water Supply Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Jersey District Water Supply Commission Wanaque North's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Jersey District Water Supply Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Jersey District Water Supply Commission Wanaque North's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 net assets-modified accrual basis and the changes in net assets by component-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, 2021 and 2020, the changes in its net assets-modified accrual basis and the changes in its net assets by fund-modified accrual basis for the years then ended in accordance with the basis of financial accounting and reporting principles and practices as described in Note 1. Our opinion on the financial statements-modified accrual basis is not modified with respect to this matter.

Supplementary 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 as a whole. The supplementary schedules listed in the table of contents and the schedule of expenditures of state financial assistance as required by NJ OMB Circular 15-08, 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. 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 Information

Management is responsible for the other information included in the report of audit. The other information comprises the supplementary data and letter of comments and recommendation section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Jersey District Water Supply Commission - Wanaque North Project's 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 & BLISS, LLP
Certified Public Accountants
Registered Municipal Accountants


Dieter P. Lerch
Registered Municipal Accountant
RMA Number CR00398

Fair Lawn, New Jersey
September 26, 2022

Financial Statements

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 COMPARATIVE STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS-
 (MODIFIED ACCRUAL BASIS)
 AS OF DECEMBER 31, 2021 AND 2020**

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------------|-----------------------|-----------------------|
| ASSETS | | |
| Unrestricted Current Assets | | |
| Cash and Cash Equivalents | \$ 41,747,262 | \$ 41,585,339 |
| Investments | 7,223,067 | 243,202 |
| Due from Wanaque South, a Joint Venture | 580,446 | 857,487 |
| Due from Wanaque South Project | 4,854,859 | 7,731,083 |
| Other Receivables | 189,401 | 328,228 |
| Inventory | <u>178,788</u> | <u>157,741</u> |
| Total Unrestricted Current Assets | <u>54,773,823</u> | <u>50,903,080</u> |
| Restricted Current Assets | | |
| Investments | 9,328,666 | 8,600,231 |
| NJEIT Loans Receivable | <u>14,133,946</u> | <u>15,729,949</u> |
| Total Restricted Current Assets | <u>23,462,612</u> | <u>24,330,180</u> |
| Non Current Assets | | |
| Capital Assets | | |
| Property, Plant and Equipment | <u>175,655,930</u> | <u>170,441,439</u> |
| Total Non Current Assets | <u>175,655,930</u> | <u>170,441,439</u> |
| Total Assets | <u>\$ 253,892,365</u> | <u>\$ 245,674,699</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, 2021 AND 2020**

| | <u>2021</u> | <u>2020</u> |
|------------------------------------------------------------|-----------------------|-----------------------|
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Current Liabilities (Payable from Unrestricted Assets) | | |
| Accounts Payable and Other Liabilities | \$ 1,247,640 | \$ 1,065,050 |
| Accrued Salary and Other Related Payroll Liabilities | 33,361 | 181,247 |
| Accrued Compensated Absences | 223,584 | 223,584 |
| Unearned Revenue | <u>956,986</u> | <u>864,053</u> |
| Total Current Liabilities Payable from Unrestricted Assets | <u>2,461,571</u> | <u>2,333,934</u> |
| Current Liabilities (Payable from Restricted Assets) | | |
| Bonds Payable | 640,000 | 430,000 |
| EIT Loans Payable | 933,838 | 915,381 |
| Temporary Note - EIT | <u>15,729,949</u> | <u>15,784,811</u> |
| Total Current Liabilities Payable from Restricted Assets | <u>17,303,787</u> | <u>17,130,192</u> |
| Non-Current Liabilities | | |
| Bonds Payable | 10,075,000 | 10,715,000 |
| EIT Loans Payable | 5,128,361 | 6,062,234 |
| Accrued Compensated Absences | <u>319,175</u> | <u>319,175</u> |
| Total Non-Current Liabilities | <u>15,522,536</u> | <u>17,096,409</u> |
| Total Liabilities | <u>35,287,894</u> | <u>36,560,535</u> |
| NET ASSETS | | |
| Investment in Capital Assets, net of related debt | <u>165,746,954</u> | <u>159,187,047</u> |
| Restricted For: | | |
| Operating Reserve | 12,445,000 | 12,445,000 |
| Debt Service | 584,284 | 562,749 |
| Debt Reserve | 1,044,300 | 1,044,300 |
| Renewal and Replacement | 21,788,388 | 16,788,388 |
| Unrestricted | <u>16,995,545</u> | <u>19,086,680</u> |
| Total Restricted and Unrestricted Net Assets | <u>52,857,517</u> | <u>49,927,117</u> |
| Total Net Assets | <u>218,604,471</u> | <u>209,114,164</u> |
| Total Liabilities and Net Assets | <u>\$ 253,892,365</u> | <u>\$ 245,674,699</u> |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 (MODIFIED ACCRUAL BASIS)
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------------------------|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Charges for Services | \$ 25,583,297 | \$ 25,583,297 |
| Other User Fees | 622,992 | 624,204 |
| Rental Income | 140,812 | 119,758 |
| Reimbursement - Wanaque South Project, a Joint Venture | 5,185,799 | 5,247,465 |
| Reimbursement - Wanaque South Project | 4,461,472 | 4,510,274 |
| Miscellaneous Income | <u>55,526</u> | <u>735,325</u> |
| Total Operating Revenues | <u>36,049,898</u> | <u>36,820,323</u> |
| OPERATING EXPENSES | | |
| Payroll and Related Expenses | 10,974,684 | 11,419,509 |
| Utilities and Fuel | 1,803,254 | 1,507,914 |
| Real Estate Taxes | 2,923,322 | 2,912,843 |
| Insurance | 4,278,570 | 3,801,722 |
| Legal and Accounting | 151,954 | 277,313 |
| Engineering and Consulting | 675,883 | 746,975 |
| Supplies and Expenses | 2,540,261 | 3,441,584 |
| Chemicals | 2,514,608 | 2,348,693 |
| Trustee Fees | <u>46,570</u> | <u>90,880</u> |
| Total Operating Expenses | <u>25,909,106</u> | <u>26,547,433</u> |
| Operating Income | <u>10,140,792</u> | <u>10,272,890</u> |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest Income | 39,846 | 286,721 |
| Interest Expense | (434,847) | (443,099) |
| Other Credits (Debits) | <u>(255,484)</u> | <u>133,299</u> |
| Total Non-Operating Revenues (Expenses) | <u>(650,485)</u> | <u>(23,079)</u> |
| Change in Net Assets | 9,490,307 | 10,249,811 |
| Net Assets - Beginning of Year | <u>209,114,164</u> | <u>198,864,353</u> |
| Net Assets - End of Year | <u>\$ 218,604,471</u> | <u>\$ 209,114,164</u> |

The Accompanying Notes are an Integral Part of these Financial Statements

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAEUE NORTH PROJECT
 COMPARATIVE STATEMENTS OF CHANGES IN NET ASSETS BY COMPONENT
 (MODIFIED ACCRUAL BASIS)
 YEARS ENDED DECEMBER 31, 2021 AND 2020

| | Investment in Capital Assets | Operating Reserve | Debt Service | Debt Reserve | Renewal and Replacement | Total Restricted | Unrestricted | Total Net Assets |
|----------------------------|---------------------------------|----------------------|-----------------|-----------------|----------------------------|---------------------|---------------|---------------------|
| Balance, January 1, 2020 | \$ 149,843,201 | \$ 12,445,000 | \$ 459,823 | \$ 1,044,300 | \$ 16,788,388 | \$ 30,737,511 | \$ 18,283,641 | \$ 198,864,353 |
| Additions | | | 102,926 | | | 102,926 | - | 102,926 |
| Reductions | | | - | | | - | (102,926) | (102,926) |
| Change in Net Assets | 9,343,846 | - | - | - | - | - | 905,965 | 10,249,811 |
| Balance, December 31, 2020 | 159,187,047 | 12,445,000 | 562,749 | 1,044,300 | 16,788,388 | 30,840,437 | 19,086,680 | 209,114,164 |
| Additions | | | 21,535 | | 5,000,000 | 5,021,535 | - | 5,021,535 |
| Reductions | | | | | | - | (5,021,535) | (5,021,535) |
| Change in Net Assets | 6,559,907 | - | - | - | - | - | 2,930,400 | 9,490,307 |
| Balance, December 31, 2021 | \$ 165,746,954 | \$ 12,445,000 | \$ 584,284 | \$ 1,044,300 | \$ 21,788,388 | \$ 35,861,972 | \$ 16,995,545 | \$ 218,604,471 |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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 | 0.705 |
| | <u>94.000</u> |

*Represented by the Passaic Valley Water Commission

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

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

Proprietary Fund Type

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

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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 Statements of Assets, Liabilities and Net Assets, with exceptions noted below. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, with exceptions noted below. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. These accounting principles differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The more significant differences are noted below.

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

Expenses – Expenses are recognized on the modified accrual basis GAAP requires expenses to be recognized in the accounting period in which the liability is incurred, if measurable. GAAP requires depreciation to be expensed.

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

Property, Plant and Equipment – Property, plant and equipment is recorded at cost with no recognition of depreciation. GAAP requires the recognition of depreciation of Property, Plant and Equipment for Proprietary Funds.

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

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

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Unearned Revenue – Unearned revenue consists primarily of the balance of funds received from various sources that have not been expended and earned.

Net Pension and OPEB Liabilities-The Commission reports its annual pension and other post-employment benefit expenses on a pay as you go basis. GAAP requires pension and OPEB expenses be based on the actuarial determined amounts as determined under GASB Statements 68 and 75 and liabilities to be recorded for the net pension and OPEB obligations 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</u> | |
|--------------------------|--------------------|----------------|
| | <u>2021</u> | <u>2020</u> |
| Debt Service Reserve | \$ 584,284 | \$ 562,749 |
| Debt Service Requirement | <u>584,284</u> | <u>562,749</u> |
| Excess | <u>\$ -0-</u> | <u>\$ -0-</u> |

Debt Reserve – A Debt Service Reserve Fund is established under the General Bond Resolution for the benefit of all Bonds Outstanding from time to time thereunder. The General Bond Resolution defines the “Debt Service Reserve Fund Requirement” to mean, as of any date of calculation, an amount equal to the aggregate Debt Service Reserve Fund Requirements for each Series of Bonded Indebtedness then Outstanding, as provided for with respect to such Series in the applicable Supplemental Resolution. Accordingly, the aggregate Debt Service Reserve Fund Requirement will be \$1,044,300 at December 31, 2021 and 2020, which amount will be less than the maximum annual debt service on all Bonds Outstanding under the General Bond Resolution.

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

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

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Outlays – Capital projects that relate to infrastructure or other capitalizable assets are capitalized but not depreciated. 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, debt service and capital outlays. The budget is adopted on a basis consistent with the cash basis of accounting, including no provision for depreciation and amortization. It is monitored at various levels of classification detail within the enterprise funds. Expenses at the fund level may not exceed the total budget.

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

Reclassifications - Certain reclassifications may have been made to the December 31, 2020 balances to conform to the December 31, 2021 presentation.

C. Financial Statements – Modified Accrual Basis

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

NOTE 2 CASH DEPOSITS AND INVESTMENTS

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

Cash Deposits

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

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
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NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued)

Cash Deposits (Continued)

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. NCUSIF insures credit union accounts up to \$250,000 in the aggregate for each financial institution. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2021 and 2020, the book value of the Commission's deposits for the Wanaque North Project were \$41,747,262 and \$41,585,339 and bank and brokerage firm balances of the Commission's deposits for the Wanaque North Project amounted to \$42,293,363 and \$43,255,391 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>2021</u> | <u>2020</u> |
| Insured | \$ 42,293,363 | \$ 43,255,391 |

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, 2021 and 2020, the Commission's Wanaque North Project bank balances were not exposed to custodial credit risk.

Investments

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

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

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

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

As of December 31, 2021 and 2020, the Commission had the following Wanaque North Project investments:

| <u>Investment Type</u> | <u>Fair Value</u> | |
|--------------------------------|----------------------|---------------------|
| | <u>2021</u> | <u>2020</u> |
| U.S. Government Security Funds | | |
| Unrestricted | \$ 7,223,067 | \$ 243,202 |
| Restricted | <u>9,328,666</u> | <u>8,600,231</u> |
| | <u>\$ 16,551,733</u> | <u>\$ 8,843,433</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, 2021 and 2020, \$16,551,733 and \$8,843,433, respectively of the Commission's Wanaque North Project investments were exposed to custodial credit risk as follows:

| | <u>Fair Value</u> | |
|----------------------------------------------------------------------------------------------------------------|----------------------|---------------------|
| | <u>2021</u> | <u>2020</u> |
| Uninsured and Collateralized | | |
| Collateral Held by Pledging Financial Institutions' Trust Department or Agent But Not in the Commission's Name | <u>\$ 16,551,733</u> | <u>\$ 8,843,433</u> |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in the market interest rate will adversely affect the fair value of an investment. 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 – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. 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 concentration of credit risk is the risk of loss that may be caused by the Borough's investment in a single issuer. 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.

Fair Value of Investments. The Commission's Wanaque North Project measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles (GAAP). These guidelines recognize a three-tiered fair value hierarchy as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than those in Level 1; and
- *Level 3:* Unobservable inputs.

Investments are valued based on price data obtained from observed transactions and market price quotations provided by U.S. Bank and BNY Mellon. Since the value is not obtained from a quoted price in an active market the investments held by the Commission at December 31, 2021 and 2020 are categorized as Level 2.

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.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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. The Commission received reimbursements of \$1,596,003 and \$2,301,651 during 2021 and 2020, respectively. At December 31, 2021 and 2020, the available balances are as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------|----------------------|----------------------|
| 2020 Project Notes | \$ 14,133,946 | 15,729,949 |
| | <u>\$ 14,133,946</u> | <u>\$ 15,729,949</u> |

NOTE 5 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2021 and 2020 was as follows:

| <u>2021</u> | Balance, December 31, <u>2020</u> | <u>Increases</u> | <u>Decreases</u> | Balance, December 31, <u>2021</u> |
|--------------------------|-----------------------------------------|---------------------|------------------|-----------------------------------------|
| Land | \$ 4,406,112 | | | \$ 4,406,112 |
| Buildings | 91,326,648 | | | 91,326,648 |
| Machinery and Equipment | 23,424,703 | | | 23,424,703 |
| Construction in Progress | 51,283,976 | \$ 5,298,182 | \$ 83,691 | 56,498,467 |
| | <u>\$ 170,441,439</u> | <u>\$ 5,298,182</u> | <u>\$ 83,691</u> | <u>\$ 175,655,930</u> |

| <u>2020</u> | Balance, December 31, <u>2019</u> | <u>Increases</u> | <u>Decreases</u> | Balance, December 31, <u>2020</u> |
|--------------------------|-----------------------------------------|----------------------|------------------|-----------------------------------------|
| Land | \$ 4,406,112 | | | \$ 4,406,112 |
| Buildings | 91,326,648 | | | 91,326,648 |
| Machinery and Equipment | 23,424,703 | | | 23,424,703 |
| Construction in Progress | 38,531,483 | \$ 12,790,776 | \$ 38,283 | 51,283,976 |
| | <u>\$ 157,688,946</u> | <u>\$ 12,790,776</u> | <u>\$ 38,283</u> | <u>\$ 170,441,439</u> |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 LONG TERM DEBT AND OTHER LONG TERM LIABILITIES

Revenue Bonds

Revenue bonds outstanding as of December 31, 2021 and 2020 consist of the following:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| \$14,460,000, 2009 Project Revenue Refunding Bonds, due in an annual installment of \$430,000 on November 15, 2021, interest at 4% | | \$ 430,000 |
| \$10,715,000, 2015A Project Revenue Bonds, due in annual installments of \$640,000 to \$1,005,000 through November 15, 2034, interest at 3% to 5% | <u>\$ 10,715,000</u> | <u>10,715,000</u> |
| | <u>\$ 10,715,000</u> | <u>\$ 11,145,000</u> |
| Current Portion | \$ 640,000 | \$ 430,000 |
| Long Term Portion | <u>10,075,000</u> | <u>10,715,000</u> |
| | <u>\$ 10,715,000</u> | <u>\$ 11,145,000</u> |

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

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

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 LONG TERM DEBT AND OTHER LONG TERM LIABILITIES (Continued)

Intergovernmental Loans

The District has entered into several loan agreements with the State of New Jersey for the financing related to various capital improvement projects. The District pledges revenue from operations to pay debt service on loans issued. Intergovernmental loans outstanding at December 31, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------------------|---------------------|---------------------|
| New Jersey Environmental Infrastructure Trust | | |
| Trust Loan, Series 2000 | | |
| Fund Loan, Series 2000 | | |
| Trust Loan, Series 2003 | \$ 655,945 | 960,766 |
| Fund Loan, Series 2003 | 641,642 | 960,794 |
| Trust Loan, Series 2006 | 180,400 | 213,200 |
| Fund Loan, Series 2006 | 231,617 | 279,180 |
| Trust Loan, Series 2020 | 1,094,550 | 1,131,888 |
| Fund Loan, Series 2020 | <u>3,258,045</u> | <u>3,431,787</u> |
| | <u>\$ 6,062,199</u> | <u>\$ 6,977,615</u> |
| Current Portion | \$ 933,838 | \$ 915,381 |
| Long Term Portion | <u>5,128,361</u> | <u>6,062,234</u> |
| | <u>\$ 6,062,199</u> | <u>\$ 6,977,615</u> |

Changes in Long Term Liabilities

The Commission's long-term liability activity for the Wanaque North Project for the years ended December 31, 2021 and 2020 are as follows:

| <u>2021</u> | Balance, December 31, <u>2020</u> | <u>Increases</u> | <u>Decreases</u> | Balance, December 31, <u>2021</u> | Due Within One Year |
|-------------------------|-----------------------------------------|---------------------|---------------------|-----------------------------------------|---------------------------|
| Revenue Bonds | \$ 11,145,000 | | \$ 430,000 | \$ 10,715,000 | \$ 640,000 |
| Intergovernmental Loans | 6,977,615 | | 915,416 | 6,062,199 | 933,838 |
| Compensated Absences | <u>542,759</u> | <u>-</u> | <u>-</u> | <u>542,759</u> | <u>223,584</u> |
| | <u>\$ 18,665,374</u> | <u>\$ -</u> | <u>\$ 1,345,416</u> | <u>\$ 17,319,958</u> | <u>\$ 1,797,422</u> |
| <u>2020</u> | Balance, December 31, <u>2019</u> | <u>Increases</u> | <u>Decreases</u> | Balance, December 31, <u>2020</u> | Due Within One Year |
| Revenue Bonds | \$ 11,550,000 | | \$ 405,000 | \$ 11,145,000 | \$ 430,000 |
| Intergovernmental Loans | 3,163,968 | \$ 4,679,503 | 865,856 | 6,977,615 | 915,381 |
| Compensated Absences | <u>542,759</u> | <u>-</u> | <u>-</u> | <u>542,759</u> | <u>223,584</u> |
| | <u>\$ 15,256,727</u> | <u>\$ 4,679,503</u> | <u>\$ 1,270,856</u> | <u>\$ 18,665,374</u> | <u>\$ 1,568,965</u> |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 6 LONG TERM DEBT AND OTHER LONG TERM LIABILITIES (Continued)

Changes in Long Term Liabilities (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, 2021 is as follows:

| <u>Year Ended December 31</u> | <u>Revenue Bonds</u> | | <u>Intergovernmental Loans</u> | | <u>Total</u> |
|-------------------------------|----------------------|---------------------|--------------------------------|-------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2022 | \$ 640,000 | \$ 404,188 | \$ 933,838 | \$ 78,597 | \$ 2,056,623 |
| 2023 | 670,000 | 372,188 | 953,806 | 60,015 | 2,056,009 |
| 2024 | 705,000 | 338,688 | 302,875 | 40,498 | 1,387,061 |
| 2025 | 740,000 | 303,438 | 302,282 | 36,413 | 1,382,133 |
| 2026 | 775,000 | 266,438 | 304,876 | 32,530 | 1,378,844 |
| 2027-2031 | 4,265,000 | 950,550 | 921,514 | 117,939 | 6,255,003 |
| 2032-2036 | 2,920,000 | 206,675 | 619,408 | 84,119 | 3,830,202 |
| 2037-2041 | | | 641,808 | 64,230 | 706,038 |
| 2042-2046 | | | 667,194 | 38,391 | 705,585 |
| 2047-2049 | - | - | 414,598 | 8,187 | 422,785 |
| | <u>\$ 10,715,000</u> | <u>\$ 2,842,165</u> | <u>\$ 6,062,199</u> | <u>\$ 560,919</u> | <u>\$ 20,180,283</u> |

NOTE 7 TEMPORARY NOTE

The Commission has secured short-term financing through the Water Bank Construction Financing Program of the New Jersey Infrastructure Bank. The purpose of these short-term borrowings was to provide resources for capital construction, acquisitions or improvement projects and after purposes. The amount outstanding as of the December 31, 2021 and 2020 was \$15,729,949 and 15,784,811, respectively.

NOTE 8 ACCRUED COMPENSATED ABSENCES

As of December 31, 2021 and 2020, 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, 2021 and 2020 is \$542,759 and \$542,759, respectively. The Commission has accrued a liability of \$542,759 and \$542,759 at December 31, 2021 and 2020, respectively, to fund any potential payments.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 9 UNEARNED REVENUE

Unearned revenue consists of the balance of funds available which have not been realized as revenue. The unearned revenue for the years ended December 31, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------------------|-------------------|-------------------|
| <u>Unrestricted</u> | | |
| Unrealized NJ DEP-Oakland Flood Gates Maintenance | \$ 809,761 | \$ 809,761 |
| Unrealized Unemployment Contributions | 123,430 | 25,817 |
| Unrealized Accounts Receivable | 20,058 | 28,475 |
| Unrealized Glen Ridge Escrow | <u>3,737</u> | <u>-</u> |
| | <u>\$ 956,986</u> | <u>\$ 864,053</u> |

NOTE 10 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, 2021 and 2020, the amounts due from/(to) the Wanaque South Project are as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------|--------------------|---------------------|
| Operating | \$ 297,066 | \$5,268,176 |
| Loan Reallocation | 960,757 | 960,757 |
| Construction | <u>3,597,036</u> | <u>1,502,150</u> |
| | <u>\$4,854,859</u> | <u>\$ 7,731,083</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 Velia (formerly Suez). As of December 31, 2021 and 2020, the amount due from the JV is \$580,446 and \$857,457, respectively. The advances are non-interest bearing, payable on demand and usually paid within 30 days.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
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 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 11 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 to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and, if applicable, 25 years for post-retirement healthcare coverage. PERS is a cost-sharing multi-employer defined benefit pension plan. For additional information about PERS, please refer to the State Division of Pension and Benefits (Division's) Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions.

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death, and disability benefits. All benefits vest after ten years of service, except for medical benefits, which, if applicable, vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

| Tier | Definition |
|-------------|--------------------------------------------------------------------------------------------|
| 1 | Members who were enrolled prior to July 1, 2007 |
| 2 | Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008 |
| 3 | Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010 |
| 4 | Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011 |
| 5 | Members who were eligible to enroll on or after June 28, 2011 |

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tier 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tier 1 and 2 members before reaching age 60, tier 3 and 4 members with 25 or more years of service credit before age 62, and tier 5 members with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have a least 25 years of service. Deferred retirement is available to members who have at least ten years of service credit and have not reached the service retirement age for the respective tier.

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.

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.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
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NOTE 11 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Measurement Focus and Basis of Accounting

The financial statements of the retirement systems are prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the pension trust funds. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

Investment Valuation

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of the retirement systems. Investment transactions are accounted for on a trade or investment date basis. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date. The net increase or decrease in the fair value of investments includes the net realized and unrealized gains or losses on investments.

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

Collective Net Pension Liability

The collective net pension liability of the participating employers for local PERS at June 30, 2021 and 2020 is \$11.9 billion and \$16.4 billion, respectively, and the plan fiduciary net position as a percentage of the total pension liability is 70.33% and 58.32% at June 30, 2021 and 2020, respectively.

The total pension liability was determined based on actuarial valuations as of July 1, 2020 and 2019 which were rolled forward to June 30, 2021 and 2020.

Actuarial Methods and Assumptions

In the July 1, 2020 and 2019 PERS actuarial valuations, the actuarial assumptions and methods used in these valuations were described in the Actuarial Assumptions and Methods section of the Actuary's report and are included here in this note to the financial statements. The pension system selected economic and demographic assumptions and prescribed them for use for purposes of compliance with GASB Statement No. 68. The Actuary provided guidance with respect to these assumptions, and it is their belief that the assumptions represent reasonable expectations of anticipated plan experience.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the PERS retirement system requires employee contributions based on 7.50% of employee's annual compensation.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE NORTH PROJECT
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NOTE 11 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Annual Pension Cost (APC)

For the years ended December 31, 2021 and 2020 for PERS, which is a cost sharing multi-employer defined benefit pension plan, employers' contributions are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. All contributions made by the Commission for 2021, 2020 and 2019 were equal to the required contributions.

During the years ended December 31, 2021, 2020 and 2019, the Commission was required to contribute for normal cost pension contributions, accrued liability pension contributions, early retirement incentive program contributions, long-term disability and non-contributory life insurance premiums the following amounts which equaled the required contributions for each respective year:

| <u>Years Ended December 31,</u> | <u>PERS</u> | <u>Allocated to Wanaque North</u> |
|-------------------------------------|--------------|---------------------------------------|
| 2021 | \$ 1,071,905 | \$ 801,141 |
| 2020 | 987,913 | 738,366 |
| 2019 | 1,066,910 | 797,408 |

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

Public Employees Retirement System (PERS)

Participating employers in PERS are required to disclose in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, (GASB No.68) their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented are based on the ratio of the contributions as an individual employer to total contributions to the PERS during the fiscal years ended June 30, 2021 and 2020. Employer location percentages have been rounded for presentation purposes.

At December 31, 2021 and 2020, the Commission had a liability of \$12,551,633 and \$15,978,754, respectively, for its proportionate share of the PERS net pension liability. This liability is not reflected in the financial statements of the Commission, but is disclosed in the footnotes only. The net pension liability was measured as of June 30, 2021 and 2020, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020 and 2019, respectively. The Commission's proportionate share of the net pension liability was based on the ratio of the Commission's contributions to the pension plan relative to the total contributions of all participating governmental entities during the measurement period. As of the measurement date of June 30, 2021, the Commission's proportionate share was .10595 percent, which was an increase of .00797 percent from its proportionate share measured as of June 30, 2020 of .09798 percent.

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NOTE 11 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Public Employees Retirement System (PERS) (Continued)

For the years ended December 31, 2021 and 2020, the pension system has determined the Commission's pension expense(benefit) to be \$(1,511,824) and \$381,800, respectively, for PERS based on the actuarial valuation which are less than the actual contributions reported in the Commission's financial statements of \$1,071,905 and \$987,913, respectively. At December 31, 2021 and 2020 the Commission's deferred outflows of resources and deferred inflows of resources related to PERS pension which are not reported on the Commission's financial statements are from the following sources:

| | 2021 | | 2020 | |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|-----------------------------------------------|----------------------------------------------|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Difference Between Expected and Actual Experience | \$ 197,955 | \$ 89,855 | \$ 290,947 | \$ 56,508 |
| Changes of Assumptions | 65,369 | 4,468,463 | 518,369 | 6,690,456 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | | 3,306,430 | 546,167 | |
| Changes in Proportion and Differences Between Commission Contributions and Proportionate Share of Contributions | <u>1,398,957</u> | <u>594,651</u> | <u>115,600</u> | <u>846,762</u> |
| Total | <u>\$ 1,662,281</u> | <u>\$ 8,459,399</u> | <u>\$ 1,471,083</u> | <u>\$ 7,593,726</u> |

At December 31, 2021 the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized in pension expense (benefit) as follows:

| <u>Year Ending December 31,</u> | <u>Total</u> |
|-----------------------------------------|-----------------------|
| 2022 | \$ (2,806,014) |
| 2023 | (1,944,748) |
| 2024 | (1,253,234) |
| 2025 | (826,953) |
| 2026 | 33,831 |
| Thereafter | <u>-</u> |
| | <u>\$ (6,797,118)</u> |

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NOTE 11 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The Commission's total pension liability reported for the year ended December 31, 2021 was based on the June 30, 2021 measurement date as determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021. The total pension liability reported for the year ended December 31, 2020 was based on the June 30, 2020 measurement date as determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

| <u>PERS</u> | <u>2021 and 2020</u> |
|---------------------------|---------------------------------------------|
| Inflation Rate: | |
| Price | 2.75% |
| Wage | 3.25% |
| Salary Increases: | |
| Through 2026 | 2.00-6.00% Based on Years of Service |
| Thereafter | 3.00%-7.00% Based on Years of Service |
| Investment Rate of Return | 7.00% |
| Mortality Rate Table | Pub-2010 |

Assumptions for mortality improvements are based on Society of Actuaries Scale MP for 2021 and 2020.

The actuarial assumptions used in the July 1, 2020 and 2019 valuations were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

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NOTE 11 EMPLOYEE RETIREMENT SYSTEMS (Continued)

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

Public Employees Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2021 and 2020, as reported for the years ended December 31, 2021 and 2020, respectively, are summarized in the following table:

| <u>Asset Class</u> | <u>2021</u> | | <u>2020</u> | |
|---------------------------------|--------------------------|-----------------------------------------------|--------------------------|-----------------------------------------------|
| | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
| Risk Mitigation Strategies | 3.00% | 3.35% | 3.00% | 3.40% |
| Cash Equivalents | 4.00% | 0.50% | 4.00% | 0.50% |
| U.S. Treasuries | 5.00% | 0.95% | 5.00% | 1.94% |
| Investment Grade Credit | 8.00% | 1.68% | 8.00% | 2.67% |
| US Equity | 27.00% | 8.09% | 27.00% | 7.71% |
| Non-US Developed Markets Equity | 13.50% | 8.71% | 13.50% | 8.57% |
| Emerging Markets Equity | 5.50% | 10.96% | 5.50% | 10.23% |
| High Yield | 2.00% | 3.75% | 2.00% | 5.95% |
| Real Assets | 3.00% | 7.40% | 3.00% | 9.73% |
| Private Credit | 8.00% | 7.60% | 8.00% | 7.59% |
| Real Estate | 8.00% | 9.15% | 8.00% | 9.56% |
| Private Equity | 13.00% | 11.30% | 13.00% | 11.42% |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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NOTE 11 EMPLOYEE RETIREMENT SYSTEMS (Continued)

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

Public Employees Retirement System (PERS) (Continued)

Discount Rate

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

| Calendar | | |
|--------------------|--------------------------------|-----------------------------|
| <u>Year</u> | <u>Measurement Date</u> | <u>Discount Rate</u> |
| 2021 | June 30, 2021 | 7.00% |
| 2020 | June 30, 2020 | 7.00% |

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

2021 and 2020

Period of Projected Benefit

Payments for which the Following

Rates were Applied:

Long-Term Expected Rate of Return

All Periods

Sensitivity of Net Pension Liability

The following presents the Commission's proportionate share of the PERS net pension liability as of December 31, 2021 and 2020 calculated using the discount rate of 7.00% as well as what the Commission's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

| | <u>1% Decrease (6.00%)</u> | <u>Current Discount Rate (7.00%)</u> | <u>1% Increase (8.00%)</u> |
|-----------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------------|-------------------------------------------|
| <u>2021</u> | | | |
| Commission's Proportionate Share of the PERS Net Pension Liability | <u>\$ 17,092,779</u> | <u>\$ 12,551,633</u> | <u>\$ 8,697,827</u> |
| | <u>1% Decrease (6.00%)</u> | <u>Current Discount Rate (7.00%)</u> | <u>1% Increase (8.00%)</u> |
| <u>2020</u> | | | |
| Commission's Proportionate Share of the PERS Net Pension Liability | <u>\$ 20,114,586</u> | <u>\$ 15,978,754</u> | <u>\$ 12,469,388</u> |

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NOTE 11 EMPLOYEE RETIREMENT SYSTEMS (Continued)

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

Public Employees Retirement System (PERS) (Continued)

The sensitivity analysis was based on the proportionate share of the Commission's net pension liability at December 31, 2021 and 2020. A sensitivity analysis specific to the Commission's net pension liability was not provided by the pension system.

Pension Plan Fiduciary Net Position

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

NOTE 12 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 13 POST RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plan for participating local government agencies including the Commission.

Plan Description and Benefits Provided

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

State Health Benefit Program Fund – Local Government Retired (the Plan) (including Prescription Drug Program Fund) – The Plan is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

The Plan provides medical and prescription drug to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retires with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retires and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A. 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level coverage.

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

Measurement Focus and Basis of Accounting

The financial statements of the OPEB plan are prepared in accordance with U.S. generally accepted accounting principles as applicable to government organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the other postemployment benefit plan. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

Investment Valuation

Investments are reported at fair value. 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 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

Collective Net OPEB Liability

The collective net OPEB liability of the participating employers and the State, as the non-employer contributing entity, of the Plan at June 30, 2021 was not available and for 2020 is \$17.9 billion and the plan fiduciary net position as a percentage of the total OPEB liability is 0.91% at June 30, 2020.

The total OPEB liabilities were determined based on actuarial valuations as of July 1, 2019 which was rolled forward to June 30, 2020.

Actuarial Methods and Assumptions

In the July 1, 2019 OPEB actuarial valuations, the actuarial assumptions and methods used in this valuation were described in the Actuarial Assumptions and Methods section of the Actuary's report and are included here in this note to the financial statements. The Plan selected economic and demographic assumptions and prescribed them for use for purposes of compliance with GASB Statement No. 75. The Actuary provided guidance with respect to these assumptions, and it is their belief that the assumptions represent reasonable expectations of anticipated plan experience.

Post-Retirement Medical Benefits Contribution

The funding policy for the OPEB plan is pay-as-you-go; therefore, there is no prefunding of the liability. However, due to premium rates being set prior to each calendar year, there is a minimal amount of net position available to cover benefits in future years. Contributions to pay for the health benefit premiums of participating employees in the OPEB plan are collected from the State of New Jersey, participating local employers, and retired members. The State of New Jersey makes contributions to cover those employees eligible under Chapter 330, P.L. 1967, as disclosed previously. Local employers remit employer contributions on a monthly basis. Retired member contributions are generally received on a monthly basis.

The employers participating in the OPEB plan made contributions of \$292.4 million and the State of New Jersey, as the non-employer contributing entity, contributed \$35.0 million for fiscal year 2020.

The State sets the employer contribution rate based on a pay-as-you-go basis rather than the actuarial determined contribution an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The actuarial determined contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any unfunded actuarial liabilities (or funding excess) of the plan using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the Plan. The Commission's contributions to the State Health Benefits Program Fund-Local Government Retired Plan for post-retirement benefits for the years ended December 31, 2021, 2020 and 2019 were \$778,541, \$739,309 and \$774,743, respectively, which equaled the required contributions for each year.

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Participating employers in the State Health Benefit Program Fund – Local Government Retired Plan are required to disclose in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension (GASB No. 75)* their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense excluding that attributable to retiree-paid member contributions.

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NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Under GASB Statement No. 75 local governmental employers are required to provide certain financial information based on a measurement date no earlier than the end of the employer's prior fiscal year. The GASB No. 75 financial information from the State's Division of Pensions and Benefits to be reported for the year ended December 31, 2021 for the measurement date of June 30, 2021 was not available as of the date of audit. Accordingly, the State's Division of Local Government Services issued Local Finance Notice 2022-12 which authorizes the presentation of the most recent available audited GASB No. 75 financial information to be incorporated into the audit. As such the GASB No. 75 financial information for the year ended December 31, 2021 is not presented in the notes to the financial statements.

The employer allocation percentages presented are based on the ratio of the contributions made as an individual employer toward the actuarially determined contribution amount to total contributions to the plan during the fiscal years ended June 30, 2020 and 2019. Employer allocation percentages have been rounded for presentation purposes.

At December 31, 2020 the Commission had a liability of \$30,313,086 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2019. The Commission's proportionate share of the net OPEB liability was based on the ratio of the Commission's proportionate share of the OPEB liability attributable to the Commission at June 30, 2020 to the total OPEB liability for the State Health Benefit Program Fund – Local Government Retired Plan at June 30, 2020. As of the measurement date of June 30, 2020 the Commission's proportionate share was .16890 percent, which was an increase of .0151 percent from its proportionate share measured as of June 30, 2019 of .15380 percent.

For the year ended December 31, 2020, the Plan has determined the Commission's OPEB expense (benefit) to be \$(209,916), based on the actuarial valuations which is less than the actual contribution reported in the Commission's financial statements of \$778,541. At December 31, 2020, the Commission's deferred outflows of resources and deferred inflows of resources related to the OPEB plan which are not reported on the Commission's financial statements are from the following sources:

| | 2020 | |
|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Difference Between Expected and Actual Experience | \$ 798,423 | \$ 5,644,862 |
| Changes of Assumptions | 4,533,884 | 6,741,162 |
| Net Difference Between Projected and Actual Earnings on OPEB Plan Investments | 19,250 | |
| Changes in Proportion and Differences Between Commission Contributions and Proportionate Share of Contributions | <u>3,260,841</u> | <u>4,937,575</u> |
| Total | <u>\$ 8,612,398</u> | <u>\$ 17,323,599</u> |

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At December 31, 2020 the amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense(benefit) as follows:

| <u>Year Ending December 31,</u> | <u>Total</u> |
|-----------------------------------------|-----------------------|
| 2022 | \$ (2,065,871) |
| 2023 | (2,067,371) |
| 2024 | (2,069,842) |
| 2025 | (2,071,530) |
| 2026 | (1,185,037) |
| Thereafter | <u>748,450</u> |
| | <u>\$ (8,711,201)</u> |

Actuarial Assumptions

The Commission's total OPEB liability reported for the year ended December 31, 2020 was based on the June 30, 2020 measurement date as determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

| | <u>2020</u> |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inflation Rate | 2.50% |
| Salary Increases* | |
| PERS: | |
| Initial Fiscal Year Applied Through | 2026 |
| Rate | 2.00% to 6.00% |
| Rate Thereafter | 3.00% to 7.00% |
| PFRS: | |
| Initial Fiscal Year Applied Through | Rate for All Future Years |
| Rate | 3.25% to 15.25% |
| Rate Thereafter | Not Applicable |
| Mortality | |
| PERS | Pub-2010 General Classification Headcount- Weighted Mortality Table with fully generational mortality improvement projections from the central year using Scale MP-2020. |

*Salary increases are based on the defined benefit pension plan that the member is enrolled in and the members years of service.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

**OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to OPEB (Continued)**

Actuarial Assumptions (Continued)

For the June 30, 2020 measurement date healthcare cost trend rates for pre-Medicare medical benefits, the trend is initially 5.6% and decreases to a 4.5% long-term trend rate after seven years. For post-65 medical benefits, the actual fully-insured Medicare Advantage trend rates for fiscal year 2021 through 2022 are reflected. The rates used for 2023 and 2024 are 21.83% and 18.53%, respectively, trending to 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.0% and decreases to a 4.5% long-term trend rate after seven years.

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of the PERS experience study for July 1, 2014 to June 30, 2018.

100% of active members are considered to participate in the plan upon retirement.

Discount Rate

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

| Calendar Year | Measurement Date | Discount Rate |
|--------------------------|-------------------------|----------------------|
| 2020 | June 30, 2020 | 2.21% |
| 2019 | June 30, 2019 | 3.50% |

The discount rate represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of Net OPEB Liability to Changes in the Discounts Rate

The following presents the Commission's proportionate share of the net OPEB liability as of December 31, 2020 calculated using the discount rate of 2.21%, as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21%) or 1-percentage-point higher (3.21%) than the current rate:

| | 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
|---------------------------------------------------------------|------------------------------------|----------------------------------------------|------------------------------------|
| <u>2020</u> | | | |
| Commission's Proportionate Share of the Net OPEB Liability | <u>\$ 35,836,472</u> | <u>\$ 30,313,086</u> | <u>\$ 25,940,824</u> |

The sensitivity analysis was based on the proportionate share of the Commission's net OPEB liability at December 31, 2020. A sensitivity analysis specific to the Commission's net OPEB liability was not provided by the Plan.

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the Commission's proportionate share of the net OPEB liability as of December 31, 2020 calculated using the healthcare trend rates as disclosed above as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

| <u>2020</u> | <u>1% Decrease</u> | <u>Healthcare Cost Trend Rates</u> | <u>1% Increase</u> |
|---------------------------------------------------------------|------------------------|----------------------------------------|------------------------|
| Commission's Proportionate Share of the Net OPEB Liability | <u>\$ 25,084,110</u> | <u>\$ 30,313,086</u> | <u>\$ 37,160,502</u> |

The sensitivity analysis was based on the proportionate share of the Commission's net OPEB liability at December 31, 2020. A sensitivity analysis specific to the Commission's net OPEB liability was not provided by the pension system.

OPEB Plan Fiduciary Net Position

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

NOTE 14 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 15 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, 2021 and 2020, 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
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 16 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, 2021 and 2020, the Commission has not estimated its estimated arbitrage earnings due to the IRS, if any, pertaining to the Wanaque North Project.

NOTE 17 INFECTIOUS DISEASE OUTBREAK – COVID-19 PANDEMIC

The World Health Organization declared a pandemic following the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 13, 2020, the President of the United States declared a national emergency to unlock federal funds and assistance to help states and local governments fight the pandemic. Governor Phil Murphy, of the State of New Jersey, also declared a public health emergency on March 9, 2020 and instituted mandatory measures via various executive orders to contain the spread of the virus, including closing schools and nonessential businesses and limiting social gatherings. These measures, which altered the behaviors of businesses and people, had negative impacts on regional, state and local economies. The Governor, pursuant to various executive orders, then implemented a multi-stage approach to restarting New Jersey's economy. The declaration of the state of emergency and of a public health emergency was terminated by the Governor, by executive order, on June 4, 2021. Also, on June 4, 2021, the Governor signed into law Assembly Bill No. 5820 which terminates most of the Governor's pandemic-related executive orders in early July. The remaining executive orders (dealing with coronavirus testing and vaccinations, moratoriums on evictions and utility shutoffs and various other matters) will terminate on January 1, 2022. On January 11, 2022, the Governor reinstated, via Executive Order No. 280, the state of emergency and declared a new public health emergency in response to a surge in cases tied to new variants of COVID-19, in particular the Omicron variant. Such public health emergency was set to expire 30 days from January 11, 2022, but was later extended, via Executive Order No. 288, for an additional 30 days on February 10, 2022. In the event of substantial increases in COVID-19 hospitalizations, spot positivity or rates of transmission, the Governor is empowered to impose more restrictive measures than currently in place.

The Commission's finances and operations may be materially and adversely affected as a result of the continued spread of COVID-19 through reduced or delayed revenue streams, which include the collection of municipal assessments, which are the Commission's primary revenue source for supporting its budget. The Commission cannot predict costs associated with a potential infectious disease outbreak like COVID-19 such as operational costs to clean, sanitize and maintain its facilities, or costs to operate remotely and support Commission functions and critical government actions during an outbreak or any resulting impact such costs could have on the operations of the Commission. However, as of the date of audit, the Commission's finances and operations have not been materially and adversely affected due to the COVID-19 outbreak.

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, 2021
(With Comparative Amounts for the Year Ended December 31, 2020)

| | 2021 <u>Budget</u> | 2021 <u>Actual</u> | <u>Variance</u> | 2020 <u>Actual</u> |
|---------------------------------------------------|---------------------------|-------------------------|-------------------------|--------------------------|
| Revenues: | | | | |
| Assessments | \$ 25,583,297 | \$ 25,583,297 | | \$ 25,583,297 |
| Anticipated Income | 782,992 | 603,692 | \$ (179,300) | 1,899,307 |
| Suez Participation | 2,941,329 | 2,592,900 | (348,429) | 2,623,733 |
| Wanaque South Participation | <u>9,214,330</u> | <u>7,054,372</u> | <u>(2,159,958)</u> | <u>7,134,006</u> |
| Total Revenues | <u>38,521,948</u> | <u>35,834,261</u> | <u>(2,687,687)</u> | <u>37,240,343</u> |
| Expenses: | | | | |
| Salaries and Wages | 10,198,146 | 9,110,487 | 1,087,659 | 9,562,284 |
| Non-Departmental Expenses | 16,115,710 | 10,869,343 | 5,246,367 | 10,079,704 |
| Materials and Supplies | 356,750 | 2,864,219 | (2,507,469) | 2,742,216 |
| Services Contractual | 4,033,200 | 2,376,609 | 1,656,591 | 2,710,749 |
| Repairs and Maintenance | 955,400 | 472,645 | 482,755 | 497,107 |
| Purchase of Equipment | 141,850 | 130,671 | 11,179 | 826,220 |
| Miscellaneous | 106,350 | 85,133 | 21,217 | 129,153 |
| Debt Service | 2,511,556 | 1,780,263 | 731,293 | 1,713,955 |
| Capital Items | <u>6,259,210</u> | <u>6,259,210</u> | <u>-</u> | <u>6,220,621</u> |
| Total Expenditures | <u>40,678,172</u> | <u>33,948,580</u> | <u>6,729,592</u> | <u>34,482,009</u> |
| Total Budget Income | <u>\$ (2,156,224)</u> | \$ 1,885,681 | <u>\$ 4,041,905</u> | \$ 2,758,334 |
| <u>Reconciliation to Change in Net Assets</u> | | | | |
| Capital Items - Budgetary | | 6,259,210 | | 6,220,621 |
| Debt Principal Payments | | <u>1,345,416</u> | | <u>1,270,856</u> |
| Change in Net Assets | | <u>\$ 9,490,307</u> | | <u>\$ 10,249,811</u> |

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

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BY FUND
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | Operating | Revenue | Construction | Debt Service | Debt Service Reserve | Total (Memo Only) | |
|--------------------------------------------------------|---------------------|-------------|--------------|------------------|----------------------|---------------------|----------------------|
| | | | | | | 2020 | 2020 |
| OPERATING REVENUES | | | | | | | |
| Municipal Assessments | \$ 23,784,913 | | | \$ 1,798,384 | | \$ 25,583,297 | \$ 25,583,297 |
| Other User Fees | 622,992 | | | | | 622,992 | 624,204 |
| Rental Income | 140,812 | | | | | 140,812 | 119,758 |
| Reimbursement - Wanaque South Project, a Joint Venture | 5,185,799 | | | | | 5,185,799 | 5,247,465 |
| Reimbursement - Wanaque South Project | 4,461,472 | | | | | 4,461,472 | 4,510,274 |
| Miscellaneous | 55,526 | - | - | - | - | 55,526 | 735,325 |
| TOTAL OPERATING REVENUES | 34,251,514 | - | - | 1,798,384 | - | 36,049,898 | 36,820,323 |
| OPERATING EXPENDITURES | | | | | | | |
| Payroll and Related Expenses | 10,974,684 | | | | | 10,974,684 | 11,419,509 |
| Utilities and Fuel | 1,803,254 | | | | | 1,803,254 | 1,507,914 |
| Real Estate Taxes | 2,923,322 | | | | | 2,923,322 | 2,912,843 |
| Insurances | 4,278,570 | | | | | 4,278,570 | 3,801,722 |
| Legal and Accounting | 151,954 | | | | | 151,954 | 277,313 |
| Engineering and Consulting | 675,883 | | | | | 675,883 | 746,975 |
| Supplies and Expenses | 2,540,261 | | | | | 2,540,261 | 3,441,584 |
| Chemicals | 2,514,608 | | | | | 2,514,608 | 2,348,693 |
| Trustee Fees | 28,450 | | | 18,120 | | 46,570 | 90,880 |
| Bond Principal | - | - | - | 1,345,417 | - | 1,345,417 | 1,270,856 |
| TOTAL OPERATING EXPENDITURES | 25,890,986 | - | - | 1,363,537 | - | 27,254,523 | 27,818,289 |
| OPERATING INCOME | 8,360,528 | - | - | 434,847 | - | 8,795,375 | 9,002,034 |
| NON OPERATING REVENUES (EXPENSES) | | | | | | | |
| Interest Income | 15,772 | \$ 639 | \$ 9,078 | 13,888 | \$ 469 | 39,846 | 286,721 |
| Interest Expense | | | | (434,847) | | (434,847) | (443,099) |
| Other Credits(Debits) | (255,484) | | | | | (255,484) | 133,299 |
| Transfer in | 2,539 | (639) | (9,078) | 7,647 | (469) | 10,186 | 120,663 |
| Transfer out | - | | | - | | (10,186) | (120,663) |
| TOTAL NON OPERATING REVENUES (EXPENSES) | (237,173) | - | - | (413,312) | - | (650,485) | (23,079) |
| Add: Bond Principal - Budgetary | 8,123,355 | - | - | 21,535 | - | 8,144,890 | 8,978,955 |
| | 1,345,417 | - | - | - | - | 1,345,417 | 1,270,856 |
| CHANGE IN NET ASSETS | \$ 9,468,772 | \$ - | \$ - | \$ 21,535 | \$ - | \$ 9,490,307 | \$ 10,249,811 |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
ROSTER OF OFFICIALS
DECEMBER 31, 2021**

The following officials were in office at December 31, 2021:

COMMISSIONERS

Howard L. Burrell, Chairman

Charles P. Shotmeyer, Vice-Chairman

Jerome P. Amedeo

Alan S. Ashkinaze

James L. Cassella

Robert C. Garofalo

Donald C. Kuser

EXECUTIVE OFFICERS

Timothy J. Eustace

Executive Director

Lloyd L. Naideck

Deputy Executive Director (Resigned 11/19/21)

William Schaffner

Chief Financial Officer

Government Auditing Standards
and
Single Audit



LERCH, VINCI & BLISS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

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

ELIZABETH A. SHICK, CPA, RMA, PSA
ROBERT W. HAAG, CPA, RMA, PSA
DEBRA GOLLE, CPA
MARK SACO, CPA
ROBERT LERCH, CPA
CHRISTOPHER VINCI, CPA, PSA
CHRISTINA CUIFFO, 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, 2021, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2022. Our report on the financial statements – modified accrual basis indicated that the financial statements were not prepared in accordance with accounting principles generally accepted in the United States of America but rather prepared in accordance with the modified accrual basis of accounting as described in Note 1.

Report on 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 as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the North Jersey District Water Supply Commission Wanaque North Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Jersey District Water Supply Commission Wanaque North Project's internal control.

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


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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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



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



Dieter P. Lerch
Registered Municipal Accountant
RMA Number CR00398

Fair Lawn, New Jersey
September 26, 2022



LERCH, VINCI & BLISS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

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CHRISTOPHER VINCI, CPA, PSA
CHRISTINA CUIFFO, CPA

**REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE AS REQUIRED BY NEW JERSEY OMB CIRCULAR 15-08**

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

Opinion on Each Major State Program

We have audited the North Jersey District Water Supply Commission Wanaque North Project's compliance with the types of compliance requirements described in the New Jersey OMB Circular 15-08 State Aid/Grant Compliance Supplement that could have a direct and material effect on each of the North Jersey District Water Supply Commission Wanaque North Project's major state programs for the year ended December 31, 2021. The North Jersey District Water Supply Commission Wanaque North Project's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the North Jersey District Water Supply Commission Wanaque North Project 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, 2021.

Basis for Opinion on Each Major State Program

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 audit requirements of New Jersey OMB Circular 15-08, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Our responsibilities under those standards and New Jersey OMB Circular are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the North Jersey District Water Supply Commission Wanaque North Project's and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major state program. Our audit does not provide a legal determination of the North Jersey District Water Supply Commission Wanaque North Project's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulation, rules, and provisions of contracts or grant agreements applicable to the North Jersey District Water Supply Commission Wanaque North Project's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the North Jersey District Water Supply Commission Wanaque North Project's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards and New Jersey OMB Circular 15-08 will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the North Jersey District Water Supply Commission Wanaque North Project's compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards and New Jersey OMB Circular 15-08, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the North Jersey District Water Supply Commission Wanaque North Project's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the North Jersey District Water Supply Commission Wanaque North Project's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with New Jersey OMB Circular 15-08, 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 over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 15-08. 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 15-08

We have audited the financial statements of the North Jersey District Water Supply Commission Wanaque North Project as of and for the year ended December 31, 2021, and the related notes to the financial statements, listed in the table of contents, and have issued our report thereon dated September 26, 2022, which contained a modified opinion on those financial statements because they were not prepared in accordance with accounting principles generally accepted in the United States of America and also contained an unmodified opinion on those financial statements prepared 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 is presented for purposes of additional analysis as required by New Jersey OMB Circular 15-08 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 & BLISS, LLP
Certified Public Accountants
Registered Municipal Accountants



Dieter P. Lerch
Registered Municipal Accountant
RMA Number CR00398

Fair Lawn, New Jersey
September 26, 2022

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAUKE NORTH PROJECT
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2021

| <u>Grantor/Program Title</u> | <u>State Account/ Project Number</u> | <u>Grant Period From To</u> | <u>Program or Award Amount</u> | <u>2021 Cash Receipts</u> | <u>Balance January 1, 2021</u> | <u>Revenue Realized</u> | <u>Expended</u> | <u>Adjustment</u> | <u>Balance December 31, 2021</u> | <u>Cumulative Expenditures December 31, 2021</u> |
|-----------------------------------------------------------------------------------------------------------------|------------------------------------------|---------------------------------|----------------------------------------|-----------------------------------|----------------------------------------|-----------------------------|-----------------|-------------------|------------------------------------------|--------------------------------------------------------------|
| Department of Environmental Protection New Jersey Environmental Infrastructure Trust RTF/Lagoon Upgrade 2 | NJWB-CFP-20-2 | 11/18/2020 Completion | \$ 15,729,949 | \$ 1,596,003 | \$ 15,729,949 | \$ - | \$ 1,596,003 | \$ - | \$ 14,133,946 | \$ 1,596,003 |
| Total Department of Environmental Protection | | | 15,729,949 | 1,596,003 | 15,729,949 | - | 1,596,003 | - | 14,133,946 | 1,596,003 |
| Total State Assistance | | | \$ 15,729,949 | \$ 1,596,003 | \$ 15,729,949 | \$ - | \$ 1,596,003 | \$ - | \$ 14,133,946 | \$ 1,596,003 |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
NOTES TO THE SCHEDULES OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED DECEMBER 31, 2021**

NOTE 1 GENERAL

The accompanying schedule presents the activity of all state financial assistance programs of the North Jersey District Water Supply Commission Wanaque North Project. The Commission is defined in Note 1(A) to the Commission’s financial statements. All state financial assistance passed through other government agencies is included on the schedule of expenditures of state financial assistance.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedule is prepared and presented using the modified accrual basis of accounting which differs 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 financial statements.

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

Amounts reported in the accompanying schedule agrees with amounts reported in the Commission’s financial statements. NJ EIT Loan Receipts are reported in the Commission’s financial statements on the basis of accounting described above as follows:

| <u>State</u> |
|--------------------|
| <u>\$1,596,003</u> |

NOTE 4 RELATIONSHIP TO STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedule 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, 2020, which are not required to be reported on the schedule of expenditures of financial assistance, are as follows:

| <u>Loan Program</u> | <u>Amount</u> |
|-----------------------------------------------|--------------------|
| New Jersey Environmental Infrastructure Trust | <u>\$6,062,199</u> |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Part I – Summary of Auditor's Results

Financial Statement Section (Wanaque North)

| | |
|----------------------------------------------------------------------------------------------------|--------------------------------------|
| Type of auditor's report issued: | Unmodified |
| 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? | _____ yes <u> X </u> none reported |
| Noncompliance material to the basic financial statements noted? | _____ yes <u> X </u> no |

Federal Awards Section

Not Applicable

State Awards Section

| | |
|-----------------------------------------------------------------------------------------------------------|--------------------------------|
| Dollar threshold used to determine Type A programs: | \$750,000 |
| Auditee qualified as low-risk auditee? | <u> X </u> yes _____ no |
| Type of auditors' report on compliance for major programs: | Unmodified |
| Internal Control over compliance: | |
| 1) Material Weakness(es) identified? | _____ yes <u> X </u> no |
| 2) Were significant deficiencies identified that are not considered to be material weaknesses? | _____ yes <u> X </u> no |
| Any audit findings disclosed that are required to be reported in accordance with N.J. OMB Circular 15-08? | _____ yes <u> X </u> no |

Identification of major programs:

| GMIS Number(s) | Name of State Program |
|----------------|------------------------------------|
| NJWB-CFP-20-2 | Environmental Infrastructure Trust |
| | |
| | |
| | |
| | |
| | |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Part 2 – Schedule of Financial Statement Findings

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

There are none.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2021**

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 U.S. Uniform Guidance and New Jersey OMB Circular 15-08.

FEDERAL AWARDS

Not applicable.

STATE AWARDS

There are none.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE NORTH PROJECT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2021**

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. Uniform Guidance and New Jersey OMB's Circular 15-08.

STATUS OF PRIOR YEAR FINDINGS

There were none.