

**NORTH JERSEY DISTRICT
WATER SUPPLY COMMISSION**

WANAQUE SOUTH PROJECT A JOINT VENTURE

Financial Statements
with Additional Financial Information

December 31, 2009 and 2008

(With Independent Auditor's Report Thereon)

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

We have audited the accompanying special purpose statement of assets and liabilities of the Wanaque South Project, A Joint Venture as of and for the year ended December 31, 2009, and the related statements of operating costs and reimbursements by the Co-owners, and cash flows for the year then ended. These financial statements are the responsibility of the Joint Venture's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 2008 were audited by other auditors whose report dated June 15, 2009 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects the assets and liabilities of the Wanaque South Project Joint Venture as of December 31, 2009 and its operating costs and reimbursements by the Co-owners and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the use of the Management, Commissioners, and Co-owners of the Wanaque South Project Joint Venture and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Louis C Mai CPA & Associates

June 10, 2010

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 A JOINT VENTURE
 STATEMENT OF ASSETS AND LIABILITIES
 DECEMEBR 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash	\$ 215,052	\$ 211,416
Due From Wanaque South	362,087	272,046
Due From United Water	373,761	283,715
Other Receivables	-	-
TOTAL ASSETS	<u>950,900</u>	<u>767,177</u>
LIABILITIES		
Accounts Payable	114,578	223,887
Due to Wanaque North Project	711,322	418,290
Due to Wanaque South Towns	60,000	60,000
Due to United Water New Jersey	60,000	60,000
TOTAL LIABILITIES	<u>945,900</u>	<u>762,177</u>
FUND BALANCE		
Equity - Wanaque South (town's)	2,500	2,500
Equity - United Water New Jersey	2,500	2,500
TOTAL FUND BALANCE	<u>5,000</u>	<u>5,000</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 950,900</u>	<u>\$ 767,177</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 A JOINT VENTURE
 STATEMENT OF OPERATING COSTS AND REIMBURSEMENTS BY CO-OWNERS
 FOR THE YEARS ENDED DECEMEBR 31, 2009 AND 2008**

	2009		2008	
COSTS:				
SOURCE OF SUPPLY				
Utilities	\$ 7,865		\$ 8,099	
Repair and Maintenance	3,279		4,150	
Materials Purchased	-		304	
Professional Fees	21,106		5,310	
Real Estate Taxes	32,467		14,546	
TOTAL SOURCE OF SUPPLY	<u>64,717</u>	\$	<u>32,409</u>	\$
PUMPING				
Utilities	396,080		789,122	
Repair and Maintenance	12,429		109,438	
Professional Fees	20,535		6,575	
Real Estate Taxes	219,325		211,650	
Other	186		13,788	
TOTAL PUMPING	<u>648,555</u>		<u>1,130,573</u>	
ADMINISTRATIVE AND GENERAL				
Allocated Wanaque North Project Costs	5,810,214		5,351,618	
Insurance	305,154		303,904	
Miscellaneous	167,952		196,891	
Professional Fees	43,662		-	
Capital Outlay	-		173,566	
TOTAL ADMINISTRATIVE AND GENERAL	<u>6,326,982</u>		<u>6,025,979</u>	
TOTAL OPERATING COSTS	<u>7,040,254</u>		<u>7,188,961</u>	
REIMBURSEMENT OF COST BY CO-OWNERS				
North Jersey District Water Supply Commission	3,455,260		3,530,429	
United Water New Jersey	\$ 3,584,994		\$ 3,658,532	
TOTAL REIMBURSEMENT OF COSTS	<u>7,040,254</u>	\$	<u>7,188,961</u>	\$

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 A JOINT VENTURE
 STATEMENT OF CASH FLOW
 FOR THE YEARS ENDED DECEMEBR 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES -		
CHANGES IN ASSET AND LIABILITIES		
Decrease/(Increase) in Assets:		
Due From Wanaque South	\$ (90,041)	\$ 156,975
Due From United Water of New Jersey	(90,046)	156,968
Increase/(Decrease) in Liabilities		
Accounts Payable	(109,309)	(314,810)
Due to Wanaque North Project	<u>293,032</u>	<u>3,612</u>
Net Increase in Cash	3,636	2,745
Cash at Beginning of Year	<u>211,416</u>	<u>208,671</u>
Cash at End of Year	<u><u>\$ 215,052</u></u>	<u><u>\$ 211,416</u></u>

**WANAQUE SOUTH PROJECT
A JOINT VENTURE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 Summary of Significant Accounting Policies

Organization and Related Matters

The Wanaque South Project A Joint Venture (WSP) is a joint undertaking between the North Jersey District Water Supply Commission (NJDWSC) a public body politic and corporate established by Chapter 70 and 71, North Jersey Public Law 1916, and amended by Title 58 Chapter 5 of the Revised Statutes of 1937 (Section 58:5-1 et seq.) and United Water of New Jersey (UWNJ), an investor owned water utility company (collectively the Co-owners). The WSP was designed to substantially increase the water supply available to the Co-owners primarily through the expansion of an existing pumping station (Ramapo Pumping Station) and the construction of a new pumping station (Wanaque South Pumping Station), a large capacity pipeline (Wanaque South Aqueduct) and a reservoir (Monksville Reservoir), collectively the project assets. As of December 31, 1992 such expansion and construction activities were complete. Upon completion, the project asset, with cumulative construction costs of approximately \$87.6 million, were transferred from WSP to the Co-owners in accordance with the ownership percentages noted below.

The Co-owners have entered into agreements, which define the ownership, rights, benefits and obligations of the Co-owners with respect to the WSP. The Co-owners as tenants in common own all the facilities not owned by either Co-Owner forming a part of the WSP, including real estate ownership interest, easements and licenses, as follows:

- NJDWSC – an undivided 50% interest, and UWNJ – an undivided 50% interest.
- The Ramapo Pumping Station and intake facilities, except the land and the Ramapo pipeline, are owned by the Co-owners as tenants in common as follows: NJDWSC – an undivided 5/6 interest and UWNJ – an undivided 1/6 interest.
- Each Co-owner is granted from the other party rights to use any portion of the project and common facilities, which are owned solely by one Co-owner, as, are necessary for the operation of WSP.
- Each Co-owner is entitled to 50% of the additional raw water “safe yield” made available by the WSP.

Operating Agreement

The Co-owners signed the operating agreement on December 1, 1981. Operations commenced on January 1, 1987. Under terms of this agreement, NJDWSC, as operating agent, operates and maintains the WSP in a manner consistent with the rights of the Co-owners under the project agreements, UWNJ has agreed to allow NJDWSC to act as its agent and fiduciary as to UWNJ’s interest in WSP, and NJDWSC has agreed to undertake, as agent and fiduciary for UWNJ, the responsibility for the performance of the operating work in accordance with the operating agreement.

**WANAQUE SOUTH PROJECT
A JOINT VENTURE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 Summary of Significant Accounting Policies – (continued)

Operating Agreement – (continued)

The Co-owners have agreed to share equally the costs of operating the WSP, except for certain real estate and sales taxes, which are paid entirely by UWNJ. An annual operating budget is prepared and adopted by NJDWSC.

Income Taxes

The Co-owners have elected to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. Accordingly, the payment of income taxes related to the WSP, where applicable, is the individual responsibility of the Co-owner.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, operating costs are recognized when incurred. The operating costs of the WSP are presented in accordance with the uniform system of accounts of the New Jersey Board of Public Utilities Commission, which comply with generally accepted accounting principles.

Receivables and Liabilities

Amounts due from Co-owners and due to NJDWSC, Wanaque North and Wanaque South and Due to UWNJ represent amounts advanced by or advanced to the Joint Venture by the participating entities.

Litigation

A compliant has been filed by the general contractor on the Monksville Dam Rehabilitation Project for additional costs incurred due to changes in the scope of work and inadequate designs for the project. The contractor's claim total approximately \$2,500,000. The Commission has denied all allegations in this complaint and filed a counterclaim which alleges the contractor failed to complete work on the dam within the time frame contemplated in the contract and the rehabilitation was not completed with the plans and specifications of the contract. An outcome of this litigation cannot be reasonably determined.