



**NORTH JERSEY DISTRICT WATER SUPPLY  
COMMISSION**

**WANAQUE SOUTH PROJECT  
A JOINT VENTURE**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2010**

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT A JOINT VENTURE  
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## INDEPENDENT AUDITORS' REPORT

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 December 31, 2010 and the related statements of operating costs and reimbursements of costs 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 as of December 31, 2009, were audited by other auditors whose report dated June 10, 2010, 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, 2010, and its operating costs and reimbursements of costs 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.

*McEnerney, Brady & Company, LLC*

Livingston, New Jersey  
September 28, 2011

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**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION**  
**WANAQUE SOUTH PROJECT**  
**A JOINT VENTURE**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2010 AND 2009**

Exhibit A

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash	\$ 273,978	\$ 215,052
Due From Wanaque South	599,748	362,087
Due From United Water	<u>611,428</u>	<u>373,761</u>
<b>TOTAL ASSETS</b>	<u>\$1,485,154</u>	<u>\$ 950,900</u>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Accounts Payable	\$ 436,123	\$ 114,578
Due to Wanaque North Project	924,031	711,322
Due to Wanaque South Towns	60,000	60,000
Due to United Water New Jersey	<u>60,000</u>	<u>60,000</u>
<b>TOTAL LIABILITIES</b>	<u>1,480,154</u>	<u>945,900</u>
<b>Equity</b>		
Equity - Wanaque South	2,500	2,500
Equity - United Water New Jersey	<u>2,500</u>	<u>2,500</u>
<b>TOTAL EQUITY</b>	<u>5,000</u>	<u>5,000</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$1,485,154</u>	<u>\$ 950,900</u>

The accompanying notes are an integral part of these financial statements.

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 DECEMBER 31, 2010 and 2009

Exhibit B

COSTS:	2010	2009
SOURCE OF SUPPLY		
Utilities	\$ 7,592	\$ 7,865
Repair and Maintenance	3,950	3,279
Other	1,150	-
Professional Fees	22,433	21,106
Real Estate Taxes	33,483	32,467
TOTAL SOURCE OF SUPPLY	\$ 68,608	\$ 64,717
PUMPING		
Utilities	642,279	396,080
Repair and Maintenance	5,041	12,429
Professional Fees	2,920	20,535
Real Estate Taxes	229,237	219,325
Other	418	186
TOTAL PUMPING	879,895	648,555
ADMINISTRATIVE AND GENERAL		
Allocated Wanaque North Project Costs	6,286,948	5,810,214
Insurance	314,773	305,154
Professional Fees	489,818	-
Miscellaneous	169,880	167,952
Capital Outlay	-	43,662
TOTAL ADMINISTRATIVE AND GENERAL	7,261,419	6,326,982
<b>TOTAL OPERATING COSTS</b>	<b>\$8,209,922</b>	<b>\$ 7,040,254</b>
REIMBURSEMENT OF COST BY CO-OWNERS		
North Jersey District Water Supply Commission	\$4,036,886	\$3,455,260
United Water New Jersey	4,173,036	3,584,994
TOTAL REIMBURSEMENT OF COSTS	\$8,209,922	\$ 7,040,254

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**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION**  
**WANAQUE SOUTH PROJECT**  
**A JOINT VENTURE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009**

Exhibit C

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in Equity	\$ -	\$ -
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		
Due From Wanaque South	(237,661)	(90,041)
Due From United Water of New Jersey	(237,667)	(90,046)
Accounts Payable	321,545	(109,309)
Due to Wanaque North Project	<u>212,709</u>	<u>293,032</u>
Net Increase in Cash	58,926	3,636
Cash - Beginning of Year	<u>215,052</u>	<u>211,416</u>
Cash - End of Year	<u><u>\$ 273,978</u></u>	<u><u>\$ 215,052</u></u>

The accompanying notes are an integral part of these financial statements.

**WANAQUE SOUTH PROJECT A JOINT VENTURE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

Organization and Related Matters

The Wanaque South Project A Joint Venture (the "WSP") is a joint venture between the North Jersey District Water Supply Commission (the "Commission"), a political subdivision of the State of New Jersey, and United Water 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 Pump 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 completed. Upon completion, the project assets, 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:

- NJDWC – 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 an operating agreement on December 1, 1981. Operations commenced on January 1, 1987. Under terms of this operating agreement, the Commission, 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 the Commission to act as its agent and fiduciary as to UWNJ's interest in WSP, and the Commission 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. 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 the Commission.

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 a 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 accounting principles generally accepted.

Receivables and Liabilities

Amounts due to and from Co-owners represent amounts advanced by or advanced to the Joint Venture by the participating entities.

**WANAQUE SOUTH PROJECT A JOINT VENTURE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 2 – Litigation**

A complaint 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 claims 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 can not be reasonably determined.

**NOTE 3 - Subsequent Events**

The Co-owners have evaluated subsequent events that occurring after the balance sheet date through September 28, 2011, which is the date the financial statements were available to be issued. Based on this evaluation, the Co-owners has determined that no subsequent events have occurred which require disclosure in the financial statements.