WANAQUE SOUTH PROJECT
A JOINT VENTURE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2011 AND 2010

McEnerney, Brady & Co., LLC
Certified Public Accountants

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McENERNEY, BRADY & COMPANY, LLC
Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying special purpose statements of assets, liabilities and equity of the Wanaque South Project, a Joint Venture (the "Joint Venture"), as of December 31, 2011 and 2010, and the related statements of operating costs and reimbursements by Co-owners and cash flows for the years 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 audits.

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

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

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

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

This report is intended solely for the use of the Management, Commissioners, and Co-owners of the Wanaque South Project, a 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
July 12, 2012

WANAQUE SOUTH PROJECT
A JOINT VENTURE
STATEMENTS OF ASSETS, LIABILITIES AND EQUITY
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash	$ 482,685	$ 273,978
Due from Wanaque South Project	796,481	539,747
Due from United Water New Jersey	1,112,357	551,429
TOTAL ASSETS	$ 2,391,523	$ 1,365,154
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable	$ 53,502	$ 436,123
Deferred revenue - FEMA	3,566	-
Due to Wanaque North Project	2,329,455	924,031
TOTAL LIABILITIES	2,386,523	1,360,154
Equity		
Equity - Wanaque South Project	2,500	2,500
Equity - United Water New Jersey	2,500	2,500
TOTAL EQUITY	5,000	5,000
TOTAL LIABILITIES AND EQUITY	$ 2,391,523	$ 1,365,154

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

WANAQUE SOUTH PROJECT
A JOINT VENTURE
STATEMENTS OF OPERATING COSTS AND REIMBURSEMENTS BY CO-OWNERS
YEARS ENDED DECEMBER 31, 2011 and 2010

	2011		2010	
OPERATING COSTS:				
SOURCE OF SUPPLY				
Utilities	$ 8,325		$ 7,592	
Repair and maintenance	9,418		3,950	
Other	212		1,150	
Professional fees	37,538		22,433	
Real estate taxes	33,901		33,483	
TOTAL SOURCE OF SUPPLY		$ 89,394		$ 68,608
PUMPING				
Utilities	460,699		642,279	
Repair and maintenance	10,638		5,041	
Professional fees	14,665		2,920	
Real estate taxes	237,588		229,237	
Other	1,086		418	
TOTAL PUMPING		724,676		879,895
ADMINISTRATIVE AND GENERAL				
Allocated Wanaque North Project costs	5,525,911		6,286,948	
Insurance	314,297		314,773	
Professional fees	286,583		489,818	
Miscellaneous	169,884		169,880	
Capital outlay	1,098,104		-	
TOTAL ADMINISTRATIVE AND GENERAL		7,394,779		7,261,419
TOTAL OPERATING COSTS		$ 8,208,849		$ 8,209,922
REIMBURSEMENT BY CO-OWNERS				
North Jersey District Water Supply Commission	4,033,739		4,036,886	
United Water New Jersey	4,175,110		4,173,036	
TOTAL REIMBURSMENT BY CO-OWNERS		$ 8,208,849		$ 8,209,922

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

WANAQUE SOUTH PROJECT
A JOINT VENTURE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Equity	$ -	$ -
Changes in operating assets and liabilities:		
Due from Wanaque South Project	(256,734)	(237,661)
Due from United Water New Jersey	(560,928)	(237,667)
Accounts payable	(382,621)	321,545
Due to Wanaque North Project	1,408,990	212,709
Net increase in cash	208,707	58,926
Cash, beginning of year	273,978	215,052
Cash, end of year	$ 482,685	$ 273,978

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

1. Organization

The Wanaque South Project, a Joint Venture (the "Joint Venture") is a joint venture between the North Jersey District Water Supply Commission (the "Commission"), through the Wanaque South Project, a component unit of the Commission, and United Water New Jersey ("United Water"), an investor-owned water utility company (collectively, the "Co-owners"). The Joint Venture 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 the Joint Venture to the Co-owners in accordance with the ownership percentages noted below.

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

- Wanaque South Project – an undivided 50% interest, and United Water – 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:

  Wanaque South Project – an undivided 5/6 interest and United Water – 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 the Joint Venture.
- Each Co-owner is entitled to 50% of the additional raw water "safe yield" made available by the Joint Venture.

Operating Agreement:
The Co-owners signed an operating agreement (the "Agreement") on December 1, 1981. Operations commenced on January 1, 1987 and under terms of the Agreement, the Commission, as operating agent, operates and maintains the Joint Venture in a manner consistent with the rights of the Co-owners under the project agreements. United Water has agreed to allow the Commission to act as its agent and fiduciary as to United Water's interest in the Joint Venture, and the Commission has agreed to undertake, as agent and fiduciary for United Water, 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 Joint Venture, except for certain real estate and sales taxes, which are paid entirely by United Water. An annual operating budget is prepared and adopted by the Commission.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the modified accrual basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Under this basis, revenues are recorded when earned and expenses are recorded when incurred, however, capital outlays are expensed in the period incurred, which is not in accordance with GAAP, which requires the expenditure to be capitalized and depreciated over the estimated life of the asset. The operating costs of the Joint Venture are presented in accordance with the uniform system of accounts of the New Jersey Board of Public Utilities Commission, which comply with GAAP.

Use of Estimates
The preparation of financial statements in conformity with the modified accrual basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The collectability of amounts due from related parties, accounts payable, and amounts due to related parties, among other accounts, requires the significant use of estimates. Actual results could differ from those estimates.

Revenue Recognition
The Joint Venture is reimbursed by the Co-owners in accordance with the Agreement for operating costs in the period the costs are incurred.

Capital Outlays – Capital projects that do not relate to infrastructure or other capitalizable assets are expensed in the period incurred. GAAP requires that these costs be capitalized and amortized over the estimated life of the asset.

Financial Instruments
The carrying values of the Joint Venture's financial instruments as of December 31, 2011 and 2010 include cash, due from related parties, accounts payable and due to related parties and approximate their fair value due to the relatively short maturity of these instruments.

Concentrations of Credit Risk
Financial instruments which potentially subject the Joint Venture to concentrations of credit risk consist principally of cash and amounts due from related parties. The Joint Venture places its cash with high credit quality financial institutions. At times, such amounts exceed the current insured amount under the Federal Deposit Insurance Corporation ("FDIC") of $250,000. The Joint Venture monitors the financial condition of the banking institutions, along with their cash balances, to minimize this risk. The amounts due from related parties are monitored by management to ensure collectability on a timely basis.

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 Joint Venture, where applicable, is the individual responsibility of the respective Co-owner.

3. Related Party Transactions

Due from related parties
The Co-owners are charged their respective amounts for operating costs of the Joint Venture. As of December 31, 2011 and 2010, the Co-owners owe the Joint Venture $1,908,838 and $1,091,176, respectively. These amounts are non-interest bearing and payable on demand.

The Wanaque North Project, a component unit of the Commission, advances funds for construction costs on behalf of the Joint Venture. As of December 31, 2011 and 2010, the amount due to the Wanaque North Project is $2,329,455 and $924,031, respectively. The advances are non-interest bearing and are payable on demand.

The Joint Venture is allocated certain operating costs, based on a predetermined formula, from the Wanaque North Project and for the years ended December 31, 2011 and 2010, the costs consisted of:

	2011	2010
Payroll	$ 2,592,864	$ 2,885,114
Labor loading	1,585,277	1,702,503
General expenses	1,347,770	1,699,331
	$ 5,525,911	$ 6,286,948

Due from Wanaque South Project
The Wanaque South Project has a 50% interest in the Wanaque South Project a Joint Venture (the "JV"). The JV is a joint venture, formed in December 1981, between Wanaque South Project and United Water New Jersey ("UWNJ") (collectively, the "Co-owners") for construction of a new pumping station, enlargement of an existing pumping station, a transmission pipeline, a reservoir and the continued maintenance of the project.. The Co-owners have agreed to share equally, the costs of operating the JV, 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. As of December 31, 2011 and 2010, the amount due from the JV was $796,481 and $539,747, respectively. The advances are non-interest bearing and are payable on demand.

The governing board and management of the joint venture consist of personnel from both partners in the venture. The personnel have the ability to approve budgets, sign contracts with exercise control over facilities and to determine the outcome or disposition of matters affecting the recipients of services provided. At December 31, 2011 and 2010, the Equity in the JV is $2,500.

4. Legal and Regulatory Matters

Litigation
A complaint has been settled 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. On September 11, 2011, a settlement was reached whereby the contractor received $1,200,000 for this complaint.

The Joint Venture, as 50% owner of the Dundee Canal, is a defendant along with approximately 300 other public and private entities in litigation filed by a defendant in a suit by the New Jersey Department of Environmental Protection for contaminating the Passaic River. The Joint Venture is vigorously disputing the claims.

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

Regulatory
The Commission is subject to various regulations promulgated by the U.S. and State of New Jersey Department of Environmental Protection (collectively, "DEP"). Laws and regulations governing DEP are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines and penalties. The Commission is not aware of non-compliance of said laws and regulations.

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

5. Subsequent Events

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