

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT – A JOINT VENTURE**

**REPORT OF AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT – A JOINT VENTURE  
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DECEMBER 31, 2012 AND 2011**

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# LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS

17 - 17 ROUTE 208  
FAIR LAWN, NJ 07410  
TELEPHONE (201) 791-7100  
FACSIMILE (201) 791-3035  
WWW.LVHCPA.COM

DIETER P. LERCH, CPA, RMA, PSA  
GARY J. VINCI, CPA, RMA, PSA  
GARY W. HIGGINS, CPA, RMA, PSA  
JEFFREY C. BLISS, CPA, RMA, PSA  
PAUL J. LERCH, CPA, RMA, PSA  
DONNA L. JAPHET, CPA, PSA  
JULIUS B. CONSONI, CPA, PSA

ELIZABETH A. SHICK, CPA, RMA, PSA  
ANDREW PARENTE, CPA, RMA, PSA  
ROBERT W. HAAG, CPA, PSA  
DEBORAH K. LERCH, CPA, PSA  
DEBRA GOLLE, CPA  
CINDY JANACEK, CPA, RMA  
RALPH M. PICONE, CPA, RMA, PSA  
EDWARD N. KERE, CPA

## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying statement of assets, liabilities and equity of the North Jersey District Water Supply Commission's (the "Commission") Wanaque South Project, a Joint Venture (the "Joint Venture"), as of and for the year ended December 31, 2012, and the related statements of revenues, expenses and changes in equity and cash flows for the year then ended and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified accrual basis of accounting. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note 1 of the financial statements, the financial statements are prepared and presented by the Joint Venture on the modified accrual basis of accounting. This basis of accounting differs in certain respects with accounting principles generally accepted in the United States of America.

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

### ***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the Joint Venture preparing and presenting its financial statements on the modified accrual basis of accounting as discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph above, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Joint Venture as of December 31, 2012 or changes in financial position, or, where applicable, cash flows for the years then ended.

### ***Opinion on Modified Accrual Basis of Accounting***

In our opinion, the financial statements – modified accrual basis referred to above present fairly, in all material respects, the financial position – modified accrual basis of the Joint Venture as of December 31, 2012 and the change in equity – modified accrual basis and cash flows – modified accrual basis for the year then ended in accordance with the basis of financial accounting and reporting principles and practices described in Note 1.

### ***Emphasis of Matter***

As discussed in Note 1 (A), the financial statements-modified accrual basis of the North Jersey District Water Supply Commission Wanaque South Joint Venture, are intended to present the financial position-modified accrual basis, the changes in equity-modified accrual basis and cash flows modified accrual basis of only that portion of the North Jersey District Water Supply Commission that is attributable to the transactions of the Wanaque South Joint Venture. They do not purport to, and do not, present fairly the financial position-modified accrual basis of the North Jersey District Water Supply Commission as of December 31, 2012, the changes in its equity-modified accrual basis and cash flows modified accrual basis for the year then ended in accordance with the basis for Financial Accounting and reporting principles and practices as described in Note 1. Our opinion on the financial statements-modified accrual basis is not modified with respect to this matter.

### ***Other Matters***

#### ***Prior Year's Financial Statements Audited by Other Auditors***

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

*Required Supplementary Information*

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

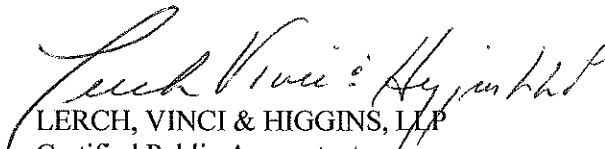

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the North Jersey District Water Supply Commission's Wanaque South Project, a Joint Venture. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Joint Venture.

The supplementary schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules listed in the table of contents are fairly stated, in all material respects, in relation to the financial statements as a whole on the basis of accounting described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2013 on our consideration of the North Jersey District Water Supply Commission's Wanaque South Project, a Joint Venture's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the North Jersey District Water Supply Commission's Wanaque South Project, a Joint Venture's internal control over financial reporting and compliance.

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants  
  
Dieter P. Lerch  
Registered Municipal Accountant  
RMA Number CR00398

Fair Lawn, New Jersey  
June 20, 2013

**WANAQUE SOUTH PROJECT, A JOINT VENTURE**  
**COMPARATIVE STATEMENTS OF ASSETS, LIABILITIES AND EQUITY**  
**(MODIFIED ACCRUAL BASIS)**  
**AS OF DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 359,642	\$ 482,685
Due from Wanaque South Project	261,220	796,481
Due from United Water, New Jersey	<u>697,127</u>	<u>1,112,357</u>
Total Unrestricted Current Assets	<u>1,317,989</u>	<u>2,391,523</u>
Total Assets	<u>\$ 1,317,989</u>	<u>\$ 2,391,523</u>
 <b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 240,591	\$ 53,502
Due to Wanaque North Project	1,068,832	2,329,455
Unearned Revenue - FEMA	<u>3,566</u>	<u>3,566</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>1,312,989</u>	<u>2,386,523</u>
Total Liabilities	<u>1,312,989</u>	<u>2,386,523</u>
 <b>EQUITY</b>		
Equity - Wanaque South Project	2,500	2,500
Equity - United Water New Jersey	<u>2,500</u>	<u>2,500</u>
Total Equity	<u>5,000</u>	<u>5,000</u>
Total Liabilities and Equity	<u>\$ 1,317,989</u>	<u>\$ 2,391,523</u>

The Accompanying Notes are an Integral Part of these Financial Statements

**WANAQUE SOUTH PROJECT, A JOINT VENTURE**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY**  
**(MODIFIED ACCRUAL BASIS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Charges for Services - Wanaque South Towns	\$ 882,253	\$ 1,270,783
Charges for Services - United Water New Jersey	3,647,131	4,175,110
Reimbursement - Wanaque South Project	<u>2,618,136</u>	<u>2,762,956</u>
Total Operating Revenues	<u>7,147,520</u>	<u>8,208,849</u>
<b>OPERATING EXPENSES</b>		
Sources of Supply		
Utilities	6,184	8,325
Repairs and Maintenance	8,001	9,418
Professional Fees	36,838	37,538
Real Estate Taxes	38,603	33,901
Other Expenses	25	212
Pump Stations		
Utilities	925,897	460,699
Repairs and Maintenance	30,317	10,638
Professional Fees	18,263	14,665
Real Estate Taxes	245,991	237,588
Other Expenses	354	1,086
Allocated Wanaque North Project Costs		
Salaries and Wages	2,343,374	2,592,864
Fringe Benefits	1,510,305	1,585,277
Other Expenses	1,382,593	1,347,770
Administrative and General		
Insurance	351,836	314,297
Professional Fees	226,362	286,583
Other Expenses	<u>-</u>	<u>169,884</u>
Total Operating Expenses	<u>7,124,943</u>	<u>7,110,745</u>
<b>Operating Income</b>	<u>22,577</u>	<u>1,098,104</u>
<b>NON-OPERATING EXPENSES</b>		
Capital Outlay	<u>22,577</u>	<u>1,098,104</u>
<b>Changes in Equity</b>	-	-
Equity - Beginning of Year	<u>5,000</u>	<u>5,000</u>
Equity - End of Year	<u>\$ 5,000</u>	<u>\$ 5,000</u>

The Accompanying Notes are an Integral Part of these Financial Statements

**WANAQUE SOUTH PROJECT, A JOINT VENTURE  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in Equity	\$ -	\$ -
Changes in Operating Assets and Liabilities:		
(Increase)/Decrease in Due from Wanaque South Project	535,261	(256,734)
(Increase)/Decrease in Due from United Water New Jersey	415,230	(560,928)
Increase/(Decrease) in Accounts Payable	187,089	(382,621)
Increase/(Decrease) in Due to Wanaque North Project	<u>(1,260,623)</u>	<u>1,408,990</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(123,043)	208,707
Cash and Cash Equivalents Beginning of Year	<u>482,685</u>	<u>273,978</u>
Cash and Cash Equivalents End of Year	<u>\$ 359,642</u>	<u>\$ 482,685</u>

The Accompanying Notes are an Integral Part of these Financial Statements



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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Wanaque South Project, a Joint Venture (the "Joint Venture") is a joint venture between the North Jersey District Water Supply Commission's (the "Commission"), Wanaque South Project, and United Water New Jersey ("United Water"), an investor-owned water utility company (collectively, the "Co-owners"). The Joint Venture was created 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". Expansion and construction activities were completed in 1992. 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.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The financial statements of the Joint Venture have been prepared on the modified accrual basis of accounting, which differs in certain respects than accounting principles generally accepted in the United States of America ("GAAP"). Under the modified accrual 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 requires management of the Joint Venture 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.

**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.

**NOTE 2 DEPOSITS AND INVESTMENTS**

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

**Deposits**

The Joint Venture's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Joint Venture 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.

Bank balances for interest bearing accounts are insured up to \$250,000 in the aggregate by the FDIC for each bank. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, temporary unlimited deposit insurance coverage was provided for non-interest bearing accounts from December 31, 2010 through December 31, 2012. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2012 and 2011, the book value of the Joint Venture's deposits were \$359,642 and \$482,685 and bank and brokerage firm balances of the Joint Venture's deposits amounted to \$361,025 at December 31, 2012. The Joint Venture's deposits which are displayed on the balance sheet as "cash and cash equivalents" are categorized as:

	<u>2012</u>	<u>2011</u>
Depository Account		
Insured	\$ <u>361,025</u>	<u>Not Available</u>

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

**NOTE 2 DEPOSITS AND INVESTMENTS (Continued)**

**Deposits (Continued)**

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 Joint Venture does not have a formal policy for custodial credit risk. As of December 31, 2012 and 2011, the Joint Venture’s bank balances were not exposed to custodial credit risk.

**NOTE 3 RELATED COMPANY TRANSACTIONS**

*Due from Related Companies*

The Co-owners are charged their respective amounts for operating costs of the Joint Venture. As of December 31, 2012 and 2011, the Co-owners owe the Joint Venture \$958,347 and \$1,908,838, respectively. These amounts are non-interest bearing, payable on demand and consist of the following:

	<u>2012</u>	<u>2011</u>
Wanaque South Project	\$ 261,220	\$ 796,481
United Water, New Jersey	<u>697,127</u>	<u>1,112,357</u>
	<u>\$ 958,347</u>	<u>\$ 1,908,838</u>

The Commission’s Wanaque North Project advances funds for construction costs on behalf of the Joint Venture. As of December 31, 2012 and 2011, the amount due to the Wanaque North Project is \$1,068,832 and \$2,329,455, respectively. The advances are non-interest bearing and are payable on demand.

*Cost Allocations*

The Joint Venture is allocated certain operating costs, based on a predetermined formula, from the Commission’s Wanaque North Project and for the years ended December 31, 2012 and 2011, the costs consisted of:

	<u>2012</u>	<u>2011</u>
Salaries and Wages	\$ 2,343,374	\$ 2,592,864
Fringe Benefits	1,510,305	1,585,277
Other Expenses	<u>1,382,593</u>	<u>1,347,770</u>
	<u>\$ 5,236,272</u>	<u>\$ 5,525,911</u>

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

**NOTE 3 RELATED PARTY TRANSACTIONS**

Equity

The governing board and management of the Joint Venture consists of personnel from both co-owners in the Joint 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, 2012 and 2011, the Equity in the Joint Venture is as follows:

	<u>2012</u>	<u>2011</u>
Wanaque South Project	\$ 2,500	\$ 2,500
United Water, New Jersey	<u>2,500</u>	<u>2,500</u>
	<u>\$ 5,000</u>	<u>\$ 5,000</u>

**NOTE 4 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.

**NOTE 5 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.

**SUPPLEMENTARY SCHEDULES**

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT, A JOINT VENTURE  
 SCHEDULE OF ACTUAL REVENUES AND EXPENDITURES COMPARED TO BUDGET  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (With Comparative Amounts for the Year Ended December 31, 2011)**

	2012 <u>Budget</u>	2012 <u>Actual</u>	<u>Variance</u>	2011 <u>Actual</u>
<b>Revenues:</b>				
Assessments - Wanaque South Towns	\$ 1,353,308	\$ 882,253	\$ 471,055	\$ 1,270,783
Charges for Services - United Water New Jersey	4,696,111	3,647,131	1,048,980	4,175,110
Reimbursement - Wanaque South Project	<u>3,211,477</u>	<u>2,618,136</u>	<u>593,341</u>	<u>2,762,956</u>
 Total Revenues	 <u>9,260,896</u>	 <u>7,147,520</u>	 <u>2,113,376</u>	 <u>8,208,849</u>
<b>Expenditures:</b>				
Direct Expenses				
Common Facilities	602,000	578,198	23,802	770,764
Wanaque South Pump Station	1,997,142	1,133,565	863,577	667,977
Ramapo Pump Station	142,050	87,257	54,793	56,699
Monksville Reservoir	85,000	65,657	19,343	69,435
Wanaque South Aqueduct	11,750	23,994	(12,244)	19,959
Allocated Wanaque North Operating Costs	6,422,954	5,236,272	1,186,682	5,525,911
Capital Items - Monksville Reservoir	<u>-</u>	<u>22,577</u>	<u>(22,577)</u>	<u>1,098,104</u>
 Total Expenditures	 <u>9,260,896</u>	 <u>7,147,520</u>	 <u>2,113,376</u>	 <u>8,208,849</u>
 Excess of Revenue Over Expenditures	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

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

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

The following officials of the North Jersey District Water Supply Commission were in office at December 31, 2012:

**COMMISSIONERS**

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

**EXECUTIVE OFFICERS**

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

**GOVERNMENT AUDITING STANDARDS**



# LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS

17 - 17 ROUTE 208

FAIR LAWN, NJ 07410

TELEPHONE (201) 791-7100

FACSIMILE (201) 791-3035

WWW.LVHCPA.COM

DIETER P. LERCH, CPA, RMA, PSA

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EDWARD N. KERE, 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's Wanaque South Project, a Joint Venture, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2013. Our report on the financial statements – modified accrual basis indicated that the financial statements were not prepared and presented in accordance with accounting principles generally accepted in the United States of America but rather prepared and presented in accordance with the modified accrual basis of accounting as described in Note 1.

#### **Internal Control over Financial Reporting**

Management of the North Jersey District Water Supply Commission Wanaque South Project, a Joint Venture, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the North Jersey District Water Supply Commission Wanaque South Project, a Joint Venture's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the North Jersey District Water Supply Commission Wanaque South Project, a Joint Venture's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Jersey District Water Supply Commission Wanaque South Project, a Joint Venture'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 Joint Venture's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in

internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

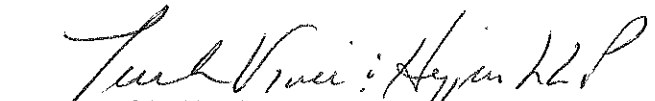
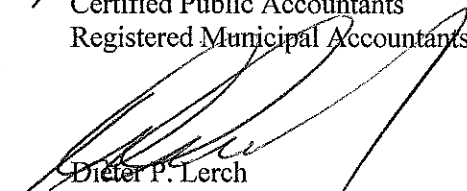
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Jersey District Water Supply Commission Wanaque South Project, a Joint Venture's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **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 South Project, a Joint Venture'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 South Project, a Joint Venture's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fair Lawn, New Jersey  
June 20, 2013

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants  
  
Dieter P. Lerch  
Registered Municipal Accountant  
RMA Number CR00398

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT  
 A JOINT VENTURE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED DECEMBER 31, 2012

*Part I – Summary of Auditor’s Results*

**Financial Statement Section**

	<u>Adverse (GAAP); Unqualified/Modified Accrual</u>	
Type of auditor's report issued:		
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 - Not Applicable

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT, A JOINT VENTURE  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

*Part 2 – Schedule of Financial Statement Findings*

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

There are none.

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

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

There were none.