

**NORTH JERSEY DISTRICT  
WATER SUPPLY COMMISSION**

**WANAQUE SOUTH PROJECT**

Financial Statements  
with Additional Financial Information

December 31, 2009 and 2008

(With Independent Auditor's Report Thereon)

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

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## **Independent Auditor's Report**

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

We have audited the accompanying financial statements – statutory basis of the North Jersey District Water Supply Commission - Wanaque South Project, (the “Commission”), (a component unit of the North Jersey District Water Supply Commission) as of and for the year ended December 31, 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of the Commission’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 based upon the basis of accounting described in note 1.

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 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.

As described in note 1, these financial statements were prepared in conformity with the New Jersey statutory basis, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the prescribed accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

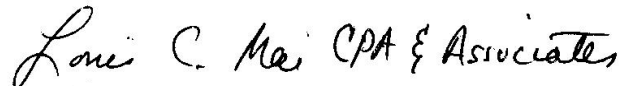
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the North Jersey District Water Supply Commission - Wanaque South Project (a component unit of the North Jersey District Water Supply Commission), as of December 31, 2009 and the results of its operations for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Jersey District Water Supply Commission - Wanaque South Project (a component unit of the North Jersey District Water Supply Commission) of December 31, 2009 and the results of its operations for the year then ended on the basis of accounting described in note 1.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Commission taken as a whole. The additional information included in the accompanying table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. The additional information listed in the table of contents is also the responsibility of the management of the Commission. Such information and schedules have been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated June 10, 2010 on our consideration of Commission'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The information included in the supplementary data as listed in the table of contents is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we express no opinion on such information.



Louis C Mai CPA & Associates

June 10, 2010

**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**

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

We have audited the financial statements – statutory basis of the North Jersey District Water Supply Commission - Wanaque South Project, (the “Commission”), (a component unit of the North Jersey District Water Supply Commission) as of and for the year ended December 31, 2009, and have issued our report thereon dated June 10, 2010, which report expressed an adverse opinion in accordance with accounting principles generally accepted in the United States of America and an unqualified opinion on the basis of accounting practices prescribed by New Jersey statute. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission’s internal control over financial reporting as a basis for designing our auditing procedures 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 Commission’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission’s financial statements are free of 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.

This report is intended solely for the information and use of the Commissioners, management, State awarding agencies and the Participants of the Wanaque South Project of the North Jersey Water Supply Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Louis C. Mai CPA & Associates*

Louis C Mai CPA & Associates

June 10, 2010

## FINANCIAL STATEMENTS

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION**  
**WANAQUE SOUTH PROJECT**  
**BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**

|   | <u>2009</u>               | <u>2008</u>               |
|---|---------------------------|---------------------------|
| <b>ASSETS</b>                                     |                           |                           |
| <b>Current Assets:</b>                            |                           |                           |
| Cash and Cash Equivalents                         | \$ 8,327,279              | \$ 11,108,662             |
| Due From Joint Venture                            | 60,000                    | 60,000                    |
| Other   | 1,663,387                 | 1,693,353                 |
| Inter Project Receivables                         | 1,864,534                 | 898,468                   |
| <b>Total Current Assets</b>                       | <u>11,915,200</u>         | <u>13,760,483</u>         |
| <b>Noncurrent Assets:</b>                         |                           |                           |
| Restricted Cash and Cash Equivalents              | 10,945,667                | 10,551,927                |
| Loan Receivable                                   | 4,864,283                 | 5,445,560                 |
| Equity in Joint Venture                           | 2,500                     | 2,500                     |
| Property, Plant and Equipment                     | 118,153,417               | 117,853,302               |
| <b>Total Noncurrent Assets</b>                    | <u>133,965,867</u>        | <u>133,853,289</u>        |
| <b>TOTAL ASSETS</b>                               | <u><u>145,881,067</u></u> | <u><u>147,613,772</u></u> |
| <b>LIABILITIES</b>                                |                           |                           |
| <b>Current Liabilities:</b>                       |                           |                           |
| Accounts Payable                                  | 152,965                   | 140,678                   |
| Current Portion of Bonds Payable                  | 5,062,967                 | 4,624,847                 |
| Retainage Payable                                 | 12,968                    | 10,540                    |
| Due to Wanaque South Project Joint Venture        | 367,702                   | 272,048                   |
| Inter Project Payables                            | 367,517                   | 1,882,564                 |
| <b>Total Current Liabilities</b>                  | <u>5,964,119</u>          | <u>6,930,677</u>          |
| <b>Noncurrent Liabilities:</b>                    |                           |                           |
| Long Term Portion of Bonds Payable                | 40,243,229                | 45,516,081                |
| Deferred Revenues                                 | 4,884,283                 | 5,465,560                 |
| <b>Total Noncurrent Liabilities</b>               | <u>45,127,512</u>         | <u>50,981,641</u>         |
| <b>TOTAL LIABILITIES</b>                          | <u>51,091,631</u>         | <u>57,912,318</u>         |
| <b>NET ASSETS</b>                                 |                           |                           |
| Investment in Capital Assets, Net of Related Debt | <u>72,847,223</u>         | <u>67,712,377</u>         |
| Restricted:                                       |                           |                           |
| Reserve - Operating                               | 2,746,712                 | 2,044,385                 |
| Reserve - Capital Outlays                         | 6,360,306                 | 4,393,912                 |
| Reserve - General Capital                         | 3,000,000                 | 3,000,000                 |
| Unrestricted                                      | 9,835,195                 | 12,550,780                |
|   | <u>21,942,213</u>         | <u>21,989,077</u>         |
| <b>TOTAL NET ASSETS</b>                           | <u>94,789,436</u>         | <u>89,701,454</u>         |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>           | <u>\$ 145,881,067</u>     | <u>\$ 147,613,772</u>     |



**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT  
 STATEMENT OF REVENUES COLLECTED, EXPENSES PAID AND  
 CHANGES IN RESTRICTED/UNRESTRICTED NET ASSETS  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

|  | 2009                 | 2008                 |
|--|----------------------|----------------------|
| <b>OPERATING REVENUES</b>                              |                      |                      |
| Charges for Services                                   | \$ <u>15,699,898</u> | \$ <u>15,699,899</u> |
| <b>OPERATING EXPENSES</b>                              |                      |                      |
| Payroll and Related Taxes                              | 3,347,406            | 2,943,569            |
| Utilities and Fuels                                    | 974,931              | 1,173,424            |
| Real Estate Taxes                                      | 721,593              | 642,035              |
| Use Fee  | 278,892              | 279,439              |
| Insurance  | 1,615,374            | 1,361,884            |
| Legal and Accounting                                   | 158,249              | 118,601              |
| Pump Station and Other                                 | 100,739              | 164,962              |
| Chemicals  | 825,109              | 601,986              |
| Engineering and Consulting                             | 117,600              | 41,046               |
| Supplies and Expenses                                  | 641,056              | 545,163              |
| Trustee Fee  | 59,971               | 70,081               |
| Bond Principal   | 4,834,731            | 4,624,847            |
| Interest   | 2,363,305            | 2,572,963            |
| Capital Outlay   | <u>462,566</u>       | <u>610,054</u>       |
| Total Operating Expenses                               | <u>16,501,522</u>    | <u>15,750,054</u>    |
| OPERATING INCOME/(LOSS)                                | <u>(801,624)</u>     | <u>(50,155)</u>      |
| <b>NON-OPERATING REVENUES/(EXPENSES)</b>               |                      |                      |
| Grants and Other Income                                | 13,904               | 15,235               |
| Refund of Net Assets                                   | 581,277              | 154,467              |
| Interest and Investment Income                         | <u>159,579</u>       | <u>660,794</u>       |
| Total Non-Operating Revenues/(Expenses)                | <u>754,760</u>       | <u>830,496</u>       |
| Changes in Net Assets                                  | <u>(46,864)</u>      | <u>780,341</u>       |
| Net Assets Restricted/Unrestricted - Beginning of Year | <u>21,989,077</u>    | <u>21,208,736</u>    |
| Net Assets Restricted/Unrestricted - End of Year       | <u>\$ 21,942,213</u> | <u>\$ 21,989,077</u> |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 1      Summary of Significant Accounting Policies**

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**A. Financial 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 this Commission to supply and distribute water to the counties of Sussex, Warren, Hunterdon, Passaic, Morris, Monmouth, Somerset, Bergen, Hudson, Essex, Union and Middlesex. 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 consists of a board of seven members appointed by the Governor with the advice and consent of the Senate. 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, expanded the Ramapo Pump Station (formerly the Wanaque Ramapo Project), developed the Monksville Project and the Wanaque South Pump Station. The operation of the Wanaque South Project (South) is governed by an agreement executed between the Commission and the participating municipalities. This report contains the financial statements of the Wanaque South Project only. The Commission does not issue entity wide financial statements.

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 cost, 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 called the “interested municipality”) having the right to use such water. Any such sale is subject, however, to the prior right of the interested municipality 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.

As a public body under existing statute, the Commission is exempt from both Federal and State taxes. The municipalities in the North Jersey Water Supply District contracting with the Commission to receive water are as follows:

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2009 AND 2008**

**NOTE 1      Summary of Significant Accounting Policies – (continued)**

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**A. Financial Reporting Entity – (continued)**

| <u>MUNICIPALITY</u>     | <u>ALLOTMENT PER DAY<br/>(IN MILLIONS OF GALLONS)</u> |
|-------------------------|---|
| Newark                  | 11.33   |
| City of Bayonne         | 10.50   |
| Kearny                  | 1.72  |
| Township of Cedar Grove | 1.20  |
| Township of Nutley      | 3.00  |
| Township off Wayne      | 9.00  |
| Bloomfield              | <u>2.75</u>   |
|                         | <u>39.50</u>  |

For financial statements purposes, the Wanaque South Project is a component unit of the North Jersey District Water Supply Commission. There are no component units included in the accompanying statements. All component units of the Commission issue separately audited financial statements.

The financial statements of the component units of the Commission are not presented in accordance with Governmental Accounting Standards Board Statement No. 14. If the provisions of GASB No. 14 had been complied with, the financial statements of all component units would have been either blended or discretely presented with the financial statements of the Commission.

**B. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The Proprietary Funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary Fund equity is classified as net assets.

The Commission’s funds are Enterprise Funds. Enterprise Funds are Proprietary Funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The term basis of accounting is used to determine when a transaction or event is recognized on the Commission’s operating statement. The Commission uses the cash basis of accounting with exception for known operating liabilities. Under this basis, revenues are recorded when received and expenses are recorded when paid, with minor exceptions.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 1      Summary of Significant Accounting Policies – (continued)**

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**B. Measurement Focus and Basis of Accounting – (continued)**

The Commission has elected not to follow the pronouncements of the Governmental Accounting Standards Board.

The accounting principles and practices of the Commission differ in certain respects from Accounting Principles Generally Accepted in the United States of America (GAAP) applicable to local government units. The more significant differences are as follows:

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

**Expenditures** – Expenditures are recognized on the cash basis, with minor exceptions. GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest on general long-term debt, which should be recognized when due.

**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 and Equipment for Proprietary Funds. The Commission expenses debt principal payments in lieu of depreciation.

**Inventories** – The cost of inventories of supplies are recorded as expenditures as the individual items are purchased. The costs of inventories are not included on the statement of net assets.

**Debt Issuance** – Debt issue costs and deferred charges on advance refunding are expenses when incurred. GAAP requires that these costs be capitalized and amortized over the life of the related bond issue.

**Equity Classifications**

Equity is classified as net assets and displayed in three components:

- a. Investment in capital assets, net of related debt – Consists of capital assets including restricted capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “investment in capital assets, net of related debt”.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 1      Summary of Significant Accounting Policies – (continued)**

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**B. Measurement Focus and Basis of Accounting – (continued)**

Budget

In accordance with the Commission's enabling legislation, the Board holds public hearings and adopts an annual budget for operating expenses and capital outlays for South Project. 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 in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. Actual results could differ from those estimates.

**NOTE 2      Cash and Cash Equivalents**

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New Jersey statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund (SAIF), or by any other agencies of the United States, that insure deposits, or the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal five percent of the average daily balance of public funds; or

If the public funds deposited exceed seventy-five (75%) percent of the capital funds of the depository, the depository must provide collateral having a market value equal to one hundred (100%) percent of the amount exceeding seventy-five (75%) percent.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000. The South had complied with all statutes and regulations applicable to deposits and investments.

At December 31, 2009 cash and cash equivalents of the Commission consisted of \$19,272,946

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 2      Cash and Cash Equivalents - (continued)**

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GASB Statement No. 40, Deposit and Investment Risk Disclosure, requires disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of failure of a depository institution, the South will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. As of December 31, 2009 the South's bank deposits are insured or covered by the State's Government Unit Deposit Protection Act.

**NOTE 3      Investments**

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The funds of the Commission can be invested in:

Directed Obligations of United States of America or obligations the principal of and interest on 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 backed by the full faith and credit of the United States of America: (1) U.S. Export-Import Bank (Eximbank); (2) Farmers Home Administration (FHMA); (3) Federal Financing Bank; (4) Federal Housing Administration Debentures (FHA); (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 Associations; (4) Student Loan Marketing Association; (5) Resolution Funding Corporation 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.

Certificates of deposit, savings accounts, deposit accounts, or money market deposits which are fully insured by FDIC, including DIF and SAIF.

Investments Agreements, including GIC's Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to MBIA.

Commercial paper rated, at the time of purchase "Prime – 1" by Moody's and "A – 1" or better by 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.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2009 AND 2008**

**NOTE 3 Investments – (continued)**

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.

**NOTE 4 Property, Plant and Equipment**

Details of property, plant and equipment as of December 31, 2009 and 2008 as follows:

|                          | Balance<br>12/31/08   | Additions            | Deletions            | Balance<br>12/31/09   |
|--------------------------|-----------------------|----------------------|----------------------|-----------------------|
| Land                     | \$ 51,794             | \$ —                 | \$ —                 | \$ 51,794             |
| Buildings                | 105,323,045           | 9,989,721            | —                    | 115,312,766           |
| Machinery & Equipment    | 1,706,045             | 46,126               | —                    | 1,752,171             |
| Construction in Progress | 10,772,418            | 326,767              | 10,062,499           | 1,036,686             |
|                          | <u>\$ 117,853,302</u> | <u>\$ 10,362,614</u> | <u>\$ 10,062,619</u> | <u>\$ 118,153,417</u> |

|                          | Balance<br>12/31/07   | Additions         | Deletions   | Balance<br>12/31/08   |
|--------------------------|-----------------------|-------------------|-------------|-----------------------|
| Land                     | \$ 51,794             | \$ —              | \$ —        | \$ 51,794             |
| Buildings                | 105,323,045           | —                 | —           | 105,323,045           |
| Machinery & Equipment    | 1,706,045             | —                 | —           | 1,706,045             |
| Construction in Progress | 10,208,861            | 563,557           | —           | 10,772,418            |
|                          | <u>\$ 117,289,745</u> | <u>\$ 563,557</u> | <u>\$ —</u> | <u>\$ 117,853,302</u> |

Construction work in progress represents costs associated plant expansions and rehabilitations, and other projects that were not competed at year-end. The South records assets with a useful life in excess of five years and with a value over \$5,000 as a fixed asset. The accounts are adjusted for disposition and abandonment.

**NOTE 5 Compensated Absences**

Commission employees earn .63% of a day after the first six months of service for each full month worked to a maximum of five weeks for vacation time.

Sick leave is earned at the rate of 1 to 1.25 days per month of each full month of employment up to 12 and 15 days 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 ten years of service and is paid the rate of the lesser of 50% of current salary rate or \$15,000.00

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 6      Long-Term Debt**

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Long-term Debt of \$45,306,196 consists of the following:

1999 Project Revenue – South Bonds

\$160,539, bearing interest ranging from 4.75% to 5.70% at various intervals and \$131,506, non-interest bearing.

The 1999 Bonds maturing on or before September 1, 2009 will not be subject to redemption prior to their respective stated maturity dates. The 1999 Bonds maturing on or after September 1, 2010 will be subject to optional redemption prior to maturity at the option of the Commission upon the terms set forth in the respective Series 1999 Bond Resolution. The 1999 Bonds maturing on or after September 1, 2010 will be subject to optional redemption prior to maturity at the option of the Commission upon the terms set forth in the respective Series 1999 Bond Resolution, either in whole or in any series or any date or in part.

Interest payment dates on the 1999 bonds are on February 1 and August 1 of each year.

2000 Project Revenue Bonds

\$129,000, bearing interest ranging from 5.00% to 5.25% at various intervals and \$104,985, non-interest bearing.

The Series I and II Bonds shall be subjected to optional redemption prior to maturity by or on behalf of the Commission in accordance with the terms and provisions set forth in the loan agreement and in accordance with the terms and provisions of Article VII of the Subordinate Bond Resolution.

Interest payment dates on the 2000 bonds are on February 1 and August 1 of the year.

2003 Project Revenue Bonds

\$1,054,746 bearing interest ranging from 5.00% to 5.25% at various intervals and \$1,328,205, non-interest bearing.

The Series 2003 Bonds maturing on or before September 1, 2009, will not be subject to redemption prior to their respective stated maturing dates. The Series 2003 Bonds maturing on or after September 1, 2010, will be subject to optional redemption prior to their respective state maturing dates on or after September 1, 2009, at the option of the Commission upon their terms set forth in the respective Series 2003 Bond Resolution, either in whole (or either Series) or any date or in part.

Interest payment dates on the 2003 Bonds are on February 1 and August 1 each year.

2003A Project Revenue Refunding Bonds

\$30,430,000 bearing interest ranging from 3% to 5% at various intervals from July 1, 2004 to July 1, 2023.



**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2009 AND 2008**

**NOTE 6      Long-Term Debt – (continued)**

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The Series 2003A Bonds maturing on and before July 1, 2013 are not subject to optional redemption. The Series 2003A Bonds maturing on and after July 1, 2014 are subject to redemption, at the option of the Commission prior to maturity, upon the giving of notice as provided in the South Bond Resolution, as a whole at any time or in part on any interest payment date in such order of maturity and the Commission shall direct and by lot within any maturity, on or after July 1, 2013 at the redemption price of 100% of the principle amount of the Series 2003A Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption.

Interest payment dates on 2003A Bonds are July 1, and January 1 of each year.

2003B Project Revenue Bonds

\$5,110,000, bearing interest ranging from 3% to 5% at various intervals from July 1, 2003 to July 1, 2013 and \$5,015,000, Term Bonds bearing interest at the rate of 5.19% maturing July 1, 2019.

The Series 2003B Bonds are not subject to optional redemption. The series 2003B Term Bonds maturing July 1, 2019 are subject to mandatory redemption prior to maturity, upon giving notice as provided in the South Bond Resolutions, in part by lot, by operation or the sinking fund which has been established and created under the terms of the South Bond Resolutions, on July 1, in each year as set forth in the official statement.

Interest payment dates on the 2003B Bonds are on July 1 and January 1 of each year.

2006 Project Revenue Bonds

\$702,100 bearing interest ranging from 3% to 5% at various intervals to August 1, 2026 and \$1,140,115, non-interest bearing.

The Series I and II 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 loan agreement and in accordance with the terms and provisions of Article IV of the General Bond Resolutions.

Interest payment dates on the 2006 Bonds are on February 1 and August 1 of each year.

South's long term debt consists of the following:

|                            | 2009                 | 2008              |
|----------------------------|----------------------|-------------------|
| Balance, Beginning of Year | \$ 50,140,928        | 54,765,774        |
| Additions                  | —                    | —                 |
|                            | <u>50,140,928</u>    | <u>54,765,774</u> |
| Deletions                  | 4,834,732            | 4,624,846         |
| Balance, End of Year       | <u>\$ 45,306,196</u> | <u>50,140,928</u> |

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2009 AND 2008**

**NOTE 6 Long-Term Debt – (continued)**

Schedule of annual debt service for principal and interest for the next five years and each subsequent five year period till maturity for bonded debt issued and outstanding as of December 31, 2009:

| Years Ended December 31, | Principal            | Interest         |
|--------------------------|----------------------|------------------|
| 2010                     | \$ 5,062,967         | 2,143,835        |
| 2011                     | 5,290,623            | 1,907,909        |
| 2012                     | 5,547,323            | 1,655,807        |
| 2013                     | 5,811,800            | 1,389,617        |
| 2014                     | 6,098,730            | 1,109,026        |
| 2015-2019                | 15,899,755           | 1,579,517        |
| 2020-2024                | 1,354,465            | 102,111          |
| 2025-2026                | 240,533              | 7,021            |
|                          | <u>\$ 45,306,196</u> | <u>9,894,843</u> |

**NOTE 7 Surplus Anticipated**

Surplus balance at December 31, 2009 was utilized as revenue in the 2010 Calendar Year Budget as follows:

| Unrestricted Balance December 31, 2009 | Amount Utilized |
|--|-----------------|
| \$8,722,809                            | \$437,471.00    |

**NOTE 8 Pension Plans**

Substantially all of the Commission’s employees participate in the defined benefit Public Employee Retirement Systems (retirement system) which has been established by State statute. These systems are sponsored and administered by the State of New Jersey.

Public Employees Retirement System

Public Employees’ Retirement System (PERS) – is a cost-sharing multiple-employer contributory defined plan which was established as of January 1, 1995, under the provision N.J.S.A. 43:15A to provide retirement, death and disability benefits, including post-retirement health care, 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 25 years for post-retirement health care coverage.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 8 Pension Plans – (continued)**

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Other Pension Funds

The State also administers the Pension Adjustment Fund (PAF), which provides cost of living increases, equal to 60 percent of the change in the average consumer price index, to eligible retirees in all State-sponsored pension systems except SACT. The cost of living increase for PERS is funded directly by the retirement system and is considered in the annual actuarial calculation of the required State contribution for that system.

According to State statutes, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of Treasury, Division of Pensions and Pensions and Benefits issues publicly available financial reports that include the financial statements and required supplementary information of each of the retirement system, funds, and trusts. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295

Significant Legislation

Chapter 108, P.L. 2003, effective July 1, 2003 provided that the State Treasurer shall reduce the normal and accrued liability contributions payable by employers to a percentage of the amount certified annually by the retirement system, which for PERS will be as follows for payments due in SFY ending June 30, 2005, 20 percent; for payments due in SFY year ending June 30, 2006, not more than 40 percent; for payments due in SFY June 30, 2007, not more than 60%; and for payments due in SFY June 30, 2008, not more than 80%.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform: established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 60 plus 3% for every year under age 55.

Chapter 89, P.L. 2008 increased the PERS eligibility age for unreduced benefits from age 60 to 62 for members hired on or after November 1, 2008; increased the minimum annual compensation required for membership eligibility for new members. Also, it amended the early retirement reduction formula for members hired on or after November 1, 2008 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 62 plus 3% for every year under age 55.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 8 Pension Plans – (continued)**

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Funding Policy

Contribution Requirements

The contribution policy for PERS is set by New Jersey State statutes and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members of PERS contribute at a uniform rate of 5.5% of base salary, as defined. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS the employer contribution includes funding for post-retirement medical premiums.

During the year ended June 30, 2009, for PERS, which is multi-employer pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

Contributions:

The South's year ended December 31, 2009, 2008 and 2007 contributions to the PERS were \$179,730, \$137,130 and \$79,061, respectively.

**NOTE 9 Deferred Compensation Plan**

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The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the Nationwide Retirement Solutions and The Hartford. The plan permits employees to defer a portion of their salary to future years. Individuals are one hundred percent vested. The plan, which began formal operations November 1990, is funded solely voluntary employee deductions. Distribution is available to employees upon termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, property or rights are solely property and rights of the individual contributors and are not subject to the claims of the Commission's general creditors.

**NOTE 10 Related Party Transactions**

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There are common infrastructure components of the North Jersey District Water Supply Commission shared by the participating municipalities of the Wanaque North Project and Wanaque South Project Partners. The costs associated with the maintenance of these common infrastructure components are shared by the Wanaque South Project Partners based upon a formula determined in the agreement between the NJDWSC and the partners in the joint venture. In addition, direct costs associated with the participating municipalities in Wanaque South Project are paid by the Wanaque North Project and subsequently reimbursed to the Wanaque South Project.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2009 AND 2008**

**NOTE 11 Other Post Retirement Benefits**

The Commission offers post retirement medical, prescription drug, dental and vision benefits to retirees and their eligible dependents. Medicare Part B premiums are reimbursed for Medicare eligible retirees and their spouses.

The following subsections outline the eligibility for retirement, that would qualify a retiree for Commission paid post retirement health benefits for various groups of Commission employees.

- Age 60
- After twenty-five years of service
- After 25 years or more of service and are age 55 or older
- After 10 years of service for disability retirement
- Surviving spouse and dependent children under 26 are covered until spouses death or remarriage

As of the January 1, 2008 census there were 170 active and 52 retired participants in the plan.

In accordance with GAAP and accrual accounting principles, the cost associated with post-employment healthcare benefits (“OPEB”), generally should be associated with the periods in which the cost occurs, rather than in future years when it will be paid. In adopting the requirements of GASB Statement No. 45 the cost of OPEB is recognized in the year when the employee services are received, the accumulated liability (as calculated on a triennial basis) is reported from prior years and provides information useful in assessing potential demands on cash flows. Recognition of the liability accumulated from prior years is phased in over 30 years, commencing with the current year. As of December 31, 2008, the Commission has adopted the requirements of GASB Statement No. 45 under the Level Percent of Pay approach.

This is the second year the Commission has adopted GASB No. 45; thus two years of data is shown on the following reporting tables:

Funding Progress

| Actuarial Valuation Date | Actuarial Value Of Assets | Actuarial Accrued Liability | Unfunded Actual Liability | Funded Ratio |
|--------------------------|---------------------------|-----------------------------|---------------------------|--------------|
| 1/1/09                   | \$ —                      | \$ 36,438,170               | \$ 36,438,170             | —%           |
| 1/1/08                   | —                         | 34,246,329                  | 34,246,329                | —%           |

Employer Contributions without Advance Funding

| Fiscal Year Ending | Annual OPEB Cost | Actual Contribution | Percentage Contributed | Net OPEB Obligation |
|--------------------|------------------|---------------------|------------------------|---------------------|
| 12/31/09           | \$ 2,868,254     | \$ 885,474          | 30.87%                 | \$ 4,069,144        |
| 12/31/08           | 2,710,667        | 624,403             | 23.03%                 | 2,086,364           |

The above statistics include both North and South Projects which are not segregated by the actuary.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008**

**NOTE 12      Joint Venture**

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The North Jersey District Water Supply Commission Wanaque South Project entered into agreements with United Water New Jersey, formerly known as Hackensack Water Company, on December 16, 1981, 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. Costs of the joint venture are to be paid by each member equally; i.e. 50% by each partner.

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.

Each partner funded its own debt for the initial construction of the project. The South's share of expenses is reflected in the foregoing financial statements.

**NOTE 13      Letter of Credit**

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A resolution adopted by the Authority has provided a Bond Reserve Credit Facility in substitution for monies on deposit in the Bond Reserve Account and, upon providing such Bond Reserve Credit Facility, the monies on deposit in the Bond Reserve Account will be available to satisfy any other obligation of the Commission.

**NOTE 14      Litigation**

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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.

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 NJDEP for contaminating the Passaic River. The Joint Venture is forcefully disputing the claims.

ADDITIONAL FINANCIAL INFORMATION

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
 WANAQUE SOUTH PROJECT  
 SCHEDULE OF BUDGETARY REVENUES AND EXPENDITURES COMPARED TO BUDGET  
 FOR THE YEAR ENDED DECEMBER 31, 2009**

|   | <u>2009<br/>Budget</u> | <u>2009<br/>Actual</u> | <u>Variance</u>    | <u>2008<br/>Actual</u> |
|---|------------------------|------------------------|--------------------|------------------------|
| <b>Revenues</b>                                       |                        |                        |                    |                        |
| Assessments   | \$ 15,699,898          | 15,699,898             | -                  | 15,699,898             |
| Anticipated Income                                    | 791,295                | 173,483                | (617,812)          | 830,496                |
| Surplus   | 1,666,847              | -                      | (1,666,847)        | 756,907                |
| Total Revenues  | <u>18,158,040</u>      | <u>15,873,381</u>      | <u>(2,284,659)</u> | <u>17,287,301</u>      |
| <b>Expenditures</b>                                   |                        |                        |                    |                        |
| Direct Expenses                                       |                        |                        |                    |                        |
| Common Facilities                                     | 863,880                | 353,044                | (510,836)          | 319,713                |
| Wanaque South Pump Station                            | 1,160,960              | 235,869                | (925,091)          | 442,391                |
| Ramapo Pump Station                                   | 148,900                | 27,872                 | (121,028)          | 72,409                 |
| Monksville Reservoir                                  | 37,500                 | 18,979                 | (18,521)           | 14,505                 |
| Allocated North Operating Costs                       | 7,889,012              | 7,926,385              | 37,373             | 6,806,264              |
| Use Fee   | 278,891                | 278,891                | -                  | 279,439                |
| Capital Items   | 577,454                | 492,446                | (85,008)           | 1,374,429              |
| Debt Service  | 7,201,443              | 7,198,036              | (3,407)            | 7,197,810              |
| Total Expenditures                                    | <u>18,158,040</u>      | <u>16,531,522</u>      | <u>(1,626,518)</u> | <u>16,506,960</u>      |
| Excess (Deficit) of Revenue Over (Under) Expenditures | \$ -                   | (658,141)              | (658,141)          | 780,341                |



**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
SCHEDULE OF REVENUES COLLECTED, EXPENSES PAID AND CHANGES IN RESTRICTED/UNRESTRICTED NET ASSETS  
YEAR ENDED DECEMBER 31, 2009**

|   | OPERATING           | CONSTRUCTION   | DEBT SERVICE     | Total (Memo Only) |                   |
|---|---------------------|----------------|------------------|-------------------|-------------------|
|   |                     |                |                  | 12/31/2009        | 12/31/2008        |
| <b>REVENUES</b>   |                     |                |                  |                   |                   |
| Municipality Assessments  | \$ 7,921,001        | 577,454        | 7,201,443        | 15,699,898        | 15,699,899        |
| <b>EXPENDITURES</b>   |                     |                |                  |                   |                   |
| Administrative Expenditures   | 124,021             | -              | -                | 124,021           | 95,150            |
| Other Expenses  | 730,543             | -              | -                | 730,543           | 980,807           |
| Labor and Related Expenditures (Allocated)  | 7,926,385           | -              | -                | 7,926,385         | 6,806,264         |
| Capital Outlays   | -                   | 135,679        | -                | 135,679           | 568,316           |
| Engineering/Consulting  | 120                 | 83,512         | -                | 83,632            | 31,016            |
| Construction  | -                   | 243,255        | -                | 243,255           | 10,722            |
| Bond Amortization   | -                   | -              | 4,834,731        | 4,834,731         | 4,624,847         |
| Bond Interest   | -                   | -              | 2,363,306        | 2,363,306         | 2,572,963         |
| Trustee Fees  | 52,500              | -              | 7,470            | 59,970            | 59,970            |
| <b>TOTAL EXPENDITURES</b>   | <b>8,833,569</b>    | <b>462,446</b> | <b>7,205,507</b> | <b>16,501,522</b> | <b>15,750,055</b> |
| <b>OPERATING INCOME/(LOSS)</b>  | <b>(912,568)</b>    | <b>115,008</b> | <b>(4,064)</b>   | <b>(801,624)</b>  | <b>(50,156)</b>   |
| <b>NON OPERATING REVENUES/(EXPENSES)</b>  |                     |                |                  |                   |                   |
| Interest on Investments   | 129,888             | 23,177         | 6,514            | 159,579           | 660,794           |
| Other Income  | 13,904              | -              | -                | 13,904            | 169,703           |
| Loan Proceeds   | -                   | 581,277        | -                | 581,277           | -                 |
| Transfer In   | 2,450               | -              | -                | 2,450             | 135,734           |
| Transfer Out  | -                   | -              | (2,450)          | (2,450)           | (135,734)         |
| <b>TOTAL OTHER FINANCING SOURCES/(USES)</b>   | <b>146,242</b>      | <b>604,454</b> | <b>4,064</b>     | <b>754,760</b>    | <b>830,497</b>    |
| <b>EXCESS (DEFICIT) OF REVENUE OVER (UNDER EXPENDITURES AND OTHER FINANCING SOURCES/(USES))</b> | <b>\$ (766,326)</b> | <b>719,462</b> | <b>-</b>         | <b>(46,864)</b>   | <b>780,341</b>    |

SUPPLEMENTARY DATA

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION  
WANAQUE SOUTH PROJECT  
ROSTER OF OFFICIALS  
DECEMBER 31, 2009**

The following officials were in office at December 31, 2009

| <u><b>Name</b></u>   | <u><b>Office</b></u>        |
|----------------------|-----------------------------|
| Carmen A. Orechio    | Commissioner, Chairman      |
| Louis A. Cuccinello  | Commissioner, Vice Chairman |
| Charles P. Shotmeyer | Commissioner                |
| Brenda C. Sherman    | Commissioner                |
| Michael T. Cricco    | Commissioner                |
| Joseph Tempesta, Jr. | Commissioner                |
| Albert Manzo         | Commissioner                |
| Angelo M. Valente    | Secretary to the Commission |
| Michael E. Restaino  | Executive Director          |
| Colleen C. DeStefano | Deputy Executive Director   |
| John Blonski         | Comptroller                 |