



**NORTH JERSEY DISTRICT WATER
SUPPLY COMMISSION**

WANAQUE SOUTH PROJECT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
AND REPORT ON INTERNAL CONTROL AND COMPLIANCE
YEAR ENDED DECEMBER 31, 2010**

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE SOUTH PROJECT
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DECEMBER 31, 2010 AND 2009**

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**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE SOUTH PROJECT
ROSTER OF OFFICIALS
DECEMBER 31, 2010**

The following officials were in office during the period under audit:

COMMISSIONERS

Carmen A. Orechio, Chairman

Louis A. Cuccinello, Vice Chairmar

Albert Manzo

Charles P. Shotmeyer

Brenda C. Sherman

Michael T. Cricco

Joseph Tempesta, Jr.

EXECUTIVE OFFICERS

Michael E. Restaino Executive Director

Colleen C. DeStefano Deputy Executive Director

Angelo M. Valente Secretary to the Commission

Independent Auditors' Report

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

We have audited the financial statements – statutory basis of the Wanaque South Project, a component unit of the North Jersey Water Supply Commission (the "Commission"), as of and for the year ended December 31, 2010, as listed in the Table of Contents. These financial statements are the responsibility of management of the Commission. Our responsibility is to express an opinion on these financial statements based upon our audit. The financial statements as of December 31, 2009, were audited by other auditors whose report dated June 10, 2010 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 prescribed by New Jersey Statute.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 differences 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Wanaque South Project of the North Jersey Water Supply Commission as of December 31, 2010 and the results of operations for the year then ended on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 18 and 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2011 on our consideration of the Commission's internal control structure over financial reporting, and 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 with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the use of the Management, Commissioners, and Participants of the Wanaque South Project of the North Jersey Water Supply Commission and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Mc Enaney, Brady & Company, LLC

Livingston, New Jersey
September 28, 2011

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 BALANCE SHEETS
 DECEMBER 31, 2010 AND 2009

EXHIBIT A

	2010	2009
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 14,721,080	\$ 8,327,279
Due from Joint Venture	60,000	60,000
Other Receivables	1,798,220	1,663,387
Inter Project Receivable	67,065	1,864,534
	16,646,365	11,915,200
Total Current Assets		
Noncurrent Assets		
Restricted Cash and Cash Equivalents	7,064,348	10,945,667
Due from NJEIT	713,949	-
Loan Receivable	3,853,391	4,864,283
Equity in Joint Venture	2,500	2,500
Property Plant and Equipment	119,538,041	118,153,417
	131,172,229	133,965,867
Total Noncurrent Assets		
	\$ 147,818,594	\$ 145,881,067
Total Assets		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 711,260	\$ 152,965
Current Portion of Bonds Payable	5,290,623	5,062,967
Retainage Payable	41,632	12,968
Due to Wanaque South Project Joint Venture	599,747	367,702
Inter Project Payable	1,493,469	367,517
	8,136,731	5,964,119
Total Current Liabilities		
Noncurrent Liabilities		
Long-term Portion of Bonds Payable	34,952,607	40,243,229
Deferred Revenue	3,853,391	4,884,283
	38,805,998	45,127,512
Total Noncurrent Liabilities		
	46,942,729	51,091,631
Total Liabilities		
NET ASSETS		
Investment in Capital Assets, Net of Related Debt	79,294,815	72,847,223
Restricted:		
Operating Reserve	2,746,712	2,746,712
General Capital	3,000,000	3,000,000
Capital Outlay	5,319,787	6,360,306
Unrestricted	10,514,551	9,835,195
	21,581,050	21,942,213
Total Restricted and Unrestricted Net Assets		
	100,875,865	94,789,436
Total Net Assets		
	\$ 147,818,594	\$ 145,881,067
Total Liabilities and Net Assets		

The accompanying notes are an integral part of these statements

WANAQUE SOUTH PROJECT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RESTRICTED AND UNRESTRICTED NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009

EXHIBIT B

	2010	2009
OPERATING REVENUES		
Charges for Services	\$ 16,124,149	\$ 15,699,898
 OPERATING EXPENSES		
Payroll and Related Expenses	3,257,635	3,347,406
Utilities and Fuel	1,109,770	974,931
Real Estate Taxes	749,649	721,593
Use Fee	278,344	278,892
Insurance	1,663,866	1,615,374
Legal and Accounting	376,923	158,249
Pump Station and Other	110,666	100,739
Engineering and Consulting	31,106	117,600
Supplies and Expenses	744,500	641,056
Trustee Fees	70,471	59,971
Bond Principal	5,062,967	4,834,731
Interest	2,140,424	2,363,305
Chemicals	588,132	825,109
Capital Outlay	1,512,335	462,566
Total Operating Expenses	17,696,788	16,501,522
 OPERATING LOSS	 (1,572,639)	 (801,624)
 NON-OPERATING REVENUES		
Grants and Other Income	29,458	13,904
NJEIT Loan Proceeds	1,094,948	581,277
Interest and Investment Income	87,070	159,579
Total Nonoperating Revenues	1,211,476	754,760
 Change in Net Assets	 (361,163)	 (46,864)
Net Assets Restricted and Unrestricted - Beginning of Year	21,942,213	21,989,077
Net Assets Restricted and Unrestricted - End of Year	\$ 21,581,050	\$ 21,942,213

The accompanying notes are an integral part of these statements

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009**

1. Organization and Summary of Significant Accounting Policies

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 an 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 District Water Supply contracting with the Commission to receive water are as follows:

<u>MUNICIPALITY</u>	<u>ALLOTMENT PER DAY (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 of 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.

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE SOUTH PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 focused 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.

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 an accrual basis. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

Expenditures – Expenditures are recognized on the accrual basis. 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 cost be capitalized and amortized over the life of the related bond issue.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009**

Loans Receivable - The Commission has participated in low cost financing through the New Jersey Environmental Infrastructure Trust ("NJEIT"). The Commission is reimbursed for allowable expenditures upon submission of a requisition evidencing actual expenditures. At December 31, 2010 the available balances were as listed below:

1999	\$ 216,367
2003	2,028,004
2006	<u>2,322,969</u>
	<u>\$4,567,340</u>

Deferred Revenue - Deferred revenue consists primarily of the balance of funds available under the NJEIT Loan program net of outstanding requisitions.

The changes in Deferred Revenue for 2010 were:

	<u>1/01/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2010</u>
Deferred Revenue	<u>\$4,884,283.13</u>	<u>\$265,765.49</u>	<u>(\$1,296,657.12)</u>	<u>\$3,853,391.50</u>

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."

The changes in Fund Balances for 2010 were:

Fund Balance	<u>1/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2010</u>
Investment in Capital Assets, net of Related Debt	\$ 74,827,223.00	\$ 2,205,699.41	\$ 4,954,976.88	\$ 79,294,814.56
Restricted				
Operating Reserve	2,746,712.00	-	-	2,746,712.00
Capital Reserve	3,000,000.00	-	-	3,000,000.00
Capital Outlay Reserve	6,360,305.60	531,109.13	(1,571,628.00)	5,319,786.73
Unrestricted	<u>9,835,195.00</u>	<u>3,097,971.14</u>	<u>(2,465,480.14)</u>	<u>10,514,551.00</u>
TOTAL RESTRICTED AND UNRESTRICTED	<u>\$ 21,942,212.60</u>	<u>\$ 3,629,080.27</u>	<u>\$ (4,037,108.14)</u>	<u>\$ 21,581,049.73</u>

Budget

In accordance with the Commission's enabling legislation, the Board holds public hears 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.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009**

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.

2. Cash and Cash Equivalents

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 5% of the average daily balance of public funds; or

If the public funds deposited exceed 75% percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% percent of the amount exceeding 75%.

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 has complied with all statutes and regulations applicable to deposits and investments.

At December 31, 2010, cash and cash equivalents of the Commission totaled \$21,785,428, consisting of \$14,721,080 unrestricted cash and \$7,064,428 restricted cash. At December 31, 2009, cash and cash equivalents total \$19,272,946, consisting of \$8,327,270 unrestricted cash and \$10,945,667 restricted cash.

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, 2010 the South's bank deposits are insured or covered by the State's Government Unit Deposit Protection Act ("GUDPA").

Restricted cash equivalents are assets held by trustees under bond indenture agreements.

Fair Value:

December 31, 2010

	Fair Value Measurements at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
Assets				
Restricted cash equivalents	\$ 7,064,348	\$ 7,064,348	\$ -	\$ -

December 31, 2009

	Fair Value Measurements at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
Assets				
Restricted cash equivalents	\$ 10,945,667	\$ 10,945,667	\$ -	\$ -

See Note 6 for related debt information.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009**

3. Investments

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, (2) Farmers Home Administration, (3) Federal Financing Bank, (4) Federal Housing Administration Debentures, (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 and 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.
- 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.

4. Property, Plant and Equipment

Details of property, plant and equipment as of December 31, 2010 and 2009 as follows:

	Balance <u>1/1/10</u>	<u>Additions</u>	<u>Reclassification</u>	Balance <u>12/31/10</u>
Land	\$ 51,794	\$ -	\$ -	\$ 51,794
Buildings	115,312,766	96,455	-	115,409,221
Machinery & Equipment	1,752,171	111,783	-	1,863,954
Construction in Progress	1,036,686	1,176,386	-	2,213,072
	<u>\$118,153,417</u>	<u>\$ 1,384,624</u>	<u>\$ -</u>	<u>\$ 119,538,041</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009**

	Balance <u>1/1/09</u>	<u>Additions</u>	<u>Reclassification</u>	Balance <u>12/31/09</u>
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>\$ 10,062,499</u>	<u>\$ 118,153,417</u>

Construction in progress represents costs associated plant expansions and rehabilitations, and other projects that were not completed at year end. The South capitalizes 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.

5. Compensated Absences

Employees of the Commission 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 10 years of service and is paid the rate of the lesser of 50% of current salary rate or \$15,000.

6. Long-Term Debt

Long-term debt as of December 31, 2010 and 2009 consist of the following:

	Maturity	<u>2010</u>	<u>2009</u>
Bonds payable:			
1999 Project Revenue South Bonds (a)	2011-2019	\$ 266,510	\$ 292,045
2000 Project Revenue Bonds (b)	2011-2020	215,476	233,985
2003 Project Revenue Bonds (c)	2011-2017	2,323,105	2,382,951
2003A Project Revenue Bonds (d)	2011-2023	26,855,000	30,430,000
2003B Project Revenue Bonds (e)	2011-2019	8,930,000	10,125,000
2006 Project Revenue Bonds (f)	2011-2026	1,744,138	1,842,215
		<u>40,334,229</u>	<u>45,306,196</u>
Less current installments		<u>5,290,623</u>	<u>5,062,967</u>
		<u>\$ 35,043,606</u>	<u>\$ 40,243,229</u>

(a) 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, either in whole or in any series or any date or in part. Interest is calculated at rates ranging from 4.75% to 5.70% on \$149,538 and at various intervals through August 2019 and \$116,972 is non-interest bearing. Interest payments are due February 1st and August 1st each year.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009**

- (b) 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 is calculated at rates ranging from 5% to 5.25% on \$120,000 at various intervals and \$95,476 is non-interest bearing. Interest payments are due February 1st and August 1st each year.
- (c) 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 1999 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 1999 Bond Resolution, either in whole (or either Series) or any date or in part. Interest is calculated at rates ranging from 5% to 5.25% on \$998,812 at various intervals and \$1,233,293 is non-interest bearing. Interest payments are due February 1st and August 1st each year.
- (d) 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 is calculated at rates ranging from 3% to 5% at various intervals through July 2019. Interest payments are due January 1st and July 1st each year.
- (e) 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 is calculated at rates ranging from 3% to 5% on \$3,915,000 at various intervals through July 2013 and 5.19% on \$5,015,000 on term bonds maturing July 2019. Interest payments are due January 1st and July 1st each year.
- (f) 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 is calculated at rates ranging from 3% to 5% on \$672,600 at various intervals to August 2026 and \$1,071,538 is non-interest bearing. Interest payments are due February 1st and August 1st each year.

Future annual debt service payments for principal and interest subsequent December 31, 2010 are as follows:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
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	6,401,790	799,690
2016-2020	9,815,943	813,317
2021-2025	1,154,888	73,260
2026	122,133	2,382
	<u>\$ 40,243,230</u>	<u>\$ 7,751,008</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009**

Restricted Cash Equivalents

As of December 31, 2010 and 2009, restricted cash equivalents, recorded at fair value, consist of funds held in trustee accounts are as follows:

	<u>Debt Service</u>			<u>Total</u>
	<u>Reserve</u>	<u>Interest</u>	<u>Principal</u>	
December 31, 2010:				
U.S. Treasury money market	<u>\$ 7,064,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,064,348</u>
December 31, 2009:				
U.S. Treasury money market	<u>\$ 10,945,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,945,667</u>

7. Surplus Anticipated

Surplus balance at December 31, 2010 may be utilized s revenue in the 2012 Calendar Year Budget as follows:

<u>Unrestricted Balance December 31, 2010</u>	<u>Amount Utilized</u>
\$9,716,548	\$157,389

8. Pension Plans

Substantially all of the Commission's employees participate in the following contributory defined benefit public employee retirement systems which has been established by State Statute: the Public Employees' Retirement System ("PERS"). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits ("Division of Business"). The PERS is considered a cost sharing multiple-employer plan.

Public Employees Retirement System

Public Employees' Retirement System ("PERS") – is a cost-sharing multiple-employer contributory defined benefit 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.

Other Pension Funds

The State also administers the Pension Adjustment Fund ("PAF") which provides cost of living increases, equal to 60% of the change in the average consumer price index to eligible retirees in all State-sponsored pension systems except Supplemental Annuity Collective Trust ("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 retirement 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 statement 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, NJ 08625-0295.

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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Significant Legislation

Effective July 1, 2003, Chapter 108, P.L. 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%; for payments due in SFY year ending June 30, 2006, not more than 40%; for payments due SFY June 30, 2007, not more than 60%; and for payments due 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: a) effective July 1, 2007, established a Defined Contribution Retirement Plan ("DCRP") for elected and certain appointed officials; b) effective January 1, 2008, the new pension loan interest rate became 4.69% per year and an \$8.00 processing fee per loan was charged. 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 2, 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.

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. PERS 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 non-contributory death benefits in the PERS. In the PERS the employer contribution includes funding for post-retirement medical premiums.

During the year ended June 30, 2010, 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

For the years ended December 31, 2010, 2009, and 2008, Wanaque South's contributions to the PERS was \$265,691, \$179,730 and \$137,130 respectively.

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
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DECEMBER 31, 2010 AND 2009

9. **Deferred Compensation Plan**

The Commission offers its employees a Deferred Compensation Plan (the "DCP Plan") created in accordance with Internal Revenue Code Section 457. The DCP Plan is administered by the Nationwide Retirement Solutions and The Hartford. The DCP Plan permits employees to defer a portion of their salary to future years. Individuals are one hundred percent vested. The DCP 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.

10. **Related Party Transactions**

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 Commission 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.

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 25 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 January 1, 2010 census there were 129 active and 70 retired participants in the plan.

In accordance with GAAP, the cost associated with post-employment healthcare benefits ("OPEB") should be generally 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 and 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 adopted the requirements of GASB Statement No. 45 under the Level Percent of Pay approach.

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 WANAUKE SOUTH PROJECT
 NOTES TO FINANCIAL STATEMENTS
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This is the third year the Commission has adopted GASB No. 45; thus three 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
1/1/10	\$ -0-	\$41,647,326	\$41,647,326	-0-%
1/1/09	\$ -0-	\$36,438,170	\$36,438,170	-0-%
1/1/08	\$ -0-	\$34,246,329	\$34,246,329	-0-%

Employer Contributions without Advance Funding

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
12/31/10	\$2,682,981	\$1,157,713	43.15%	\$5,594,412
12/31/09	\$2,868,254	\$ 885,474	30.87%	\$4,069,144
12/31/09	\$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.

12. Joint Venture

The North Jersey District Water Supply Commission Wanaque South Project entered into agreements with United Water New Jersey, formerly known as Hackensack Water Company (collectively the "Joint Venture"), 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. Cost 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.

13. Letter of Credit

A resolution adopted by the Commission has provided a Bond Reserve Credit Facility in substation 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.

14. Litigation

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

NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
WANAQUE SOUTH PROJECT
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DECEMBER 31, 2010 AND 2009

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 vigorously disputing the claims.

15. **Subsequent Events**

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

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAQUE SOUTH PROJECT
 SCHEDULE OF BUDGETARY REVENUES AND EXPENDITURES COMPARED TO BUDGET
 FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>2010 Budget</u>	<u>2010 Actual</u>	<u>Favorable (Unfavorable) Variance</u>	<u>2009 Actual</u>
Revenues				
Assessments	\$ 16,124,149	\$ 16,124,149	\$ -	\$ 15,699,898
Anticipated Income	1,673,500	116,528	(1,556,972)	173,483
Surplus	437,471	437,471	-	-
Loan Proceeds	<u>-</u>	<u>1,094,948</u>	<u>1,094,948</u>	<u>581,277</u>
Total Revenues	<u>18,235,120</u>	<u>17,773,096</u>	<u>(462,024)</u>	<u>16,454,658</u>
Expenditures				
Direct Expenses				
Common Facilities	321,250	576,646	(255,396)	353,044
Wanaque South Pump Station	1,158,329	347,499	810,830	235,869
Ramapo Pump Station	146,500	26,631	119,869	27,872
Monksville Reservoir	37,000	31,123	5,877	18,979
Allocated North Operating Costs	8,834,634	7,720,819	1,113,815	7,926,385
Use Fee	278,341	278,343	(2)	278,891
Capital Items	252,263	1,512,335	(1,260,072)	492,446
Debt Service	<u>7,206,803</u>	<u>7,203,392</u>	<u>3,411</u>	<u>7,198,036</u>
Total Expenditures	<u>18,235,120</u>	<u>17,696,788</u>	<u>538,332</u>	<u>16,531,522</u>
Deficit of Revenue Under Expenditures	<u>\$ -</u>	<u>\$ 76,308</u>	<u>\$ 76,308</u>	<u>\$ (76,864)</u>

**NORTH JERSEY DISTRICT WATER SUPPLY COMMISSION
 WANAUKE SOUTH PROJECT
 SCHEDULE OF REVENUES COLLECTED, EXPENSES PAID AND CHANGES IN RESTRICTED/UNRESTRICTED NET ASSETS
 YEAR ENDED DECEMBER 31, 2010**

	Total (Memo Only)		
	OPERATING	CONSTRUCTION	DEBT SERVICE
REVENUES	12/31/2010	12/31/2009	12/31/2009
Municipality Assessments	\$ 8,665,084	\$ 252,263	\$ 7,206,803
			\$ 16,124,149
			\$ 15,699,898
EXPENDITURES			
Administrative Expenditures	333,842	-	-
Other Expenses	844,724	89,481	-
Labor and Related Expenditures (Allocated)	7,720,819	-	-
Capital Outlays	-	335,949	-
Engineering/Consulting	11,204	136,556	-
Construction	-	950,350	-
Bond Amortization	-	-	5,062,967
Bond Interest	-	-	2,140,424
Trustee Fees	63,000	-	7,470
			70,470
TOTAL EXPENDITURES	8,973,589	1,512,336	7,210,862
			17,696,788
			16,501,522
OPERATING INCOME/(LOSS)	(308,506)	(1,260,073)	(4,060)
			(1,572,639)
NON OPERATING REVENUES/(EXPENSES)			
Interest on Investments	82,107	362	4,600
Surplus	437,471	-	-
Other Income	29,458	-	-
Loan Proceeds	-	1,094,948	-
Transfer In	546	83,686	5
Transfer Out	(83,686)	(5)	(546)
			87,069
			437,471
			29,458
			1,094,948
			84,237
			(84,237)
			159,579
			-
			13,904
			581,277
			2,450
			(2,450)
TOTAL NON OPERATING REVENUES/(EXPENSES)	465,895	1,178,991	4,060
			1,561,877
			754,760
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES/(USES)	\$ 157,389	\$ (81,081)	\$ -
			\$ 76,308
			\$ (46,864)



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE 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 Wanaque South Project, a component unit of the North Jersey District Water Supply Commission (the "Commission"), as of and for the year ended December 31, 2010 and have issued our report thereon dated September 28, 2011, 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 generally accepted auditing standards 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 in as a basis for designing our auditing procedures for the purpose of expressing our opinion on the general purpose 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 and correct 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 that might be 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 audit committee, management, the North Jersey District Water Supply, the Department of Environmental Protection and other awarding pass-through entities and is not to be and should not be used by anyone other than these specified parties.

Mc Enaney, Brady & Company, LLC

Livingston, New Jersey
September 28, 2011