

**WANAQUE SOUTH PROJECT**  
(a component unit of the  
North Jersey District Water Supply Commission)

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**AND**

**REPORT ON INTERNAL CONTROL AND COMPLIANCE**

**DECEMBER 31, 2011 AND 2010**

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**TABLE OF CONTENTS**  
**DECEMBER 31, 2011 AND 2010**

	<u>Page</u>
Roster of Officials	1
Independent Auditors' Report	2-3
Statements of Net Assets	4
Statements of Revenues, Expenses and Changes in Restricted and Unrestricted Net Assets	5
Statements of Changes in Net Assets	6
Notes to Financial Statements	7-19
Supplementary Schedules	20-21
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	22-23

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**ROSTER OF OFFICIALS**  
**DECEMBER 31, 2011**

The following officials were in office at December 31, 2011:

**COMMISSIONERS**

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Carmen A. Orechio, Chairman

Charles P. Shotmeyer

Brenda C. Sherman

Alan S. Ashkinaze

**EXECUTIVE OFFICERS**

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Joseph E. Stroin Jr.                      Acting 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 of the Wanaque South Project, a component unit of the North Jersey District Water Supply Commission (the "Commission"), as of and for the years ended December 31, 2011 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. 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.

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

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

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

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 20 and 21 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 July 12, 2012 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 District 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.

A handwritten signature in cursive script that reads "The Energy Group, Inc." followed by a stylized monogram.

Livingston, New Jersey  
July 12, 2012

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 14,726,977	\$ 14,721,080
Other receivables	-	26,065
Total current assets	14,726,977	14,747,145
Restricted cash and cash equivalents	7,076,087	7,064,348
Due from NJEIT	-	713,949
Investment in Dundee Water Power and Land Company	2,382,894	2,382,894
Loans receivable	2,256,928	3,853,391
Equity in Wanaque South Joint Venture	2,500	2,500
Property, plant and equipment	121,635,479	119,538,041
<b>Total Assets</b>	<b>\$ 148,080,865</b>	<b>\$ 148,302,268</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current Liabilities		
Current portion of bonds payable	\$ 5,547,323	\$ 5,290,623
Accounts payable	220,884	711,260
Retainage payable	80,400	41,632
Due to Wanaque South Project Joint Venture	796,481	539,747
Inter-project payable	1,272,891	1,426,404
Total current liabilities	7,917,979	8,009,666
Long-term portion of bonds payable	29,405,284	34,952,607
Deferred revenue	3,534,353	5,651,791
Total liabilities	40,857,616	48,614,064
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	87,315,356	78,848,193
Restricted:		
Operating reserve	2,746,712	2,746,712
General capital	3,000,000	3,000,000
Capital outlay	5,236,100	6,377,147
	10,982,812	12,123,859
Unrestricted	8,925,081	8,716,152
Total net assets	107,223,249	99,688,204
<b>Total Liabilities and Net Assets</b>	<b>\$ 148,080,865</b>	<b>\$ 148,302,268</b>

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

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED AND**  
**UNRESTRICTED NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u> <u>(as restated)</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 16,049,690	\$ 16,124,149
 <b>OPERATING EXPENSES</b>		
Payroll and related expenses	3,955,591	3,257,635
Utilities and fuel	744,652	1,109,770
Real estate taxes	634,846	749,649
Use fee	277,796	278,344
Insurance	1,274,251	1,663,866
Legal and accounting	211,248	376,923
Pump station and other	135,995	110,666
Engineering and consulting	23,613	31,106
Supplies and expenses	428,861	744,500
Trustee fees	63,970	70,471
Bond principal	5,290,623	5,062,967
Interest	1,893,838	2,140,424
Chemicals	499,824	588,132
Capital outlay	<u>2,709,899</u>	<u>1,512,335</u>
Total operating expenses	<u>18,145,007</u>	<u>17,696,788</u>
Operating loss	<u>(2,095,317)</u>	<u>(1,572,639)</u>
 <b>NON-OPERATING REVENUES</b>		
Grants and other income	51,468	29,458
NJEIT loan proceeds	2,097,438	1,094,948
Interest and investment income	<u>71,653</u>	<u>87,070</u>
Total non-operating revenues	<u>2,220,559</u>	<u>1,211,476</u>
Change in net assets	125,242	(361,163)
Net assets restricted and unrestricted - beginning of year	<u>20,840,011</u>	<u>21,201,174</u>
Net assets restricted and unrestricted - end of year	<u>\$ 20,965,253</u>	<u>\$ 20,840,011</u>

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

**WANAUKE SOUTH PROJECT**  
(a component unit of the North Jersey District Water Supply Commission)  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	Restricted				Total Restricted	Unrestricted	Total Net Assets
	Investment in Capital Assets	Operating Reserve	General Capital	Capital Outlay			
Balance, January 1, 2010, as restated	\$ 73,457,961	\$ 2,746,712	\$ 3,000,000	\$ 6,360,306	\$ 12,107,018	\$ 8,036,796	\$ 93,601,775
Additions	6,860,427	-	-	531,109	531,109	3,097,971	10,489,507
Reductions	(412,835)	-	-	(1,571,628)	(1,571,628)	(2,057,452)	(4,041,915)
Change in net assets	-	-	-	-	-	(361,163)	(361,163)
Balance, December 31, 2010	79,905,553	2,746,712	3,000,000	5,319,787	11,066,499	8,716,152	99,688,204
Additions	7,409,803	-	-	252,263	252,263	241,076	7,903,142
Reductions	-	-	-	(335,950)	(335,950)	(157,389)	(493,339)
Change in net assets	-	-	-	-	-	125,242	125,242
Balance, December 31, 2011	\$ 87,315,356	\$ 2,746,712	\$ 3,000,000	\$ 5,236,100	\$ 10,982,812	\$ 8,925,081	\$ 107,223,249

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



**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**1. Organization**

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 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 costs, 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 statement 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 financial statements. All component units of the Commission issue separately audited financial statements.

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

The financial statements of the component units of Commission are not presented in accordance with Governmental Accounting Standards Board ("GASB") 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.

**2. Summary of Significant Accounting Policies**

**Measurement Focus and Basis of Accounting**

*Measurement Focus*

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.

*Basis of Accounting*

The term basis of accounting is used to determine when a transaction or event is recognized on the Wanaque South Project's operating statement. The Commission uses the modified accrual basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, with exceptions as noted below.

The Wanaque South Project 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 unmatured interest on general long-term debt, which should be recognized when due.

**Inventories** – The cost of inventories of supplies are recorded as expenditures at the time the individual items are purchased. However, there are inventories of minor plant supplies that are included on the statements of net assets.

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

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**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 Wanaque South Project expenses debt principle payments in lieu of depreciation.

**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.

**Deferred Revenue** - Deferred revenue consists primarily of the balance of funds available under the NJEIT loans, net of outstanding requisitions and reserves for capital projects.

**Net Assets** - Net assets are reported in three components:

Investment in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net assets. The outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by laws through constitutional provisions or enabling legislation.

Operating reserve – Established to provide funds to meet operational needs of the project in the event that budgeted quarterly collections are insufficient. The Reserve approximates one fourth of the annual operating budget.

Debt service reserve – A cash reserve established to provide bond holders with assurance that cash will be available to meet scheduled bond payments in the event there is a shortfall in budgeted collections.

Capital outlay – Funds which have been appropriated in the budgetary process for various purposes i.e. major plant repairs, upgrades, fleet renewal and replacement, etc.

Unrestricted net assets – This category represents net assets of the Wanaque South Project not restricted for any project or other purpose.

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

**Reclassification**

Certain 2010 amounts were reclassified to conform to the current year presentation.

**Budget**

In accordance with the Commission's enabling legislation, the Commission holds public hearings and adopts an annual budget for operating expenses and capital outlays. The budget is adopted on a basis of 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 the modified accrual basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

during the reporting period. The collectability of receivables, property, plant and equipment, accounts payable and accrued expenses, and deferred revenue, among other accounts, require the significant use of estimates. Actual results could differ from those estimates.

**Financial Instruments**

The carrying values of the Wanaque South Project's financial instruments as of December 31, 2011 and 2010 include cash and cash equivalents, other receivables, and accounts payable and accrued expenses and approximate their fair value due to the relatively short maturity of these instruments.

**Concentrations of Credit Risk**

Financial instruments which potentially subject the Commission to concentrations of credit risk consist principally of cash and temporary cash investments and receivables. The Commission places its cash with high credit quality financial institutions. At times, such amounts exceed the current insured amount under the Federal Deposit Insurance Corporation ("FDIC") of \$250,000. The Commission monitors the financial condition of the banking institutions, along with their cash balances, to minimize this risk.

For the years ended December 31, 2011 and 2010, three municipalities accounted for approximately 78%, respectively, of charges for services.

**3. Cash and Cash Equivalents**

New Jersey Statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the FDIC, the Savings Association Insurance Fund ("SAIF"), or by any other agencies of the United States, that insures 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.

At December 31, 2011 and 2010, cash and cash equivalents of the Wanaque South Project consist of the following:

	<b>2011</b>	<b>2010</b>
Unrestricted	\$ 14,726,977	\$ 14,721,080
Restricted	<u>7,076,087</u>	<u>7,064,348</u>
	<u>\$ 21,805,064</u>	<u>\$ 21,785,428</u>

Cash equivalents include money market funds, mutual funds, and certificate of deposits with maturity dates of less than three months. Cash equivalents are stated at cost, which approximates market. Cash equivalents are held by the Commission's Trustee in the Commission's name.

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

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

that, in the event of failure of a depository institution, the Wanaque South Project will not be able to recover deposits or will not be able to recover collateral securities that may be in the 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 (See Note 8).

**4. Investments**

The funds of the Commission can be invested in:

- Direct obligations of the United States of America or obligations 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 Association; (4) Student Loan Marketing Association; (5) Resolution Funding Corp. 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 Bank Insurance Fund ("BIF") and Savings Association Insurance Fund ("SAIF").
- Investment Agreements, including Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to Municipal Bond Insurance Association ("MBIA").
- Commercial paper rated, at the time of purchase "Prime – 1" by Moody's and "A – 1" or better by Standard & Poors ("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.
- 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.

**5. Investment in Dundee Water Power and Land Company**

Wanaque South Project has a 50% interest in Dundee Water Power and Land Company ("Dundee"), whose business purpose is the selling of land and water rights for power and processing. Wanaque South Project's investment includes amounts contributed for dam repairs and operating shortfalls. As of December 31, 2011 and 2010, Wanaque South Project's investment in Dundee is \$2,382,894.

**WANAQUE SOUTH PROJECT**  
(a component unit of the North Jersey District Water Supply Commission)  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**6. Loans Receivable**

The Commission has participated in low cost financing through the NJEIT. The Commission is reimbursed for allowable expenditures upon submission of a requisition evidencing actual expenditures. At December 31, 2011 and 2010, the available balances are as follows:

	2011	2010
2000	\$ 216,367	\$ 216,367
2003	-	2,028,005
2006	<u>2,040,928</u>	<u>2,322,968</u>
	2,256,928	4,567,340
Less amounts due from NJEIT	<u>-</u>	<u>713,949</u>
	<u>\$ 2,256,928</u>	<u>\$ 3,853,391</u>

**7. Property, Plant and Equipment**

Property, plant and equipment as of December 31, 2011 and 2010 consist of the following:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery &amp; Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
January 1, 2010	\$ 51,794	\$ 115,312,766	\$ 1,752,171	\$ 1,036,686	\$ 118,153,417
Additions	<u>-</u>	<u>96,455</u>	<u>111,783</u>	<u>1,176,386</u>	<u>1,384,624</u>
December 31, 2010	51,794	115,409,221	1,863,954	2,213,072	119,538,041
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,097,438</u>	<u>2,097,438</u>
December 31, 2011	<u>\$ 51,794</u>	<u>\$ 115,409,221</u>	<u>\$ 1,863,954</u>	<u>\$ 4,310,510</u>	<u>\$ 121,635,479</u>

Construction in progress represents costs associated with plant expansions and rehabilitations, and other projects that were not completed at year end. The Wanaque South Project capitalizes assets with a useful life in excess of five years and with a value over \$5,000. The accounts are adjusted for disposition and abandonment.

**8. Debt**

Long-term debt as of December 31, 2011 and 2010 consist of the following:

	<u>Maturity</u>	<u>2011</u>	<u>2010</u>
Bonds payable:			
1999 Project Revenue South Bonds (a)	2019	\$ 239,546	\$ 266,510
2000 Project Revenue Bonds (b)	2020	197,241	215,476
2003 Project Revenue Bonds (c)	2017	2,078,424	2,222,105
2003A Project Revenue Bonds (d)	2023	23,105,000	26,855,000
2003B Project Revenue Bonds (e)	2019	7,685,000	8,930,000
2006 Project Revenue Bonds (f)	2026	<u>1,647,395</u>	<u>1,744,139</u>
		34,952,607	40,233,230
Less current installments		<u>5,547,323</u>	<u>5,290,623</u>
		<u>\$ 29,405,284</u>	<u>\$ 34,942,607</u>

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

- (a) The Series 1999 Bonds maturing on or after September 1, 2010 are subject to optional redemption prior to maturity at the option of the Commission upon the terms set forth in the respective Series 1999 Bond 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 1<sup>st</sup> and August 1<sup>st</sup> each year.
- (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. This obligation matures in 2020. 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 1<sup>st</sup> and August 1<sup>st</sup> each year.
- (c) The Series 1999 Bonds maturing on or after September 1, 2010, are 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. This obligation matures 2017. 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 1<sup>st</sup> and August 1<sup>st</sup> 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 2023. Interest payments are due January 1<sup>st</sup> and July 1<sup>st</sup> 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 1<sup>st</sup> and July 1<sup>st</sup> 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 1<sup>st</sup> and August 1<sup>st</sup> each year.

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

Future annual debt service payments for principal and interest subsequent December 31, 2011 are as follows:

	Principal	Interest	Total
<u>Years Ending December 31</u>			
2012	\$ 5,547,323	\$ 1,655,807	\$ 7,203,130
2013	5,811,800	1,389,617	7,201,417
2014	6,098,730	1,109,026	7,207,756
2015	6,401,790	799,690	7,201,480
2016	6,731,017	475,087	7,206,105
2017-2026	4,361,947	413,871	4,775,818
	<u>\$ 34,952,607</u>	<u>\$ 5,843,098</u>	<u>\$ 40,795,706</u>

Various debt indentures require reserve accounts to be maintained as part of their debt service requirements (See Note 3). These funds are invested in U.S. Treasury money market accounts.

**9. Deferred Revenue**

Deferred revenue consists primarily of the balance of funds available under the NJEIT loans, net of outstanding requisitions. The changes in deferred revenue for the years ended December 31, 2011 and 2010 are as follows:

	NJEIT	Other	Total
January 1, 2010	\$ 5,291,366	\$ 1,391,316	\$ 6,682,682
Additions	182,406	83,360	265,766
Reductions	<u>(1,148,415)</u>	<u>(148,242)</u>	<u>(1,296,657)</u>
December 31, 2010	4,325,357	1,326,434	5,651,791
Additions	350,228	-	350,228
Reductions	<u>(2,418,657)</u>	<u>(49,009)</u>	<u>(2,467,666)</u>
December 31, 2011	<u>\$ 2,256,928</u>	<u>\$ 1,277,425</u>	<u>\$ 3,534,353</u>

**10. Net Assets**

There was a cumulative net asset adjustment that reclassified amounts that related to the Investment in Dundee Water Power and Land Company (See Note 5), loans receivable and amounts that should have been included in deferred revenue for periods prior to 2009.

	Unrestricted	Investment in Capital Assets
Net assets, January 1, 2010, as originally reported	\$ 10,514,551	\$ 79,294,815
Adjustment to deferred revenue	(1,798,399)	-
Adjustment to loan receivable	-	(446,622)
Adjustment to investment in Dundee Water Power and Land Company	-	1,057,360
Net assets, January 1, 2010, as restated	<u>\$ 8,716,152</u>	<u>\$ 79,905,553</u>



**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**11. Related Party Transactions**

*Inter-project payable*

There are common infrastructure components ("water treatment") of the Commission shared by the participating municipalities of the Wanaque North and Wanaque South Projects. The costs associated with the maintenance of these common infrastructure components are shared by the Wanaque South Project based upon a predetermined formula for prorating water treatment costs, as well as allocation of general overhead costs. At December 31, 2011 and 2010, the amounts due to the Wanaque North Project are as follows:

	2011	2010
Operating	\$ 385,679	\$ 767,402
Loan reallocation	424,880	446,621
Construction	462,332	212,381
	<u>\$ 1,272,891</u>	<u>\$ 1,426,404</u>

*Due to Wanaque South Joint Venture*

The Wanaque South Project has a 50% interest in the Wanaque South Project, a Joint Venture (the "JV"). The JV is a joint venture, formed in December 1981, between Wanaque South Project and United Water New Jersey ("UWNJ") (collectively, the "co-owners") for construction of a new pumping station, enlargement of an existing pumping station, a transmission pipeline, a reservoir and the continued maintenance of the project.. The co-owners have agreed to share equally, the costs of operating the JV, except for certain real estate and sales taxes, which are paid entirely by UWNJ. An annual operating budget is prepared and adopted by the Commission. As of December 31, 2011 and 2010, the amount due to the JV was \$796,481 and \$539,747, respectively. The advances are non-interest bearing, payable on demand.

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

**12. Compensated Absences**

Employees of the Commission earn .83% of a day after the first six months of service for each full month worked to a maximum of five weeks for non-union employees and six weeks for union employees for vacation time.

Sick leave is earned at the rate of 1 to 1.25 days per month for each full month of employment up to 12 and 15 days, per year, 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 at the rate of the lesser of 50% current salary rate or \$15,000.

**13. Pension Plans**

Substantially all of the Commission's employees participate in the following contributory defined benefit public employee retirement systems which have 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.

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

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 percent 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.

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.

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

Chapter 78, P.L. 2011 became effective October 1, 2011, which requires employee contributions relating to health benefits for employees whose current contract has expired and employees not covered by a union contract. Under the provisions of Chapter 78, the contribution is determined as a specified percentage of the health benefits/prescription drug premiums for a salary range, but not less than 1.5% of salary. The percentage contributed is increased over a four year period.

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 6.5% 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.

Contributions

For the years ended December 31, 2011, 2010, and 2009, Wanaque South's contributions to the PERS was \$274,913, \$265,691 and \$179,730 respectively.

**14. 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 from 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.

**15. 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

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

In accordance with the modified accrual basis of accounting, the costs 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.

Under GASB Statement No. 45, the latest available 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
12/31/08	\$2,710,667	\$ 624,403	23.03%	\$2,086,364

**16. Commitments**

*Letter of Credit*

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

**17. Legal and Regulatory Matters**

*Litigation*

A complaint had been settled by the general contractor on the Monksville Dam Rehabilitation Project for additional costs incurred due to changes in the scope of work and inadequate designs for the project. On September 11, 2011 a settlement was reached whereby the contractor received \$1,200,000 for this complaint.

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

**WANAQUE SOUTH PROJECT**  
**(a component unit of the North Jersey District Water Supply Commission)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

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

*Regulatory*

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

*Risk Management*

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

There have been no reductions in the Commission's insurance coverage for any of its programs since the prior fiscal year. Settlements have not exceeded insurance coverage during the current year or prior three fiscal years.

**18. Subsequent Events**

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

**WANAQUE SOUTH PROJECT**  
(a component unit of the North Jersey District Water Supply Commission)  
**SCHEDULE OF ACTUAL REVENUES AND EXPENDITURES COMPARED TO BUDGET**  
**YEAR ENDED DECEMBER 31, 2011**  
(with actual information for 2010)

	2011 Budget	2011 Actual	Favorable (Unfavorable) Variance	2010 Actual
<b>REVENUES</b>				
Assessments	\$ 16,049,690	\$ 16,049,690	\$ -	\$ 16,124,149
Anticipated income	714,632	123,121	(591,511)	173,483
Surplus	1,405,457	-	(1,405,457)	-
Loan proceeds	-	2,097,438	2,097,438	581,277
	<u>18,169,779</u>	<u>18,270,249</u>	<u>100,470</u>	<u>16,878,909</u>
<b>EXPENDITURES</b>				
Direct expenses				
Common facilities	520,250	467,849	52,401	353,044
Wanaque South Pump Station	965,500	268,810	696,690	235,869
Ramapo Pump Station	95,100	37,117	57,983	27,872
Monksville Reservoir	39,500	43,900	(4,400)	18,979
Allocated North operating costs	8,603,197	7,155,176	1,448,021	7,926,385
Use fee	277,795	277,795	-	278,891
Capital items	469,905	2,709,899	(2,239,994)	462,446
Debt service	7,198,532	7,184,461	14,071	7,198,036
	<u>18,169,779</u>	<u>18,145,007</u>	<u>24,772</u>	<u>16,501,522</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ 125,242</u>	<u>\$ 125,242</u>	<u>\$ 377,387</u>

NOTE: Joint Venture participation is included in this schedule.

**WANAUKE SOUTH PROJECT**  
(a component unit of the North Jersey District Water Supply Commission)  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RESTRICTED/UNRESTRICTED NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2011**

	OPERATING	CONSTRUCTION	DEBT SERVICE	Total (Memo Only)	
				December 31, 2011	December 31, 2010
<b>REVENUES</b>					
Municipality assessments	\$ 8,381,253	\$ 469,905	\$ 7,198,532	\$ 16,049,690	\$ 15,699,898
<b>EXPENDITURES</b>					
Administrative expenditures	246,768	-	-	246,768	124,021
Other expenses	764,761	2,311	-	767,072	730,543
Labor and related expenditures (allocated)	7,155,176	-	-	7,155,176	7,926,385
Capital outlays	-	610,150	-	610,150	135,679
Engineering and consulting	19,972	29,009	-	48,981	83,632
Construction	-	2,068,429	-	2,068,429	243,255
Bond amortization	-	-	5,290,623	5,290,623	4,834,731
Bond interest	-	-	1,893,838	1,893,838	2,363,306
Trustee fees	56,500	-	7,470	63,970	59,970
<b>TOTAL EXPENDITURES</b>	<b>8,243,177</b>	<b>2,709,899</b>	<b>7,191,931</b>	<b>18,145,007</b>	<b>16,501,522</b>
Operating income (loss)	138,076	(2,239,994)	6,601	(2,095,317)	(801,624)
<b>NON OPERATING REVENUES (EXPENSES)</b>					
Interest on investments	66,515	325	4,370	71,210	159,579
Rental and other income	51,468	-	-	51,468	13,904
Loan proceeds	-	2,097,438	-	2,097,438	581,277
Transfer in	11,414	-	-	11,414	2,450
Transfer out	-	-	(10,971)	(10,971)	(2,450)
<b>TOTAL NON OPERATING REVENUES (EXPENSES)</b>	<b>129,397</b>	<b>2,097,763</b>	<b>(6,601)</b>	<b>2,149,349</b>	<b>754,760</b>
<b>EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES</b>	<b>\$ 267,473</b>	<b>\$ (142,231)</b>	<b>\$ -</b>	<b>\$ 125,242</b>	<b>\$ (46,864)</b>

See Independent Auditors' Report



**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 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, 2011 and have issued our report thereon dated July 12, 2012. 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 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.

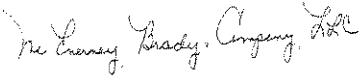
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies 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 Management, Commissioners, and other awarding pass-through entities and is not to be and should not be used by anyone other than these specified parties.



Livingston, New Jersey  
July 12, 2012