

**NEW JERSEY WATER SUPPLY AUTHORITY**

**Basic Financial Statements and  
Supplemental Information**

June 30, 2009

**NEW JERSEY WATER SUPPLY AUTHORITY**

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June 30, 2009

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## INDEPENDENT AUDITOR'S REPORT

To the Commissioners of  
New Jersey Water Supply Authority

We have audited the accompanying financial statements of the New Jersey Water Supply Authority (the "Authority"), as of and for the years ended June 30, 2009 and 2008. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Authority'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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Water Supply Authority as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2009, on our consideration of the Authority's internal control 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 in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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OVER 45 YEARS OF SERVICE TO THE COMMUNITY

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Amercador, PC*  
*Certified Public Accountants*

October 1, 2009



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Year Ended June 30, 2009

This section of the Annual Financial Report of the New Jersey Water Supply Authority (the "Authority"), a Component Unit of the State of New Jersey, presents discussion and analysis of the Authority's financial performance during the fiscal year ended on June 30, 2009. Please read it in conjunction with the Authority's basic financial statements and accompanying notes.

### FINANCIAL HIGHLIGHTS

- Operating revenue for fiscal year 2009 was \$25.5 million, a decrease of 1.38% over fiscal year 2008, which was the result of a 58.98% decrease in overdraft revenue. In the Raritan Basin System, rates increased 1.32% from \$228.00 per million gallons to \$231.00 per million gallons, and the sales base increased 1.22%, from 179.978 million gallons per day to 182.170 million gallons per day. Manasquan Reservoir System rates increased 4.50%, from \$846.06 per million gallons to \$884.11 per million gallons. The fiscal year 2009 sales base remained the same at 20.560 million gallons per day.
- Cash and cash equivalents for fiscal year 2009 were \$33.3 million, a decrease of less than 1% over fiscal year 2008. Income from operations decreased for the Raritan System 2.92% and increased 2.27% for the Manasquan System.
- Total liabilities for fiscal year 2009 were \$104.3 million, a decrease of 3.82% from fiscal year 2008. The Authority continues to pay down long-term debt in both systems.
- Total operating expenses for fiscal year 2009 increased to \$20.9 million, which represents less than 1% increase over fiscal year 2008. Payroll and fringe benefits increased 4.86% because of union contract requirements and rising pension and health benefit expenses. Operations and maintenance expenses decreased 5.84% to \$6.3 million because of a reduction in fuel and energy costs and no further flood repairs.
- Other changes for fiscal year 2009 include the following: non-operating revenue decreased 83.58% to \$795,191, investment income decreased 68.33% because of receding market conditions; and the receipt of grant programs decreased 81.05% from the previous year, due to the completion of No Name Dam. Other income decreased 98.40% because of the receipt from FEMA and the insurance settlement in the previous year.
- Non-operating expenses for fiscal year 2009 increased .12% to \$4.6 million. The interest component of debt service decreased 5.70% with the continued pay-down of the system debt. There was an increase in the reduction in costs to be recovered from future revenue, and the change in the rate model is outlined in Note 2 to the basic financial statements.




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**MANAGEMENT'S DISCUSSION AND ANALYSIS**


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Year Ended June 30, 2009

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the financial statements. The Authority is a self-supporting entity and follows enterprise fund accounting. The enterprise fund concept is similar to the manner in which private business enterprises are financed and operated. The Authority presents its financial statements on the accrual basis of accounting. The statements offer short and long-term financial information about the activities and operations of the Authority. The intent is that the costs of providing service to water users on a continuing basis are financed primarily through user charges. The Authority has established certain restricted "funds or accounts," as directed by internal resolution and bond indentures. In an effort to ensure compliance with the Authority's by-laws and to safeguard its assets, internal controls have been developed and implemented by management. These internal controls include policies, procedures, approved organizational structures and approved budgets for capital and operating expenditures.

**FINANCIAL ANALYSIS OF THE AUTHORITY**

The Authority's total net assets were approximately \$110.3 million as of June 30, 2009. In fiscal year 2009, total assets decreased 1.51% to \$214.6 million due to a 13.00% decrease in costs to be recovered from future revenues, and total liabilities decreased 3.82% to \$104.3 million, due to the continued pay down of long-term debt. Total net assets as of June 30, 2008, were approximately \$109.4 million. Total assets that year increased 1.33% to \$217.9 million, and total liabilities decreased 2.17% to \$108.4 million. Changes in assets, liabilities and net assets between June 30, 2009, 2008 and 2007, are summarized in the following table:

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>Percentage Change 2009-2008</b>
Current assets	<b>\$39,944,371</b>	<b>\$40,411,128</b>	\$37,981,903	(1.16)%
Capital assets, net	<b>147,744,318</b>	<b>148,088,768</b>	144,259,006	(.23)
Other non-current assets	<b>26,889,454</b>	<b>29,370,708</b>	32,761,377	(8.45)
Total assets	<b>214,578,143</b>	<b>217,870,604</b>	215,002,286	(1.51)
Long-term debt	<b>95,483,571</b>	<b>99,565,653</b>	101,238,564	(4.10)
Other liabilities	<b>8,818,939</b>	<b>8,881,283</b>	9,613,559	(.70)
Total liabilities	<b>104,302,510</b>	<b>108,446,936</b>	110,852,123	(3.82)
Net assets invested in				
capital assets, net of related debt	<b>47,277,890</b>	<b>43,790,111</b>	38,594,390	7.96
Restricted	<b>12,447,252</b>	<b>12,082,047</b>	12,388,041	3.02
Unrestricted	<b>50,550,491</b>	<b>53,551,510</b>	53,167,732	(5.60)
Total net assets	<b>\$110,275,633</b>	<b>\$109,423,668</b>	\$104,150,163	.78



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

OPERATING ACTIVITIES

The Authority operates three separate systems: the Raritan Basin System, the Manasquan Water Supply System, and the Manasquan Water Treatment Plant and Transmission System. The Manasquan Water Treatment Plant and Transmission System is owned by the Monmouth County Improvement Authority, which sets the rates, and is operated and maintained by the Authority under the terms of an operating agreement. Each system must generate sufficient revenue each year to cover its own operating expenses and debt service. The following rates were adopted at the April 2009 and 2008 Authority meetings, respectively based on anticipated operating expenses:

	<u>Rate</u> <u>7/01/2009</u>	<u>Rate</u> <u>7/01/2008</u>	<u>Percent</u> <u>Change</u>
Raritan Basin System	\$ 231.00/mg	\$ 231.00/mg	-%
Manasquan Water Supply System			
Initial users	\$ 980.05/mg	\$ 884.11/mg	10.85%
Delayed water users	\$1,175.03/mg	\$1,079.80/mg	8.82%

The Authority's total operating revenue for fiscal year 2009 was \$25.5 million, a decrease of 1.38% over fiscal year 2008, due to a 4.18% decrease in Raritan water sales. The Authority's total operating expenses for fiscal year 2009 were \$20.9 million, an increase of .06% over fiscal year 2008, because of increases in salary & fringe benefits. The Authority's total operating revenue for fiscal year 2008 was \$25.8 million, an increase of 5.02% from fiscal year 2007. The Authority's total operating expenses for fiscal year 2008 were \$20.8 million, a decrease of 2.11% from fiscal year 2007. The following table summarizes the changes in revenue, expenses and net assets between fiscal years 2009, 2008 and 2007:



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

	2009	2008	2007	Percentage Change 2009-2008
Operating revenue:				
Water sales	\$22,975,438	\$23,466,842	\$ 22,508,685	(2.09)%
Reimbursement of operating expenses	2,512,417	2,377,166	2,100,466	5.69
Total operating revenue	<u>25,487,855</u>	<u>25,844,008</u>	<u>24,609,151</u>	(1.38)
Non-operating revenue:				
State of New Jersey-Grant Programs	293,485	1,548,680	741,038	(81.05)
Investment income	403,057	1,272,518	1,923,033	(68.33)
Rental income	67,352	69,605	66,021	(3.24)
Other income	31,297	1,951,025	1,217,822	(98.40)
Total non-operating revenue	<u>795,191</u>	<u>4,841,828</u>	<u>3,947,914</u>	(83.58)
Total revenue	<u>26,283,046</u>	<u>30,685,836</u>	<u>28,557,065</u>	(14.35)
Operating expenses:				
Payroll	7,134,275	6,842,649	6,780,804	4.26
Operations and maintenance	6,314,068	6,705,594	7,294,625	(5.84)
Fringe benefits	3,037,613	2,857,620	2,896,326	6.30
Depreciation	4,376,997	4,444,017	4,327,471	(1.51)
Total operating expenses	<u>20,862,953</u>	<u>20,849,880</u>	<u>21,299,226</u>	.06
Non-operating expenses:				
Interest component of debt service of the State of New Jersey	2,620,507	2,778,770	2,961,286	(5.70)
Amortization of issuance costs-D&R System Revenue Refunding Bonds, Series 1998	25,229	25,229	25,229	-
Amortization of issuance costs- Manasquan State Loan Notes	65,319	65,319	65,318	-
Reduction in costs to be recovered from future revenue	1,857,073	1,693,133	640,839	9.68
Total non-operating expenses	<u>4,568,128</u>	<u>4,562,451</u>	<u>3,692,672</u>	.12
Total expenses	<u>25,431,081</u>	<u>25,412,331</u>	<u>24,991,898</u>	.07
Change in net assets	851,965	5,273,505	3,565,167	(83.84)
Net assets, beginning of year	109,423,668	104,150,163	100,584,996	5.06
Net assets, end of year	<u>\$110,275,633</u>	<u>\$109,423,668</u>	<u>\$104,150,163</u>	.78




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**MANAGEMENT'S DISCUSSION AND ANALYSIS**


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Year Ended June 30, 2009

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

At June 30, 2009, the Authority had a total of \$147,744,318 invested in the Systems that it operates: \$84,387,967 invested in the Raritan Basin System and \$63,356,351 invested in the Manasquan System. This total amount represents a 2.33% increase from last year.

The following table summarizes the changes in capital assets, net of depreciation, between fiscal years 2009, 2008 and 2007:

	2009	2008	2007	Percentage Change 2009-2008
Land and land rights	\$21,025,293	\$19,527,858	\$ 15,168,002	7.67%
Dams	53,790,979	54,589,326	55,388,753	(1.46)
Building, structures and improvements	64,103,267	64,941,636	67,818,247	(1.29)
D&R canal dredging	-	-	-	-
Machinery and equipment	1,458,960	1,664,059	1,801,854	(12.33)
Construction work in progress	7,365,819	7,365,889	4,082,150	-
Total capital assets, net	<u>\$147,744,318</u>	<u>\$148,088,768</u>	<u>\$144,259,006</u>	(.23)

More detailed information about the Authority's capital assets is presented in Note 3 to the basic financial statements.

The following table summarizes the changes in capital debt between fiscal years 2009, 2008 and 2007:

	2009	2008	2007	Percentage Change 2009-2008
Bonds payable	\$54,751,978	\$59,088,203	\$ 63,248,673	(6.96)%
Notes payable	33,661,151	33,663,054	33,664,850	-
Loans payable	12,053,299	11,547,400	8,751,093	2.47
Total bonds, notes and loans payable	<u>\$100,466,428</u>	<u>\$104,298,657</u>	<u>\$105,664,616</u>	(3.67)

At year-end, the Authority had \$100,466,428 in bonds, notes and loans principal outstanding, compared to \$104,298,657 at June 30, 2008. This change represents a decrease of 3.67%, as shown in the above table.

More detailed information about the Authority's long-term debt is presented in Note 5 to the basic financial statements.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Year Ended June 30, 2009

CURRENT AND NEW BUSINESS

During fiscal year 2009, the Authority supplied water to 26 contractual customers of the Raritan Basin System, who, in turn, supplied water to approximately 1,300,000 people in central New Jersey. Two customers accounted for approximately 84% of total Raritan Basin System operating revenue. Effective July 1, 2009, there was the addition of Duke Farms (.017mgd), NJ Department of Corrections (.025mgd), and a decrease of Mercer County Park (Ski) (.033mgd), and Selody Sod Farms (.025mgd) for a decrease of (.016mgd) to the sales base. This will decrease the total sales base for the Raritan Basin System to 182.154mgd as of June 30, 2010, down from 182.170mgd at June 30, 2009. In addition, during fiscal year 2009, the Authority provided water to 13 contractual customers of the Manasquan Water Supply System, who provided water to approximately 250,000 people in the Monmouth County area. Three customers accounted for approximately 81% of total Manasquan System operating revenue. Effective July 1, 2009, the total sales base for the Manasquan Reservoir System remains unchanged at 20.560mgd.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the water customers, New Jersey citizens, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability as a self-supporting entity. If you have questions about this report or need additional financial information, you can contact the New Jersey Water Supply Authority at 1851 Highway 31, P.O. Box 5196, Clinton, New Jersey 08809, (908) 638-6121 or visit our website at [www.njwsa.org](http://www.njwsa.org).

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Statements of Net Assets

	June 30,	
	2009	2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$32,676,409	\$31,991,504
Unbilled sales	871,245	987,581
Accounts receivable, less allowance for doubtful accounts of \$1,000 at June 30, 2009 and 2008	3,414,158	4,766,576
Interest receivable	39,666	20,629
Prepaid expenses and other current assets	951,650	924,252
Costs to be recovered from future revenue	1,991,243	1,720,586
<b>Total current assets</b>	<b>39,944,371</b>	<b>40,411,128</b>
Non-current assets:		
Restricted assets:		
Cash equivalents	635,168	1,355,653
Investments	13,077,444	12,506,316
Investments	2,972,756	3,239,097
Costs to be recovered from future revenue	9,613,753	11,617,103
Deferred issuance costs	590,333	652,539
Capital assets, net	147,744,318	148,088,768
<b>Total non-current assets</b>	<b>174,633,772</b>	<b>177,459,476</b>
<b>Total assets</b>	<b>214,578,143</b>	<b>217,870,604</b>
<b>Liabilities</b>		
Current liabilities:		
Current portion of bonds, notes and loans payable	4,982,857	4,733,004
Accounts payable	486,111	415,593
Accrued liabilities	2,084,611	1,952,764
Unearned revenue	1,265,360	1,779,922
<b>Total current liabilities</b>	<b>8,818,939</b>	<b>8,881,283</b>
Non-current liabilities:		
Long-term portion of bonds, notes and loans payable	95,483,571	99,565,653
<b>Total liabilities</b>	<b>104,302,510</b>	<b>108,446,936</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	47,277,890	43,790,111
Restricted for repayment of debt principal and interest	12,447,252	12,082,047
Unrestricted	50,550,491	53,551,510
<b>Total net assets</b>	<b>\$110,275,633</b>	<b>\$109,423,668</b>

*See accompanying notes.*

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Statements of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30,	
	2009	2008
Operating revenue:		
Water sales	\$22,975,438	\$23,466,842
Reimbursement of operating expenses	2,512,417	2,377,166
Total operating revenue	25,487,855	25,844,008
Operating expenses:		
Payroll	7,134,275	6,842,649
Operations and maintenance	6,314,068	6,705,594
Fringe benefits	3,037,613	2,857,620
Depreciation	4,376,997	4,444,017
Total operating expenses	20,862,953	20,849,880
Income from operations	4,624,902	4,994,128
Non-operating revenue:		
State of New Jersey – Grant Programs	293,485	1,548,680
Investment income	403,057	1,272,518
Rental income	67,352	69,605
Other income	31,297	1,951,025
Total non-operating revenue	795,191	4,841,828
Non-operating expenses:		
Interest component of debt service to the State of New Jersey	2,620,507	2,778,770
Amortization of issuance costs – D & R System Revenue Refunding Bonds, Series 1998	25,229	25,229
Amortization of issuance costs – Manasquan State Loan Notes	65,319	65,319
Reduction in costs to be recovered from future revenue	1,857,073	1,693,133
Total non-operating expenses	4,568,128	4,562,451
Change in net assets	851,965	5,273,505
Net assets, beginning of year	109,423,668	104,150,163
Net assets, end of year	\$110,275,633	\$109,423,668

*See accompanying notes.*

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Statements of Cash Flows

	<b>Year Ended June 30.</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Cash received from water sales	\$22,856,374	\$23,702,635
Cash received from reimbursable expenses	2,510,132	4,279,729
Cash received from rental income	52,950	39,441
Cash paid to or on behalf of employees	(9,959,016)	(9,592,246)
Cash paid to suppliers	(6,520,862)	(6,703,828)
Net cash provided by operating activities	8,939,578	11,725,731
<b>Cash flows from noncapital financing activities</b>		
Cash received for grant programs	290,713	532,999
Net cash provided by noncapital financing activities	290,713	532,999
<b>Cash flows from capital and related financing activities</b>		
Proceeds from borrowing	1,012,000	3,160,563
Principal paid on bonds, notes and loans	(5,520,848)	(4,715,586)
Interest paid on bonds, notes and loans	(2,657,026)	(2,808,589)
Acquisition and construction of capital assets	(2,208,073)	(7,406,800)
Proceeds from sale of capital assets	28,843	17,951
Net cash used in capital and related financing activities	(9,345,104)	(11,752,461)
<b>Cash flows from investing activities</b>		
Sale of investment securities	12,601,813	9,456,047
Purchase of investment securities	(12,906,600)	(9,069,393)
Interest received on investments	384,020	1,259,087
Net cash provided by investing activities	79,233	1,645,741
Net (decrease) increase in cash and cash equivalents	(35,580)	2,152,010
Cash and cash equivalents, beginning of year	33,347,157	31,195,147
Cash and cash equivalents, end of year	\$33,311,577	\$33,347,157
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$4,624,902	\$4,994,128
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Non-cash items expensed to operations and maintenance	(236,221)	118,249
Cash received for operating activity included in other income	69,806	1,933,074
Depreciation	4,376,997	4,444,017
Increase (decrease) in cash from:		
Unbilled sales	116,336	(107,169)
Accounts receivable	(235,049)	316,769
Prepaid expenses and other current assets	(27,398)	37,193
Accounts payable	69,732	(76,684)
Accrued liabilities	(1,848)	562
Accrued payroll and taxes	182,321	65,592
Net cash provided by operating activities	\$8,939,578	\$11,725,731
<b>Non cash investing activities</b>		
Decrease in fair value of investments	\$ (211,937)	\$ (346,311)

*See accompanying notes.*

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Notes to Financial Statements

**1. Organization and Operations**

The New Jersey Water Supply Authority (the "Authority"), a Component Unit of the State of New Jersey (the "State"), consisting of the Spruce Run/Round Valley Reservoirs Complex, the Delaware and Raritan Canal Transmission Complex (the "Raritan Basin System") and the Manasquan Reservoir Water Supply System (the "Manasquan System"), is a public body, corporate and politic, constituted as an instrumentality of the State of New Jersey, exercising public and essential governmental functions. The Authority was created by the New Jersey Water Supply Authority Act (the "Act") on October 7, 1981, and in connection with the Act, all water supply facilities owned or operated by the State (i.e., Raritan Basin System) were transferred or leased to the Authority. The Act empowers the Authority to acquire, finance, construct and operate water systems and issue bonds. Members of the Authority consist of the Commissioner of the New Jersey Department of Environmental Protection ("NJDEP") (ex officio member) and six public members appointed by the Governor upon the advice and consent of the New Jersey Senate. The public members represent the agricultural community, industrial water users, residential water users, private watershed associations, public finance and water resource management and distribution. The Authority prepares an annual budget that is used to establish rates and as a management tool but the budget does not constitute a legal budget or establish spending limitations.

The Authority does not have component units that should be included within its financial statements.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The Authority derives most of its revenue from water user charges and is considered to be an enterprise fund; accordingly, the Authority presents its financial statements on the accrual basis of accounting. In addition, the Authority has established certain restricted "funds or accounts" as directed by internal resolution and bond indentures.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, the Authority follows the pronouncements of all applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Authority has elected not to apply pronouncements issued by FASB after November 30, 1989.

Other significant accounting policies are:

**Revenue**

Charges for wholesale water usage are established to provide revenue sufficient for services, essential repairs and improvements to the utility plant, and repayment of debt service on certain long-term obligations used for plant construction. Sales are recognized as revenue when water is made available to customers, and the customers are billed in the following month or quarter.

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The Authority distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses result from the sale of water to customers. Operating expenses include costs of providing water, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

**Capital Assets**

Capital assets are stated at original cost and consist primarily of amounts expended to license, construct, acquire, complete and place in operation the projects of the Authority. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such expenditures include labor, materials, services and indirect costs. Normal maintenance and repair costs are charged to operations and maintenance expense. Improvements and replacements are capitalized. Interest earned on long-term debt proceeds used for capital assets construction and temporarily invested during the construction period is netted against interest cost. The excess, if any, is capitalized to construction work in progress, and the portion related to completed projects is expensed. The cost of capital assets retired, net of any gain or loss on the disposal of such capital assets, is offset to accumulated depreciation.

**Depreciation**

Capital assets are depreciated on the straight-line basis over the estimated useful lives of the various classes of plant, as follows:

Dams	100 years
Buildings, structures and improvements	15-40 years
D&R canal dredging	20 years
Machinery and equipment	3-10 years

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Authority considers short-term investments that have original maturities of three months or less to be cash equivalents.

**Investments**

Short-term investments and restricted investments used for construction and payment of interest consist of money market funds and U.S. Government-backed securities with various interest rates. Restricted investments are restricted under the terms of the Authority's bond indentures for the payment of debt service. All investments are carried at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**Accounts Receivable**

The Authority considers most of its accounts receivable to be collectible; accordingly, the change in net assets is charged with an allowance for estimated uncollectible accounts based on past

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experience and an analysis of current accounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. At June 30, 2009, accounts receivable included amounts due from the New Jersey Environmental Infrastructure Trust for approximately \$650,000.

During fiscal years 2009 and 2008, respectively, two customers accounted for approximately 85% of total Raritan Basin System accounts receivable, and six customers accounted for approximately 88% of total Manasquan System accounts receivable.

### **Compensated Absences**

All full-time employees accumulate vacation benefits in varying annual amounts up to a maximum allowable accumulation of two years benefit. Unused sick leave benefits are earned by all full-time employees at a rate of 15 days per year and may be accumulated without limit. In the event of termination, an employee is reimbursed for all accumulated vacation days. Unused sick leave benefits do not vest but are payable only upon retirement to a maximum of \$15,000. A liability is accrued in the financial statements when incurred.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Income Taxes**

The Authority is exempt from federal income taxes under the Internal Revenue Code, Section 115, and from state income taxes under N.J.S.A. 27:25-16, and accordingly, no provision is recorded for federal and state income taxes.

### **Net Assets**

Net assets represent the difference between assets and liabilities and are classified into three categories:

- *Invested in Capital Assets, Net of Related Debt* – This reflects the net assets of the Authority that are invested in capital assets, net of related debt. This indicates that these net assets are not accessible for other purposes.
- *Restricted Net Assets* – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
- *Unrestricted Net Assets* – This represents those net assets that are available for general use.

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When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources, as they are needed.

**Costs to be Recovered from Future Revenue**

The Authority's cost recovery rate model used to establish rates, fees and charges includes an amount for debt principal repayment (but not for depreciation on the related debt financed assets) and also includes vacation amounts paid. In accordance with FASB Statement No. 71, the Authority has deferred the excess of current depreciation on assets financed with debt proceeds over the costs for debt principal repayment and the excess of vacation expense over vacation paid. The deferred costs will be recovered through future revenue in accordance with the rate model. The deferred amount for the years ended June 30, 2009 and 2008, were determined as follows:

	2009	2008
<b>Raritan Basin System</b>		
Cost excluded from rate model:		
Depreciation of debt-financed capital assets recoverable from rate payers	\$961,601	\$1,042,138
Excess vacation expense over vacation paid	(16,636)	5,948
	944,965	1,048,086
Cost included in rate model:		
Debt principal repayment	(2,020,000)	(1,925,000)
	(1,075,035)	(876,914)
<b>Manasquan System</b>		
Cost excluded from rate model:		
Depreciation of debt-financed capital assets recoverable from rate payers	1,544,717	1,547,516
Excess vacation expense over vacation paid	4,528	(6,113)
	1,549,245	1,541,403
Cost included in rate model:		
Debt principal repayment	(2,206,903)	(2,136,796)
	(657,658)	(595,393)
Total Raritan Basin and Manasquan	(1,732,693)	(1,472,307)
Balance, beginning of year	13,337,689	14,809,996
Balance, end of year	\$11,604,996	\$13,337,689

As shown in the statements of revenue, expenses and changes in net assets for the years ended June 30, 2009 and 2008, respectively, the costs to be recovered from future revenue of \$1,857,073 and \$1,693,133 includes a debit balance of \$136,488, and a debit balance of \$220,991 of Manasquan Water Treatment Plant deferred revenue, which is not part of the rate model, and does not include a debit balance of \$12,108, and \$165 of accrued vacation.

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**Accounting for Monmouth County Improvement Authority Agreement**

The Authority operates and maintains a Water Treatment Plant/Transmission System for the Monmouth County Improvement Authority (the "MCIA"). The MCIA is charged for budgeted operating expenses expected to be incurred by the Authority during the MCIA's fiscal year (January 1 through December 31).

Because of the difference resulting from billing the MCIA for budgeted expenses versus actual expenses appearing in the financial statements, the Authority includes unearned costs (actual costs exceeding MCIA billings) or unearned revenue (MCIA billings exceeding actual costs) in its statements of net assets. These excess costs or billings will be recovered or recognized in future periods. As of June 30, 2009 and 2008, unearned revenue amounting to \$765,065 and \$628,577, respectively, was determined as follows:

	2009	2008
Reimbursement of operating expenses	\$2,523,284	\$2,421,507
Operating expenses	2,386,796	2,200,516
Unearned revenue	136,488	220,991
Balance, beginning of year	628,577	407,586
Balance, end of year	\$ 765,065	\$ 628,577

During the fiscal years ended June 30, 2006 and 2005, the Authority received \$39,966 and \$191,877, respectively. These funds are restricted for use by the MCIA for costs associated in operating the Water Treatment Plant. As of June 30, 2009 and 2008, the amount included in unearned revenue was \$498,296 and \$1,146,574, respectively.

**Accounting for Watershed Protection Program**

For the fiscal years ended June 30, 2009 and 2008, the Authority received \$290,673 and \$360,253, respectively, from the New Jersey Department of Environmental Protection for the costs associated with various watershed protection studies of the Raritan Basin System. These funds are restricted to uses specifically identified in grant agreements between the Authority and NJDEP and will be recognized as revenue as the related costs are incurred. Eligible project expenses include, but are not limited to, the cost of mapping out streams and other water sources and studying and implementing best land use practices to improve water quality. As of June 30, 2009 and 2008, the balance of restricted cash equivalents and unearned revenue is \$1,999 and \$4,771, respectively.

**Accounting for No Name Dam No. 31 Fund**

During fiscal years ended June 30, 2008, 2007 and 2002, the Authority received \$150,000 from Clinton Township, and \$800,000 and \$430,000 from the New Jersey Department of Environmental Protection, respectively, for the costs associated with bringing the No Name Dam No. 31 into compliance with the requirements of the New Jersey Dam Safety Standards.

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These funds are restricted for specific engineering and construction expenses. The funds were recognized as revenue as the related costs were incurred. As of June 30, 2008, all of the funds received had been recognized as revenue.

**Other Post Employment Benefits ("OPEB") Other than Pensions**

On July 1, 2007, the Authority implemented Governmental Accounting Standards Board Statement ("GASB") Number 45, which covers accounting and financial reporting requirements for government employers, which provide Post employment benefits other than, pensions. Since the Authority participates in a multiple-employer cost-sharing plan (Public Employees' Retirement System), the Authority's portion of this liability and cost is calculated and recorded at the State of New Jersey level and included in the State's Comprehensive Annual Financial Report. The Authority records OPEB expense based on billings from the State PERS. Required financial statement disclosure requirements are included in Note 6 of these audited financial statements.

**3. Capital Assets**

Capital assets activity for the years ended June 30, 2009 and 2008, was as follows:

	<b>2009 Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>2009 Ending Balance</b>
Capital assets not being depreciated:				
Land	\$19,527,858	\$1,497,435	\$ -	\$21,025,293
Construction work in progress	7,365,889	2,570,382	(2,570,452)	7,365,819
Total capital assets not being depreciated	<u>26,893,747</u>	<u>4,067,817</u>	<u>(2,570,452)</u>	<u>28,391,112</u>
Capital assets being depreciated:				
Dams	77,369,160	-	-	77,369,160
Building, structures and improvements	121,311,950	2,313,350	(37,033)	123,588,267
D & R canal dredging	21,160,274	-	-	21,160,274
Machinery and equipment	5,897,239	234,489	(241,902)	5,889,826
Total capital assets being depreciated	<u>225,738,623</u>	<u>2,547,839</u>	<u>(278,935)</u>	<u>228,007,527</u>
Less accumulated depreciation for:				
Dams	(22,779,834)	(798,347)	-	(23,578,181)
Building, structures and improvements	(56,370,315)	(3,151,718)	37,033	(59,485,000)
D & R canal dredging	(21,160,273)	-	-	(21,160,273)
Machinery and equipment	(4,233,180)	(426,932)	229,245	(4,430,867)
Total accumulated depreciation	<u>(104,543,602)</u>	<u>(4,376,997)</u>	<u>266,278</u>	<u>(108,654,321)</u>
Total capital assets, being depreciated, net	<u>121,195,021</u>	<u>(1,829,158)</u>	<u>(12,657)</u>	<u>119,353,206</u>
Total capital assets, net	<u>\$148,088,768</u>	<u>\$2,238,659</u>	<u>\$(2,583,109)</u>	<u>\$147,744,318</u>

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	<b>2008 Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>2008 Ending Balance</b>
Capital assets not being depreciated:				
Land	\$15,168,002	\$4,359,856	\$ -	\$19,527,858
Construction work in progress	4,082,150	3,722,120	(438,381)	7,365,889
Total capital assets not being depreciated	19,250,152	8,081,976	(438,381)	26,893,747
Capital assets being depreciated:				
Dams	77,369,160	-	-	77,369,160
Building, structures and improvements	120,975,501	338,630	(2,181)	121,311,950
D & R canal dredging	21,160,274	-	-	21,160,274
Machinery and equipment	5,946,436	291,554	(340,751)	5,897,239
Total capital assets being depreciated	225,451,371	630,184	(342,932)	225,738,623
Less accumulated depreciation for:				
Dams	(21,980,408)	(799,426)	-	(22,779,834)
Building, structures and improvements	(53,157,254)	(3,215,242)	2,181	(56,370,315)
D & R canal dredging	(21,160,273)	-	-	(21,160,273)
Machinery and equipment	(4,144,582)	(429,349)	340,751	(4,233,180)
Total accumulated depreciation	(100,442,517)	(4,444,017)	342,932	(104,543,602)
Total capital assets, being depreciated, net	125,008,854	(3,817,565)	-	121,195,021
Total capital assets, net	\$144,259,006	\$4,268,143	\$(438,381)	\$148,088,768

#### 4. Cash and Investments

New Jersey statutes permit the deposit of public funds in the State of New Jersey Cash Management Fund or in institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation (the "FDIC") or by any other agencies of the United States that insure deposits. All funds of the Authority may be invested in obligations of, or guaranteed by, the United States Government.

The Authority's bond resolutions limit the investment of restricted assets to obligations of the U.S. Government or its agencies, investments in certain certificates of deposit of commercial banks that are members of the Federal Reserve System, investments in the State of New Jersey Cash Management Fund and direct and general obligations of any state that meets the minimum requirements of the resolution.

##### a. Cash

As of June 30, 2009 and 2008, the Authority's bank balance was \$2,549,189 and \$2,062,908 respectively, of which \$250,000 and \$100,000 was covered through the FDIC. The remaining balance of \$2,299,189 and \$1,962,908, as of June 30, 2009 and 2008, respectively, was not collateralized, and the cash balance per the statement of net assets is shown exclusive of outstanding checks totaling \$283,140 and \$233,298, respectively. The statements of net assets amount includes petty cash totaling \$350 as of June 30, 2009 and 2008.

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b. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. The Authority's bank balance of \$2,549,189 and \$2,062,908 as of June 30, 2009 and 2008, respectively, was exposed to custodial credit risk as follows:

	<u>2009</u>	<u>2008</u>
Uninsured and uncollateralized	<u>\$2,299,189</u>	<u>\$1,962,908</u>

c. Investments and Cash Equivalents

The Authority does not have a policy to limit interest rate risk; however, its practice is to hold investments to maturity.

As of June 30, 2009, the Authority had the following investments and maturities:

Investment and Cash Equivalent Type	Fair Value	<u>Investment Maturities (In Years)</u>	
		Less Than 1	1-5
U.S. Treasuries	\$44,122,622	\$44,122,622	\$ -
U.S. Treasury Note	3,012,422	-	3,012,422
Total	\$47,135,044	\$44,122,622	\$3,012,422

As of June 30, 2008, the Authority had the following investments and maturities:

Investment and Cash Equivalent Type	Fair Value	<u>Investment Maturities (In Years)</u>	
		Less Than 1	1-5
U.S. Treasuries	\$44,023,513	\$44,023,513	\$ -
U.S. Agencies (SLM Corp)	3,259,726	-	3,259,726
Total	\$47,283,239	\$44,023,513	\$3,259,726

**Credit and Custodial Credit Risk**

In order to limit exposure to credit risk, the Authority follows the investment policies set forth by the State of New Jersey Cash Management Fund (NJCMF). These policies allow investment in securities that achieve a certain rating from the three major ratings organizations as determined annually by the governing board of the NJCMF, as well as limiting investments to certain types of marketable securities.

U.S. Treasury notes are explicitly guaranteed by the U.S. government and are not subject to credit risk or custodial credit risk.

The New Jersey Water Supply Authority as of June 30, 2009, has entered into an agreement with TD Bank to collateralize all deposits held at TD Bank at a market rate equal to 102% of the daily combined total of all deposits.

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d. Investment Income

The following comprises investment income of \$403,057 and \$1,272,518 for the years ended June 30, 2009 and 2008, respectively:

	2009	2008
Interest earned on bank accounts and certificates of deposit	\$457,240	\$1,288,789
Interest earned on securities	157,754	330,040
Decrease in fair value of securities	(211,937)	(346,311)
	\$403,057	\$1,272,518

**5. Bonds, Notes and Loans Payable**

A. Notes due to State of New Jersey

The Authority has a contractual obligation to repay the following debt:

The \$63,600,000 of Manasquan Reservoir Water Supply System State Loan Notes (the "State Loan Notes") issued June 3, 1987, pursuant to the terms of the State Loan Agreement between the Authority and the State of New Jersey (the "State Loan Agreement"), from monies authorized by the 1981 bond appropriation of \$72,000,000 for construction of the Manasquan System and the \$7,416,000 of Interim Advance Notes issued September 12, 1988, from monies made available from the General Fund of the State to finance completion costs of the Manasquan System. The State Loan Notes and the Completion Loan Notes bear interest at 5.93% and 6.24%, respectively, and are collateralized by the property and revenues of the Manasquan System.

In accordance with the terms of the State Loan Agreement, the State Loan Notes are classified as either Current Debt Service Portion Notes ("Current Notes") or Deferred Debt Service Portion Notes ("Deferred Notes"). Principal of the Deferred Notes will be discharged solely by exchange for Current Notes or by the expiration of a period of forty years from the date of their issuance, which was June 3, 1987. The Deferred Notes must be exchanged for Current Notes on a pro rata basis to the extent that the Authority enters into additional long-term contracts to sell water from the Manasquan System on an annual basis. Such Current Notes are payable over a thirty-year period commencing from such date as is defined in the State Loan.

Interest on the Deferred Notes accreted as principal through July 31, 1993, and is not payable until they have been exchanged for Current Notes. The interest that accreted as principal through July 31, 1990, accrued interest; however, the interest that accreted for the period from August 1, 1990 through July 31, 1993, did not accrue interest. The accretion of interest to the principal amount for the Current Notes and the Deferred Notes is \$25,563,184 at June 30, 2009 and 2008.

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At June 30, 2009 and 2008, the State Loan Notes and Completion Notes are summarized as follows:

<b>State Loan Notes</b>	2009	2008
Current Notes	\$ 83,418	\$ 85,249
Deferred Notes	30,365,115	30,365,115
<b>Completion Notes</b>		
Current Notes	8,825	9,011
Deferred Notes	3,201,777	3,201,777
	<u>\$33,659,135</u>	<u>\$33,661,152</u>

**B. Manasquan Reservoir Water Supply System Revenue Bonds, Series 2005**

On August 5, 2005, the Authority issued \$47,535,000 in Manasquan Reservoir Water Supply System Revenue Bonds, Series 2005. The proceeds, together with other monies on deposit, were used to prepay \$49,293,438 in Current Manasquan State Loan Notes and Completion Notes.

The Revenue Bonds, Series 2005, have a principal balance of \$41,125,000 at June 30, 2009, carry a bond yield of 3.95%, and mature in incremental annual principal amounts through 2031. Principal maturities for the year ending June 30, 2010, are \$2,270,000. The property and revenue of the Manasquan System are pledged as collateral for the 2005 Bonds.

The balance of the defeased current Manasquan State Loan Notes and Completion Notes is \$0.

For the years ended June 30, 2009 and 2008, interest expense on the 2005 Bonds amounted to \$1,970,441 and \$2,038,297, respectively, and the related interest income earned on the restricted investments amounted to \$20,635 and \$80,286, respectively.

**C. D & R System Revenue Refunding Bonds, Series 1998**

On August 4, 1998, the Authority issued Water System Revenue Refunding Bonds, Series 1998 (the "Refunding Bonds") in the amount of \$28,290,000. The Refunding Bonds are serial bonds of which \$11,765,000 are outstanding at June 30, 2009, and that bear interest at varying rates from 4.5% to 5.375% and mature in incremental annual principal amounts through 2013. Principal maturities for the year ending June 30, 2010, are \$2,125,000. The Refunding Bonds maturing on or after November 1, 2009, are subject to redemption prior to their stated maturity dates at the option of the Authority on or after November 1, 2008. The property and revenue of the Raritan System are pledged as collateral for the Refunding Bonds.

The balance of the defeased 1988 Delaware and Raritan System Revenue Bonds is \$0.

For the years ended June 30, 2009 and 2008, interest expense on the Refunding Bonds amounted to \$682,738 and \$786,294, respectively, and the related interest income earned on the restricted investments amounted to \$22,663 and \$123,014, respectively.

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The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$6,029,573. The difference is reported with bonds payable on the statements of net assets and is being charged to operations using a method that approximates the effective interest method over the shorter of the remaining life of the old debt or the life of the new debt. The economic gain is a net present value debt savings of \$4,207,590.

D. New Jersey Environmental Infrastructure Financing Program ("NJEIFP")

The New Jersey Water Supply Authority, a Component Unit of the State of New Jersey, obtained loans from the New Jersey Environmental Infrastructure Trust (the "Trust") for the acquisition of source water watershed properties critical to the Raritan Basin System. Under the NJEIFP, the borrowers benefit from a loan formula under which participants borrow a percentage of the cost from the State Revolving Fund maintained by the NJ Department of Environmental Protection at zero interest and the remaining percentage from the Trust at the same interest rate the Trust pays on its bonds. Under the State's Smart Growth Initiative, the interest rate is equivalent to 25 percent of the lowest available rate. Each NJEIFP loan carries a 20-year life, property and revenue of the Raritan Basin System are pledged as collateral for the loans.

The following table summarizes the NJEIFP loans outstanding as of June 30, 2009:

NJEIFP Series	Date of Issuance	State Revolving Fund Principal	Percent	Trust Principal	Percent	Blended Interest Rate	Outstanding Principal	Maturity
2003A	11/06/2003	\$627,019	75%	\$235,000	25%	1.194%	\$659,994	8/1/2023
2004A	11/04/2004	1,030,000	75%	350,000	25%	1.310%	1,150,756	8/1/2024
2005A	11/10/2005	2,940,974	75%	1,050,000	25%	1.251%	3,502,054	8/1/2025
2006A	11/09/2006	2,099,363	75%	745,000	25%	1.260%	2,634,585	8/1/2026
2007A	11/08/2007	1,740,563	75%	620,000	25%	1.055%	2,293,910	8/1/2027
2008A	11/06/2008	1,152,000	64%	660,000	36%	1.740%	1,812,000	8/1/2028
<b>Total</b>		<b><u>\$9,589,919</u></b>		<b><u>\$3,660,000</u></b>			<b><u>\$12,053,299</u></b>	

The following table summarizes the changes in bonds, notes and loans payable between fiscal years 2009 and 2008:

	Fiscal Year 2008	Less Payments, Net of Amortization	Debt Issued	Fiscal Year 2009	Due Within One Year
Bonds payable	\$59,088,203	\$4,336,225	\$ -	\$54,751,978	\$4,395,000
Notes payable	33,663,054	1,903	-	33,661,151	2,016
Loans payable	11,547,400	506,101	1,012,000	12,053,299	585,841
<b>Total</b>	<b>\$104,298,657</b>	<b>\$4,844,229</b>	<b>\$ 1,012,000</b>	<b>\$100,466,428</b>	<b>\$4,982,857</b>

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Principal and interest on aggregate maturities and bonds, notes and loans, net of unamortized issuance cost and unamortized deferral, are as follows:

Year Ending June 30,	Raritan Basin System	Notes Payable Manasquan System	Delaware & Raritan 1998 Water Revenue Refunding Bonds	Manasquan System Revenue Bonds Series 2005	Totals
2010	\$ 754,924	\$ 7,574	\$ 2,698,931	\$ 4,170,560	\$ 7,631,989
2011	785,995	7,570	2,688,218	4,172,817	7,654,600
2012	781,456	7,566	2,680,266	4,171,688	7,640,976
2013	772,360	7,562	2,670,997	4,166,125	7,617,044
2014	753,205	7,558	2,669,875	4,171,500	7,602,138
2015-2019	3,852,764	37,716	-	20,837,500	24,727,980
2020-2024	3,880,683	37,565	-	10,498,375	14,416,623
2025-2029	2,125,886	37,362	-	3,591,500	5,754,748
2030-2034	-	22,292	-	2,137,125	2,159,417
Deferred Portion	-	33,566,892	-	-	33,566,892
Subtotal	13,707,273	33,739,657	13,408,287	57,917,190	118,772,407
Less amounts representing interest Unamortized deferral amount	1,653,974	78,506	1,643,287	16,792,190	20,167,957
Plus unamortized bond premium	-	-	170,628	399,574	570,202
Subtotal	-	-	237,843	2,194,337	2,432,180
Subtotal	12,053,299	33,661,151	11,832,215	42,919,763	100,466,428
Less:					
Current principal portion	585,841	2,016	2,125,000	2,270,000	4,982,857
Total	\$11,467,458	\$33,659,135	\$9,707,215	\$40,649,763	\$95,483,571

## 6. Employee Benefits

### Pension and Retirement Plans

Full-time employees of the Authority are covered by the Public Employees' Retirement System of the State of New Jersey ("PERS"). The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of PERS and charges employers annually for their respective contributions. PERS provides retirement and disability benefits, annual cost of living adjustments and benefits to plan members and beneficiaries. PERS is a cost-sharing, multiple-employer defined benefit plan and, as such, does not maintain separate records for each employer

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Notes to Financial Statements (continued)

in the state; therefore, the actuarial data for the Authority is not available. The Division of Pensions issues a publicly available financial report for PERS, including financial statements and required supplementary information. Please refer to State website [www.state.nj.us](http://www.state.nj.us) for more information regarding the plan. The PERS financial report may be obtained by writing to the State of New Jersey, Department of The Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

As a condition of employment, all Authority full-time employees are required to be members of PERS. A member may retire on a service retirement allowance as early as age 60; no minimum service is required. The formula for benefits is an annual allowance in the amount equal to years of service, divided by 55, times the final average salary. For a few employees hired after July 1, 2008, the formula changes and years of service is divided by 62, times the final average salary. Final average salary means the average of the salaries received by the member for the last three years of creditable membership service preceding retirement or the highest three fiscal years of membership service, whichever provides the largest benefit. Pension benefits fully vest on reaching 10 years of service. Vested employees who have established 25 years or more of creditable service may retire without penalty at or after age 55 and receive full retirement benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

Covered Authority employees are required by PERS to contribute 5.5% of their salaries. State statute requires the Authority to contribute the remaining amounts necessary to pay benefits when due. The amount of the Authority's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest.

The payroll for employees covered by PERS for the years ended June 30, 2009, 2008 and 2007, was \$6,895,114, \$6,620,758 and \$6,561,709, respectively. The Authority's total payroll for the years ended June 30, 2009, 2008 and 2007, was \$7,152,187, \$6,873,868 and \$6,828,440, respectively. The actuarial contribution requirements and the contributions made for the years ended June 30, 2009, 2008 and 2007, were \$953,625, \$881,519 and \$707,230, respectively, which consisted of \$572,225, \$520,205 and \$379,630 from the Authority and \$381,400, \$361,314 and \$327,600 from the employees, respectively. The employer and employee contributions represented 8.29% and 5.53% of covered payroll for the year ended June 30, 2009, 7.86% and 5.46% of covered payroll for the year ended June 30, 2008, and 5.78% and 4.99% of covered payroll for the year ended June 30, 2007, respectively. Contributions were made in accordance with the actuarial funding requirement.

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Notes to Financial Statements (continued)

**Post-Retirement Health Care Benefits**

The Authority provides continued health care benefits to employees retiring after twenty-five years of service and their eligible dependents. Benefits, contributions, funding and the manner of administration are determined by the State Legislature. The Authority's portion of this liability and cost will be included in the State of New Jersey comprehensive annual financial report on an annual basis. As such the liability for Authority employees is covered under the State plan. The Division of Pensions within the New Jersey Treasury Department administers the funds. Monthly, the Division of Pensions charges the Authority for its contribution. The total number of employees receiving benefits was 38, 38 and 36 at June 30, 2009, 2008 and 2007, respectively. Total cost for these post-retirement benefits, included in fringe benefits, approximated \$408,978, \$397,626 and \$387,756 for the years ended June 30, 2009, 2008 and 2007, respectively.

**7. Major Water Customers**

During fiscal years 2009 and 2008, the Authority supplied water to approximately 26 customers of the Raritan Basin System and 13 customers of the Manasquan System.

During fiscal years 2009 and 2008, two customers accounted for approximately 84% of total Raritan Basin System operating revenue. Three customers accounted for approximately 81% of total Manasquan System operating revenue.

**8. Risk Management**

The Authority carries insurance for all of its facilities, covering direct physical loss or damage and loss of revenue resulting therefrom, with such deductibles as it deems appropriate. The Authority also carries General and Umbrella Public Liability Insurance with such self-insured retainers as it deems appropriate. Automotive and Public Officials Liability coverage is also maintained with deductibles. Workers' Compensation coverage is also maintained, as required by State law. Settled claims resulting from the aforementioned risks have not exceeded insurance coverage in any of the past three fiscal years.

**9. Contingencies**

The Authority is party to various legal actions and disputes. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the results of operations or the financial position of the Authority.

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Notes to Financial Statements (continued)

**10. New Pronouncements**

GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" requires that intangible assets be classified as capital assets. The standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software and water rights. The standard requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable, and establishes specific guidance for the amortization of intangible assets.

The Authority is required to implement GASB Statement No. 51 for the year ending June 30, 2010.

**11. Information by Business Segment**

The Authority issued revenue bonds to finance the construction of various capital assets, including the construction of the reservoir systems for both the Manasquan and Raritan Basin Systems. Each of these Systems must provide sufficient revenue each year to cover its own operating expenses and debt service. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for the operating segments are presented below:

	<b>June 30, 2009</b>	
	<b>Raritan Basin System</b>	<b>Manasquan Water Supply System</b>
<b>Condensed statement of net assets</b>		
Assets:		
Current assets	\$ 31,216,229	\$ 8,728,142
Restricted assets	5,819,988	7,892,624
Capital assets	84,387,967	63,356,351
Other non-current assets	(7,365,456)	20,542,298
<b>Total assets</b>	<b>114,058,728</b>	<b>100,519,415</b>
Liabilities:		
Current liabilities	4,081,152	4,737,787
Non-current liabilities	21,174,673	74,308,898
<b>Total liabilities</b>	<b>25,255,825</b>	<b>79,046,685</b>
Net assets:		
Invested in capital assets, net of related debt	60,502,453	(13,224,563)
Restricted	5,817,989	6,629,263
Unrestricted	22,608,249	27,942,242
<b>Total net assets</b>	<b>\$ 88,928,691</b>	<b>\$ 21,346,942</b>

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Notes to Financial Statements (continued)

	<b>June 30, 2009</b>	
	<b>Raritan Basin System</b>	<b>Manasquan Water Supply System</b>
<b>Condensed statement of revenue, expenses and changes in net assets</b>		
Total operating revenue	\$16,014,972	\$ 6,960,466
Operating expenses	11,584,061	2,515,099
Depreciation	2,718,657	1,658,340
Operating income	1,712,254	2,787,027
Non-operating revenue	518,897	265,427
Non-operating expense	1,914,191	2,517,449
Change in net assets	316,960	535,005
Net assets, beginning of year	88,611,731	20,811,937
Net assets, end of year	\$88,928,691	\$21,346,942
<b>Condensed statement of cash flows</b>		
Net cash provided by (used in):		
Operating activities	\$ 4,704,600	\$ 4,234,978
Non-capital financing activities	290,713	-
Capital and related financing activities	(4,241,514)	(5,103,590)
Investing activities	(72,250)	151,483
Net increase (decrease) in cash and cash equivalents	681,549	(717,129)
Beginning cash and cash equivalent balances	26,037,502	7,309,655
Ending cash and cash equivalent balances	\$26,719,051	\$ 6,592,526

## Supplemental Information

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Combining Schedule of Net Assets

June 30, 2009

	Raritan Basin System	Manasquan Reservoir System	Elimination Entries	Combined Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$26,726,235	\$5,950,174	\$ -	\$ 32,676,409
Unbilled sales	871,245	-	-	871,245
Accounts receivable, less allowance for doubtful accounts of \$1,000	1,757,724	1,782,222	(125,788)	3,414,158
Interest receivable	31,072	8,594	-	39,666
Prepaid expenses and other current assets	694,307	257,343	-	951,650
Costs to be recovered from future revenue	1,261,434	729,809	-	1,991,243
<b>Total current assets</b>	<b>31,342,017</b>	<b>8,728,142</b>	<b>(125,788)</b>	<b>39,944,371</b>
Non-current assets:				
Restricted assets:				
Cash equivalents	1,999	633,169	-	635,168
Investments	5,817,989	7,259,455	-	13,077,444
Investments	2,328,660	644,096	-	2,972,756
Costs to be recovered from future revenue	(9,803,604)	19,417,357	-	9,613,753
Deferred issuance costs	109,488	480,845	-	590,333
Capital assets, net of accumulated depreciation of \$108,654,321	84,387,967	63,356,351	-	147,744,318
<b>Total non-current assets</b>	<b>82,842,499</b>	<b>91,791,273</b>	<b>-</b>	<b>174,633,772</b>
<b>Total assets</b>	<b>114,184,516</b>	<b>100,519,415</b>	<b>(125,788)</b>	<b>214,578,143</b>
<b>Liabilities</b>				
Current liabilities:				
Current portion of bonds, notes and loans payable	2,710,841	2,272,016	-	4,982,857
Accounts payable	308,740	303,159	(125,788)	486,111
Accrued liabilities	1,059,572	1,025,039	-	2,084,611
Unearned revenue	1,999	1,263,361	-	1,265,360
<b>Total current liabilities</b>	<b>4,081,152</b>	<b>4,863,575</b>	<b>(125,788)</b>	<b>8,818,939</b>
Non-current liabilities:				
Long-term portion of bonds, notes and loans payable	21,174,673	74,308,898	-	95,483,571
<b>Total liabilities</b>	<b>25,255,825</b>	<b>79,172,473</b>	<b>(125,788)</b>	<b>104,302,510</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	60,502,453	(13,224,563)	-	47,277,890
Restricted	5,817,989	6,629,263	-	12,447,252
Unrestricted	22,608,249	27,942,242	-	50,550,491
<b>Total net assets</b>	<b>\$88,928,691</b>	<b>\$21,346,942</b>	<b>\$ -</b>	<b>\$110,275,633</b>

New Jersey Water Supply Authority  
A Component Unit of the State of New Jersey  
Combining Schedule of Revenue, Expenses  
and Changes in Net Assets

Year Ended June 30, 2009

	Raritan Basin System	Manasquan Reservoir System	Manasquan Water Treatment Plant	Combined Total
Operating revenue:				
Water sales	\$16,014,972	\$ 6,960,466	\$ -	\$ 22,975,438
Reimbursement of operating expenses	-	-	2,512,417	2,512,417
Total operating revenue	<u>16,014,972</u>	<u>6,960,466</u>	<u>2,512,417</u>	<u>25,487,855</u>
Operating expenses:				
Payroll	5,626,124	722,942	785,209	7,134,275
Operations and maintenance (direct)	4,074,911	944,111	1,142,960	6,161,982
Operations and maintenance (general and administrative)	-	87,034	65,052	152,086
Fringe benefits	2,432,326	291,312	313,975	3,037,613
Headquarters overhead	(549,300)	469,700	79,600	-
Depreciation	2,718,657	1,658,340	-	4,376,997
Total operating expenses	<u>14,302,718</u>	<u>4,173,439</u>	<u>2,386,796</u>	<u>20,862,953</u>
Income from operations	<u>1,712,254</u>	<u>2,787,027</u>	<u>125,621</u>	<u>4,624,902</u>
Non-operating revenue:				
State of New Jersey – Grant Programs	293,485	-	-	293,485
Investment income	129,245	262,945	10,867	403,057
Rental income	67,352	-	-	67,352
Other income	28,815	2,482	-	31,297
Total non-operating revenue	<u>518,897</u>	<u>265,427</u>	<u>10,867</u>	<u>795,191</u>
Non-operating expenses:				
Interest component of debt service to the State of New Jersey	830,563	1,789,944	-	2,620,507
Amortization of issuance costs - D&R System Revenue Refunding Bonds, Series 1998	25,229	-	-	25,229
Amortization of issuance costs - Manasquan State Loan Notes	-	65,319	-	65,319
Costs to be recovered from future revenue	1,058,399	662,186	136,488	1,857,073
Total non-operating expenses	<u>1,914,191</u>	<u>2,517,449</u>	<u>136,488</u>	<u>4,568,128</u>
Change in net assets	316,960	535,005	-	851,965
Net assets, beginning of year	88,611,731	20,811,937	-	109,423,668
Net assets, end of year	<u>\$88,928,691</u>	<u>\$21,346,942</u>	<u>\$ -</u>	<u>\$110,275,633</u>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Raritan Basin System**  
**Year Ended June 30, 2009**

	Operating Fund				
	Revenue Fund	Operating Account	Payroll Account	Operating Fund	Reserve for O&M
Cash and investments - July 1, 2008	\$212,832	\$1,036,505	\$20,000	\$123,394	\$5,043,388
<b>Cash receipts:</b>					
Water sales operations and maintenance	9,486,347	-	-	-	-
Water sales debt service	2,718,219	-	-	-	-
Water sales capital fund	2,201,056	-	-	-	-
Water sales source water protection fund	1,000,479	-	-	-	-
Water sales overdrafts	777,305	-	-	-	-
Rental income	53,412	-	-	-	-
Manasquan reservoir support	-	-	-	-	68,290
Headquarters overhead	-	-	-	554,300	-
Disposition of property	-	-	-	-	-
Recycling revenue	-	-	-	-	-
Nonrefundable bid deposits	-	-	-	-	-
Insurance reimbursement	-	-	-	-	-
Miscellaneous expense reimbursement	652	-	-	-	503,554
<b>Transfers:</b>					
Contributions from operating fund	-	7,461,259	3,443,633	(17,441,637)	5,888
Contributions to operating fund	-	-	-	2,776,630	-
Transfers for operations	(16,178,196)	(100)	-	16,178,296	-
Transfers for investments	-	-	-	-	-
Distribution from reserves to operations	-	2,508,813	-	-	(2,379,987)
Investment income	-	-	-	14,408	62,817
Per resolution, Section 603:					
Investment income, transfer from	127,306	-	-	(13,452)	(63,848)
Investment income, transfer to	(127,306)	-	-	-	99,456
Unrealized loss on fair value	-	-	-	-	195,572
<b>Total cash receipts</b>	<b>59,274</b>	<b>9,969,972</b>	<b>3,443,633</b>	<b>2,068,545</b>	<b>(1,508,258)</b>
<b>Total available cash and investments</b>	<b>\$272,106</b>	<b>\$11,006,477</b>	<b>\$3,463,633</b>	<b>\$2,191,939</b>	<b>\$3,535,130</b>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Raritan Basin System (continued)**  
Year Ended June 30, 2009

<u>Self-Insurance Reserve</u>	<u>Depreciation Reserve</u>	<u>Pumping Reserve</u>	<u>Capital Improvements Investments II</u>	<u>Watershed Management Fund</u>	<u>Source Water Protection Fund</u>	<u>Subtotal</u>
\$771,840	\$3,562,164	\$529,892	\$6,111,685	\$4,771	\$2,398,141	\$19,814,612
-	-	-	-	-	-	9,486,347
-	-	-	-	-	-	2,718,219
-	-	-	-	-	-	2,201,056
-	-	-	-	-	-	1,000,479
-	-	-	-	-	-	777,305
-	-	-	-	-	-	53,412
-	-	-	-	-	-	68,290
-	-	-	-	-	-	554,300
-	21,820	-	-	-	-	21,820
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	2,360,954	2,865,160
2,217	50,000	150,000	-	-	258,006	(6,070,634)
-	-	(216,452)	-	(2,813)	(169,961)	2,387,404
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	(72,005)	-	-	-	-	56,821
16,501	37,653	5,579	59,000	41	24,632	220,631
-	-	-	-	-	-	-
(16,500)	(5,447)	-	-	-	-	28,059
-	5,447	-	-	-	-	(22,403)
97,014	25,347	-	-	-	-	317,933
99,232	62,815	(60,873)	59,000	(2,772)	2,473,631	16,664,199
\$871,072	\$3,624,979	\$469,019	\$6,170,685	\$1,999	\$4,871,772	\$36,478,811

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Raritan Basin System (continued)**  
**Year Ended June 30, 2009**

	<b>Subtotal</b>	<b>Parity SWP Bond Fund</b>	<b>Subordinated SWP Bond Fund</b>	<b>Major Rehabilitation</b>	<b>Water Reuse &amp; Recycling Fund</b>
Cash and investments - July 1, 2008	\$19,814,612	\$309,861	\$233,269	\$1,508,942	\$234,250
<b>Cash receipts:</b>					
Water sales operations and maintenance	9,486,347	-	-	-	-
Water sales debt service	2,718,219	-	-	-	-
Water sales capital fund	2,201,056	-	-	-	-
Water sales source water protection fund	1,000,479	-	-	-	-
Water sales overdrafts	777,305	-	-	-	-
Rental income	53,412	-	-	-	-
Manasquan reservoir support	68,290	-	-	-	-
Headquarters overhead	554,300	-	-	-	-
Disposition of property	21,820	-	-	-	-
Recycling revenue	-	-	-	-	-
Nonrefundable bid deposits	-	-	-	-	-
Insurance reimbursement	-	-	-	-	-
Miscellaneous expense reimbursement	2,865,160	-	-	-	-
<b>Transfers:</b>					
Contributions from operating fund	(6,070,634)	360,000	296,421	-	-
Contributions to operating fund	2,387,404	-	-	-	-
Transfers for operations	-	-	-	-	-
Transfers for investments	-	-	-	-	-
Distribution from reserves to operations	56,821	-	-	(75,368)	-
Investment income	220,631	1,254	1,328	14,417	2,261
<b>Per resolution, Section 603:</b>					
Investment income, transfer from	28,059	-	-	-	-
Investment income, transfer to	(22,403)	-	-	-	-
Unrealized loss on fair value	317,933	-	-	-	-
<b>Total cash receipts</b>	<b>16,664,199</b>	<b>361,254</b>	<b>297,749</b>	<b>(60,951)</b>	<b>2,261</b>
<b>Total available cash and investments</b>	<b>\$36,478,811</b>	<b>\$671,115</b>	<b>\$531,018</b>	<b>\$1,447,991</b>	<b>\$236,511</b>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Raritan Basin System (continued)**  
**Year Ended June 30, 2009**

<b>Capital Improvement Fund</b>	<b>Employment Benefit Funds</b>	<b>1998 Bonds Debt Service Account</b>	<b>1998 Bonds Debt Service Reserve</b>	<b>Rate Stabilization Fund</b>	<b>Totals</b>
\$5,960,545	\$512,113	\$698,662	\$2,743,826	\$1,981,496	\$33,997,576
-	-	-	-	-	9,486,347
-	-	-	-	-	2,718,219
-	-	-	-	-	2,201,056
-	-	-	-	-	1,000,479
-	-	-	-	-	777,305
-	-	-	-	-	53,412
-	-	-	-	-	68,290
-	-	-	-	-	554,300
-	-	-	-	-	21,820
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,000	-	-	-	2,867,160
2,194,238	517,269	2,702,706	-	-	-
-	(413,123)	-	-	(1,974,281)	-
-	-	-	-	-	-
-	-	-	-	-	-
(2,326,639)	(24,384)	-	-	2,369,570	-
57,493	5,710	6,991	15,672	4,144	329,901
-	-	(4,479)	(17,925)	(5,655)	-
22,403	-	-	-	-	-
-	-	-	-	-	317,933
(52,505)	87,472	2,705,218	(2,253)	393,778	20,396,222
\$5,908,040	\$599,585	\$3,403,880	\$2,741,573	\$2,375,274	\$54,393,798

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Raritan Basin System (continued)**  
**Year Ended June 30, 2009**

	<b>Operating Fund</b>				
	<b>Revenue Fund</b>	<b>Operating Account</b>	<b>Payroll Account</b>	<b>Operating Fund</b>	<b>Reserve for O&amp;M</b>
Total available cash and investments	\$272,106	\$11,006,477	\$3,463,633	\$2,191,939	\$3,535,130
<b>Cash disbursements:</b>					
Payroll	-	-	3,433,633	-	-
Fringe benefits	-	2,730,039	-	1,555,126	-
Employee deferred comp. and credit union	-	447,265	-	245,608	-
Operations and maintenance	-	2,512,485	-	-	-
Prepaid insurance	-	1,040,961	-	-	-
Miscellaneous disbursements	-	-	-	(391,752)	3,392
Watershed Management Fund	-	-	-	-	-
<b>Capital improvements:</b>					
Capital assets	-	146,157	-	-	-
New five-year construction project	-	2,395,586	-	-	-
Purchase of investments securities	-	-	-	-	327,233
Principal on 1981 bonds	-	-	-	-	-
Interest on 1981 bonds	-	-	-	-	-
Principal on 1998 revenue bonds	-	-	-	-	-
Interest on 1998 revenue bonds	-	-	-	-	-
Principal on NJEIT revenue bonds	-	-	-	-	-
Interest on NJEIT revenue bonds	-	-	-	-	-
<b>Total cash disbursements</b>	-	9,272,493	3,433,633	1,408,982	330,625
<b>Cash and investments - June 30, 2009</b>	<b>\$272,106</b>	<b>\$1,733,984</b>	<b>\$30,000</b>	<b>\$782,957</b>	<b>\$3,204,505</b>
<b>Summary of cash and investments:</b>					
Cash	\$272,106	\$1,733,984	\$30,000	\$ -	\$ -
Short-term investments	-	-	-	782,957	1,774,608
Long-term investments	-	-	-	-	1,429,897
Restricted investments (current)	-	-	-	-	-
<b>Total cash and investments</b>	<b>\$272,106</b>	<b>\$1,733,984</b>	<b>\$30,000</b>	<b>\$782,957</b>	<b>\$3,204,505</b>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Raritan Basin System (continued)**  
Year Ended June 30, 2009

Self-Insurance Reserve	Depreciation Reserve	Pumping Reserve	Capital Improvements Investments II	Watershed Management Fund	Source Water Protection Fund	Subtotal
\$871,072	\$3,624,979	\$469,019	\$6,170,685	\$1,999	\$4,871,772	\$36,478,811
-	-	-	-	-	-	3,433,633
-	-	-	-	-	-	4,285,165
-	-	-	-	-	-	692,873
-	-	-	-	-	-	2,512,485
-	-	-	-	-	-	1,040,961
-	630	-	-	-	-	(387,730)
-	-	-	-	-	-	-
-	-	-	-	-	1,476,625	1,622,782
-	-	-	-	-	-	2,395,586
162,302	43,932	-	-	-	-	533,467
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
162,302	44,562	-	-	-	1,476,625	16,129,222
\$708,770	\$3,580,417	\$469,019	\$6,170,685	\$1,999	\$3,395,147	\$20,349,589
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,036,090
263	3,390,161	469,019	6,170,685	1,999	3,395,147	15,984,839
708,507	190,256	-	-	-	-	2,328,660
-	-	-	-	-	-	-
\$708,770	\$3,580,417	\$469,019	\$6,170,685	\$1,999	\$3,395,147	\$20,349,589

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Raritan Basin System (continued)**  
Year Ended June 30, 2009

	<b>Subtotal</b>	<b>Parity SWP Bond Fund</b>	<b>Subordinated SWP Bond Fund</b>	<b>Major Rehabilitation</b>	<b>Water Reuse &amp; Recycling Fund</b>
Total available cash and investments	\$36,478,811	\$671,115	\$531,018	\$1,447,991	\$236,511
<b>Cash disbursements:</b>					
Payroll	3,433,633	-	-	-	-
Fringe benefits	4,285,165	-	-	-	-
Employee deferred comp. and credit union	692,873	-	-	-	-
Operations and maintenance	2,512,485	-	-	-	-
Prepaid insurance	1,040,961	-	-	-	-
Miscellaneous disbursements	(387,730)	-	-	-	-
Watershed Management Fund	-	-	-	-	-
<b>Capital improvements:</b>					
Capital assets	1,622,782	-	-	-	-
New five-year construction project	2,395,586	-	-	-	-
Purchase of investments securities	533,467	-	-	-	-
Principal on 1981 bonds	-	-	-	-	-
Interest on 1981 bonds	-	-	-	-	-
Principal on 1998 revenue bonds	-	-	-	-	-
Interest on 1998 revenue bonds	-	-	-	-	-
Principal on NJEIT revenue bonds	-	308,873	197,228	-	-
Interest on NJEIT revenue bonds	-	68,479	65,735	-	-
<b>Total cash disbursements</b>	<b>16,129,222</b>	<b>377,352</b>	<b>262,963</b>	<b>-</b>	<b>-</b>
<b>Cash and investments - June 30, 2009</b>	<b>\$20,349,589</b>	<b>\$293,763</b>	<b>\$268,055</b>	<b>\$1,447,991</b>	<b>\$236,511</b>
<b>Summary of cash and investments:</b>					
Cash	\$2,036,090	\$ -	\$ -	\$ -	\$ -
Short-term investments	15,984,839	293,763	268,055	1,447,991	236,511
Long-term investments	2,328,660	-	-	-	-
Restricted investments (current)	-	-	-	-	-
<b>Total cash and investments</b>	<b>\$20,349,589</b>	<b>\$293,763</b>	<b>\$268,055</b>	<b>\$1,447,991</b>	<b>\$236,511</b>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Raritan Basin System (continued)**  
**Year Ended June 30, 2009**

Capital Improvement Fund	Employment Benefit Funds	1998 Bonds Debt Service Account	1998 Bonds Debt Service Reserve	Rate Stabilization Fund	Totals
\$5,908,040	\$599,585	\$3,403,880	\$2,741,573	\$2,375,274	\$54,393,798
-	-	-	-	-	3,433,633
-	-	-	-	-	4,285,165
-	-	-	-	-	692,873
-	-	-	-	-	2,512,485
-	-	-	-	-	1,040,961
-	46,640	-	-	-	(341,090)
-	-	-	-	-	-
-	-	-	-	-	1,622,782
-	-	-	-	-	2,395,586
-	-	-	-	-	533,467
-	-	-	-	-	-
-	-	2,020,000	-	-	2,020,000
-	-	682,738	-	-	682,738
-	-	-	-	-	506,101
-	-	-	-	-	134,214
-	46,640	2,702,738	-	-	19,518,915
\$5,908,040	\$552,945	\$701,142	\$2,741,573	\$2,375,274	\$34,874,883
\$ -	\$2,538	\$ -	\$ -	\$ -	\$2,038,628
5,908,040	550,407	-	-	-	24,689,606
-	-	-	-	-	2,328,660
-	-	701,142	2,741,573	2,375,274	5,817,989
\$5,908,040	\$552,945	\$701,142	\$2,741,573	\$2,375,274	\$34,874,883

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Manasquan Water Supply System**  
**Year Ended June 30, 2009**

	<b>Operating Fund</b>				
	<b>Revenue Fund</b>	<b>Operating Account</b>	<b>Payroll Account</b>	<b>Operating Fund</b>	<b>Reserve for O&amp;M</b>
Cash and investments - July 1, 2008	\$369,349	\$6,688	\$20,000	\$41,736	\$432,616
<b>Cash receipts:</b>					
Water sales operations and maintenance	2,198,288	-	-	-	-
Water sales debt service	4,395,006	-	-	-	-
Source water protection	108,984	-	-	-	-
Water sales overdrafts	7,601	-	-	-	-
NJ-American pumping costs	120,777	-	-	-	187,316
Headquarters overhead	-	-	-	-	-
Reimbursement of WTP capital expenses	-	-	-	-	-
Disposition of assets	-	-	-	-	-
Sale of investment securities	-	-	-	-	-
Miscellaneous reimbursement	-	-	-	-	408
<b>Transfers:</b>					
Contributions from operating fund	-	3,599,533	974,228	(9,278,532)	745
Contributions to operating fund	-	-	-	2,370,169	(1,745)
Transfers for operations	(7,200,000)	-	-	7,200,000	-
Distribution from reserves to operations	-	340,469	-	-	-
Investment income	-	-	-	10,177	9,447
Per resolution, Section 603:					
Investment income, transfer from	35,876	-	-	(9,109)	(9,269)
Investment income, transfer to	(35,876)	-	-	13,683	13,816
Unrealized (loss)gain on fair value	-	-	-	-	49,314
<b>Total cash receipts</b>	<b>(369,344)</b>	<b>3,940,002</b>	<b>974,228</b>	<b>306,388</b>	<b>250,032</b>
<b>Total cash and investments</b>	<b>\$5</b>	<b>\$3,946,690</b>	<b>\$994,228</b>	<b>\$348,124</b>	<b>\$682,648</b>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Manasquan Water Supply System (continued)**  
Year Ended June 30, 2009

Self- Insurance Reserve	Renewal and Replacement Account	Water Reuse & Recycling	Source Water Protection	Alternate Energy Source	Depreciation Reserve	Pumping Reserve	Sediment Reserve	Subtotal
\$243,783	\$3,056,382	\$29,445	\$855,778	\$12,703	\$524,066	\$144,832	\$55,820	\$5,793,198
-	-	-	-	-	-	-	-	2,198,288
-	-	-	-	-	-	-	-	4,395,006
-	-	-	-	-	-	-	-	108,984
-	-	-	-	-	-	-	-	7,601
-	-	-	-	-	-	-	-	308,093
-	-	-	-	-	-	-	-	-
-	-	-	-	-	630	-	-	630
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	408
12,500	(60,000)	-	113,245	12,500	191	18,750	7,500	(4,599,340)
-	(190,000)	-	(14,620)	(25,260)	-	-	-	2,138,544
-	-	-	-	-	-	-	-	-
-	(177,520)	-	-	-	(49,232)	-	-	113,717
4,856	27,577	284	8,634	82	5,892	2,338	553	69,840
(4,805)	-	-	-	-	(1,639)	(2,244)	(497)	8,313
-	-	-	-	-	1,639	-	-	(6,738)
24,604	-	-	-	-	9,639	4,490	-	88,047
37,155	(399,943)	284	107,259	(12,678)	(32,880)	23,334	7,556	4,831,393
\$280,938	\$2,656,439	\$29,729	\$963,037	\$25	\$491,186	\$168,166	\$63,376	\$10,624,591

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Manasquan Water Supply System (continued)**  
Year Ended June 30, 2009

	Water Treatment Plant/Transmission System						
	Subtotal	Operating Account	Operating Fund	Residuals Reserve	Carbon Filter Reserve	Self- Insurance Reserve	Capital Improvement Reserve
Cash and investments - July 1, 2008	\$5,793,198	\$160,989	\$55,008	\$9,584	\$99,445	\$252,666	\$773,190
<b>Cash receipts:</b>							
Water sales operations and maintenance	2,198,288	-	-	-	-	-	-
Water sales debt service	4,395,006	-	-	-	-	-	-
Source water protection	108,984	-	-	-	-	-	-
Water sales overdrafts	7,601	-	-	-	-	-	-
NJ-American pumping costs	308,093	-	-	-	-	-	-
Headquarters overhead	-	-	2,477,635	-	-	-	-
Reimbursement of WTP capital expenses	-	-	2,470	-	-	-	-
Disposition of assets	630	-	-	-	-	-	-
Sale of investment securities	-	-	-	-	-	-	-
Miscellaneous reimbursement	408	1,898	21,433	-	-	-	-
<b>Transfers:</b>							
Contributions from operating fund	(4,599,340)	1,795,000	(1,798,329)	-	-	-	-
Contributions to operating fund	2,138,544	-	(651,565)	-	-	(24,260)	(663,305)
Transfers for operations	-	-	-	-	-	-	-
Distribution from reserves to operations	113,717	-	(963)	-	-	-	-
Investment income	69,840	-	1,105	92	956	2,425	6,290
Per resolution, Section 603:							
Investment income, transfer from	8,313	-	-	(180)	(1,847)	(4,711)	-
Investment income, transfer to	(6,738)	-	6,738	-	-	-	-
Unrealized (loss)gain on fair value	88,047	-	-	-	-	-	-
<b>Total cash receipts</b>	<b>4,831,393</b>	<b>1,796,898</b>	<b>58,524</b>	<b>(88)</b>	<b>(891)</b>	<b>(26,546)</b>	<b>(657,015)</b>
<b>Total cash and investments</b>	<b>\$10,624,591</b>	<b>\$1,957,887</b>	<b>\$113,532</b>	<b>\$9,496</b>	<b>\$98,554</b>	<b>\$226,120</b>	<b>\$116,175</b>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Manasquan Water Supply System (continued)**  
**Year Ended June 30, 2009**

2005 Debt Service Account	2005 Debt Service Reserve	Debt Service Account	Debt Service Reserve	Rebate Fund	General Reserve Fund	Employment Benefit Funds	Totals
\$3,273,276	\$3,626,786	\$33,015	\$1,971	\$147,284	\$705,942	\$162,640	\$15,094,994
-	-	-	-	-	-	-	2,198,288
-	-	-	-	-	-	-	4,395,006
-	-	-	-	-	-	-	108,984
-	-	-	-	-	-	-	7,601
-	-	-	-	-	-	-	308,093
-	-	-	-	-	-	-	2,477,635
-	-	-	-	-	-	-	2,470
-	-	-	-	-	-	-	630
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	23,739
4,243,965	-	4,551	1,148	-	229,754	123,251	-
-	(135,000)	-	-	-	(664,414)	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(112,754)	-
20,635	150,755	173	12	1,422	1,579	1,778	257,062
-	-	-	-	-	(1,575)	-	-
-	-	-	-	-	-	-	-
-	72,480	-	-	-	-	-	160,527
4,264,600	88,235	4,724	1,160	1,422	(434,656)	12,275	9,940,035
\$7,537,876	\$3,715,021	\$37,739	\$3,131	\$148,706	\$271,286	\$174,915	\$25,035,029

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Manasquan Water Supply System (continued)**  
Year Ended June 30, 2009

	Operating Fund				
	Revenue Fund	Operating Account	Payroll Account	Operating Fund	Reserve for O&M
Total available cash and investments	\$5	\$3,946,690	\$994,228	\$348,124	\$682,648
<b>Cash disbursements:</b>					
Payroll	-	-	974,228	-	-
Fringe benefits	-	1,962,228	-	(1,555,125)	-
Employee deferred comp. and credit union	-	147,794	-	447,682	-
Operations and maintenance	-	1,075,472	-	99,329	-
NJ-American pumping costs	-	258,313	-	-	-
Prepaid insurance	-	203,963	-	-	-
Headquarters overhead	-	-	-	474,700	-
Capital assets reservoir	-	66,374	-	-	-
Capital improvement program (reservoir)	-	173,673	-	-	-
Purchase of Investments securities	-	-	-	-	82,488
Principal on bonds	-	-	-	-	-
Interest on bonds	-	-	-	-	-
<b>Total cash disbursements</b>	-	3,887,817	974,228	(533,414)	82,488
<b>Cash and investments - June 30, 2009</b>	<b>\$5</b>	<b>\$58,873</b>	<b>\$20,000</b>	<b>\$881,538</b>	<b>\$600,160</b>
<b>Summary of cash and investments:</b>					
Cash (Manasquan)	\$5	\$58,873	\$20,000	\$ -	\$ -
Cash (Water Treatment Plant/TS)	-	-	-	-	-
Short-term investments	-	-	-	881,538	240,456
Short-term investments (WTP/TS)	-	-	-	-	-
Long-term investments	-	-	-	-	359,704
Restricted investments (current)	-	-	-	-	-
Restricted investments (long-term)	-	-	-	-	-
<b>Total cash and investments</b>	<b>\$5</b>	<b>\$58,873</b>	<b>\$20,000</b>	<b>\$881,538</b>	<b>\$600,160</b>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Manasquan Water Supply System (continued)**  
Year Ended June 30, 2009

Self- Insurance Reserve	Renewal and Replacement Account	Water Reuse & Recycling	Source Water Protection	Alternate Energy Source	Depreciation Reserve	Pumping Reserve	Sediment Reserve	Subtotal
\$280,938	\$2,656,439	\$29,729	\$963,037	\$25	\$491,186	\$168,166	\$63,376	\$10,624,591
-	-	-	-	-	-	-	-	974,228
-	-	-	-	-	-	-	-	407,103
-	-	-	-	-	-	-	-	595,476
-	-	-	-	-	-	-	-	1,174,801
-	-	-	-	-	-	-	-	258,313
-	-	-	-	-	-	-	-	203,963
-	-	-	-	-	-	-	-	474,700
-	-	-	-	-	-	-	-	66,374
-	-	-	-	-	-	-	-	173,673
41,227	-	-	-	-	16,128	8,048	-	147,891
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
41,227	-	-	-	-	16,128	8,048	-	4,476,522
\$239,711	\$2,656,439	\$29,729	\$963,037	\$25	\$475,058	\$160,118	\$63,376	\$6,148,069
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$78,878
-	-	-	-	-	-	-	-	-
60,356	2,656,439	29,729	963,037	25	404,703	125,436	63,376	5,425,095
-	-	-	-	-	-	-	-	-
179,355	-	-	-	-	70,355	34,682	-	644,096
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
\$239,711	\$2,656,439	\$29,729	\$963,037	\$25	\$475,058	\$160,118	\$63,376	\$6,148,069

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Manasquan Water Supply System (continued)**  
Year Ended June 30, 2009

	<b>Water Treatment Plant/Transmission System</b>						
	<b>Subtotal</b>	<b>Operating Account</b>	<b>Operating Fund</b>	<b>Residuals Reserve</b>	<b>Carbon Filter Reserve</b>	<b>Self-Insurance Reserve</b>	<b>Capital Improvement Reserve</b>
Total available cash and investments	\$10,624,591	\$1,957,887	\$113,532	\$9,496	\$98,554	\$226,120	\$116,175
<b>Cash disbursements:</b>							
Payroll	974,228	-	-	-	-	-	-
Fringe benefits	407,103	-	-	-	-	-	-
Employee deferred comp. and credit union	595,476	-	-	-	-	-	-
Operations and maintenance	1,174,801	1,808,995	-	-	-	-	-
NJ-American pumping costs	258,313	-	-	-	-	-	-
Prepaid insurance	203,963	-	-	-	-	-	-
Headquarters overhead	474,700	-	79,600	-	-	-	-
Capital assets reservoir	66,374	-	-	-	-	-	-
Capital improvement program (reservoir)	173,673	-	-	-	-	-	-
Purchase of Investments securities	147,891	-	-	-	-	-	-
Principal on bonds	-	-	-	-	-	-	-
Interest on bonds	-	-	-	-	-	-	-
<b>Total cash disbursements</b>	<b>4,476,522</b>	<b>1,808,995</b>	<b>79,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and investments - June 30, 2009</b>	<b>\$6,148,069</b>	<b>\$148,892</b>	<b>\$33,932</b>	<b>\$9,496</b>	<b>\$98,554</b>	<b>\$226,120</b>	<b>\$116,175</b>
<b>Summary of cash and investments:</b>							
Cash (Manasquan)	\$78,878	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash (Water Treatment Plant/TS)	-	148,892	-	-	-	-	-
Short-term investments	5,425,095	-	-	-	-	-	-
Short-term investments (WTP/TS)	-	-	33,932	9,496	98,554	226,120	116,175
Long-term investments	644,096	-	-	-	-	-	-
Restricted investments (current)	-	-	-	-	-	-	-
Restricted investments (long-term)	-	-	-	-	-	-	-
<b>Total cash and investments</b>	<b>\$6,148,069</b>	<b>\$148,892</b>	<b>\$33,932</b>	<b>\$9,496</b>	<b>\$98,554</b>	<b>\$226,120</b>	<b>\$116,175</b>

**New Jersey Water Supply Authority**  
**A Component Unit of the State of New Jersey**  
**Schedule of Changes in Cash and Investments**  
**Manasquan Water Supply System (continued)**  
Year Ended June 30, 2009

2005 Debt Service Account	2005 Debt Service Reserve	Debt Service Account	Debt Service Reserve	Rebate Fund	General Reserve Fund	Employment Benefit Funds	Totals
\$7,537,876	\$3,715,021	\$37,739	\$3,131	\$148,706	\$271,286	\$174,915	\$25,035,029
-	-	-	-	-	-	-	974,228
-	-	-	-	-	-	-	407,103
-	-	-	-	-	-	-	595,476
-	-	-	-	-	-	-	2,983,796
-	-	-	-	-	-	-	258,313
-	-	-	-	-	-	-	203,963
-	-	-	-	-	-	-	554,300
-	-	-	-	-	-	-	66,374
-	-	-	-	-	-	-	173,673
-	-	-	-	-	-	-	147,891
2,205,000	-	1,903	-	-	-	-	2,206,903
1,970,441	-	5,674	-	-	-	-	1,976,115
4,175,441	-	7,577	-	-	-	-	10,548,135
<b>\$3,362,435</b>	<b>\$3,715,021</b>	<b>\$30,162</b>	<b>\$3,131</b>	<b>\$148,706</b>	<b>\$271,286</b>	<b>\$174,915</b>	<b>\$14,486,894</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$78,878
-	-	-	-	-	-	-	148,892
-	-	-	-	-	271,286	174,915	5,871,296
-	-	-	-	-	-	-	484,277
-	-	-	-	-	-	-	644,096
3,362,435	3,715,021	30,162	3,131	148,706	-	-	7,259,455
-	-	-	-	-	-	-	-
<b>\$3,362,435</b>	<b>\$3,715,021</b>	<b>\$30,162</b>	<b>\$3,131</b>	<b>\$148,706</b>	<b>\$271,286</b>	<b>\$174,915</b>	<b>\$14,486,894</b>

INDEPENDENT AUDITORS' 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*

To the Commissioners of  
New Jersey Water Supply Authority

We have audited the financial statements of New Jersey Water Supply Authority (the "Authority") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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INDEPENDENT AUDITORS' 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* (CONTINUED)

Internal Control Over Financial Reporting (continued)

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 described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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, the Commissioners, the audit committee, others within the Authority, the State of New Jersey, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

*Mercaderes, P.C.*  
*Certified Public Accountants*

October 1, 2009