

**PASSAIC VALLEY WATER COMMISSION**  
**REPORT OF AUDIT**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2008**

**PASSAIC VALLEY WATER COMMISSION**

**CONTENTS**

<u>Page</u>		<u>Exhibits</u>
-------------	--	-----------------

- |   |                              |  |
|---|------------------------------|--|
| 1 | Independent Auditor's Report |  |
|---|------------------------------|--|

**REQUIRED SUPPLEMENTARY INFORMATION**

- |   |                                      |  |
|---|--------------------------------------|--|
| 3 | Management's Discussion and Analysis |  |
|---|--------------------------------------|--|

**FINANCIAL STATEMENTS**

- |    |  |   |
|----|--|---|
| 10 | Comparative Statement of Net Assets                                      | A |
| 13 | Comparative Statement of Revenues, Expenses and Changes in<br>Net Assets | B |
| 14 | Comparative Statement of Cash Flows                                      | C |
| 16 | Notes to Financial Statements  |   |

**SUPPLEMENTARY SCHEDULES**

Schedules

- |    |   |   |
|----|---|---|
| 52 | Supplemental Schedule of Revenues, Expenses and Changes in<br>Net Assets  | 1 |
| 53 | Schedule of Cash Receipts, Cash Disbursements and Changes in<br>Cash and Investments - Unrestricted and Restricted Accounts | 2 |
| 56 | Schedule of Operating Revenue and Costs Funded by Operating<br>Revenue Compared to Budget                                   | 3 |
| 62 | Schedule of Capital Budget Program Funded by Financing Sources  | 4 |
| 63 | Schedule of Revenue and Revenue Refunding Bonds   | 5 |
| 70 | Schedule of Funding Progress for the Retiree Health Plan  | 6 |
| 71 | Roster of Officials and Report on Surety Bonds  | 7 |

**PASSAIC VALLEY WATER COMMISSION**

**CONTENTS, (continued)**

**Page**

**SINGLE AUDIT SECTION**

72	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
74	Report on Compliance with Requirements Applicable to Each Major Federal and State Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 and N.J. OMB Circular 04-04
76	Schedule of Expenditures of Federal Financial Assistance
77	Schedule of Expenditures of State Financial Assistance
78	Notes to the Schedules of Expenditures of Federal and State Awards
79	Schedule of Findings and Questioned Costs
80	Summary Schedule of Prior Audit Findings
81	General Comments and Recommendations

# Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
Steven D. Wielkotz, CPA, RMA  
James J. Cerullo, CPA, RMA  
Paul J. Cuva, CPA, RMA  
Thomas M. Ferry, CPA, RMA

Certified Public Accountants  
401 Wanaque Avenue  
Pompton Lakes, New Jersey 07442  
973-835-7900  
Fax 973-835-6631

Newton Office  
100B Main Street  
Newton, N.J. 07860  
973-579-3212  
Fax 973-579-7128

## INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the  
Passaic Valley Water Commission  
1525 Main Avenue  
Clifton, New Jersey 07011

Gentlemen:

We have audited the accompanying statement of net assets of the Passaic Valley Water Commission as of December 31, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in accordance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 the Passaic Valley Water Commission, as of December 31, 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.




Honorable Chairman and Members of the  
Passaic Valley Water Commission  
Page 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2009 on our consideration of the Passaic Valley Water Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the score 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 compliance. This report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The Management's Discussion and Analysis and Supplementary Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information of management, the applicable federal agencies and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants

July 22, 2009



## **Required Supplementary Information**

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008**

*As management of the Passaic Valley Water Commission, we offer the Commission's financial statements this narrative overview and analysis of the Commission's financial performance during the fiscal year ended December 31, 2008. Please read this analysis in conjunction with the Commission's financial statements, which follow this section.*

**Financial Highlights**

- The Commission's assets exceeded its liabilities by \$61,187,214 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$61,639,056.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt of \$54,380,603 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt and unexpended funds related to the purchase or construction of capital assets.
  - (2) Restricted net assets of \$6,124,378 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net assets of \$682,233 represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission decreased by \$1,973,305 to \$132,873,382 during the fiscal year.

**Overview of the Financial Statements**

This annual report includes this management discussion, the independent auditor's report and the basic financial statements of the Commission. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**Required Financial Statements**

The financial statements of the Commission report information of the entity using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *Statement of Net Assets* includes all of the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2008**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement measures the results of the Commission's operations over the past year and can be used to determine whether the Commission has recovered all its costs through user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as what operational sources provided cash, what was the cash used for, and what was the change in cash balance during the reporting period.

*Notes to the Financial Statements*

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

*Other Information*

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This supplementary information follows the notes to the financial statements.

**Financial Analysis of the Commission**

One of the most important questions asked about the Commission's finances is "Is the Commission as a whole better able to fulfill its mission as a result of this years activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Commission's activities in a way that will help answer this question. These two statements report net assets of the Commission and the changes in those assets. The reader can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.



**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2008**

**Net Assets**

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Commission as a whole.

The Commission's net assets at fiscal year-end are \$61,187,214. This is a \$451,842 decrease under last year's net assets of \$61,639,056. A summary of the Commission's statement of net assets is presented in the following table:

**Condensed Statement of Net Assets**

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Non-current				
Assets	25,094,942	27,204,309	(2,109,367)	(7.75)%
Capital Assets	165,564,058	165,730,179	(166,121)	(0.10)%
Other Assets	<u>3,401,596</u>	<u>3,551,255</u>	<u>(149,659)</u>	<u>(4.21)%</u>
Total Assets	<u>194,060,596</u>	<u>196,485,743</u>	<u>(2,425,147)</u>	<u>(1.23)%</u>
Long-term Debt				
Outstanding	110,657,988	115,614,355	(4,956,367)	(4.29)%
Other Liabilities	<u>22,215,394</u>	<u>19,232,332</u>	<u>2,983,062</u>	<u>15.51%</u>
Total Liabilities	<u>132,873,382</u>	<u>134,846,687</u>	<u>(1,973,305)</u>	<u>(1.46)%</u>
Invested in Capital Assets, net of Related Debt	54,380,603	50,918,400	3,462,203	6.80%
Restricted	6,124,378	5,882,632	241,746	4.11%
Unrestricted	<u>682,233</u>	<u>4,838,024</u>	<u>(4,155,791)</u>	<u>(85.90)%</u>
Total Net Assets	<u>61,187,214</u>	<u>61,639,056</u>	<u>(451,842)</u>	<u>(0.73)%</u>

While the *Statement of Net Assets* shows the change in financial position of net assets, the *Statement of Revenues, Expenses and Changes in Net Assets* provides answers as to the nature and source of these changes. As can be seen in the following table, net assets decreased by \$451,842.

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2008**

**Net Assets (Continued)**

**Condensed Statement of Revenues, Expenses  
And Changes in Net Assets**

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	62,259,807	58,194,353	4,065,454	6.99%
Non-operating Revenues	<u>699,383</u>	<u>992,490</u>	<u>(293,107)</u>	(29.53)%
Total Revenues	<u>62,959,190</u>	<u>59,186,843</u>	<u>3,772,347</u>	6.37%
Depreciation	7,128,391	7,188,100	(59,709)	(0.83)%
Other Operating Expenses	49,643,920	46,683,992	2,959,928	6.34%
Other Non-operating Expense	<u>6,638,721</u>	<u>6,964,816</u>	<u>(326,095)</u>	(4.68)%
Total Expenses	<u>63,411,032</u>	<u>60,836,908</u>	<u>2,574,124</u>	4.23%
Change in Net Assets	(451,842)	(1,650,065)	1,198,223	(72.62)%
Beginning Net Assets	61,639,056	64,951,621	(3,312,565)	(5.10)%
Prior Period Adjustment	<u>                    </u>	<u>(1,662,500)</u>	<u>1,662,500</u>	(100.00)%
Ending Net Assets	<u>61,187,214</u>	<u>61,639,056</u>	<u>(451,842)</u>	(0.73)%

The Commission's operating revenues increased by \$4,065,454 to \$62,259,807 in fiscal year 2008 from \$58,194,353 in 2007. This increase is primarily due to increased revenue from service agreements and water sales. Non-operating revenues decreased by \$293,107 to \$699,383 from \$992,490 due to a decrease in interest on investments. This decrease in earnings is a variable condition based on changes in interest rates.

**Budgetary Highlights**

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Commission Regulation of the Division of Local Government Services that the cash flows of the Commission for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2008**

The following table provides a 2008 budget comparison:

	<b>Budget vs. Actual FY 2008</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	<u>61,779,534</u>	<u>62,959,190</u>	<u>1,179,656</u>
Expenses:			
Operating	50,243,949	49,643,920	600,029
Non-Operating	<u>11,535,585</u>	<u>12,824,987</u>	<u>(1,289,402)</u>
	<u>61,779,534</u>	<u>62,468,907</u>	<u>(689,373)</u>
Income before Depreciation	<u>0</u>	<u>490,283</u>	<u>490,283</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During fiscal year 2008, the Commission had an increase of \$6,962,270 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$165,564,058. This is a \$166,121 decrease under last year's net property, plant and equipment of \$165,730,179. A summary of the Commission's capital assets is presented in the following table:

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Dollar Change</u>
Capital Assets	200,965,591	194,003,321	6,962,270
Capital Improvements	75,312,423	75,312,423	0
Capital Leases	7,087,815	7,087,815	0
North Arlington Municipal			
Water System	4,309,300	4,309,300	0
Acquisition Expenses	815,146	815,146	0
Less: Accumulated Depreciation	<u>(122,926,217)</u>	<u>(115,797,826)</u>	<u>(7,128,391)</u>
	<u>165,564,058</u>	<u>165,730,179</u>	<u>(166,121)</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2008**

The Commission's on going capital plan is reviewed each year by the Commission's consulting engineer. Notable future capital improvements are listed below.

Replacement windows - Administration Building	70,000
4WD SUV for Security	35,000
Replacement windows - Main Pump Station	200,000
Purification new offices/HVAC/Windows	150,000
General Upgrades to Plant Facilities	100,000
Utility body truck for emergency men	90,000
621 Bucket loader/Backhoe	100,000
Dump Trucks (2)	250,000
Utility Service Trucks	90,000
Two full-size cars	50,000
Valve replacement program	100,000
Capitalized repair work	3,100,000
Replacement car 33	30,000
Mapping (digital) & GIS	150,000
4WD vehicle/replace 24, 27, 28	50,000
Atomic absorption replacement	250,000
Analytical Balance	10,000
PCR System (Microbiology)	50,000
Watershed Management	25,000
Density meters	25,000
Polymer pumps	25,000
Replace Car #103	20,000
Storage Improvement Project (Consultant)	750,000
Security Consultant (Vulnerability Improvements)	100,000
Backwash Pump Replacement	150,000
Traveling Screens	460,000
Two vans for Meter Department	35,000
IT Software	350,000
Telephone Recording System	55,000
Meter Reading/Radio (Monthly Accounts)	200,000
Venturi Transmitter Upgrades	50,000
Replace 48-inch Wanaque Suction Line	800,000
Replace two major valves/year	150,000
Vulnerability/Security Upgrades	1,000,000
Point View and New Street Dam Improvements	1,500,000
Headgates Replacement	<u>1,000,000</u>
	<u>11,570,000</u>

### **Debt Administration**

At December 31, 2008, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the accreted amount of \$116,139,830. The debt service schedule goes out to 2027. Full details of the specific bond issues outstanding are found in Note 6 to the financial statements and the supplementary schedules.

### **Economic Factors, Future Years' Budgets and Rates**

The Commissioners and management of the Commission consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Commission's system and new regulations issued by the State and Federal governments.

### **Contacting the Commission**

This financial report is designed to provide our customers and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Passaic Valley Water Commission, 1525 Main Avenue, Clifton, NJ 07011.

## Financial Statements

PASSAIC VALLEY WATER COMMISSION  
STATEMENT OF NET ASSETS  
DECEMBER 31,

**EXHIBIT A**  
Page 1 of 3

	<u>2008</u>	<u>Restated 2007</u>
<b><u>CURRENT ASSETS:</u></b>		
<u>Unrestricted:</u>		
Cash and Cash equivalents	\$ 1,418,314	\$ 2,146,649
Accounts Receivable, net	13,106,308	11,216,878
Inventory	1,955,654	2,262,395
Other Receivables	18,420	807,852
Due From (To) Water Bank	(24,509)	809,130
Prepaid Expenses	<u>447,035</u>	<u>296,010</u>
 Total Current Assets	 <u>16,921,222</u>	 <u>17,538,914</u>
<b><u>NON-CURRENT ASSETS:</u></b>		
<u>Restricted:</u>		
Construction Account:		
Cash and Cash equivalents	3,009	2,937
Due From NJEIT Trust	1,124,091	2,828,875
Bond Service Fund:		
Cash and Cash equivalents	3,115,467	1,092,431
Investments		1,192,132
Bond Reserve Account:		
Cash and Cash equivalents		635,458
Investments		10,407
Renewal and Extension Account:		
Cash and Cash equivalents	1,200,000	1,200,000
Operations Account:		
Cash and Cash equivalents	2,500,159	2,500,053
Unemployment Compensation Insurance:		
Cash and Cash equivalents	<u>230,994</u>	<u>203,102</u>
 Total Restricted Assets	 <u>8,173,720</u>	 <u>9,665,395</u>
Capital Assets:		
Capital Assets	200,965,591	194,003,321
Capital Improvements	75,312,423	75,312,423
Capital Leases	7,087,815	7,087,815
North Arlington Municipal Water System	4,309,300	4,309,300
Acquisition Expenses	815,146	815,146
Less: Accumulated Depreciation	<u>(122,926,217)</u>	<u>(115,797,826)</u>
 Total Capital Assets	 <u>165,564,058</u>	 <u>165,730,179</u>
Other Assets:		
Deferred Costs	<u>3,401,596</u>	<u>3,551,255</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 194,060,596</u></u>	 <u><u>\$ 196,485,743</u></u>

The accompanying "Independent Auditor's Report" and the  
"Notes to the Financial Statements" are an integral part of this report.

PASSAIC VALLEY WATER COMMISSION  
STATEMENT OF NET ASSETS  
DECEMBER 31,

EXHIBIT A  
Page 2 of 3

	<u>2008</u>	<u>Restated 2007</u>
<b><u>LIABILITIES:</u></b>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 13,336,356	\$ 9,762,376
Water Bank - Deferred Revenue (Expense)	(24,509)	809,130
Due To (From) Contractor	30,951	30,951
Meter Deposits Payable	304,805	309,105
Security Deposits Payable	<u>8,078</u>	<u>8,078</u>
	<u>13,655,681</u>	<u>10,919,640</u>
Payable from Restricted Assets:		
Accrued Interest Payable	922,242	950,951
Bonds Payable - Current Portion	7,580,467	7,306,397
Leases Payable - Current Portion	<u>57,004</u>	<u>55,344</u>
	<u>8,559,713</u>	<u>8,312,692</u>
Total Current Liabilities	<u>22,215,394</u>	<u>19,232,332</u>
Non-Current Liabilities:		
Bonds Payable - Long-Term Portion	108,559,363	114,473,385
Leases Payable - Long-Term Portion	815,383	828,209
Other Post Retirement Benefits	683,308	-
PSE&G Settlement	1,900,000	1,781,250
Unamortized Costs in Excess of Refunded Debt, Net of Amort.	(5,604,552)	(6,077,312)
Unamortized Savings from Refunded Debt, Net of Amort.	859,787	905,574
Unamortized Bond Discount, Net of Amortization	(72,615)	(80,650)
Unamortized Bond Premium, Net of Amortization	2,737,851	2,944,477
Deferred Savings on Bond Refunding, Net of Amortization	<u>779,463</u>	<u>839,422</u>
Total Non-Current Liabilities	<u>110,657,988</u>	<u>115,614,355</u>
<b>TOTAL LIABILITIES</b>	<u>132,873,382</u>	<u>134,846,687</u>

The accompanying "Independent Auditor's Report" and the  
"Notes to the Financial Statements" are an integral part of this report.



PASSAIC VALLEY WATER COMMISSION  
STATEMENT OF NET ASSETS  
DECEMBER 31,

EXHIBIT A  
Page 3 of 3

	<u>2008</u>	<u>Restated 2007</u>
<b><u>NET ASSETS:</u></b>		
Invested in Capital Assets, net of Related Debt	54,380,603	50,918,400
Restricted:		
Current Debt Service	2,193,225	1,333,612
Future Debt Service	-	645,865
Renewal and Extension	1,200,000	1,200,000
Operations	2,500,159	2,500,053
Unemployment Compensation Insurance	230,994	203,102
Unrestricted:		
Designated	608,024	1,611,771
Undesignated	<u>74,209</u>	<u>3,226,253</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>61,187,214</u></b>	<b>\$ <u>61,639,056</u></b>

The accompanying "Independent Auditor's Report" and the  
"Notes to the Financial Statements" are an integral part of this report.

PASSAIC VALLEY WATER COMMISSION  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
DECEMBER 31,

EXHIBIT B

	<u>2008</u>	<u>Restated 2007</u>
<b>Operating Revenue:</b>		
Service Agreements	\$ 57,062,654	\$ 55,624,877
Miscellaneous	5,173,056	2,529,739
Sale of Scrap	<u>24,097</u>	<u>39,737</u>
Total Operating Revenue	<u>62,259,807</u>	<u>58,194,353</u>
<b>Operating Expenses:</b>		
Cost of Providing Services	40,511,796	38,059,415
Administrative and General	9,132,124	8,624,577
Depreciation Expense	<u>7,128,391</u>	<u>7,188,100</u>
Total Operating Expenses	<u>56,772,311</u>	<u>53,872,092</u>
Operating Income	<u>5,487,496</u>	<u>4,322,261</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	478,381	774,958
Finance Charges	221,002	217,532
Interest Expense	(5,518,591)	(6,318,991)
Net OPEB Obligation	(683,308)	-
PSE&G Settlement	(118,750)	(118,750)
Amortization Expense	<u>(318,072)</u>	<u>(527,075)</u>
Non-Operating Income (Loss)	<u>(5,939,338)</u>	<u>(5,972,326)</u>
Change In Net Assets	(451,842)	(1,650,065)
Net Assets - January 1	<u>61,639,056</u>	<u>64,951,621</u>
<b>Prior Period Adjustment:</b>		
PSE&G Settlement	<u>-</u>	<u>(1,662,500)</u>
Net Assets - December 31	<u>\$ 61,187,214</u>	<u>\$ 61,639,056</u>

The accompanying "Independent Auditor's Report" and the  
"Notes to the Financial Statements" are an integral part of this report.

## PASSAIC VALLEY WATER COMMISSION

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	<u>2008</u>	<u>Restated 2007</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 62,300,189	\$ 58,194,455
Cash Paid to Vendors and Employees	(47,058,904)	(42,835,191)
Interest Received	699,383	992,490
	<u>15,940,668</u>	<u>16,351,754</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>Cash Flow from Investing Activities:</b>		
Capital Expenditures	(6,962,270)	(6,570,036)
(Increase) Decrease in NJEIT Receivable	1,704,784	(417,443)
(Purchase)/Sale of Investments	1,192,132	(762,694)
	<u>(4,065,354)</u>	<u>(7,750,173)</u>
<b>Net Cash Provided by (used in) Investing Activities</b>		
<b>Cash Flow from Financing Activities:</b>		
Principal Payment on Bonds and Notes	(5,639,952)	(4,763,353)
Interest Paid on Bonds and Notes	(5,854,965)	(6,313,254)
Increase (Decrease) in Deferred Costs	(59,959)	(24,456)
Increase (Decrease) in Lease Payable	(11,166)	(9,100)
Increase (Decrease) in Unamortized Items	378,041	712,092
	<u>(11,188,001)</u>	<u>(10,398,071)</u>
<b>Net Cash Used in Financing Activities</b>		
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	687,313	(1,796,490)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>7,780,630</u>	<u>9,577,120</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 8,467,943</u>	<u>\$ 7,780,630</u>

The accompanying "Independent Auditor's Report" and the  
"Notes to the Financial Statements" are an integral part of this report.

## PASSAIC VALLEY WATER COMMISSION

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	2008	Restated 2007
CHANGE IN NET ASSETS	\$ (451,842)	\$ (1,650,065)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	7,128,391	7,188,100
Interest Expense	5,518,591	6,318,991
Net OPEB Obligation	683,308	
PSE&G Settlement	118,750	118,750
Amortization Expense	318,072	527,075
Decrease (Increase) in Accounts Receivable	(1,889,430)	(769,384)
Decrease (Increase) in Other Receivable	1,623,071	769,486
Decrease (Increase) in Inventory	306,741	(164,946)
Decrease (Increase) in Prepaid Expenses	(151,025)	(128,605)
Increase (Decrease) in Accounts Payable	2,740,341	4,148,887
Increase (Decrease) in Meter Deposits Payable	(4,300)	(6,535)
Total Adjustments	16,392,510	18,001,819
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 15,940,668	\$ 16,351,754

The accompanying "Independent Auditor's Report" and the  
"Notes to the Financial Statements" are an integral part of this report.

## **Notes to Financial Statements**

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 1. GENERAL**

The Passaic Valley Water Commission (the "Commission") was created and operates pursuant to the provisions of Chapter 195 of the Pamphlet Laws of 1923 of the State of New Jersey, as amended (N.J.S.A. 40:62-108 to 40:62-150, inclusive). The Commission was appointed by a Supreme Court Justice in 1927 pursuant to an application filed by the cities of Paterson, Passaic and Clifton in accordance with N.J.S.A. 40:62-109. Upon appointment, the Commission organized and commenced negotiations for the purchase of the waterworks facilities of the Passaic Consolidated Water Company together with all its rights and franchises. An agreement could not be reached for the purchase of the waterworks facilities. The Commission then instituted proceedings for the condemnation of the facilities. A court appointed commissioner examined and appraised the land, facilities and other property of the Passaic Consolidated Water Company. Finally, in 1930, the Commission acquired on behalf of the Owner Municipalities by condemnation and purchase, the pumping station, treatment facilities, distribution system reservoirs and real property of the Passaic Consolidated Water Company.

In accordance with N.J.S.A. 40:62-116, the waterworks facilities acquired by the Commission are owned jointly by the Owner Cities. Ownership interests were allocated among the Owner Cities by application of the formula established in N.J.S.A. 40:62-121 for the appointment of liability, as among the Owner Cities, for the indebtedness issued on behalf of the Commission. Under that formula, an Owner City was liable for the payment of the principal and interest on such indebtedness in the proportion that the assessed value of taxation of all real estate in such municipality for the year 1929 bears to the total assessed value for taxation of all real estate in all the municipalities in the year 1929. Thus, the City of Paterson was assigned a 57% interest, the City of Passaic a 29% interest, and the City of Clifton a 14% interest. The 1991 Amendments authorized the Commission to issue bonds secured by its Revenues, and in 1992, bonds were issued by the Commission to defease all bonds then outstanding which had been issued by the Owner Cities under that formula.

**Water Supply Sources**

The Commission utilizes two principal water supply sources to meet the demands placed upon its System. The Commission obtains water from the Passaic River system in accordance with legal rights granted to the Commission by the State of New Jersey, Department of Environmental Protection ("DEP"), under a permitting process established by statute and implemented by the rules and the regulations of the DEP and water from Wanaque North in the exercise of the rights of the Owner Cities under their agreements with the NJDWSC and the Commission.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 1. GENERAL, (continued)**

Under the terms of Water Diversion Allocation Permit No. 5099 (the "Permit") issued to the Commission by the Division of Water Resources of the DEP, the Commission may divert up to 2.325 million gallons of water per month (MGW) from the Pompton and Passaic Rivers at the Two Bridges Intake, or from the Passaic River at the Little Falls Intake (at the Commission's filtration plant in Totowa), or jointly from both intakes, at the maximum rate of 75 million gallons per day (MGD). No minimum passing flow requirements have been imposed on the Commission's Little Falls Intake. Such requirements have been placed on the diversion allocation permits granted to the Hackensack Water Company (45090) and to NJDWSC (#5094) for their use of water from the Two Bridges site for the Wanaque South Reservoir Project to assure a minimum flow sufficient to preserve the Commission's rights. The Two Bridges Intake has been connected to the Commission's Little Falls Filtration Plant in Totowa, New Jersey, where river water is treated and purified.

In addition to the Permit, the Commission, as Agent for the Owner Cities under the Wanaque Agency Agreements, has an entitlement of 37.75% of the Wanaque North Reservoir operated by NJDWSC. These rights are equivalent to a supply of 35.48 MGD, based on the 1960's drought safe yield on 94 MGD for Wanaque North. Under the Wanaque Agency Agreement, the Commission is responsible for the payment of the Owner Cities' aggregate share (37.75%) of the operating and debt service expenses of NJDWSC attributable to the Wanaque North System. The Commission is also subject to a penalty provision in the event of a monthly overdraft from the Wanaque North, which has occurred from time to time.

**Water Purification and Treatment Facilities**

The Little Falls Filtration Plant was constructed by the East Jersey Water Company and first placed in service in 1903. At the time, the filtration plant was the first large-sized gravity rapid sand filter system in the United States. The adjacent Pump Station was completed in 1899 with a rated capacity of 75 MGD. The treatment plant and pumping station are located on the Passaic River in Totowa.

The Commission has significantly modernized the Little Falls Filtration Plant and Pumping Station. To enhance these facilities, the Commission has undertaken major capital improvements, including programs implemented from 1962-1966, in 1975 and from 1985-1987. Extensive facilities designed to process residuals generated from the water treatment phase were added in 1975. At present, the Little Falls Filtration Plant has a treatment capacity of 100 MGD and the Pumping Station a transmission capacity of 160 MGD. The Little Falls Water Treatment Plant Upgrade project increased the delivered water capacity of the plant to 100 MGD.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 1. GENERAL, (continued)**

Water from the Passaic River is taken in above Beattie's Dam in Totowa, New Jersey and is subjected to various physical and chemical processes. The Little Falls Water Treatment Plant has finished undergoing an upgrade which will enhance plant performance and expand plant capacity using advanced treatment processes that will meet quality goals for microbials and disinfection byproducts. The existing conventional clarification processes have been replaced by a ballasted flocculation process that provides a high degree of treatment at higher loading rates for varying water qualities. In addition to being more robust, the new process system has a very compact facility layout which has resulted in the achievement of significant construction cost savings. The second phase of the plant upgrade project, which includes installation of ozonation for disinfection which, in conjunction with the upgrade of the existing filters, will significantly improve the quality of water produced while enhancing the ability to control the formation of disinfection byproducts to meet future regulatory requirements. This state-of-the-art treatment plant upgrade was completed by mid-2004.

The entire water treatment and purification process at the Little Falls Filtration Plant is controlled and monitored so that the water delivered will comply with all applicable safe water standards. In addition, the Commission adheres to a rigorous sampling and testing protocol at its Little Falls laboratory facilities. The water produced at each stage of the treatment and purification process is monitored continuously for various characteristics to provide assurance of water quality. This surveillance program also extends to regular sampling and testing of water in the Passaic River, the tributary streams that flow into the river, the Commission's reservoirs, the Wanaque North water supplied by NJDWSC and the distribution system. As a result, the Commission has only been required on two occasions since 1981 to notify its customers of minor violations of water standards established by Federal or state law. The Commission promptly corrected the conditions which give rise to such violation.

The water which the Commission receives from the Wanaque North system is treated by the NJDWSC at its filtration works.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the more significant accounting policies:

**A. Basis of Presentation**

The financial statements of the Passaic Valley Water Commission have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governmental units. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, accountability or other purposes. The Governmental Accounting Standards Board GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The significant of the Commission's accounting policies are described below.

On January 1, 2004, the Commission adopted the provision of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments." Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components-invested in capital assets, net of related debt: restricted: and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets component as the unspent proceeds.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**A. Basis of Presentation, (continued)**

- *Restricted* - This component of net assets consists of constraints placed on net assets' use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

On January 1, 2004, the Commission also adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires that capital contributions to the Commission be presented as a change in net assets.

The adoption of Statements No. 34 and 33 had little effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets, and the inclusion of Management's Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations.

**B. Basis of Accounting**

The Passaic Valley Water Commission prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

**C. Grants**

Contributions received from the U.S.E.P.A. and N.J.D.E.P. are recorded in the period in which they are awarded.

Grants receivable, if any, represent the total grant awards less amounts collected to date. Grants, if any, not internally restricted and utilized to finance operations are identified as non-operating revenue. Grants externally restricted for non-operating purposes are recorded as contributed capital and identified as grants-in-aid.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**D. Inventories of Materials and Supplies**

Inventories are valued at the lower of cost (first-in, first-out basis) or market. Inventories consist primarily of chemicals, pipes, fittings, meters, valves and various other plumbing materials and supplies.

**E. Property, Plant and Equipment**

Property, Plant and Equipment is stated at cost which includes direct construction costs and other expenditures related to construction. Land is stated at approximate fair market value as of the date it was donated to the Commission.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed into operation.

Depreciation is determined on a straight-line basis for all plant and equipment. Depreciation is provided over the following estimated useful lives:

Building and Improvements	20-50 Years
Water Mains and Interceptors	50 Years
Machinery and Equipment	10-20 Years
Furniture and Fixtures	5 Years
Vehicles	3-10 Years

Depreciation on assets acquired with grants-in-aid and contributed capital assets is recorded as a reduction of contributed capital.

A summary of the changes in property, plant and equipment at December 31, 2008 is as follows:

	<u>Balance Dec.31, 2007</u>	<u>Net Additions</u>	<u>Disposals</u>	<u>Balance Dec.31, 2008</u>
Capital Assets	194,003,321	6,962,270		200,965,591
Capital Improvements	75,312,423			75,312,423
Capital Leases	7,087,815			7,087,815
North Arlington Municipal Water System	4,309,300			4,309,300
Acquisition Expenses	<u>815,146</u>			<u>815,146</u>
	281,528,005	6,962,270	0	288,490,275
Accumulated Depreciation	<u>(115,797,826)</u>	<u>(7,128,391)</u>		<u>(122,926,217)</u>
Property, Plant and Equipment, Net	<u>165,730,179</u>	<u>(166,121)</u>	<u>0</u>	<u>165,564,058</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**F. Restricted Accounts**

In accordance with the bond resolution as amended and supplemented, the Commission has established the following cash and investment accounts for the deposit, in the priority of the order shown as follows, of all revenue received by the Commission:

**Construction Account**

Proceeds of all new money bond issues for capital improvement and expansion programs for the enhancement and extension of the Commission's water supply system.

**Bond Reserve Account**

An amount equal to the greatest bond service requirement of any future fiscal year for any bond not covered by bond service insurance.

**Bond Renewal and Extension Account**

An amount reasonably necessary, with respect to the facilities, for major repairs, renewals and replacements or maintenance not recurring annually.

**Operating Reserve Account**

An amount to provide a reserve for Operating Fund requirements.

**Bond Service Account**

An amount equal to unpaid interest and principal during the following fiscal year.

In addition to the accounts required by the 1992 bond resolution, the Commission has established the following additional operational investment accounts:

**Contingency and Self-Insurance Reserve Fund**

Amounts set aside to provide funds for contingencies concerning the self-insurance requirements of the Commission

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**F. Restricted Accounts, (continued)**

**Meter Deposits Reserve Fund**

Amounts set aside representing meter deposits collected from customers.

In addition to the above, the Commission has also established the following restricted accounts:

**Unemployment Compensation Insurance Account**

Employee and employer contributions are transferred to this account for payment of unemployment compensation claims paid by the State Department of Labor and billed to the Commission.

**G. Unamortized Debt Issue Costs and Debt Discount**

Costs in excess of refunded debt incurred in connection with the 1987, 1992 and 2003 bond issues are being amortized over the lives of the issues calculated on a straight-line basis.

Bond issue costs incurred in connection with the 1987, 1992, 2000A, 2001, 2002, 2003 and 2005 bond issues and note issue costs in connection with the 2006 note are being amortized over the lives of the issues calculated on a straight-line basis.

Original issue discount and premium incurred in connection with the 1992, 2003 and 2005 bond issues and the original issue premium incurred with the 1998 and 2003 bond issues are being amortized over the lives of the issues calculated on a straight-line basis.

**H. Operating Fund Budget**

The budget amounts included in the statement of budget revenues and statement of budget expenditures were approved in accordance with the requirements of the "Local Finance Board" of the State of New Jersey, and were adopted by the Commissioners after legal advertisement and public hearing.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**I. Use of Estimates**

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**J. Accreted Interest on Bonds**

The Commission reports the Capital Appreciation Revenue Refunding Bonds, Series 1992 at their original principal amount plus the accretion to the date of the financial statements, which is in accordance with generally accepted accounting principles (GAAP). For budgetary purposes, accreted interest is not recognized as a current period expense because the interest will not be raised in the current budget but will be raised in the years when the bonds mature.

**K. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**L. Income Taxes**

The Commission is exempt by law from federal and state income taxes and, therefore, no provision or liability for income taxes has been included in these financial statements.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**M. Reclassifications**

Certain reclassifications have been made to the 2007 amounts to conform to the 2008 financial statement presentation. These reclassifications had no effect on the previously reported results of operations for 2007.

**N. Impairment of Long-Lived Assets**

The Commission has adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", (SFAS 144). Pursuant to SFAS 144, long-lived assets, or asset groups and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted cash flows resulting from the use of the asset, or asset groups and its eventual disposition. Measurement of an impairment loss for long-lived assets, or asset groups, and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets, or asset groups and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

**NOTE 3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest.

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 3. CASH AND CASH EQUIVALENTS, (continued)**

All collateral must be deposited with the Federal Reserve Bank of New York, The Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.00.

As of December 31, 2008, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	1,418,314	1,418,314
Restricted	<u>7,049,629</u>	<u>7,049,629</u>
	<u>8,467,943</u>	<u>8,467,943</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2008 was \$8,467,943 and the bank balance was \$8,602,103. This entire amount was covered by federal depository insurance and the collateral pool maintained by the banks as required by New Jersey Statutes.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Commission's policy is based on New Jersey statutes requiring cash be deposited only in New Jersey based on banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in a qualified investment established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2008, \$0- of the Commission's bank balance of \$8,602,103 was exposed to custodial risk.

**NOTE 4. INVESTMENTS**

Investments are stated at fair value, which is determined using selected bases. The Commission classifies certificates of deposit that have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments. As of December 31, 2008, the Commission had \$0- invested in certificates of deposit with maturity dates greater than 3 months.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 4. INVESTMENTS, (continued)**

**Interest Rate Risk**

The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

**Credit Risk**

New Jersey Statutes 40A:5-15.1(a) limits municipal investment maturities to those specified in the Statutes. The type of allowance investments are Bonds of the United States of America or the local unit or school districts of which the local unit is part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

**Concentration of Credit Risk**

The Commission places no limit on the amount it may invest in any one issuer.

**NOTE 5. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST**

The Commission issued bonds in 2001, 2002 and 2007 through the Trust to finance the improvement to the treatment facilities. The proceeds of the Bonds are held by the Trust until the Commission expends funds on the project. The Commission then submits for reimbursement of these expenditures from the Trust. The following is the remaining amount of funds to be received by the Trust:

	Balance <u>Dec.31, 2007</u>	<u>Issued</u>	Less: Amounts <u>Received</u>	<u>Adjustments</u>	Balance <u>Dec.31, 2008</u>
NJEIT - Fund & Trust	<u>2,828,875</u>	<u>          </u>	<u>1,704,784</u>	<u>          </u>	<u>1,124,091</u>

These funds shall be disbursed to the Commission under the terms of its loan agreements with the New Jersey Environmental Infrastructure Trust.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT**

The Commission has issued and has outstanding the following bonds as of December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Series 1992 CAB Bonds	5,988,239	6,996,794
Series 2000A Bonds	3,675,000	4,100,000
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	46,689,591	49,745,672
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	4,666,220	5,091,536
Series 2003 Refunding Bonds	34,855,000	35,080,000
Series 2005 Refunding Bonds	9,805,000	10,080,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	3,615,780	3,615,780
Series 2007C Refunding Bonds	<u>6,845,000</u>	<u>7,070,000</u>
Net Carrying Amount of Debt	<u>116,139,830</u>	<u>121,779,782</u>
Current Portion	7,580,467	7,306,397
Long-Term Portion	<u>108,559,363</u>	<u>114,473,385</u>
	<u>116,139,830</u>	<u>121,779,782</u>

Presented below is a summary of debt service requirements to maturity.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	6,551,341	4,512,245	11,063,586
2010	6,602,133	4,561,297	11,163,430
2011	6,677,452	4,600,218	11,277,670
2012	6,725,499	4,626,982	11,352,481
2013	8,197,672	3,242,098	11,439,770
2014	8,511,972	3,044,999	11,556,971
2015	8,602,260	2,836,678	11,438,938
2016	8,267,403	2,528,070	10,795,473
2017	8,549,545	2,237,025	10,786,570
2018	8,778,534	1,924,843	10,703,377
2019	8,953,608	1,593,267	10,546,875
2020	9,302,559	1,244,520	10,547,079
2021	9,656,789	882,673	10,539,462
2022	5,781,670	502,730	6,284,400
2023	1,000,729	224,463	1,225,192
2024	1,037,758	180,310	1,218,068
2025	1,077,907	134,452	1,212,359
2026	1,129,397	85,775	1,215,172
2027	<u>735,602</u>	<u>34,723</u>	<u>770,325</u>
	<u>116,139,830</u>	<u>38,997,368</u>	<u>155,137,198</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 1992 Capital Appreciation Bonds**

The 1992 Bonds maturing June 30, 1992 through December 15, 2012, inclusive (the "Capital Appreciation Bonds") were dated and bear interest from the date of issuance and will mature in the amounts equal to the maturity amounts which are set forth in the following table plus interest compounded on each June 15, and December 15, commencing on June 30, 1992 in each year until maturity. The interest on the Capital Appreciation Bonds will be payable as part of the maturity amount only at maturity.

The 1992 Bonds that mature in years 2008-2012 are capital appreciation bonds that are accreting principal on an annual basis. The amount of accretion that has been accrued as of December 31, 2008 is \$7,567,574. This amount is recorded on the Commission's books as an increase in interest expense and bonds payable. The Commission has been providing for this level debt service payment in its current rate structure.

Principal and interest due on outstanding 1992 bonds to maturity is as follows:

<u>Year</u>	<u>Original Principal</u>	<u>Dec.31,2007 Accreted Principal</u>	<u>Accreted Principal Remaining</u>	<u>Principal at Maturity</u>
2009	860,949	1,645,874	1,029,126	2,675,000
2010	806,834	1,542,384	1,132,616	2,675,000
2011	756,089	1,445,431	1,229,569	2,675,000
2012	<u>708,554</u>	<u>1,354,550</u>	<u>1,320,450</u>	<u>2,675,000</u>
		<u>5,988,239</u>	<u>4,711,761</u>	<u>10,700,000</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2000A Water Supply System Revenue Bonds**

On November 1, 2000, the Commission issued Series 2000A Water Supply System Revenue Bonds in the amount of \$6,600,000 for: (i) the retirement and refunding of 1998 Subordinate Project Notes; (ii) system improvements; (iii) the funding of the Bond Reserve Requirement; and (iv) costs of issuance. The bond bears interest of 5.00% per annum and will mature in 2015.

At December 31, 2008, the principal and interest outstanding on the Series 2000A Bonds was as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	450,000	183,750	633,750
2010	470,000	161,250	631,250
2011	495,000	137,750	632,750
2012	520,000	113,000	633,000
2013	550,000	87,000	637,000
2014	580,000	59,500	639,500
2015	<u>610,000</u>	<u>30,500</u>	<u>640,500</u>
	<u>3,675,000</u>	<u>772,750</u>	<u>1,274,250</u>

**Series 2001A&B NJ Environmental Infrastructure Trust Bonds**

In 2001, the Commission implemented major capital improvements at its Little Falls Treatment Plant ("the Project") to comply with the Safe Drinking Water Act ("SDWA"). The Commission initially funded this project with two loans from the New Jersey Environmental Infrastructure Trust ("NJEIT").

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2001A&B NJ Environmental Infrastructure Trust Bonds, (continued)**

The first loan (Series 2001A) was for \$7,445,600, of which \$3,865,600 is a non-interest bearing Fund Loan payable in semi-annual installments and due August 1, 2021. The remaining portion of the 2001A loan was a \$3,865,000 Trust Loan payable in semi-annual installments and due August 1, 2021.

At December 31, 2008, the Trust and Fund portions payable were as follows:

<u>Series 2001A (Project S340322-02)</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Portion</u>	
2009	155,000	82,094	197,586	434,680
2010	165,000	82,092	199,084	446,176
2011	175,000	82,089	199,699	456,788
2012	180,000	82,087	196,621	458,708
2013	190,000	82,085	196,688	468,773
2014	200,000	82,082	196,388	478,470
2015	199,662	82,096	196,388	478,146
2016	213,968	72,094	199,383	485,445
2017	223,448	61,397	198,551	483,396
2018	232,921	50,228	197,387	480,536
2019	247,387	38,410	199,217	485,014
2020	256,997	25,866	197,220	480,083
2021	<u>271,496</u>	<u>13,287</u>	<u>198,669</u>	<u>483,452</u>
	<u>2,710,879</u>	<u>835,907</u>	<u>2,572,881</u>	<u>6,119,667</u>

The second loan (Series 2001B) was for \$58,367,600, of which \$30,302,600 is a non-interest bearing Fund Loan payable in semi-annual installments and due August 1, 2021. The remaining portion of the 2001B loan was a \$28,065,000 Trust Loan payable in semi-annual installments and due August 1, 2021.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2001A&B NJ Environmental Infrastructure Trust Bonds, (continued)**

At December 31, 2008, the Trust and Fund portions payable were as follows:

<u>Series 2001B (Project 1605002-005)</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Portion</u>	
2009	1,220,000	642,511	1,552,313	3,414,824
2010	1,280,000	642,494	1,551,648	3,474,142
2011	1,350,000	642,476	1,551,381	3,543,857
2012	1,425,000	642,458	1,551,881	3,619,339
2013	1,500,000	642,440	1,549,634	3,692,074
2014	1,585,000	642,422	1,551,298	3,778,720
2015	1,583,215	642,400	1,551,797	3,777,412
2016	1,659,352	563,275	1,549,634	3,772,261
2017	1,744,778	480,274	1,551,464	3,776,516
2018	1,830,130	393,030	1,550,300	3,773,460
2019	1,926,739	300,207	1,552,796	3,779,742
2020	2,022,684	202,488	1,551,964	3,777,136
2021	<u>2,114,812</u>	<u>103,496</u>	<u>1,548,012</u>	<u>3,766,320</u>
	<u>21,241,710</u>	<u>6,539,971</u>	<u>20,164,122</u>	<u>47,945,803</u>

**Series 2002A&B Environmental Infrastructure Trust Bonds**

Due to unanticipated cost increases in the Project, the Commission requested and received additional funding from the NJEIT in the form of two additional loans. These loans were issued in December 2002 and are due August 21, 2021.

The first loan (Series 2002A) was for \$8,227,632, of which \$4,227,632 is a non-interest bearing Fund Loan payable in semi-annual installments and due August 1, 2021. This Fund Loan was adjusted \$1,046,046 by the NJ Bureau of Administration and Management for the remaining unspent portion of the Project (adjusted from the back-end of the loan). The remaining portion of the 2002A loan was a \$4,000,000 Trust Loan payable in semi-annual installments and due August 1, 2021.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2002A&B Environmental Infrastructure Trust Bonds, (continued)**

At December 31, 2008, the Trust and Fund portions were as follows:

<u>Series 2002A (Project 05-1)</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Portion</u>	
2009	165,000	45,744	216,049	426,793
2010	175,000	45,758	217,200	437,958
2011	185,000	45,771	218,022	448,793
2012	195,000	45,785	218,515	459,300
2013	200,000	45,799	215,391	461,190
2014	210,000	45,812	215,062	470,874
2015	105,234	45,810	217,677	368,721
2016	104,429	45,366	216,855	366,650
2017	103,048	45,150	215,704	363,902
2018	111,371	39,999	148,235	299,605
2019	114,875	33,075		147,950
2020	123,774	25,894		149,668
2021	132,112	18,198		150,310
2022	<u>140,516</u>	<u>10,010</u>		<u>150,526</u>
	<u>2,065,359</u>	<u>538,171</u>	<u>2,098,710</u>	<u>4,702,240</u>

The second loan (Series 2002B) was for \$1,054,281, of which \$539,281 is a non-interest bearing Fund Loan payable in semi-annual installments and due August 1, 2021. This Fund Loan was adjusted \$138,493 by the NJ Bureau of Administration and Management for the remaining unspent portion of the Project (adjusted from the back-end of the loan). The remaining portion of the 2001B loan was a \$515,000 Trust Loan payable in semi-annual installments and due August 1, 2021.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2002A&B Environmental Infrastructure Trust Bonds, (continued)**

At December 31, 2008, the Trust and Fund portions were as follows:

<u>Series 2002B (Project 02-1)</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Portion</u>	
2009	20,000	5,706	26,641	52,347
2010	20,000	5,708	25,988	51,696
2011	25,000	5,710	28,601	59,311
2012	25,000	5,712	27,785	58,497
2013	25,000	5,714	26,968	57,682
2014	25,000	5,715	26,110	56,825
2015	14,164	5,706	28,520	48,390
2016	12,788	5,644	27,540	45,972
2017	11,341	5,672	26,559	43,572
2018	15,329	5,091	675	21,095
2019	14,528	4,150		18,678
2020	13,810	3,239		17,049
2021	17,791	2,345		20,136
2022	<u>17,012</u>	<u>1,248</u>		<u>18,260</u>
	<u>256,763</u>	<u>67,360</u>	<u>245,387</u>	<u>569,510</u>

**Series 2003 Water Supply System Revenue Refunding Bonds**

On February 15, 2004, the Commission issued Series 2003 Water Supply System Revenue Refunding Bonds in the amount of \$35,880,000 for: (i) the retirement and refunding of 1993 Water Supply Revenue Refunding Bonds; (ii) the funding of the Bond Reserve Requirement; and (iii) costs of issuance.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2003 Water Supply System Revenue Refunding Bonds, (continued)**

At December 31, 2008, the principal and interest outstanding on the Series 2003 Bonds was as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	235,000	1,742,515	1,977,515
2010	245,000	1,731,000	1,976,000
2011	260,000	1,718,750	1,978,750
2012	270,000	1,705,750	1,975,750
2013	2,695,000	1,692,250	4,387,250
2014	2,825,000	1,557,500	4,382,500
2015	2,965,000	1,416,250	4,381,250
2016	3,115,000	1,268,000	4,383,000
2017	3,270,000	1,112,250	4,382,250
2018	3,435,000	948,750	4,383,750
2019	3,605,000	777,000	4,382,000
2020	3,785,000	596,750	4,381,750
2021	3,975,000	407,500	4,382,500
2022	<u>4,175,000</u>	<u>208,750</u>	<u>4,383,750</u>
	<u>34,855,000</u>	<u>16,883,015</u>	<u>51,738,015</u>

**Series 2005 Water Supply System Revenue Refunding Bonds**

On February 23, 2005, the Commission issued Series 2005 Water Supply System Revenue Refunding Bonds in the amount of \$10,605,000 for: (i) the retirement and defeasance of the outstanding Series 1992 Bonds (other than the 1992 Capital Appreciation Bonds) and the advanced refunding of the Series 1997A Bonds; (ii) the funding of the Bond Reserve Requirement; and (iii) costs of issuance.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2005 Water Supply System Revenue Refunding Bonds, (continued)**

At December 31, 2008, the principal and interest outstanding on the Series 2005 Bonds was as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	285,000	373,230	658,230
2010	285,000	366,105	651,105
2011	300,000	357,555	657,555
2012	310,000	345,555	655,555
2013	590,000	335,635	925,635
2014	615,000	316,460	931,460
2015	640,000	294,935	934,935
2016	655,000	271,895	926,895
2017	685,000	248,315	933,315
2018	715,000	222,285	937,285
2019	740,000	194,400	934,400
2020	775,000	164,800	939,800
2021	800,000	133,800	933,800
2022	840,000	101,000	941,000
2023	370,000	66,350	436,350
2024	380,000	50,810	430,810
2025	400,000	34,850	434,850
2026	<u>420,000</u>	<u>17,850</u>	<u>437,850</u>
	<u>9,805,000</u>	<u>3,895,830</u>	<u>13,700,830</u>

**Series 2007A&B NJ Environmental Infrastructure Trust Bonds**

On November 9, 2007, the Commission funded the improvements to New Jersey Environmental Infrastructure Trust \$3,615,780. These bonds were issued for the purpose of: (i) the cleaning and lining water mains in Paterson; (ii) a water transmission main in Lodi; (iii) the retirement of the outstanding Series 2001A&B and Series 2002A&B Bonds (Trust portion only, adjusted for the remaining unspent portion via savings credit); (iv) the funding of the Bond Reserve Requirement; and (v) costs of issuance.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2007A&B NJ Environmental Infrastructure Trust Bonds, (continued)**

At December 31, 2008, the outstanding principal and interest on the Series 2007A&B NJEIT Bonds is as follows:

<u>Year</u>	<u>Series 2007A&amp;B</u>		<u>Fund</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Portion</u>	
2009	45,000	56,468	92,877	194,345
2010	45,000	54,218	125,830	225,048
2011	50,000	51,968	129,318	231,286
2012	50,000	49,468	126,147	225,615
2013	50,000	47,768	123,991	221,759
2014	55,000	46,018	128,113	229,131
2015	55,000	44,038	125,602	224,640
2016	60,000	41,288	128,455	229,743
2017	60,000	38,288	124,651	222,939
2018	65,000	35,288	127,187	227,475
2019	65,000	32,038	123,065	220,103
2020	70,000	29,438	126,109	225,547
2021	75,000	26,638	128,899	230,537
2022	75,000	22,888	124,143	222,031
2023	80,000	19,138	125,729	224,867
2024	85,000	15,738	127,758	228,496
2025	85,000	11,913	122,907	219,820
2026	90,000	8,088	124,397	222,485
2027	95,000	4,038	125,602	224,640
	<u>1,255,000</u>	<u>634,727</u>	<u>2,360,780</u>	<u>4,250,507</u>

**Series 2007C Water Supply System Revenue Bonds**

On December 18, 2007, the Commission issued Series 2007C Water Supply System Revenue Refunding Bonds in the amount of \$7,070,000 for: (i) the refunding of the outstanding Series 2006 Water Supply System Subordinated Project Notes; (ii) the funding of the Bond Reserve Requirement; and (iii) costs of issuance.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 6. LONG-TERM DEBT, (continued)**

**Series 2007C Water Supply System Revenue Bonds, (continued)**

At December 31, 2008, the outstanding principal and interest on the Series 2007C Water Supply System Revenue Bonds is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	245,000	297,710	542,710
2010	255,000	287,910	542,910
2011	265,000	277,710	542,710
2012	275,000	267,110	542,110
2013	285,000	256,110	541,110
2014	300,000	244,710	544,710
2015	310,000	232,710	542,710
2016	325,000	220,310	545,310
2017	335,000	207,310	542,310
2018	350,000	193,910	543,910
2019	365,000	179,910	544,910
2020	380,000	165,310	545,310
2021	395,000	150,110	545,110
2022	410,000	134,310	544,310
2023	425,000	117,500	542,500
2024	445,000	96,250	541,250
2025	470,000	74,000	544,000
2026	495,000	50,500	545,500
2027	<u>515,000</u>	<u>25,750</u>	<u>540,750</u>
	<u>6,845,000</u>	<u>3,479,140</u>	<u>10,324,140</u>

**NOTE 7. CAPITALIZED LEASE PAYABLE - LODI WATER SYSTEM**

In July of 1997, a 30 year lease agreement between the Commission and the Borough of Lodi took effect. The lease agreement conveyed the real and personal property, plants, structures, including reservoirs, pumping stations, water distribution systems, sources of water supplies, connections, rights of flowage or diversion and all other rights therein owned by Lodi in connection with its water distribution system (hereinafter collectively referred to as the System) to the Commission. The lease also requires the Commission to manage, operate and maintain the System in an efficient and economical manner in accordance with its terms and otherwise in accordance with prudent industry and utility practices.

The lease required payments to be made of \$3,200,000 in 1997, \$2,500,000 in 1998 and \$750,000 in 1999, followed by a succession of annual payments beginning in the year 2001 of \$45,000 rising to approximately \$97,000 in the year 2027.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 7. CAPITALIZED LEASE PAYABLE - LODI WATER SYSTEM, (continued)**

The lease also requires the Commission to make capital expenditures and improvements to the System in each year the lease is in effect beginning with approximately \$95,000 required in 1997 and approximately \$103,000 required in 1998, and increasing each year by various amounts to a level of approximately \$250,000 required in the year 2026. As of December 31, 2008, the Commission has expended in excess of the required capital improvements.

The lease obligation has been funded by the issuance of the 1997A Bonds in the total amount of \$7,135,000 and has been recorded in the financial statements at its discounted value using the same 5% interest rate of the 1997A Bonds.

The lease contains options for the Borough of Lodi to terminate the lease after either ten (10) years or after twenty (20) years by paying the Commission an amount sufficient to pay or defease the outstanding principal amount and premium, if any, of the 1997A Bonds then outstanding. The lease also requires the Borough of Lodi to reimburse to Commission for all capital expenditures upon termination.

Total future minimum lease payments under lease obligations at December 31, 2008 was as follows:

<u>Year</u>	<u>Required Lodi Lease Payments</u>	<u>Present Value Factor</u>	<u>Present Value of Lodi Lease Payable</u>
2009	57,004	95.24%	54,290
2010	58,714	90.70%	53,255
2011	60,476	86.38%	52,241
2012	62,290	82.27%	51,246
2013	64,159	78.35%	50,270
2014	66,084	74.62%	49,313
2015	68,066	71.07%	48,373
2016	70,108	67.68%	47,452
2017	72,211	64.46%	46,548
2018	74,378	61.39%	45,662
2019	76,609	58.47%	44,792
2020	78,907	55.68%	43,938
2021	81,274	53.03%	43,101
2022	83,712	50.51%	42,280
2023	86,224	48.10%	41,475
2024	88,811	45.81%	40,685
2025	91,475	43.63%	39,910
2026	94,219	41.55%	39,150
2027	94,046	39.57%	<u>38,406</u>
Lodi Lease Payable			<u>872,387</u>
Current Portion			57,004
Long-Term Portion			<u>815,383</u>
			<u>872,387</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 8. PENSION PLAN**

**Description of Plan**

All required employees of the Commission are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

**Public Employees' Retirement System (PERS)**

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

**Vesting and Benefit Provisions**

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 8. PENSION PLAN, (continued)**

**Significant Legislation**

During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. The legislation also provided that the Commission's normal contributions to the Fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits, accordingly, the pension costs for PERS was reduced.

**Contribution Requirements**

The contribution policy is set by N.J.S.A. 43:15A, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contributions of 5% (5.5% after June 30, 2008) of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits and post-retirement medical premiums. Chapter 6 of Public Laws 1990 required PERS to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, Chapter 62. Funding of post-retirement medical premiums changed from a prefunding basis to a pay-as-you-go basis beginning in fiscal year 1994 with an additional contribution beginning in fiscal year 1996 to maintain a medical reserve of one half of 1% of the active state payroll.

The State made post-retirement (PRM) contributions of \$224.3 million for PERS in fiscal year 2007. The State is also responsible for the cost attributable to P.L. 1992, c.126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$100.7 million toward Chapter 126 benefits for 10,777 eligible retired members in Fiscal Year 2006.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 8. PENSION PLAN, (continued)**

The Commission's contribution to the Public Employees' Retirement System, equal to the required contributions for each year, were as follows:

Year ended <u>December 31,</u>	<u>Amount</u>
2008	692,488
2007	418,741
2006	190,028

**NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

On December 15, 2007, the Commission implemented the Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement provides a more complete, reliable and decision-useful financial statement in regards to the costs and financial obligations that governments occur when they provide postemployment benefits other than pensions (OPEB) as part of the compensation for services rendered by employees.

The Commission currently vests employees for lifetime prescription drug coverage after 20 years of service. The Water Commission provides for no post-retirement death benefits. At the age at which the employee may begin to receive retirement benefits under the Water Commission's pension plan, the employee may retire and retain their health insurance coverage. Depending on age and years of service at retirement, the retiree may have to pay for some or all of the coverage. The Water Commission will contribute 100% for those individuals (and their spouses) retired with 25 or more years of service. Retirees with less than 25 years of service may elect coverage at the group rates with 0% funded by the Water Commission.

**Plan Description**

The Passaic Valley Water Commission sponsors a single-employer post-retirement medical plan that provides medical benefits to eligible retirees and their spouses.

**Funding Policy**

To be determined by Passaic Valley Water Commission. Valuation calculations have been determined under the presumption that the Commission will eventually pre-fund these obligations.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)**

**Annual OPEB Cost and Net OPEB Obligation**

The Water Commission's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Borough's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Borough's net OPEB Obligation.

**Components of Net OPEB Obligation**

Annual Required Contribution	\$1,738,579
Interest on Net OPEB Obligation	0
Adjustment to Annual Required Contribution	<u>0</u>
Annual OPEB Cost (Expense)	1,738,579
Contributions Made or Accrued	<u>(1,055,271)</u>
Increased in Net Obligation	<u>\$683,308</u>
Net OPEB Obligation (BOY)	0
Net OPEB Obligation (BOY)	\$683,308

The Water Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 is as follows:

Fiscal Year	Annual OPEB	Percentage of	Net OPEB	Discount
<u>Ended</u>	<u>Cost</u>	<u>OPEB Cost</u>	<u>Obligation</u>	<u>Rate</u>
		<u>Contributed</u>		
12/31/2008	1,738,579	60.70%	683,308	7.50%

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)**

**Funded Status and Funding Progress**

As of January 1, 2008, the most recent actuarial date, the plan was 0% funded. The actuarial accrued liability for benefits was \$24,453,445 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$24,453,445. The covered payroll (annual payroll of active employees covered by the plan) was \$9,927,000 and the ratio of the UAAL to the covered payroll was 246%.

Actuarial valuations of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 8% initially for 2008, reduced by decrements to an ultimate rate of 5% after three years. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at January 1, 2008 was 30 years.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 10. AMOUNTS REQUIRED BY BOND RESOLUTIONS**

The following cash and investment accounts are required by the Commission's bond resolutions:

**Current Debt Service**

The Commission's 1992 General Bond Resolution states that the Bond Service Requirement equal the amount of unpaid interest or principal, plus, all interest and all principal payable during a fiscal year. At December 31, 2008 and 2007, the amounts required by bond resolution were as follows:

	<u>2008</u>	<u>2007</u>
Cash and Investments on Hand	<u>3,115,467</u>	<u>2,284,563</u>

**Debt Service Reserve**

The 1992 General Bond Resolution states that the Commission's Bond Reserve Requirement equal the lesser of (i) 10% of the aggregate principal amount of Bonds upon original issuance or (ii) the amount equal to the Maximum Annual Debt Service. In 2005 and 2007, the Commission purchased bond service insurance policies covering the 1992, 2001A&B, 2002A&B, 2003, 2005, 2007A&B and 2007C Bonds. As a result, the Commission has amended the applicable bond resolution to allow for the use of insurance to meet it's future debt service requirement. At December 31, 2008, the amounts required by bond resolution were as follows:

	<u>Debt Service Reserve Requirement</u>	<u>Maximum Bond Surety Coverage</u>
Series 1992 CAB Bonds	2,140,000	2,140,000
Series 2000A Bonds	645,865	645,865
Series 2001A&B NJEIT Bonds	4,264,756	4,264,756
Series 2002A&B NJEIT Bonds	527,699	527,699
Series 2003 Refunding Bonds	3,588,000	3,588,000
Series 2005 Refunding Bonds	941,000	941,000
Series 2007A&B NJEIT Bonds	231,286	231,286
Series 2007C Bonds	545,500	545,500

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 10. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)**

**Renewal and Extension Reserve**

The 1992 General Bond Resolution states that the Commission's Renewal and Extension Reserve equal the amount reasonably necessary as a reserve for expenses to the System for major repairs, renewals, replacements, extensions, enlargements, improvements or maintenance items of a type not recurring annually or at shorter intervals. At December 31, 2008 and 2007, the amounts required by bond resolution were as follows:

	<u>2008</u>	<u>2007</u>
Cash and Investments on Hand	1,200,000	1,200,000
Renewal and Extension Requirement	<u>1,200,000</u>	<u>1,200,000</u>
Excess (Deficit)	<u>-0-</u>	<u>-0-</u>

**Operations Reserve**

The 1992 General Bond Resolution states that the Commission's Operating Fund Reserve equal an amount necessary to provide one month payment for Operating Expenses for the period beginning on such withdrawal date and ending on a date which is one month subsequent thereto. At December 31, 2008 and 2007, the amounts required by bond resolution were as follows:

	<u>2008</u>	<u>2007</u>
Cash and Investments on Hand	<u>2,500,159</u>	<u>2,500,053</u>

**Coverage Covenant**

The Commission's 1992 General Bond Resolution also includes a covenant that, among other things, requires the Commission to estimate, make, impose, charge, revise and collect revenues for each fiscal year sufficient (i) to pay all operating expenses of the Commission in each fiscal year, (ii) provide an amount equal to 110% of the aggregate bond service requirement and sinking fund requirement for such fiscal year and (iii) provide an amount so that the Operating Fund Reserve Account and the Renewal and Extension Account are at their respective requirements.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 10. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)**

At December 31, 2008, the bond service coverage ratio was calculated as follows:

	<u>2008</u>	<u>2007</u>
Net Operating Income (excluding Depreciation)	13,315,270	12,502,851
Bond Service Requirement	11,063,586	10,769,946
Debt Service Coverage Ratio	1.20	1.16

All principal and interest payments were made on a timely basis during the 2008 fiscal year and through the date of this report.

**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2008, the Commission's general counsel advises us that there is no pending litigation that would have a material effect on the Commission's financial statement except as follows:

**Public Service Electric & Gas Company v. PVWC**

The Plaintiff, Public Service Electric & Gas Company ("PSE&G") the New Jersey electric utility, filed the above-captioned complaint against PVWC, on or about May 5, 2008 ("the Action"). Within the Action, PSE&G seeks judgment against PVWC predicated upon PVWC's use of lands owned by PSE&G. In 1993, with PSE&G's authorization, PVWC constructed an underground, thirty-six (36") inch water line ("the Water Line") within the Athenia-Roseland Right-of-Way ("ROW") owned by PSE&G and used by PSE&G for electric utility service. PSE&G maintains an electric transmission line along the surface of the ROW. While PSE&G consented in writing to the installation of PVWC's Water Line in 1993, the amount of compensation to be paid by PVWC for easement rights in the RPW was never resolved. Over the intervening years, PVWC and PSE&G have had discussions concerning compensation to PSE&G for PVWC's use of the ROW. As agreement was never reached as to compensation.

In its complaint in the Action, PSE&G asserts that its 1993 consent to the installation of the Water Line has been rescinded because PVWC has not paid PSE&G for the use of the ROW. In its complaint in the Action, PSE&G pleads causes of action for Ejectment, Trespass, Breach of Contract, and Inverse Condemnation, and asks for judgment declaring PVWC's use of the RPW illegal, enjoining PVWC from continued occupancy of the ROW, and awarding PSE&G monetary damages.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)**

**Public Service Electric & Gas Company v. PVWC, (continued)**

In support of its claim for money damages, PSE&G refers to appraisal options obtained by PSE&G, valuing PVWC's occupancy of the ROW at four million six hundred and twenty thousand (\$4,620,000.00) dollars as of December 31, 2005. PSE&G demands judgment in the principal amount of \$4,620,000.00, plus uncalculated interest, and/or rental value, from at least the cited 2005 valuation date until the present. PVWC's use of the ROW is contractual in nature and claims for compensation for use value would not be subject to ordinate liability insurance coverage. PSE&G's complaint pleads claims for non-monetary relief, in the nature of dispossession in addition to monetary claims. Money damages appear to be the primary form of relief sought by PSE&G. PSE&G's complaint presents no compelling justification for the disruption of public utility water service that would result from eviction of PVWC from the ROW.

In June 2008, PSE&G served PVWC with its complaint filed under the above caption. PVWC has responded to the complaint by filing and serving upon PSE&G an Answer asserting that the value assigned to the ROW by PSE&G is unreasonable and excessive. The parties to the Action are preparing and responding to pretrial discovery requests.

On June 26, 2009, the Action was dismissed as settled by the presiding Judge, based on PSE&G's acceptance of PVWC's Counter-Offer of \$1.9 million ("Settlement Amount"), which had been made by PVWC in response to PSE&G's Offer of Judgment, which the PVWC Board of Commissioners approved, on counsel's recommendation, at its June 24, 2009 meeting.

Additional terms of settlement of record include provision that the Settlement Amount is due on December 31, 2009, and is to be tendered in exchange for a recordable form of permanent easement in the ROW and a general release by PSE&G of all claims against PVWC. (Alternatively, PVWC may tender to PSE&G by December 31, 2009, PVWC's promissory note ("Note") to PSE&G as payee, in the amount of \$2.25 million (the Offer of Judgment amount), payable in 28 equal quarterly installments, subject to annual interest on the principal amount at PSE&G's alternative investment rate of return.)

Forms of recordable easement and general release, further memorializing the settlement record, remain subject to development by the parties in reasonable form. The Action is thus settled, but remains a claim asserted against PVWC, within the meaning of PVWC's July 8, 2009 letter, until either the Settlement Amount is funded by PVWC on or before, December 31, 2009, or PVWC alternatively exercises its right to execute the Note.

These financial statements reflect a liability payable of \$1,900,000 for this settlement.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)**

**Estate of Jackson v. PVWC**

The Plaintiff has filed a Notice of Claim seeking 5 million dollars arising out of the drowning of an 11-year old boy who gained access to a reservoir owned and maintained by PVWC. A PVWC had backed a vehicle into the entranceway to a chain-linked fence prior to the drowning which had not been repaired.

**Estate of Geetha Angara v. PVWC**

The matter concerns the death of employee, Geetha Angara, found in underground water tank on water plant premises. Matter was investigated as homicide by Passaic County Prosecutor's Office and to date remains unsolved crime. Importantly, there is also a theory that the case is not a murder but rather an accidental death.

The civil suit alleges several theories of negligence and alleged "palpably unreasonable" conduct on the part of the Passaic Valley Water Commission and its employees such as inadequate security, failure to properly respond to prior threats of sabotage, abandonment of the buddy system, inadequate walkie-talkie communication, lack of motion sensors in the water tanks, delay in searching for the employee/victim, dangerous condition on public property.

Importantly, there are statutory defenses available to the Passaic Valley Water Commission under Title 59, and there is also a worker's compensation bar that is a defense that will also be raised.

There are various other cases pending which are in their preliminary stages. Most or all of the potential liabilities would be covered by insurance or be funded by future consumer charges.

**NOTE 12. RISK MANAGEMENT**

The Passaic Valley Water Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission currently has Property, Liability, Worker's Compensation, Public Officials Liability and Public Employee Dishonesty insurance purchased through various policies.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 13. DEFERRED COMPENSATION PLAN**

Employees of the Passaic Valley Water Commission may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Government). The deferred compensation plan is available to all employees of the Commission. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan is administered by an unrelated financial institution. The employees' contributions to the Plan and all income attributable to those amounts have been transferred to the exclusive benefit of the participating employees and their beneficiaries.

**NOTE 14. OTHER MATTERS**

The Commission has a lease agreement with the North Jersey District Water Supply Commission/United Water New Jersey Company for the use of an intake pumping station located in Wayne. Rent is \$1 per annum plus an apportioned share, based upon square footage utilized by the Commission, of maintenance, utilities, real estate taxes and fire insurance. The approximate annual cost is \$30,000. The term of the lease is the same term as the Diversion Grant from the State of New Jersey to the North Jersey District Water Supply Commission/United Water New Jersey Company. In the event that the grant is renewed or extended, the term of the lease shall also be renewed or extended for a like period of time.

The Commission has been named as a defendant or third-party defendant in various claims for damages, and claims by several administrative employees regarding employment, health hazards and pay discrimination. Management is vigorously defending against these claims and believes the contingency and self-insurance reserve funds should be sufficient to cover any unfavorable decisions.

The Supervisors' Union contract that covers all of the Commission's supervisory employees expired in December of 2007. The Commission is currently negotiating a new contract.

**NOTE 15. DESIGNATION OF UNRESTRICTED NET ASSETS**

The Commission maintains funds that, although may be spent for any lawful purpose by the Authority, have been designated by the Board as follows:

	<u>2008</u>	<u>2007</u>
Designated for Self-Insurance	<u>608,024</u>	<u>1,611,771</u>
Total Designated - Unrestricted	<u>608,024</u>	<u>1,611,771</u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 16. PRIOR PERIOD ADJUSTMENTS**

**PSE&G Settlement**

As described in Note 11, PSE&G filed a complaint in 1993 that was predicated upon the Commission's use of PSE&G-owned land. This action was dismissed on June 26, 2009 based on PSE&G's acceptance of a \$1.9 million settlement agreement. To properly record this liability, the Commission has recognized a prorated portion of the final settlement as a prior period adjustment on their financial statements.

## **Supplementary Schedules**

## PASSAIC VALLEY WATER COMMISSION

## SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2008

	Invested in Capital Assets	Current Debt Service Reserve	Future Debt Service Reserve	Restricted Renewal and Extension Reserve	Operations Reserve	Unemployment Compensation Insurance	Unrestricted Designated	Unrestricted Undesignated	Total
Operating Revenue:									
Service Agreements								57,062,654	57,062,654
Miscellaneous								5,173,056	5,173,056
Sale of Scrap								24,097	24,097
Total Operating Revenue	-	-	-	-	-	-	-	62,259,807	62,259,807
Operating Expense:									
Cost of Providing Services								40,511,796	40,511,796
Administrative and General								9,132,124	9,132,124
Depreciation								7,128,391	7,128,391
Total Operating Expense	-	-	-	-	-	-	-	56,772,311	56,772,311
Operating Income	-	-	-	-	-	-	-	5,487,496	5,487,496
Non-Operating Revenue (Expense):									
Interest Income	72	135,580	6,644	18,837	7,974	10,503	7,842	290,929	478,381
Finance Charges								221,002	221,002
Interest Expense								(5,518,591)	(5,518,591)
PSE&G Settlement								(118,750)	(118,750)
Net OPEB Obligation								(683,508)	(683,508)
Amortization								(318,072)	(318,072)
	72	135,580	6,644	18,837	7,974	10,503	7,842	(6,126,790)	(5,939,338)
Net Income (Loss) Before Transfers	72	135,580	6,644	18,837	7,974	10,503	7,842	(639,294)	(451,842)
Transfers:									
Interest Income	(72)	(135,580)	(6,644)	(18,837)	(7,974)	(10,503)	(7,842)	187,452	-
Other Transfers	3,462,203	839,613	(645,865)		106	27,892	(1,003,747)	(2,700,202)	-
Increase/(Decrease) in Net Assets	3,462,203	839,613	(645,865)	-	106	27,892	(1,003,747)	(3,152,044)	(451,842)
Net Assets - January 1, 2008	50,918,400	1,333,612	645,865	1,200,000	2,500,033	203,102	1,611,771	3,226,253	61,639,056
Net Assets - December 31, 2008	54,380,603	2,193,225	-	1,200,000	2,500,139	230,994	608,024	74,209	61,187,214

## PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED AND RESTRICTED ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Construction Accounts	Bond Service Accounts	Bond Reserve Account	Renewal and Extension Account
Cash, Cash Equivalents and Investments - January 1, 2008	2,937	2,284,563	16,991	1,700,005
Cash Receipts:				
Interest on Investments	72	135,580	6,644	18,837
Service Agreements				
Miscellaneous				
Finance Charges				
Transfers		11,465,270	53,151	1,181,158
Total Cash Receipts	72	11,600,850	59,795	1,199,995
Cash and Investments Available	3,009	13,885,413	76,786	2,900,000
Cash Disbursements:				
Bond Principal Payments		6,213,376		
Interest Payments		4,556,570		
Operations				
Transfers				1,700,000
Total Cash Disbursements	-	10,769,946	-	1,700,000
Cash, Cash Equivalents and Investments - December 31, 2008	3,009	3,115,467	76,786	1,200,000
Analysis of Balance:				
Cash and Cash Equivalents	3,009	3,115,467	76,786	1,200,000
Investments				
	3,009	3,115,467	76,786	1,200,000
Unrestricted	-	-	76,786	-
Restricted	3,009	3,115,467	-	1,200,000
	3,009	3,115,467	76,786	1,200,000

## PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED AND RESTRICTED ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Operation Reserve Account	Self Insurance Reserve Account	Contingency Accounts	Unemployment Insurance Account
<b>Cash, Cash Equivalents and Investments - January 1, 2008</b>	2,500,053	660,998	309,094	220,491
<b>Cash Receipts:</b>				
Interest on Investments	7,974	4,118	3,724	10,503
Service Agreements				
Miscellaneous				
Finance Charges				
Transfers	2,492,132			
<b>Total Cash Receipts</b>	2,500,106	4,118	3,724	10,503
<b>Cash and Investments Available</b>	5,000,159	665,116	312,818	230,994
<b>Cash Disbursements:</b>				
Bond Principal Payments				
Interest Payments				
Operations				
Transfers	2,500,000	345,834	24,076	
<b>Total Cash Disbursements</b>	2,500,000	345,834	24,076	-
<b>Cash, Cash Equivalents and Investments - December 31, 2008</b>	2,500,159	319,282	288,742	230,994
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	2,500,159	319,282	288,742	230,994
Investments	-	-	-	-
	2,500,159	319,282	288,742	230,994
Unrestricted	-	319,282	288,742	-
Restricted	2,500,159			230,994
	2,500,159	319,282	288,742	230,994

## PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED AND RESTRICTED ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Operating Accounts	Total
<b>Cash, Cash Equivalents and Investments - January 1, 2008</b>	1,288,037	8,983,169
<b>Cash Receipts:</b>		
Interest on Investments	263,939	451,391
Service Agreements	57,103,036	57,103,036
Miscellaneous	5,197,153	5,197,153
Finance Charges	212,002	212,002
Transfers	4,569,910	19,761,621
<b>Total Cash Receipts</b>	<u>67,346,040</u>	<u>82,725,203</u>
<b>Cash and Investments Available</b>	<u>68,634,077</u>	<u>91,708,372</u>
<b>Cash Disbursements:</b>		
Bond Principal Payments		6,213,376
Interest Payments		4,556,570
Operations	52,708,862	52,708,862
Transfers	15,191,711	19,761,621
<b>Total Cash Disbursements</b>	<u>67,900,573</u>	<u>83,240,429</u>
<b>Cash, Cash Equivalents and Investments - December 31, 2008</b>	<u>733,504</u>	<u>8,467,943</u>
<b>Analysis of Balance:</b>		
Cash and Cash Equivalents	733,504	8,467,943
Investments	<u>-</u>	<u>-</u>
	<u>733,504</u>	<u>8,467,943</u>
Unrestricted	733,504	1,418,314
Restricted	<u>-</u>	<u>7,049,629</u>
	<u>733,504</u>	<u>8,467,943</u>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	FY 2008 Adopted Budget	FY 2008 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Revenues:</b>					
Service Charges	37,576,234	37,576,234	37,331,874	(244,360)	34,588,873
Service Agreements (Bulk)	18,841,600	18,841,600	19,730,780	889,180	18,091,471
Fines / Penalties	207,300	207,300	221,002	13,702	217,532
Fire Line Service	2,126,300	2,126,300	2,313,479	187,179	2,944,533
Other Services and Repairs	2,135,700	2,135,700	2,883,674	747,974	2,569,476
Non-operating Investments	892,400	892,400	478,381	(414,019)	774,958
<b>Total Operating Revenues</b>	<b>61,779,534</b>	<b>61,779,534</b>	<b>62,959,190</b>	<b>1,179,656</b>	<b>59,186,843</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	FY 2008 Adopted Budget	FY 2008 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Expenses:</b>					
<b>Operating:</b>					
<b>Cost of Providing Services:</b>					
Executive					
Salaries and Wages	466,500	466,500	521,063	(54,563)	536,856
Other Expenses	33,600	33,600	156	33,444	83,054
Legal					
Salaries and Wages	230,800	230,800	272,287	(41,487)	238,469
Other Expenses	994,700	994,700	805,625	189,075	691,419
Engineering					
Salaries and Wages	637,800	637,800	608,331	29,469	611,753
Other Expenses	273,800	273,800	378,733	(104,933)	183,726
Purchasing					
Salaries and Wages	151,000	151,000	147,661	3,339	127,857
Other Expenses	8,500	8,500	5,843	2,657	6,750
Accounting					
Salaries and Wages	356,000	356,000	307,509	48,491	289,365
Other Expenses	126,800	126,800	91,134	35,666	164,923
Customer Service					
Salaries and Wages	732,400	732,400	804,210	(71,810)	755,174
Other Expenses	1,188,000	1,188,000	634,540	553,460	697,767
Personnel					
Salaries and Wages	339,700	339,700	408,961	(69,261)	345,409
Other Expenses	69,100	69,100	73,260	(4,160)	74,313
Purification					
Salaries and Wages	1,129,875	1,129,875	1,311,429	(181,554)	1,233,650
Other Expenses	714,378	714,378	853,331	(138,953)	4,899,814
Process	9,018,046	9,018,046	7,333,593	1,684,453	1,843,124
Watershed	-	-	-	-	1,327,008
Pilot Plant	-	-	-	-	2,688



PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2008

	FY 2008 Adopted Budget	FY 2008 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Operating:					
Cost of Providing Services (Continued):					
Pumping					
Salaries and Wages	888,000	888,000	1,020,030	(132,030)	827,841
Other Expenses	5,321,200	5,321,200	6,219,927	(898,727)	5,119,792
Hydroelectric Generation	2,300	2,300	-	2,300	-
Plant:					
Salaries and Wages	2,967,100	2,967,100	1,959,206	1,007,894	2,341,379
Other Expenses	717,350	717,350	827,417	(110,067)	843,064
Construction (Non-Capital Expenditures)	5,300	5,300	1,961	3,339	12,388
Distribution					
Salaries and Wages	3,476,900	3,476,900	2,800,577	676,323	3,148,624
Other Expenses	248,000	248,000	178,918	69,082	177,882
Maintenance	1,148,200	1,148,200	1,438,004	(289,804)	1,579,947
Garage	299,300	299,300	340,872	(41,572)	336,888
Meter Control	48,000	48,000	82,080	(34,080)	155,404
Laboratory:					
Salaries and Wages	1,101,400	1,101,400	1,186,357	(84,957)	1,110,171
Other Expenses	100,700	100,700	174,088	(73,388)	180,412
General Chemistry	180,700	180,700	352,135	(171,435)	205,323
Trace Analysis	74,200	74,200	95,457	(21,257)	74,665
Microbiology	28,200	28,200	76,868	(48,668)	37,894
Sample Collections	2,500	2,500	460	2,040	1,748
Online Gas Instruments	4,200	4,200	9,499	(5,299)	3,276
Online Water Instruments	31,300	31,300	37,179	(5,879)	46,711
Field Gas Instruments	35,900	35,900	29,060	6,840	30,896
NJDWSC Budget Expense	8,072,100	8,072,100	8,544,220	(472,120)	7,656,009
Government Fees and Assessments	-	-	579,815	(579,815)	55,982
Sub-total Cost of Providing Services	41,223,849	41,223,849	40,511,796	712,053	38,059,415

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	FY 2008 Adopted Budget	FY 2008 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Administrative Expenses:</b>					
Stationary, Postage and Supplies	236,800	236,800	217,834	18,966	204,963
Miscellaneous	220,100	220,100	385,466	(165,366)	195,881
Telephone	258,300	258,300	304,490	(46,190)	275,165
Wanaque So. - Lease Expense	38,400	38,400	30,471	7,929	30,595
Legal Advertisements	24,000	24,000	26,384	(2,384)	21,984
Tuition Reimbursement	9,600	9,600	20,898	(11,298)	10,055
Membership Affiliations	-	-	88,680	(88,680)	1,158
General Liability Insurance	672,700	672,700	650,159	22,541	494,289
Emergency Protective Measures	72,100	72,100	-	72,100	-
Fees and Taxes	370,000	370,000	501,625	(131,625)	497,760
Outside Security	28,800	28,800	23,024	5,776	26,704
Bad Debt Expense	480,500	480,500	150,525	329,975	418,814
<b>Employee Benefits:</b>					
Worker's Compensation	461,200	461,200	347,868	113,332	294,983
Hospitalization	3,411,400	3,411,400	3,504,052	(92,652)	3,477,325
Group Life Insurance	4,800	4,800	5,011	(211)	5,831
Pension	528,500	528,500	692,488	(163,988)	418,741
Social Security / Medicare	912,900	912,900	956,379	(43,479)	940,726
Unemployment and Disability	105,700	105,700	93,458	12,242	11,303
Dental	134,500	134,500	133,823	677	159,998
Prescription	768,800	768,800	793,211	(24,411)	763,707
Other	33,600	33,600	32,809	791	43,118
<b>Professional Services:</b>					
Legal	-	-	-	-	10,750
Engineering	-	-	-	-	69,510
Auditing	48,000	48,000	48,030	(30)	8,875
Other	115,300	115,300	121,495	(6,195)	142,250

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2008

	FY 2008 Adopted Budget	FY 2008 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Administrative Expenses (Continued):					
Repairs and Maintenance					
Outside Contractors	67,300	67,300	365	66,935	84,970
Property Damages	14,400	14,400	3,350	11,050	15,122
Office Cleaning	2,400	2,400	229	2,171	-
	9,020,100	9,020,100	9,132,124	(112,024)	8,624,577
Sub-total Operating	50,243,949	50,243,949	49,643,920	600,029	46,683,992
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	4,229,189	4,229,189	5,518,591	(1,289,402)	6,318,991
Bond Principal	7,306,396	7,306,396	7,306,396	-	7,037,908
Sub-total Other Costs	11,535,585	11,535,585	12,824,987	(1,289,402)	13,356,899
Total Costs Funded by Operating Revenues	61,779,534	61,779,534	62,468,907	(689,373)	60,040,891
Add: Excess / (Deficit)	-	-	490,283	490,283	(854,048)
	61,779,534	61,779,534	62,959,190	(1,179,656)	59,186,843

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2008

	FY 2008 Adopted Budget	FY 2008 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Excess of Revenues Over Expenses:			490,283		(854,048)
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(7,128,391)		(7,188,100)
Amortization Expense			(318,072)		(527,075)
PSE&G Settlement			(118,750)		(118,750)
Bond Principal			7,306,396		7,037,908
Net OPEB Obligation			(683,308)		-
Total Adjustments			(942,125)		(796,017)
Change in Net Assets			(451,842)		(1,650,065)

**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF CAPITAL BUDGET PROGRAM  
FUNDED BY FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>FY 2008 Budget as Amended</b>	<b>FY 2008 Actual</b>
<b>Financing Sources:</b>		
Debt Authorization	5,810,836	2,905,360
Retained Earnings Appropriated	-	4,056,910
	<u>5,810,836</u>	<u>6,962,270</u>
<b>Capital Outlays:</b>		
Dam Improvements	1,442,000	97,012
Backwash Water Supply Pumps	61,800	72,729
Windows	77,250	-
Traveling Screens	257,500	-
Intake Improvements	515,000	13,700
High Crest Pump Station	154,500	134,615
Main Replacement	1,545,000	1,455,475
Valve Replacement	515,000	92,024
Vehicles / Equipment	412,000	1,039,805
Miscellaneous Bonded Expenses	830,786	-
Unbudgeted Capital Expenditures	-	4,056,910
	<u>5,810,836</u>	<u>6,962,270</u>
<b>Total Capital Outlays</b>	<u>5,810,836</u>	<u>6,962,270</u>
<b>Total Costs Funded by Capital Revenue</b>	<u>5,810,836</u>	<u>6,962,270</u>
<b>Add: Excess</b>	<u>-</u>	<u>-</u>
	<u><u>5,810,836</u></u>	<u><u>6,962,270</u></u>

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2008	2008 Issued	Accreted Principal / Adjustments	2008 Redeemed	Balance Dec. 31, 2008
			Date	Amount					
Bonds (Series 1992)	06/10/92	CAB	2009	1,645,874.00					
		CAB	2010	1,542,383.60					
		CAB	2011	1,445,430.90					
		CAB	2012	1,354,550.45					
					6,996,794		1,666,445	2,675,000	5,988,239
Bonds (Series 2000A)	10/25/00	5.05%	2009	450,000.00					
		5.10%	2010	470,000.00					
		5.20%	2011	495,000.00					
		5.25%	2012	520,000.00					
		5.35%	2013	550,000.00					
		5.45%	2014	580,000.00					
		5.50%	2015	610,000.00		4,100,000		425,000	3,675,000
NJBIT Bonds (Series 2001A&B) Trust Portion (Refunded with Series 2007A)	10/15/01	5.00%	2009	1,375,000.00					
		5.50%	2010	1,445,000.00					
		5.50%	2011	1,525,000.00					
		5.50%	2012	1,605,000.00					
		5.50%	2013	1,690,000.00					
		5.00%	2014	1,785,000.00					
		5.00%	2015	1,782,877.40					
		5.00%	2016	1,873,320.48					
		5.00%	2017	1,968,226.26					
		5.00%	2018	2,063,050.62					
		5.00%	2019	2,174,126.23					
		4.75%	2020	2,279,681.12					
		4.75%	2021	2,386,306.96					
					25,257,589			1,305,000	23,952,589

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2008	2008 Issued	Accreted Principal / Adjustments	2008 Redeemed	Balance Dec. 31, 2008
			Date	Amount					
NJ/EIT Bonds (Series 2001A&B) Fund Portion	10/15/01	5.00%	2009	1,749,899.55					
		5.50%	2010	1,750,731.17					
		5.50%	2011	1,751,080.46					
		5.50%	2012	1,748,501.92					
		5.50%	2013	1,746,321.80					
		5.00%	2014	1,747,686.53					
		5.00%	2015	1,748,185.80					
		5.00%	2016	1,749,016.95					
		5.00%	2017	1,750,015.73					
		5.00%	2018	1,747,686.22					
		5.00%	2019	1,752,012.56					
		4.75%	2020	1,749,184.05					
		4.75%	2021	1,746,679.30					
					24,488,082			1,751,080	22,737,002
NJ/EIT Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/02	5.00%	2009	185,000.00					
		5.50%	2010	195,000.00					
		5.50%	2011	210,000.00					
		5.50%	2012	220,000.00					
		5.50%	2013	225,000.00					
		5.00%	2014	235,000.00					
		5.00%	2015	119,398.44					
		5.00%	2016	117,216.40					
		5.00%	2017	114,388.93					
		5.00%	2018	126,699.70					
		5.00%	2019	129,403.56					
		5.00%	2020	137,584.95					
		5.00%	2021	149,903.81					
		4.75%	2022	157,527.12					
					2,502,123			180,000	2,322,123

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2008	2008 Issued	Accreted Principal / Adjustments	2008 Redeemed	Balance Dec. 31, 2008
			Date	December 31, 2008 Amount					
NJ/EIT Bonds (Series 2002A&B) Fund Portion	10/15/02	5.00%	2009	242,690.10					
		5.50%	2010	243,187.74					
		5.50%	2011	246,623.35					
		5.50%	2012	246,299.92					
		5.50%	2013	242,359.09					
		5.00%	2014	241,172.69					
		5.00%	2015	246,196.38					
		5.00%	2016	244,394.19					
		5.00%	2017	242,263.15					
		5.00%	2018	148,910.07					
					2,589,413			245,316	2,344,097
Refunding Bonds (Series 2003)	12/15/03	4.90%	2009	235,000.00					
		5.00%	2010	245,000.00					
		5.00%	2011	260,000.00					
		5.00%	2012	270,000.00					
		5.00%	2013	2,695,000.00					
		5.00%	2014	2,825,000.00					
		5.00%	2015	2,965,000.00					
		5.00%	2016	3,115,000.00					
		5.00%	2017	3,270,000.00					
		5.00%	2018	3,435,000.00					
		5.00%	2019	3,605,000.00					
		5.00%	2020	3,785,000.00					
		5.00%	2021	3,975,000.00					
		5.00%	2022	4,175,000.00					
					35,080,000			225,000	34,855,000



PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2008	2008 Issued	Accreted Principal / Adjustments	2008 Redeemed	Balance Dec. 31, 2008
			Date	Amount					
Refunding Bonds (Series 2005)	02/08/05	2.50%	2009	285,000.00					
		3.00%	2010	285,000.00					
		4.00%	2011	300,000.00					
		3.20%	2012	310,000.00					
		3.25%	2013	590,000.00					
		3.50%	2014	615,000.00					
		3.60%	2015	640,000.00					
		3.60%	2016	655,000.00					
		3.80%	2017	685,000.00					
		3.90%	2018	715,000.00					
		4.00%	2019	740,000.00					
		4.00%	2020	775,000.00					
		4.10%	2021	800,000.00					
		4.13%	2022	840,000.00					
		4.20%	2023	370,000.00					
		4.20%	2024	380,000.00					
		4.25%	2025	400,000.00					
		4.25%	2026	420,000.00					
					10,080,000			275,000	9,805,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2008	2008 Issued	Accreted Principal / Adjustments	2008 Redeemed	Balance Dec. 31, 2008
			Date	Amount					
NJET Bonds (Series 2007A&B) Trust Portion	11/09/07	5.00%	2009	45,000.00					
		5.00%	2010	45,000.00					
		5.00%	2011	50,000.00					
		3.40%	2012	50,000.00					
		3.50%	2013	50,000.00					
		3.60%	2014	55,000.00					
		5.00%	2015	55,000.00					
		5.00%	2016	60,000.00					
		5.00%	2017	60,000.00					
		5.00%	2018	65,000.00					
		4.00%	2019	65,000.00					
		4.00%	2020	70,000.00					
		5.00%	2021	75,000.00					
		5.00%	2022	75,000.00					
		4.25%	2023	80,000.00					
		4.50%	2024	85,000.00					
		4.50%	2025	85,000.00					
		4.50%	2026	90,000.00					
		4.25%	2027	95,000.00					
					1,255,000				1,255,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2008	2008 Issued	Accreted Principal / Adjustments	2008 Redeemed	Balance Dec. 31, 2008
			Date	Amount					
NJET Bonds (Series 2007A&B) Fund Portion	11/09/07	4.11%	2009	92,876.86					
		4.15%	2010	125,830.10					
		4.18%	2011	129,317.71					
		4.22%	2012	126,147.15					
		4.27%	2013	123,991.16					
		4.31%	2014	128,112.89					
		4.35%	2015	125,601.81					
		4.39%	2016	128,455.31					
		4.44%	2017	124,650.64					
		4.53%	2018	127,187.09					
		4.57%	2019	123,065.36					
		4.62%	2020	126,109.10					
		4.66%	2021	128,899.20					
		4.69%	2022	124,143.35					
		4.75%	2023	125,728.63					
		4.78%	2024	127,757.79					
		4.81%	2025	122,906.83					
		4.83%	2026	124,397.00					
		4.85%	2027	125,602.02					
					2,360,780				2,360,780

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2008	2008 Issued	Accreted Principal / Adjustments	2008 Redeemed	Balance Dec. 31, 2008
			Date	Amount					
Refunding Bonds (Series 2007C)	11/09/07	4.00%	2009	245,000.00					
		4.00%	2010	255,000.00					
		4.00%	2011	265,000.00					
		4.00%	2012	275,000.00					
		4.00%	2013	285,000.00					
		4.00%	2014	300,000.00					
		4.00%	2015	310,000.00					
		4.00%	2016	325,000.00					
		4.00%	2017	335,000.00					
		4.00%	2018	350,000.00					
		4.00%	2019	365,000.00					
		4.00%	2020	380,000.00					
		4.00%	2021	395,000.00					
		4.10%	2022	410,000.00					
		5.00%	2023						
		5.00%	2024						
		5.00%	2025						
		5.00%	2026						
		5.00%	2027						
				2,350,000.00	7,070,000			225,000	6,845,000
Current Portion					121,779,781		1,666,445	7,306,396	116,139,830
					7,306,397				7,580,467
					114,473,384				108,559,363
Noncurrent Portion					121,779,781				116,139,830

SCHEDULE OF FUNDING PROGRESS  
FOR THE RETIREE HEALTH PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/08	\$ -	\$ 24,453,445	\$ 24,453,445	0.00%	\$ 12,975,325	188.46%

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2008:

<u>Name</u>		<u>Office</u>
Alan C. Levine	Paterson	President
Simon Grubin	Paterson	Vice President
Idida Rodriguez	Paterson	Treasurer
Robert Vannoy	Paterson	Secretary
Rigo Sanchez	Passaic	Commissioner
Thomas P. DeVita	Clifton	Commissioner
Gloria Kolodziej	Clifton	Commissioner
Joseph A. Bella		Executive Director
James G. Duprey, P.E.		Director of Engineering
Yitzchak Weiss		Controller
James J. Gallagher		Director of Personnel
George T. Hanley, Esq.		General Counsel
Louis Amodio		Administrative Secretary

All members and employees are covered by insurance policies provided through the New Jersey Utility Authorities Joint Insurance Fund.

## Single Audit Section

# Ferraioli, Wielkott, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
Steven D. Wielkott, CPA, RMA  
James J. Cerullo, CPA, RMA  
Paul J. Cuva, CPA, RMA  
Thomas M. Ferry, CPA, RMA

Certified Public Accountants  
401 Wanaque Avenue  
Pompton Lakes, New Jersey 07442  
973-835-7900  
Fax 973-835-6631

Newton Office  
100B Main Street  
Newton, N.J. 07860  
973-579-3212  
Fax 973-579-7128

## 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

Honorable Chairman and Members of the  
Passaic Valley Water Commission  
1525 Main Avenue  
Clifton, New Jersey 07011

We have audited the financial statements of the Passaic Valley Water Commission as of and for the year ended December 31, 2008, and have issued our report thereon dated July 22, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; 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 Passaic Valley Water Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Passaic Valley Water Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effective of the Passaic Valley Water Commission'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 affect the Passaic Valley Water Commission'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 Passaic Valley Water Commission's financial statements that is more than inconsequential will not be prevented or detected by the Passaic Valley Water Commission's internal control.





As noted in the accompanying schedule of findings and questioned costs, we consider the following to be significant deficiencies:

- Inadequate procedures for the monitoring of account balances and significant account fluctuations,
- Absence of appropriate segregation of duties consistent with appropriate control objectives,
- Evidence of failure to properly maintain fixed assets schedule,
- Evidence of failure to perform tasks that are part of internal control, such as reconciliations not prepared or not timely prepared.

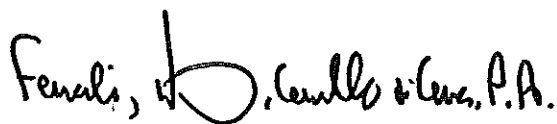
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Passaic Valley Water Commission's internal control.

We did not consider the significant deficiencies noted above to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Passaic Valley Water Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance or other matters that we have reported to management in our report entitled "Comments and Recommendations" (Findings 2008-5, 2008-6, 2008-7, 2008-8 and 2008-10).

This report is intended solely for the information of governing body, management, the Division of Local Government Services, Department of Community Affairs, State of New Jersey, Federal Awarding Agencies and Pass Through Entities and is not intended to be and should not be used by anyone other than these specified parties.



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants

July 22, 2009



# Ferraioli, Wielkott, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
Steven D. Wielkott, CPA, RMA  
James J. Cerullo, CPA, RMA  
Paul J. Cuva, CPA, RMA  
Thomas M. Ferry, CPA, RMA

Certified Public Accountants  
401 Wanaque Avenue  
Pompton Lakes, New Jersey 07442  
973-835-7900  
Fax 973-835-6631

Newton Office  
100B Main Street  
Newton, N.J. 07860  
973-579-3212  
Fax 973-579-7128

## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AND STATE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND N.J. OMB CIRCULAR 04-04**

Honorable Chairman and Members of the  
Passaic Valley Water Commission  
1525 Main Avenue  
Clifton, NJ 07011

### Compliance

We have audited the compliance of the Passaic Valley Water Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Office of Management and Budget's State Aid/Grant Compliance Supplement* that are applicable to each of its major federal and state programs for the fiscal year ended December 31, 2008. The Passaic Valley Water Commission's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Passaic Valley Water Commission's management. Our responsibility is to express an opinion on the Passaic Valley Water Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"; and the provisions of the New Jersey State Treasury Circular Letter 04-04 "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid." Those standards and OMB Circular A-133 and N.J. OMB Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Passaic Valley Water Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Passaic Valley Water Commission's compliance with those requirements.



Honorable Chairperson and Members of the  
Passaic Valley Water Commission  
Page 2.

In our opinion, the Passaic Valley Water Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the fiscal year ended December 31, 2008.

#### Internal Control Over Compliance

The management of the Passaic Valley Water Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered the Passaic Valley Water Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and N.J. OMB Circular 04-04.

Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relative low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal and state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the management and the New Jersey State Department of Community Affairs, other state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Ferraioli, Wielkotz, Cerullo & Cuva, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants

July 22, 2009



PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE  
DECEMBER 31, 2008

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures	
				From	To	Prior Years	Current Year	Prior Years	Current Year
U.S. Department of Environmental Protection: Pass Through New Jersey Department of Environmental Protection									
NJ Environmental Infrastructure Fund	66,458	4800-526-998200-60	\$ 2,410,000	01/01/08	12/31/08	368,453	852,392	490,436.0	735,548.0
Total Federal Financial Assistance						368,453	852,392	490,436.0	735,548.0

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
DECEMBER 31, 2008

State Grantor/Pass-Through Grantor/Program	Pass Through Entity ID No.	State Account Number	Program Amount	Grant Period		Cash Received		Program Expenditures	
				From	To	Prior Years	Current Year	Prior Years	Current Year
<u>New Jersey Department of Environmental Protection:</u> NJ Environmental Infrastructure Trust	n/a	526 042 4800 006 998200	\$ 1,155,780	01/01/08	12/31/08	368,453	852,392	490,436	735,548
Total State Financial Assistance						368,453	852,392	490,436	735,548

**PASSAIC VALLEY WATER COMMISSION**

**NOTES TO THE SCHEDULES OF EXPENDITURES  
OF FEDERAL AND STATE AWARDS  
YEAR ENDED DECEMBER 31, 2008**

**NOTE 1. GENERAL**

The accompanying Schedule of Expenditures of Federal and State Awards present the activity of all federal and state award programs of the Passaic Valley Water Commission . The Commission is defined in Note 1 to the Commission's basic financial statements. All state awards received directly from state agencies, as well as state financial assistance passed through other government agencies is included on the Schedule of Expenditures of State Financial Assistance.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying Schedules of Expenditures of Awards and Financial Assistance are presented on the accrual basis of accounting. These bases of accounting are described in Notes 2(A) to the Commission's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Awards and financial assistance are reported in the Commission's basic financial statements on a GAAP basis as follows:

	Balance <u>Dec.31, 2007</u>	<u>Issued</u>	Less: Amounts <u>Received</u>	<u>Adjustments</u>	Balance <u>Dec.31, 2008</u>
NJEIT - Fund & Trust	<u>2,828,875</u>	<u>      </u>	<u>1,704,784</u>	<u>      </u>	<u>1,124,091</u>

**NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS**

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2008

*Section I - Summary of Auditor's Results*

**Financial Statements**

Type of auditor's report issued: unqualified

Internal control over financial reporting:

1. Significant deficiencies identified that are not considered to be material weaknesses?           yes       X      none reported
2. Material weakness(es) identified?           yes       X      no

Noncompliance material to basic financial statements noted?           yes       X      no

**State Awards**

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?       X      yes           no

Type of auditor's report issued on compliance for major programs: unqualified

Internal Control over major programs:

1. Significant deficiencies identified that are not considered to be material weaknesses?           yes       X      none reported
2. Material weakness(es) identified?           yes       X      no

Any audit findings disclosed that are required to be reported in accordance with NJ OMB Circular Letter 04-04?           yes       X      no

Identification of major programs:

**GMIS Number(s)**

**Name of State Program**

N/A

NJ Environmental Infrastructure Trust Fund

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2008**  
**(continued)**

*Section II - Financial Statement Findings*

None

*Section III - Federal Awards and State Financial Assistance Findings and Questioned Costs*

No matters were reported.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2008**

**Status of Prior Year Findings**

There were no prior year audit findings.



## **Comments and Recommendations**

## PASSAIC VALLEY WATER COMMISSION

### GENERAL COMMENTS

#### Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-3

Effective April 17, 2000 and thereafter the bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$25,000. On July 1, 2005, the bid threshold was increased to \$29,000.

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors, formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the sum of \$25,000 or \$29,000 after July 1, 2005, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months.

The governing body of the Commission has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the opinion of the Commission's attorney should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

Our examination of expenditures revealed no individual payment, contract or agreement "for the performance of any work or the furnishing or hiring of any materials or supplies" in excess of the statutory thresholds where bids had not been previously sought by public advertisement or where a resolution had previously been adopted under the provisions of N.J.S.A. 40A:11-6.

Our review of the Commission's minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

## PASSAIC VALLEY WATER COMMISSION

### GENERAL COMMENTS, CONTINUED

#### FINDING: 2008-1\*

#### STATEMENT OF CONDITION

Inadequate procedures for the monitoring of account balances (in regards to budgeted line items) and significant account fluctuations.

#### CRITERIA

Internal controls should be designed to assure that ongoing monitoring occurs during the course of normal operations. Monitoring should be performed continually and be ingrained in the agency's operations. This includes regular management and supervisory activities, comparisons, and other actions people take in performing their duties.

#### EFFECT

Certain expense accounts in the general ledger occasionally exceed amounts budgeted and show significant fluctuations in comparison to the prior year.

#### CAUSE

There could be major fluctuations between prior and current year due to changes in operations, but all parties should be aware of them as they happen. In the past, the Accounting Department would code all the expenses posted to the general ledger. Currently, each department is responsible for the coding of its own expenses.

#### RECOMMENDATION

The Accounting Department and each department should be aware of budgeted appropriations and major account fluctuations during the year and should be able to explain them. Additionally, the Accounting Department should review the coding of expenses posted to the general ledger during the year.

## **PASSAIC VALLEY WATER COMMISSION**

### **GENERAL COMMENTS, CONTINUED**

#### **FINDING: 2008-2\***

#### **STATEMENT OF CONDITION**

Absence of appropriate segregation of duties consistent with appropriate control objectives.

#### **CRITERIA**

Duties should be segregated such that the work of one individual provides a cross-check on the work of another individual. Generally, assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of related assets reduces the opportunities for an individual to both perpetrate and conceal errors or fraud in the normal course of duties.

#### **EFFECT**

Opportunities for an individual to perpetrate and conceal errors or fraud exists. The duties of accounts receivable maintenance, billing, receiving of cash payments, and reconciling bank statements are often performed by one individual. In addition, the cash disbursement, payment and recordkeeping functions are often performed by the same individual.

#### **CAUSE**

The small size of the Accounting Department has made it difficult to design or implement an overall internal control design.

#### **RECOMMENDATION**

The Commission should consider the cost/benefit of designing an effective system of internal controls.

PASSAIC VALLEY WATER COMMISSION

GENERAL COMMENTS, CONTINUED

**FINDING: 2008-3\***

**STATEMENT OF CONDITION**

Evidence of failure to properly maintain fixed assets schedule.

**CRITERIA**

Governmental entities should maintain a fixed asset list providing the cost and description of property and equipment, as well as any depreciation previously expensed against such listed assets.

**EFFECT**

Absent or inadequate controls over the safeguarding of assets.

**CAUSE**

Unknown.

**RECOMMENDATION**

The Commission should maintain a fixed asset list providing the cost and description of its property and equipment, as well as any depreciation previously expensed against such listed assets.

PASSAIC VALLEY WATER COMMISSION

GENERAL COMMENTS, CONTINUED

**FINDING: 2008-4\***

**STATEMENT OF CONDITION**

Evidence of failure to perform tasks that are part of internal control, such as reconciliations not prepared or not timely prepared.

**CRITERIA**

All investment accounts should be reconciled to the bank statements and the general ledger on a monthly basis and the reconciliations should be reviewed for accuracy.

**EFFECT**

Investment account balances and interest earned may be misstated on the general ledger.

**CAUSE**

Unknown.

**RECOMMENDATION**

That Accounting Department should reconcile the investment and cash accounts to bank statements on a monthly basis.

## PASSAIC VALLEY WATER COMMISSION

### GENERAL COMMENTS, CONTINUED

#### FINDING: 2008-5\*

#### STATEMENT OF CONDITION

Allocation of the "Administration" and "Cost of Providing Service" appropriations from the Commission's budget does not agree with the budget filed with the Department of Community Affairs (DCA). Additionally, unrestricted/undesignated net assets reported on the SS-9 include net assets invested in capital, net of related debt.

#### CRITERIA

For every budget, operating appropriations shall be itemized as to salary and wages, fringe benefits and other expenses and further classified as to administration and cost of providing service; and include total principal payments on debt service in lieu of depreciation. Additionally, unrestricted/undesignated net assets should represent accumulated earnings which have been retained from the entity operations and are not reserved for any special purpose; thereby making such funds available as a reduction to total operating and non-operating appropriations.

#### EFFECT

The Commission's itemized budget does not agree with the allocation from the DCA budget. Additionally, unrestricted/undesignated net assets on the SS-9 are overstated.

#### CAUSE

The Commission prepares its DCA budget using a percentage to allocate total appropriations, not the actual itemized budget.

#### RECOMMENDATION

The Commission should allocate DCA budget appropriations based on their itemized budget. Unrestricted/undesignated net assets on the SS-9 should exclude net assets invested in capital, net of related debt.

**PASSAIC VALLEY WATER COMMISSION**

**GENERAL COMMENTS, CONTINUED**

**FINDING: 2008-6\***

**STATEMENT OF CONDITION**

Employee payroll deductions are deposited and transferred from the Commission's general operating accounts.

**CRITERIA**

Fiduciary transactions should be separated from the proprietary fund bank accounts.

**EFFECT**

Payroll tax and related deductions are not separated from the Commission's general operating bank accounts.

**CAUSE**

Unknown.

**RECOMMENDATION**

The Commission establish an agency account for all employee payroll deductions and taxes.



PASSAIC VALLEY WATER COMMISSION

GENERAL COMMENTS, CONTINUED

FINDING: 2008-7\*

STATEMENT OF CONDITION

Capital expenditures were made without a budgetary capital line item.

CRITERIA

N.J.A.C. 5:31-2.2 states that no authority shall make appropriations, authorize expenditures or adopt a security agreement for a capital project unless its provisions are in agreement with a previously adopted capital budget, temporary capital budget or amended capital budget.

EFFECT

The Commission is not in compliance with N.J.A.C. 5:31-2.2.

CAUSE

Unknown.

RECOMMENDATION

A resolution amending the capital budget should be made prior to capital expenditure.

# **PASSAIC VALLEY WATER COMMISSION**

## **GENERAL COMMENTS, CONTINUED**

### **FINDING: 2008-8\***

#### **STATEMENT OF CONDITION**

The Commission is not depositing employee's unemployment contributions (SUI) into a separate trust fund.

#### **CRITERIA**

Entities who elect to fund SUI under the Benefit Reimbursement Method withhold a portion of the employee's contributions in a separate trust fund rather than submit directly to the State. As unemployment claims arise, the State bills the government directly and amounts are paid directly through the trust account.

#### **EFFECT**

The unemployment account is not properly utilized.

#### **CAUSE**

The Commission deposited all SUI contributions and paid all claims through the general operating accounts and were unaware that activity had to go through a separate individual trust.

#### **RECOMMENDATION**

All employee unemployment contributions should be deposited into a separate trust. Additionally, all claims should be paid or funded through the unemployment trust.

**PASSAIC VALLEY WATER COMMISSION**

**GENERAL COMMENTS, CONTINUED**

**FINDING: 2008-9\***

**STATEMENT OF CONDITION**

The Commission processes all payroll transactions and payroll returns internally.

**EFFECT**

The processing of payroll internally for a government of this size creates an unnecessary use of personnel and resources.

**RECOMMENDATION**

The Commission's payroll function should be outsourced.

**PASSAIC VALLEY WATER COMMISSION**

**GENERAL COMMENTS, CONTINUED**

**FINDING: 2008-10\***

**STATEMENT OF CONDITION**

The Commission is not filing a certificate that establishes an operating reserve fund on an annual basis.

**CRITERIA**

The 1992 General Bond Resolution requires the "Operating Fund Reserve Requirement" to equal the amount reasonably necessary as a reserve for operating expenses as stated in a certificate of a Commission Officer and filed with the Trustee by the Commission (a) prior to or simultaneously with the authentication and delivery of any series of bonds, and (b) at least annually beginning on a date not more than twelve months subsequent to the date of such certificate of a Commission Officer.

**EFFECT**

The \$2,500,053 Operations reserve is not in compliance with the 1992 General Bond Resolution..

**RECOMMENDATION**

The Commission should file a certificate establishing its operating reserve fund on an annual basis.

PASSAIC VALLEY WATER COMMISSION

GENERAL COMMENTS, CONTINUED

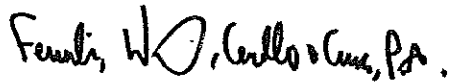
A review was performed on all prior year recommendations and corrective action was taken on all items, except those noted with an asterisk "\*\*".

Problems and weaknesses noted in our review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Should any questions arise as to our comments or recommendations, or should you desire assistance in implementing our recommendations, do not hesitate to call us.

We wish to thank Passaic Valley Water Commission for their cooperation during the performance of our audit.

Respectfully submitted,.



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants