

PASSAIC VALLEY WATER COMMISSION
REPORT OF AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2009

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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 Net Assets | B |
| 14 | Comparative Statement of Cash Flows | C |
| 16 | Notes to Financial Statements | |

SUPPLEMENTARY SCHEDULES

Schedules

- | | | |
|----|--|---|
| 53 | Supplemental Schedule of Revenues, Expenses and Changes in Net Assets | 1 |
| 54 | Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments - Unrestricted and Restricted Accounts | 2 |
| 57 | Schedule of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget | 3 |
| 63 | Schedule of Capital Budget Program Funded by Financing Sources | 4 |
| 65 | Schedule of Revenue and Revenue Refunding Bonds | 5 |
| 75 | Schedule of Funding Progress for the Retiree Health Plan | 6 |
| 76 | Roster of Officials and Report on Surety Bonds | 7 |
| 77 | 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 | |
| 79 | General Comments and Recommendations | |

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INDEPENDENT AUDITOR'S REPORT

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

Ladies and Gentlemen:

We have audited the accompanying statement of net assets of the Passaic Valley Water Commission as of December 31, 2009, 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 audit 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in circumstances, 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2009, 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.

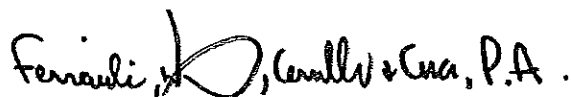


Honorable Chairman and Members of the
Passaic Valley Water Commission
Page 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2010 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 scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That 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.

Very truly yours,



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

April 1, 2010



Required Supplementary Information

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Management Discussion and Analysis

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**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009**

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, 2009. 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 \$63,962,143 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$61,870,522.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt of \$32,248,707 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 \$24,756,012 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$6,957,424 represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission increased by \$28,985,364 to \$161,175,438 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, 2009**

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, 2009**

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 \$63,962,143. This is a \$2,091,621 increase over last year's net assets of \$61,870,522. A summary of the Commission's statement of net assets is presented in the following table:

Condensed Statement of Net Assets

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Non-current				
Assets	59,221,100	25,094,942	34,126,158	135.99%
Capital Assets	162,567,423	165,564,058	(2,996,635)	(1.81)%
Other Assets	<u>3,349,058</u>	<u>3,401,596</u>	<u>(52,538)</u>	(1.54)%
Total Assets	<u>225,137,581</u>	<u>194,060,596</u>	<u>31,076,985</u>	16.01%
Long-term Debt				
Outstanding	141,342,989	109,974,680	31,368,309	28.52%
Other Liabilities	<u>19,832,449</u>	<u>22,215,394</u>	<u>(2,382,945)</u>	(10.73)%
Total Liabilities	<u>161,175,438</u>	<u>132,190,074</u>	<u>28,985,364</u>	21.93%
Invested in Capital Assets, net of Related Debt	32,248,707	54,380,603	(22,131,896)	(40.70)%
Restricted	24,756,012	6,124,378	18,631,634	304.22%
Unrestricted	<u>6,957,424</u>	<u>1,365,541</u>	<u>5,591,883</u>	409.50%
Total Net Assets	<u>63,962,143</u>	<u>61,870,522</u>	<u>2,091,621</u>	3.38%

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 increased by \$2,091,621.

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009**

Net Assets (Continued)

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

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	62,746,623	62,259,807	486,816	0.78%
Non-operating Revenues	478,120	699,383	(221,263)	(31.64)%
Total Revenues	<u>63,224,743</u>	<u>62,959,190</u>	<u>265,553</u>	0.42%
Depreciation	7,892,933	7,128,391	764,542	10.73%
Other Operating Expenses	47,569,205	49,643,920	(2,074,715)	(4.18)%
Other Non-operating Expense	<u>5,670,984</u>	<u>5,955,413</u>	<u>(284,429)</u>	(4.78)%
Total Expenses	<u>61,133,122</u>	<u>62,727,724</u>	<u>(1,594,602)</u>	(2.54)%
Change in Net Assets	2,091,621	231,466	1,860,155	803.64%
Beginning Net Assets	<u>61,870,522</u>	<u>61,639,056</u>	<u>231,466</u>	<u>0.38%</u>
Ending Net Assets	<u>63,962,143</u>	<u>61,870,522</u>	<u>2,091,621</u>	3.38%

The Commission's operating revenues increased by \$486,816 to \$62,746,623 in fiscal year 2009 from \$62,259,807 in 2008. This increase is primarily due to increased revenue from service agreements and water sales. Non-operating revenues decreased by \$221,263 to \$478,120 from \$699,383 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, 2009**

The following table provides a 2009 budget comparison:

	Budget vs. Actual FY 2009		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	68,709,345	62,746,623	(5,962,722)
Non-Operating	<u>575,000</u>	<u>478,120</u>	<u>(96,880)</u>
	<u>69,284,345</u>	<u>63,224,743</u>	<u>(6,059,602)</u>
Expenses:			
Operating	49,233,844	47,569,205	1,664,639
Non-Operating	<u>11,120,590</u>	<u>12,794,474</u>	<u>(1,673,884)</u>
	<u>60,354,434</u>	<u>60,363,679</u>	<u>(9,245)</u>
Income before Depreciation	<u>8,929,911</u>	<u>2,861,064</u>	<u>(6,068,847)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During fiscal year 2009, the Commission had an increase of \$4,896,298 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$162,567,423. This is a \$2,996,635 decrease under last year's net property, plant and equipment of \$165,170,346. A summary of the Commission's capital assets is presented in the following table:

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Dollar Change</u>
Capital Assets	205,861,889	200,965,591	4,896,298
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>(130,819,150)</u>	<u>(122,926,217)</u>	<u>(7,892,933)</u>
	<u>162,567,423</u>	<u>165,564,058</u>	<u>(2,996,635)</u>

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009**

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

Cleaning and Lining	2,652,000
Valve Replacements	530,000
Meter Replacements	180,000
Plant/Distribution - Misc. Upgrades	637,000
Vehicles/Equipment	180,000
Dam Improvements - Point View	669,500
Dam Improvements - Beatties	212,180
ActiFlo Tube Settlers - Replace Tube Modules	509,232
Residential Pumps - Add Moyno Pumps	159,135
White House - New Roof/Renovations	74,263
Chemical Feed System - Potassium Pormangante	1,591,000
West Milford Tank	424,360
Open Finished Water Reservoirs - Design	795,675
Open Finished Water Reservoirs - Consulting	1,803,530
Windows - Main Pumping Station	212,000
Windows - Administration Building	74,000
Lime House - Roof Replacement	15,000
Boiler House Retaining Wall - Structural Rehab.	477,000
Fencing - Point View	50,000
Fencing - New Street	10,000
Fencing - Levine	10,000
Wireless Communication System - Security	2,122,000
Commercial IT Systems Upgradea - Software	371,000
Commercial IT Systems Upgradea - Radio Meters	42,000
Engineering Systems - Digital Mapping	155,000
Engineering Systems - Security Consultant	103,000
Laboratory/Water Quality Systems - Auto Chemistry System	159,000
Laboratory/Water Quality Systems - ICP/MS	<u>318,000</u>
	<u>14,535,875</u>

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009**

Debt Administration

At December 31, 2009, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the accreted amount of \$148,532,207. 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.

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Financial Statements

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PASSAIC VALLEY WATER COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31,

EXHIBIT A
Page 1 of 3

	<u>2009</u>	<u>Restated 2008</u>
<u>CURRENT ASSETS:</u>		
<u>Unrestricted:</u>		
Cash and Cash equivalents	\$ (613,211)	\$ 1,418,314
Accounts Receivable, net	15,619,803	13,106,308
Inventory	2,437,536	1,955,654
Other Receivables	8,450	18,420
Due From (To) Water Bank	(5,009)	(24,509)
Prepaid Expenses	<u>656,602</u>	<u>447,035</u>
Total Current Assets	<u>18,104,171</u>	<u>16,921,222</u>
<u>NON-CURRENT ASSETS:</u>		
<u>Restricted:</u>		
Construction Account:		
Cash and Cash equivalents	14,403,895	3,009
Due From NJBIT Trust	1,074,783	1,124,091
Bond Service Fund:		
Cash and Cash equivalents	2,607,837	3,115,467
Bond Reserve Account:		
Cash and Cash equivalents	12,605,101	-
Renewal and Extension Account:		
Cash and Cash equivalents	3,002,449	1,200,000
Operations Account:		
Cash and Cash equivalents	7,185,634	2,500,159
Unemployment Compensation Insurance:		
Cash and Cash equivalents	<u>237,230</u>	<u>230,994</u>
Total Restricted Assets	<u>41,116,929</u>	<u>8,173,720</u>
Capital Assets:		
Capital Assets	205,861,889	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	815,146	815,146
Less: Accumulated Depreciation	<u>(130,819,150)</u>	<u>(122,926,217)</u>
Total Capital Assets	<u>162,567,423</u>	<u>165,564,058</u>
Other Assets:		
Deferred Costs	<u>3,349,058</u>	<u>3,401,596</u>
TOTAL ASSETS	\$ <u>225,137,581</u>	\$ <u>194,060,596</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>2009</u>	<u>Restated 2008</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 10,757,187	\$ 13,336,356
Water Bank - Deferred Revenue (Expense)	(5,009)	(24,509)
Due To (From) Contractor	86,996	30,951
Meter Deposits Payable	299,495	304,805
Security Deposits Payable	<u>8,078</u>	<u>8,078</u>
	<u>11,146,747</u>	<u>13,655,681</u>
Payable from Restricted Assets:		
Accrued Interest Payable	882,239	922,242
Bonds Payable - Current Portion	7,744,749	7,580,467
Leases Payable - Current Portion	<u>58,714</u>	<u>57,004</u>
	<u>8,685,702</u>	<u>8,559,713</u>
Total Current Liabilities	<u>19,832,449</u>	<u>22,215,394</u>
Non-Current Liabilities:		
Bonds Payable - Long-Term Portion	140,787,458	108,559,363
Leases Payable - Long-Term Portion	800,288	815,383
PSE&G Settlement	-	1,900,000
Unamortized Costs in Excess of Refunded Debt, Net of /	(5,131,793)	(5,604,552)
Unamortized Savings from Refunded Debt, Net of Amor	813,999	859,787
Unamortized Bond Discount, Net of Amortization	(302,010)	(72,615)
Unamortized Bond Premium, Net of Amortization	3,655,542	2,737,851
Deferred Savings on Bond Refunding, Net of Amortizati	<u>719,505</u>	<u>779,463</u>
Total Non-Current Liabilities	<u>141,342,989</u>	<u>109,974,680</u>
TOTAL LIABILITIES	<u>161,175,438</u>	<u>132,190,074</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>2009</u>	<u>Restated 2008</u>
<u>NET ASSETS:</u>		
Invested in Capital Assets, net of Related Debt	32,248,707	54,380,603
Restricted:		
Current Debt Service	1,725,598	2,193,225
Future Debt Service	12,605,101	-
Renewal and Extension	3,002,449	1,200,000
Operations	7,185,634	2,500,159
Unemployment Compensation Insurance	237,230	230,994
Unrestricted:		
Designated	1,975,392	1,291,332
Undesignated	<u>4,982,032</u>	<u>74,209</u>
 TOTAL NET ASSETS	 \$ <u><u>63,962,143</u></u>	 \$ <u><u>61,870,522</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 REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
DECEMBER 31,**

EXHIBIT B

	<u>2009</u>	<u>Restated 2008</u>
Operating Revenue:		
Service Agreements	\$ 57,392,994	\$ 57,062,654
Miscellaneous	5,341,205	5,173,056
Sale of Scrap	<u>12,424</u>	<u>24,097</u>
Total Operating Revenue	<u>62,746,623</u>	<u>62,259,807</u>
Operating Expenses:		
Cost of Providing Services	38,891,508	40,511,796
Administrative and General	8,677,697	9,132,124
Depreciation Expense	<u>7,892,933</u>	<u>7,128,391</u>
Total Operating Expenses	<u>55,462,138</u>	<u>56,772,311</u>
Operating Income	<u>7,284,485</u>	<u>5,487,496</u>
Non-Operating Revenue (Expenses):		
Interest on Investments	239,845	478,381
Finance Charges	238,275	221,002
Interest Expense	(5,214,007)	(5,518,591)
PSE&G Settlement	-	(118,750)
Amortization Expense	<u>(456,977)</u>	<u>(318,072)</u>
Non-Operating Income (Loss)	<u>(5,192,864)</u>	<u>(5,256,030)</u>
Change In Net Assets	2,091,621	231,466
Net Assets - January 1	<u>61,870,522</u>	<u>61,639,056</u>
Net Assets - December 31	<u><u>\$ 63,962,143</u></u>	<u><u>\$ 61,870,522</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 CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2009</u>	<u>Restated 2008</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 59,761,216	\$ 62,300,189
Cash Paid to Vendors and Employees	(52,263,251)	(47,058,904)
Interest Received	478,120	699,383
Net Cash Provided by Operating Activities	<u>7,976,085</u>	<u>15,940,668</u>
Cash Flow from Investing Activities:		
Capital Expenditures	(5,297,230)	(6,962,270)
(Increase) Decrease in NJBIT Receivable	49,308	1,704,784
(Purchase)/Sale of Investments	<u> </u>	<u>1,192,132</u>
Net Cash Provided by (used in) Investing Activities	<u>(5,247,922)</u>	<u>(4,065,354)</u>
Cash Flow from Financing Activities:		
Issuance of Bonds	38,500,000	
Principal Payment on Bonds and Notes	(6,107,623)	(5,639,952)
Interest Paid on Bonds and Notes	(5,254,010)	(5,854,965)
Increase (Decrease) in Deferred Costs	52,538	(59,959)
Increase (Decrease) in Lease Payable	(13,385)	(11,166)
Increase (Decrease) in Unamortized Items	<u>1,055,309</u>	<u>378,041</u>
Net Cash Used in Financing Activities	<u>28,232,829</u>	<u>(11,188,001)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	30,960,992	687,313
Cash and Cash Equivalents at Beginning of Year	<u>8,467,943</u>	<u>7,780,630</u>
Cash and Cash Equivalents at End of Year	<u>\$ 39,428,935</u>	<u>\$ 8,467,943</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>2009</u>	<u>Restated 2008</u>
CHANGE IN NET ASSETS	\$ <u>2,091,621</u>	\$ <u>231,466</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	7,892,933	7,128,391
Interest Expense	5,214,007	5,518,591
PSE&G Settlement	(1,900,000)	118,750
Amortization Expense	456,977	318,072
Decrease (Increase) in Accounts Receivable	(2,513,495)	(1,889,430)
Decrease (Increase) in Other Receivable	9,970	1,623,071
Decrease (Increase) in Inventory	(481,882)	306,741
Decrease (Increase) in Prepaid Expenses	(209,567)	(151,025)
Increase (Decrease) in Accounts Payable	(2,579,169)	2,740,341
Increase (Decrease) in Meter Deposits Payable	<u>(5,310)</u>	<u>(4,300)</u>
Total Adjustments	<u>5,884,464</u>	<u>15,709,202</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>7,976,085</u></u>	\$ <u><u>15,940,668</u></u>

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

Notes to Financial Statements

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**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009**

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, 2009**

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, 2009**

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, 2009**

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, 2009

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, 2009**

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, 2009 is as follows:

	<u>Balance Dec.31, 2008</u>	<u>Net Additions</u>	<u>Disposals</u>	<u>Balance Dec.31, 2009</u>
Capital Assets	200,965,591	4,896,298		205,861,889
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>
	288,490,275	4,896,298	0	293,386,573
Accumulated Depreciation	<u>(122,926,217)</u>	<u>(7,892,933)</u>		<u>(130,819,150)</u>
Property, Plant and Equipment, Net	<u>165,564,058</u>	<u>(2,996,635)</u>	<u>0</u>	<u>162,567,423</u>

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009**

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, 2009

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, 2009

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

M. Reclassifications

Certain reclassifications have been made to the 2008 amounts to conform to the 2009 financial statement presentation. These reclassifications had no effect on the previously reported results of operations for 2008.

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, 2009**

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, 2009, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	(613,211)	(613,211)
Restricted	<u>40,042,146</u>	<u>40,042,146</u>
	<u>39,428,935</u>	<u>39,428,935</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2009 was \$ 39,428,935 and the bank balance was \$41,005,202. 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, 2009, \$-0- of the Commission's bank balance of \$41,005,202 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, 2009, 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, 2009**

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, 2008</u>	<u>Issued</u>	Less: Amounts <u>Received</u>	<u>Adjustments</u>	Balance <u>Dec.31, 2009</u>
NJEIT - Fund & Trust	<u>1,124,091</u>	<u> </u>	<u>49,308</u>	<u> </u>	<u>1,074,783</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, 2009**

NOTE 6. LONG-TERM DEBT

The Commission has issued and has outstanding the following bonds as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Series 1992 CAB Bonds	4,786,083	5,988,239
Series 2000A Bonds	3,225,000	3,675,000
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	43,564,691	46,689,591
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	4,238,530	4,666,220
Series 2003 Refunding Bonds	34,620,000	34,855,000
Series 2005 Refunding Bonds	9,520,000	9,805,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	3,477,903	3,615,780
Series 2007C Refunding Bonds	6,600,000	6,845,000
Series 2009A Revenue Bonds	5,360,000	
Series 2009B Revenue Bonds	12,185,000	
Series 2009C Revenue Bonds	<u>20,955,000</u>	
Net Carrying Amount of Debt	<u>148,532,207</u>	<u>116,139,830</u>
Current Portion	7,744,749	7,580,467
Long-Term Portion	<u>140,787,458</u>	<u>108,559,363</u>
	<u>148,532,207</u>	<u>116,139,830</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 6. LONG-TERM DEBT, (continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$6,769,738	\$7,027,014	\$13,796,752
2011	7,670,149	7,192,881	14,863,030
2012	7,758,915	7,181,477	14,940,392
2013	9,142,672	5,885,719	15,028,391
2014	9,511,973	5,636,649	15,148,622
2015	9,662,259	5,373,200	15,035,459
2016	9,392,402	5,002,815	14,395,217
2017	9,739,545	4,645,874	14,385,419
2018	10,038,534	4,264,124	14,302,658
2019	10,293,608	3,858,833	14,152,441
2020	10,722,559	3,432,715	14,155,274
2021	11,166,790	2,979,154	14,145,944
2022	7,401,670	2,490,186	9,891,856
2023	2,745,729	2,094,868	4,840,597
2024	2,912,758	1,925,178	4,837,936
2025	3,087,907	1,743,843	4,831,750
2026	3,284,397	1,541,147	4,825,544
2027	3,040,602	1,324,656	4,365,258
2028	2,470,000	1,113,134	3,583,134
2029	2,650,000	918,329	3,568,329
2030	720,000	709,274	1,429,274
2031	755,000	652,970	1,407,970
2032	795,000	593,929	1,388,929
2033	835,000	531,760	1,366,760
2034	875,000	466,463	1,341,463
2035	920,000	398,038	1,318,038
2036	965,000	326,094	1,291,094
2037	1,015,000	250,631	1,265,631
2038	1,070,000	171,258	1,241,258
2039	1,120,000	87,584	1,207,584
	<u>148,532,207</u>	<u>79,819,797</u>	<u>228,352,004</u>

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

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 2010-2012 are capital appreciation bonds that are accreting principal on an annual basis. The amount of accretion that has been accrued as of December 31, 2009 is \$5,753,523. 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:

		Dec.31,2009	Accreted	
<u>Year</u>	<u>Original</u>	<u>Accreted</u>	<u>Principal</u>	<u>Principal</u>
	<u>Principal</u>	<u>Principal</u>	<u>Remaining</u>	<u>at Maturity</u>
2010	806,834	1,699,989	975,011	2,675,000
2011	756,089	1,593,128	1,081,872	2,675,000
2012	708,554	1,492,966	1,182,034	2,675,000
	<u>2,271,477</u>	<u>4,786,083</u>	<u>3,238,917</u>	<u>8,025,000</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009**

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, 2009, 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>
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>3,225,000</u>	<u>589,000</u>	<u>1,271,750</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, 2009**

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, 2009, 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>	
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	271,496	13,287	198,669	483,452
	<u>2,555,879</u>	<u>753,813</u>	<u>2,375,295</u>	<u>5,684,987</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, 2009**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2009, the Trust and Fund portions payable were as follows:

<u>Year</u>	<u>Series 2001B (Project 1605002-005)</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>		
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>20,021,710</u>	<u>5,897,460</u>	<u>18,611,809</u>	<u>44,530,979</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, 2009

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2009, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002A (Project 05-1)</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>		
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	140,516	10,010		150,526
	<u>1,900,359</u>	<u>492,427</u>	<u>1,882,661</u>	<u>4,275,447</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, 2009

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2009, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002B (Project 02-1)</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>		
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	17,012	1,248		18,260
	<u>236,763</u>	<u>61,654</u>	<u>218,746</u>	<u>517,163</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, 2009

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2009, 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>
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>34,620,000</u>	<u>15,140,500</u>	<u>49,760,500</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, 2009**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2009, 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>
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>9,520,000</u>	<u>3,522,600</u>	<u>13,042,600</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, 2009

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2009, the outstanding principal and interest on the Series 2007A&B NJEIT Bonds is as follows:

Series 2007A&B				
	Trust Portion		Fund	
Year	Principal	Interest	Portion	Total
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
	1,210,000	578,259	2,267,903	4,056,162

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, 2009**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2009, 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>
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>6,600,000</u>	<u>3,181,430</u>	<u>9,781,430</u>

Series 2009A, B & C Water Supply System Revenue Bonds

On December 15, 2009, the Commission issued Series 2009A, B & C Water Supply System Revenue Bonds in the amount of \$38,500,000 to finance: (1) various capital improvements to the Commission's System, including paying the acquisition price of an easement; (2) deposits to the Commission's Bonds Reserve Fund, Operating Fund Reserve Account and Renewal and Extension Fund to increase the amounts therein to amounts equal to the Bond Reserve Requirement, the Operating Fund Reserve Account Requirement, and the System Reserve Requirement, respectively; and (3) the payment of the costs associated with the issuance of such Bonds.

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 6. LONG-TERM DEBT, (continued)

Series 2009A, B & C Water Supply System Revenue Bonds, (continued)

At December 31, 2009, the outstanding principal and interest on the Series 2009A, B & C Water Supply System Revenue Bonds is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$10,000	\$2,675,468	\$2,685,468
2011	845,000	2,791,230	3,636,230
2012	895,000	2,742,518	3,637,518
2013	945,000	2,690,918	3,635,918
2014	1,000,000	2,636,430	3,636,430
2015	1,060,000	2,578,755	3,638,755
2016	1,125,000	2,514,943	3,639,943
2017	1,190,000	2,447,218	3,637,218
2018	1,260,000	2,375,543	3,635,543
2019	1,340,000	2,299,643	3,639,643
2020	1,420,000	2,218,930	3,638,930
2021	1,510,000	2,123,780	3,633,780
2022	1,620,000	2,011,980	3,631,980
2023	1,745,000	1,891,880	3,636,880
2024	1,875,000	1,762,380	3,637,380
2025	2,010,000	1,623,080	3,633,080
2026	2,155,000	1,464,709	3,619,709
2027	2,305,000	1,294,868	3,599,868
2028	2,470,000	1,113,134	3,583,134
2029	2,650,000	918,329	3,568,329
2030	720,000	709,274	1,429,274
2031	755,000	652,970	1,407,970
2032	795,000	593,929	1,388,929
2033	835,000	531,760	1,366,760
2034	875,000	466,463	1,341,463
2035	920,000	398,038	1,318,038
2036	965,000	326,094	1,291,094
2037	1,015,000	250,631	1,265,631
2038	1,070,000	171,258	1,241,258
2039	<u>1,120,000</u>	<u>87,584</u>	<u>1,207,584</u>
	<u>38,500,000</u>	<u>46,363,737</u>	<u>84,863,737</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009**

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.

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.

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

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

Total future minimum lease payments under lease obligations at December 31, 2009 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>
2010	58,714	95.24%	55,918
2011	60,476	90.70%	54,854
2012	62,290	86.38%	53,808
2013	64,159	82.27%	52,784
2014	66,084	78.35%	51,779
2015	68,066	74.62%	50,792
2016	70,108	71.07%	49,824
2017	72,211	67.68%	48,875
2018	74,378	64.46%	47,945
2019	76,609	61.39%	47,031
2020	78,907	58.47%	46,135
2021	81,274	55.68%	45,256
2022	83,712	53.03%	44,394
2023	86,224	50.51%	43,549
2024	88,811	48.10%	42,720
2025	91,475	45.81%	41,906
2026	94,219	43.63%	41,107
2027	94,046	41.55%	40,325
Lodi Lease Payable			<u>859,002</u>
Current Portion			58,714
Long-Term Portion			<u>800,288</u>
			<u>859,002</u>

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009

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

<u>Year ended</u> <u>December 31,</u>	<u>Amount</u>
2009	1,182,608
2008	692,488
2007	418,741

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009**

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.

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. Under State guidelines, the Commission is required to obtain an actuarial calculation every two years. The following table shows the components of the Commission's last annual OPEB cost (for the 2008 fiscal year), the amount actually contributed to the plan, and changes in the Commission's net OPEB Obligation.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

Components of Net OPEB Obligation for 2008

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
2008 Contributions Made or Accrued	<u>(1,055,271)</u>
Increased in Net Obligation	<u>\$683,308</u>
 Net OPEB Obligation (BOY)	 <u>\$683,307</u>

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

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

In 2009, the Commission designated \$684,000 in net assets to fund anticipated OPEB obligations. This amount was an estimate by management based on their most recent actuarial calculations of the Net OPEB Obligation.

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.

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

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

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.

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, 2009 and 2008, the amounts required by bond resolution were as follows:

	<u>2009</u>	<u>2008</u>
Cash and Investments on Hand	<u>2,607,837</u>	<u>3,115,467</u>

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

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

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, 2009, the amounts required by bond resolution were as follows:

	Debt Service Reserve <u>Requirement</u>	Maximum Bond Surety <u>Coverage</u>
Series 1992 CAB Bonds	802,500	2,140,000
Series 2000A Bonds	645,865	645,865
Series 2001A&B NJEIT Bonds	4,264,756	4,384,887
Series 2002A&B NJEIT Bonds	423,853	631,874
Series 2003 Refunding Bonds	3,462,000	3,588,000
Series 2005 Refunding Bonds	941,000	941,000
Series 2007A&B NJEIT Bonds	230,537	250,000
Series 2007C Bonds	545,500	500,000
Series 2009A Bonds	536,000	
Series 2009B Bonds	1,218,500	
Series 2009C Bonds	2,095,500	

In addition to the insurance policies, the Commission has reserved \$12,605,101 in cash and cash equivalents for the purpose of funding future debt service requirements.

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009 and 2008, the amounts required by bond resolution were as follows:

	<u>2009</u>	<u>2008</u>
Cash and Investments on Hand	3,002,449	1,200,000
Renewal and Extension Requirement	<u>3,002,449</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, 2009 and 2008, the amounts required by bond resolution were as follows:

	<u>2009</u>	<u>2008</u>
Cash and Investments on Hand	<u>7,185,634</u>	<u>2,500,159</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, 2009**

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

At December 31, 2009, the bond service coverage ratio was calculated as follows:

	<u>2009</u>	<u>2008</u>
Net Operating Income (excluding Depreciation)	15,608,577	13,315,270
Bond Service Requirement	13,796,752	11,063,586
Debt Service Coverage Ratio	1.13	1.20

All principal and interest payments were made on a timely basis during the 2009 fiscal year and through the date of this report.

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2009, the Commission's general counsel advises us that there is no pending litigation that would have a material effect on the Commission's financial statements.

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. There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage.

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.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009**

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>2009</u>	<u>2008</u>
Designated for OPEB Obligation	1,367,308	683,308
Designated for Self-Insurance	<u>608,084</u>	<u>608,024</u>
Total Designated - Unrestricted	<u>1,975,392</u>	<u>1,291,332</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 16. PRIOR PERIOD ADJUSTMENTS

Postretirement Benefits Other Than Pension

On December 15, 2007, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". Statement No. 45 established the standards and financial reporting requirements for Other Post Retirement Benefits ("OPEB") expenses and related OPEB liabilities, note disclosures and required supplementary information. On November 16, 2009, the State of New Jersey, Department of Community Affairs, Division of Local Government Services (the "Division") issued Local Finance Notice ("LFN") No. 2009-25 that required Local Authorities and Fire Districts to recognize the accumulated, current OPEB obligation as a designation of unrestricted net assets on the Statement of Net Assets, not as a non-current liability. To conform to the Division LFN, the Commission reclassified its 2008 OPEB liability as a designation of unrestricted net assets.

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Supplementary Schedules

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PASSAIC VALLEY WATER COMMISSION
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Invested in Capital Assets	Current Debt Service Reserve	Future Debt Service Reserve	Restricted Renewal and Extension Reserve	Operations Reserve	Unemployment Compensation Insurance	Unrestricted		Total
							Designated	Undesignated	
Operating Revenue:									
Service Agreements								57,392,994	57,392,994
Miscellaneous								5,341,205	5,341,205
Sale of Scrap								12,424	12,424
Total Operating Revenue	-	-	-	-	-	-	-	62,746,623	62,746,623
Operating Expense:									
Cost of Providing Services								38,891,508	38,891,508
Administrative and General								8,677,697	8,677,697
Depreciation								7,892,933	7,892,933
Total Operating Expense	-	-	-	-	-	-	-	55,462,138	55,462,138
Operating Income	-	-	-	-	-	-	-	7,284,485	7,284,485
Non-Operating Revenue (Expense):									
Interest Income	11	16,912	284	2,449	1,475	6,236	16,073	196,405	239,845
Finance Charges								238,275	238,275
Interest Expense								(5,214,007)	(5,214,007)
Amortization								(456,977)	(456,977)
	11	16,912	284	2,449	1,475	6,236	16,073	(5,236,304)	(5,192,864)
Net Income (Loss) Before Transfers	11	16,912	284	2,449	1,475	6,236	16,073	2,048,181	2,091,621
Transfers:									
Interest Income	(11)	(16,912)	(284)	(2,449)	(1,475)	(6,236)	(16,073)	43,440	-
Other Transfers	(22,131,896)	(467,627)	12,605,101	1,802,449	4,685,475	6,236	684,060	2,816,202	-
Increase/(Decrease) in Net Assets	(22,131,896)	(467,627)	12,605,101	1,802,449	4,685,475	6,236	684,060	4,907,823	2,091,621
Net Assets - January 1, 2009	54,380,603	2,193,225	-	1,200,000	2,500,159	230,994	1,291,332	74,209	61,870,522
Net Assets - December 31, 2009	32,248,707	1,725,598	12,605,101	3,002,449	7,185,634	237,230	1,975,392	4,982,032	63,962,143

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, 2009

	Construction Accounts	Bond Service Accounts	Bond Reserve Account	Renewal and Extension Account
Cash, Cash Equivalents and Investments - January 1, 2009	3,009	3,115,467	76,786	1,200,000
Cash Receipts:				
Interest on Investments	11	16,912	284	2,449
Service Agreements				
Miscellaneous				
Proceeds from Bonds	16,300,875		12,605,101	3,000,000
Finance Charges				
Transfers		8,996,392		
Total Cash Receipts	16,300,886	9,013,304	12,605,385	3,002,449
Cash and Investments Available	16,303,895	12,128,771	12,682,171	4,202,449
Cash Disbursements:				
Bond Principal Payments		6,551,341		
Interest Payments		4,512,245		
Operations				
PSE&G Settlement	1,900,000			
Transfers		645,939	77,070	1,200,000
Total Cash Disbursements	1,900,000	11,709,525	77,070	1,200,000
Cash, Cash Equivalents and Investments - December 31, 2009	14,403,895	419,246	12,605,101	3,002,449
Analysis of Balance:				
Cash and Cash Equivalents	14,403,895	419,246	12,605,101	3,002,449
Investments				
	14,403,895	419,246	12,605,101	3,002,449
Unrestricted	-	(2,188,591)	-	-
Restricted	14,403,895	2,607,837	12,605,101	3,002,449
	14,403,895	419,246	12,605,101	3,002,449

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, 2009

	Operation Reserve Account	Self Insurance Reserve Account	Contingency Accounts	Unemployment Insurance Account
Cash, Cash Equivalents and Investments - January 1, 2009	2,500,159	319,282	288,742	230,994
Cash Receipts:				
Interest on Investments	1,475	8,275	7,798	6,236
Service Agreements				
Miscellaneous				
Proceeds from Bonds	7,184,000			
Finance Charges				
Transfers				
Total Cash Receipts	<u>7,185,475</u>	<u>8,275</u>	<u>7,798</u>	<u>6,236</u>
Cash and Investments Available	<u>9,685,634</u>	<u>327,557</u>	<u>296,540</u>	<u>237,230</u>
Cash Disbursements:				
Bond Principal Payments				
Interest Payments				
Operations				
PSE&G Settlement				
Transfers	2,500,000	327,557		
Total Cash Disbursements	<u>2,500,000</u>	<u>327,557</u>	<u>-</u>	<u>-</u>
Cash, Cash Equivalents and Investments - December 31, 2009	<u>7,185,634</u>	<u>-</u>	<u>296,540</u>	<u>237,230</u>
Analysis of Balance:				
Cash and Cash Equivalents	7,185,634	-	296,540	237,230
Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>7,185,634</u>	<u>-</u>	<u>296,540</u>	<u>237,230</u>
Unrestricted	-	-	296,540	-
Restricted	<u>7,185,634</u>	<u>-</u>	<u>-</u>	<u>237,230</u>
	<u>7,185,634</u>	<u>-</u>	<u>296,540</u>	<u>237,230</u>

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, 2009

	General Operating Accounts	Total
Cash, Cash Equivalents and Investments - January 1, 2009	733,504	8,467,943
Cash Receipts:		
Interest on Investments	196,405	239,845
Service Agreements	54,879,499	54,879,499
Miscellaneous	5,353,629	5,353,629
Proceeds from Bonds		39,089,976
Finance Charges	238,275	238,275
Transfers	4,750,566	13,746,958
Total Cash Receipts	65,418,374	113,548,182
Cash and Investments Available	66,151,878	122,016,125
Cash Disbursements:		
Bond Principal Payments		6,551,341
Interest Payments		4,512,245
Operations	55,876,646	55,876,646
PSE&G Settlement		1,900,000
Transfers	8,996,392	13,746,958
Total Cash Disbursements	64,873,038	82,587,190
Cash, Cash Equivalents and Investments - December 31, 2009	1,278,840	39,428,935
Analysis of Balance:		
Cash and Cash Equivalents	1,278,840	39,428,935
Investments	-	-
	1,278,840	39,428,935
Unrestricted	1,278,840	(613,211)
Restricted	-	40,042,146
	1,278,840	39,428,935

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 2009 Adopted Budget	FY 2009 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Revenues:					
Service Charges	41,595,280	41,595,280	35,865,876	(5,729,404)	37,331,874
Service Agreements (Bulk)	22,171,886	22,171,886	21,527,118	(644,768)	19,730,780
Fines / Penalties	225,000	225,000	238,275	13,275	221,002
Fire Line Service	3,017,179	3,017,179	3,063,046	45,867	2,313,479
Other Services and Repairs	1,925,000	1,925,000	2,290,583	365,583	2,883,674
Non-operating Investments	350,000	350,000	239,845	(110,155)	478,381
Total Operating Revenues	69,284,345	69,284,345	63,224,743	(6,059,602)	62,959,190

**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 2009 Adopted Budget	FY 2009 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Expenses:					
Operating:					
Cost of Providing Services:					
Executive					
Salaries and Wages	496,162	496,162	530,910	(34,748)	521,063
Other Expenses	45,500	45,500	38,197	7,303	156
Legal					
Salaries and Wages	236,018	236,018	310,955	(74,937)	272,287
Other Expenses	633,500	633,500	865,621	(232,121)	805,625
Engineering					
Salaries and Wages	541,979	541,979	537,506	4,473	608,331
Other Expenses	380,000	380,000	449,295	(69,295)	378,733
Purchasing					
Salaries and Wages	148,081	148,081	157,604	(9,523)	147,661
Other Expenses	6,750	6,750	1,609	5,141	5,843
Accounting					
Salaries and Wages	377,317	377,317	311,867	65,450	307,509
Other Expenses	101,500	101,500	150,584	(49,084)	91,134
Customer Service					
Salaries and Wages	818,583	818,583	749,028	69,555	804,210
Other Expenses	852,500	852,500	522,770	329,730	634,540
Personnel					
Salaries and Wages	398,925	398,925	406,732	(7,807)	408,961
Other Expenses	50,000	50,000	68,385	(18,385)	73,260
Purification					
Salaries and Wages	1,588,098	1,588,098	1,253,454	334,644	1,311,429
Other Expenses	616,350	616,350	534,016	82,334	853,331
Process	5,803,500	5,803,500	6,744,857	(941,357)	7,333,593

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 2009 Adopted Budget	FY 2009 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Operating:					
Cost of Providing Services (Continued):					
Pumping					
Salaries and Wages	1,069,793	1,069,793	1,063,812	5,981	1,020,030
Other Expenses	5,521,400	5,521,400	4,966,788	554,612	6,219,927
Plant:					
Salaries and Wages	3,162,700	3,162,700	2,268,822	893,878	1,959,206
Other Expenses	744,300	744,300	790,691	(46,391)	827,417
Construction (Non-Capital Expenditures)	24,000	24,000	23,378	622	1,961
Distribution					
Salaries and Wages	3,459,633	3,459,633	2,908,963	550,670	2,800,577
Other Expenses	263,000	263,000	166,706	96,294	178,918
Maintenance	1,289,500	1,289,500	1,411,587	(122,087)	1,438,004
Garage	424,450	424,450	277,837	146,613	340,872
Meter Control	-	-	-	-	82,080
Laboratory:					
Salaries and Wages	1,359,679	1,359,679	1,318,974	40,705	1,186,357
Other Expenses	29,000	29,000	11,688	17,312	174,088
General Chemistry	254,000	254,000	280,256	(26,256)	352,135
Trace Analysis	70,000	70,000	47,945	22,055	95,457
Microbiology	99,100	99,100	13,730	85,370	76,868
Sample Collections	-	-	-	-	460
Online Gas Instruments	4,400	4,400	-	4,400	9,499
Online Water Instruments	35,000	35,000	20,110	14,890	37,179
Field Gas Instruments	43,000	43,000	19,314	23,686	29,060
NJDWSC Budget Expense	9,750,000	9,750,000	9,648,192	101,808	8,544,220
Government Fees and Assessments	-	-	19,325	(19,325)	579,815
Sub-total Cost of Providing Services	40,697,718	40,697,718	38,891,508	1,806,210	40,511,796

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 2009 Adopted Budget	FY 2009 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Administrative Expenses:					
Stationary, Postage and Supplies	254,000	254,000	210,526	43,474	217,834
Miscellaneous	327,000	327,000	182,876	144,124	385,466
Telephone	195,000	195,000	406,378	(211,378)	304,490
Wanaque So. - Lease Expense	31,000	31,000	27,807	3,193	30,471
Legal Advertisements	25,000	25,000	21,311	3,689	26,384
Tuition Reimbursement	30,000	30,000	3,951	26,049	20,898
Membership Affiliations	45,000	45,000	-	45,000	88,680
General Liability Insurance	650,000	650,000	602,305	47,695	650,159
Fees and Taxes	523,500	523,500	499,421	24,079	501,625
Outside Security	25,000	25,000	3,978	21,022	23,024
Bad Debt Expense	150,000	150,000	19,412	130,588	150,525
Employee Benefits:					
Worker's Compensation	365,000	365,000	339,422	25,578	347,868
Hospitalization	3,398,938	3,398,938	3,067,300	331,638	3,504,052
Group Life Insurance	5,000	5,000	5,745	(745)	5,011
Pension	-	-	1,182,608	(1,182,608)	692,488
Social Security / Medicare	1,002,000	1,002,000	963,006	38,994	956,379
Unemployment and Disability	105,000	105,000	64,556	40,444	93,458
Dental	130,000	130,000	146,490	(16,490)	133,823
Prescription	892,688	892,688	809,033	83,655	793,211
Other	35,000	35,000	31,803	3,197	32,809
Professional Services:					
Auditing	60,000	60,000	36,750	23,250	48,030
Other	282,000	282,000	47,500	234,500	121,495

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 2009 Adopted Budget	FY 2009 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Administrative Expenses (Continued):					
Repairs and Maintenance					
Outside Contractors	-	-	5,519	(5,519)	365
Property Damages	5,000	5,000	-	5,000	3,350
Office Cleaning	-	-	-	-	229
	8,536,126	8,536,126	8,677,697	(141,571)	9,132,124
Sub-total Operating	49,233,844	49,233,844	47,569,205	1,664,639	49,643,920
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	4,669,851	4,669,851	5,214,007	(544,156)	5,518,591
Bond Principal	6,450,739	6,450,739	7,580,467	(1,129,728)	7,306,396
Sub-total Other Costs	11,120,590	11,120,590	12,794,474	(1,673,884)	12,824,987
Total Costs Funded by Operating Revenues	60,354,434	60,354,434	60,363,679	(9,245)	62,468,907
Add: Excess / (Deficit)	8,929,911	8,929,911	2,861,064	(6,068,847)	490,283
	69,284,345	69,284,345	63,224,743	6,059,602	62,959,190

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 2009 Adopted Budget	FY 2009 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Excess of Revenues Over Expenses:			2,861,064		490,283
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(7,892,933)		(7,128,391)
Amortization Expense			(456,977)		(318,072)
PSE&G Settlement			-		(118,750)
Bond Principal			7,580,467		7,306,396
Net OPEB Obligation			-		(683,308)
Total Adjustments			(769,443)		(942,125)
Change in Net Assets			2,091,621		(451,842)

PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	FY 2009 Budget as Amended	FY 2009 Actual
Financing Sources:		
Debt Authorization	6,980,000	-
Retained Earnings Appropriated	4,590,000	4,896,298
	<u>11,570,000</u>	<u>4,896,298</u>
Capital Outlays:		
Construction / Maintenance Department:		
Replacement Windows - Administration Building	70,000	-
Security 4WD SUV	35,000	-
Replacement Windows - Main Pump Station	200,000	-
New Offices / HVAC / Windows	150,000	3,028
General Upgrades to Facilities	100,000	90,730
Distribution Equipment:		
Utility Body Truck for Emergency Crew	90,000	-
Bucket Loader / Backhoe	100,000	-
Dump Trucks (2)	250,000	302,844
Utility Service Trucks	90,000	-
Granite Ave. Tank Repair and Painting	50,000	15,130
Full-size Cars (2)	100,000	100,000
Capitalized Repair Work	3,100,000	3,280,501
Engineering Department:		
Replacement Car	30,000	-
Mapping (Digital) & GIS	150,000	-
Laboratory:		
4WD Vehicle / Replace 24, 27, 28	50,000	-
Atomic Absorption Replacement	250,000	-
Analytical Balance	10,000	-
PCR System (Microbiology)	50,000	17,488
Purification Department:		
Watershed Management	25,000	-
Residual Blanket Monitors	25,000	-
Density Meters	25,000	-
Replacement Car # 103	20,000	-
Storage Improvement Project (Consultant)	750,000	24,433
Security Consultant - Vulnerability Improvements	100,000	46,961
Backwash Pump Replacement	150,000	150,000
Traveling Screens	460,000	438,000
Commercial Department:		
Vans for Meter Reading (2)	35,000	-
IT Software	350,000	134,174
Telephone Recording System	55,000	-
meter Reading / Radio (Monthly Accounts)	200,000	160,514
Main Pump Station:		
Venturi Transmitter Upgrades	50,000	-
48" Wanaque Suction Line	800,000	-
Replacement of Major Valves (2)	150,000	112,398

PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	FY 2009 Budget as Amended	FY 2009 Actual
Capital Outlays (Continued):		
Long-Term Capital Projects:		
Vulnerability / Security Upgrades	1,000,000	-
Point View and New Street Dam Improvements	1,500,000	20,097
Headgates Replacement	1,000,000	-
Total Capital Outlays	11,570,000	4,896,298
Total Costs Funded by Capital Revenue	11,570,000	4,896,298
Add: Excess	-	-
	11,570,000	4,896,298

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
Bonds (Series 1992)	06/10/92	CAB	2010	1,699,989.25					
		CAB	2011	1,593,128.35					
		CAB	2012	1,492,965.65					
					5,986,239		1,472,844	2,675,000	4,786,083
Bonds (Series 2000A)	10/25/00	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					
					3,675,000			450,000	3,225,000
NJET Bonds (Series 2001A&B) Trust Portion (Refunded with Series 2007A)	10/15/01	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					
					23,952,589			1,375,000	22,577,589

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
NJET Bonds (Series 2001A&B) Fund Portion	10/15/01	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				1,749,900	20,987,102
					22,737,002				
NJET Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/02	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					
					2,322,123			185,000	2,137,123

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
NJET Bonds (Series 2002A&B) Fund Portion	10/15/02	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		2,344,097		242,690	2,101,407
Refunding Bonds (Series 2003)	12/15/03	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					
					34,855,000			235,000	34,620,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
Refunding Bonds (Series 2005)	02/08/05	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					
					9,805,000			285,000	9,520,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2009		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
NJET Bonds (Series 2007A&B) Trust Portion	11/09/07	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			45,000	1,210,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
NJBIT Bonds (Series 2007A&B) Fund Portion	11/09/07	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			92,877	2,267,903

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
Refunding Bonds (Series 2007C)	11/09/07	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		6,845,000		245,000	6,600,000

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
Water Supply Revenue Bonds (Series 2009A)	12/15/09	5.25%	2010	5,000.00					
		5.25%	2011	265,000.00					
		5.25%	2012	280,000.00					
		5.25%	2013	295,000.00					
		5.25%	2014	310,000.00					
		5.50%	2015	325,000.00					
		5.50%	2016	345,000.00					
		5.50%	2017	360,000.00					
		5.50%	2018	380,000.00					
		5.50%	2019	405,000.00					
		6.00%	2020	425,000.00					
		6.00%	2021	450,000.00					
		6.00%	2022	475,000.00					
		6.00%	2023	505,000.00					
		6.00%	2024	535,000.00					
						5,360,000			5,360,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
Water Supply Revenue Bonds (Series 2009B)	12/15/09	7.57%	2025	565,000.00					
		7.57%	2026	595,000.00					
		7.57%	2027	620,000.00					
		7.57%	2028	650,000.00					
		7.57%	2029	685,000.00					
		7.82%	2030	720,000.00					
		7.82%	2031	755,000.00					
		7.82%	2032	795,000.00					
		7.82%	2033	835,000.00					
		7.82%	2034	875,000.00					
		7.82%	2035	920,000.00					
		7.82%	2036	965,000.00					
		7.82%	2037	1,015,000.00					
		7.82%	2038	1,070,000.00					
		7.82%	2039	1,120,000.00					
						12,185,000			12,185,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2009	2009 Issued	Accreted Principal / Adjustments	2009 Redeemed	Balance Dec. 31, 2009
			Date	Amount					
Water Supply Revenue Bonds (Series 2009C)	12/15/09	6.00%	2010	5,000.00					
		6.00%	2011	580,000.00					
		6.00%	2012	615,000.00					
		6.00%	2013	650,000.00					
		6.00%	2014	690,000.00					
		6.25%	2015	735,000.00					
		6.25%	2016	780,000.00					
		6.25%	2017	830,000.00					
		6.25%	2018	880,000.00					
		6.25%	2019	935,000.00					
		7.00%	2020	995,000.00					
		8.00%	2021	1,060,000.00					
		8.00%	2022	1,145,000.00					
		8.00%	2023	1,240,000.00					
		8.00%	2024	1,340,000.00					
		8.00%	2025	1,445,000.00					
		8.00%	2026	1,560,000.00					
		8.00%	2027	1,685,000.00					
		8.00%	2028	1,820,000.00					
			2029	1,965,000.00					
					20,955,000			20,955,000	
					116,139,830	38,500,000	1,472,844	7,580,467	148,532,207

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FUNDING PROGRESS
FOR THE RETIREE HEALTH PLAN
FOR THE YEAR ENDED DECEMBER 31, 2009

	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)
(1)	12/31/08	\$ -	\$ 24,453,445	\$ 24,453,445	0.00%	\$ 12,975,325	188.46%

(1) The Commission has elected to obtain an actuarial calculations every two years.

SCHEDULE 7

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2009:

<u>Name</u>		<u>Office</u>
Alan C. Levine	Paterson	President (1/1/09-8/12/09)
Simon Grubin	Paterson	President (8/13/09- 12/31/09)
		Vice President (1/1/09-8/12/09)
Thomas P. DeVita	Clifton	Vice President (8/13/09-12/31/09)
		Commissioner
Idida Rodriguez	Paterson	Treasurer
Robert Vannoy	Paterson	Secretary
Rigo Sanchez	Passaic	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.

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
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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, 2009, and have issued our report thereon dated April 1, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.



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,
- Evidence of failure to properly maintain fixed assets schedule,

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 2009-3, 2009-4, 2009-5, 2009-6 and 2009-7).

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

April 1, 2010

Comments and Recommendations

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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. No violations were discovered.

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: 2009-1*

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: 2009-2*

STATEMENT OF CONDITION

Evidence of failure to properly maintain an itemized 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. This list should be updated regularly to include purchases of new capital items and exclude capital assets that have been disposed of or replaced.

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: 2009-3*

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: 2009-4

STATEMENT OF CONDITION

The Commission has old accounts payable balances on their system that have not been reviewed for accuracy by management.

CRITERIA

Liability accounts should represent obligations due from the Commission at the closing date of a financial statement.

EFFECT

Liabilities are possibly overstated.

CAUSE

Unknown.

RECOMMENDATION

The Commission should review all old accounts payable balances

PASSAIC VALLEY WATER COMMISSION

GENERAL COMMENTS, CONTINUED

FINDING: 2009-5*

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: 2009-6*

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: 2009-7*

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 \$7,185,634 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

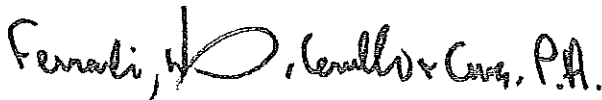
A review was performed on all prior year recommendations and corrective action was taken on all items, except those noted with an asterisk "*".

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

PASSAIC VALLEY WATER COMMISSION

INTER-OFFICE MEMO

FROM: Louis Amodio **DATE:** 5/13/10

TO: Hon. Rigo Sanchez,
President
& Hon. Board of Commissioners

RE: Reports from Commission's Auditors, Ferraioli Wielkott Cerullo & Cuva, P.A., P.V.W.C. Financial Statements for the Year Ending December 31, 2009; and P.V.W.C. Report to Management on Internal Control Year Ending December 31, 2009

The referenced reports were just received from our Auditors and are enclosed for your perusal.

Each Commissioner is required to certify that they have reviewed the Audit.

Louis Amodio
Administrative Secretary

encl.

cc: J. Bella,
G. Hanley ✓
Y. Weiss
File/Audit '09

