

PASSAIC VALLEY WATER COMMISSION
REPORT OF AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2011

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PASSAIC VALLEY WATER COMMISSION

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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 and for the years ended December 31, 2011 and 2010, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in accordance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2011 and 2010, 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.



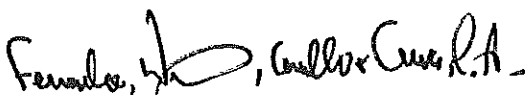
In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2012 on our consideration of the Passaic Valley Water Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Passaic Valley Water Commission's basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The accompanying schedules of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Very truly yours,



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

April 23, 2012

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, 2011**

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, 2011. 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 \$67,649,211 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$67,185,526.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt of \$33,743,205 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 \$25,724,777 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$8,181,229 represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission decreased by \$8,016,644 to \$150,764,661 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, 2011**

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, 2011**

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 \$67,649,211. This is a \$463,685 increase over last year's net assets of \$67,185,526. A summary of the Commission's statement of net assets is presented in the following table:

Condensed Statement of Net Assets

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Non-current				
Assets	55,840,329	61,352,247	(5,511,918)	(8.98)%
Capital Assets	159,689,338	161,428,474	(1,739,136)	(1.08)%
Other Assets	<u>2,884,205</u>	<u>3,186,110</u>	<u>(301,905)</u>	(9.48)%
Total Assets	<u>218,413,872</u>	<u>225,966,831</u>	<u>(7,552,959)</u>	(3.34)%
Long-term Debt				
Outstanding	130,367,669	138,258,441	(7,890,772)	(5.71)%
Other Liabilities	<u>20,396,992</u>	<u>20,522,864</u>	<u>(125,872)</u>	(0.61)%
Total Liabilities	<u>150,764,661</u>	<u>158,781,305</u>	<u>(8,016,644)</u>	(5.05)%
Invested in Capital Assets, net of Related Debt	33,743,205	33,809,471	(66,266)	(0.20)%
Restricted	25,724,777	25,013,937	710,840	2.84%
Unrestricted	<u>8,181,229</u>	<u>8,362,118</u>	<u>(180,889)</u>	(2.16)%
Total Net Assets	<u>67,649,211</u>	<u>67,185,526</u>	<u>463,685</u>	0.69%

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

Net Assets (Continued)

A summary of the Commission's prior year statement of net assets is presented with comparative FY 2009 balances in the following table:

Condensed Statement of Net Assets

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Non-current				
Assets	61,352,247	59,221,100	2,131,147	3.60%
Capital Assets	161,428,474	162,567,423	(1,138,949)	(0.70)%
Other Assets	<u>3,186,110</u>	<u>3,349,058</u>	<u>(162,948)</u>	(4.87)%
Total Assets	<u>225,966,831</u>	<u>225,137,581</u>	<u>829,250</u>	0.37%
Long-term Debt				
Outstanding	138,258,441	141,342,989	(3,084,548)	(2.18)%
Other Liabilities	<u>20,522,864</u>	<u>19,832,449</u>	<u>690,415</u>	3.48%
Total Liabilities	<u>158,781,305</u>	<u>161,175,438</u>	<u>(2,394,133)</u>	(1.49)%
Invested in Capital Assets, net of Related Debt	33,809,471	32,248,707	1,560,764	4.84%
Restricted	25,013,937	24,756,012	257,925	1.04%
Unrestricted	<u>8,362,118</u>	<u>6,957,424</u>	<u>1,404,694</u>	20.19%
Total Net Assets	<u>67,185,526</u>	<u>63,962,143</u>	<u>3,223,383</u>	5.04%

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 \$463,685 and \$3,223,383 during the 2011 and 2010 fiscal years, respectively.

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

Net Assets (Continued)

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

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	71,516,797	72,577,905	(1,061,108)	(1.46)%
Non-operating Revenues	<u>1,446,119</u>	<u>1,251,678</u>	<u>194,441</u>	15.53%
Total Revenues	<u>72,962,916</u>	<u>73,829,583</u>	<u>(866,667)</u>	(1.17)%
Depreciation	8,545,499	8,117,800	427,699	5.27%
Other Operating Expenses	55,593,716	55,553,116	40,600	0.07%
Other Non-operating Expense	<u>8,360,016</u>	<u>8,292,784</u>	<u>67,232</u>	0.81%
Total Expenses	<u>72,499,231</u>	<u>71,963,700</u>	<u>535,531</u>	0.74%
Change in Net Assets	463,685	1,865,883	(1,402,198)	(75.15)%
Beginning Net Assets	67,185,526	63,962,143	3,223,383	5.04%
Contributed Capital	_____	<u>1,357,500</u>	<u>1,357,500</u>	
Ending Net Assets	<u>67,649,211</u>	<u>67,185,526</u>	<u>3,178,685</u>	0.69%

A summary of the Commission's prior year statement of revenues, expenses and change in net assets is presented with comparative FY 2009 figures in the following table:

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

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	72,577,905	62,746,623	9,831,282	15.67%
Non-operating Revenues	<u>1,251,678</u>	<u>478,120</u>	<u>773,558</u>	161.79%
Total Revenues	<u>73,829,583</u>	<u>63,224,743</u>	<u>10,604,840</u>	16.77%
Depreciation	8,117,800	7,892,933	224,867	2.85%
Other Operating Expenses	55,553,116	47,569,205	7,983,911	16.78%
Other Non-operating Expense	<u>8,292,784</u>	<u>5,670,984</u>	<u>2,621,800</u>	46.23%
Total Expenses	<u>71,963,700</u>	<u>61,133,122</u>	<u>10,830,578</u>	17.72%
Change in Net Assets	1,865,883	2,091,621	(225,738)	(10.79)%
Beginning Net Assets	63,962,143	61,870,522	2,091,621	3.38%
Contributed Capital	<u>1,357,500</u>	_____	<u>1,357,500</u>	
Ending Net Assets	<u>67,185,526</u>	<u>63,962,143</u>	<u>3,223,383</u>	5.04%

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

Net Assets (Continued)

The Commission's operating revenues decreased by \$1,058,108 to \$71,519,797 in fiscal year 2011 from \$72,577,905 in 2010. This increase is primarily due to increased revenue from service agreements and water sales. Non-operating revenues increased by \$194,441 to \$1,446,119 from \$1,251,678 due to an increase in interest on investments. This increase 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.

The following tables provides a FY 2011 and FY 2010 budget comparison:

**Budget vs. Actual
FY 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	80,404,557	71,516,797	8,887,760
Non-Operating	<u>577,000</u>	<u>787,009</u>	<u>(210,009)</u>
	<u>80,981,557</u>	<u>72,303,806</u>	<u>8,677,751</u>
Expenses:			
Operating	58,176,410	54,934,606	3,241,804
Non-Operating	<u>15,165,017</u>	<u>13,947,429</u>	<u>1,217,588</u>
	<u>73,341,427</u>	<u>68,882,035</u>	<u>4,459,392</u>
Income before Depreciation	<u>7,640,130</u>	<u>3,421,771</u>	<u>4,218,359</u>

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

Budgetary Highlights (Continued)

	Budget vs. Actual FY 2010		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	74,940,071	72,577,905	(2,362,166)
Non-Operating	<u>550,000</u>	<u>597,135</u>	<u>47,135</u>
	<u>75,490,071</u>	<u>73,175,040</u>	<u>(2,315,031)</u>
Expenses:			
Operating	58,640,680	55,553,116	3,087,564
Non-Operating	<u>12,823,055</u>	<u>15,546,279</u>	<u>(2,723,224)</u>
	<u>71,463,735</u>	<u>71,099,395</u>	<u>364,340</u>
Income before Depreciation	<u>4,026,336</u>	<u>2,075,645</u>	<u>(1,950,691)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During fiscal year 2011, the Commission had an increase of \$66,399 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$159,522,969. This is a \$1,905,505 decrease under last year's net property, plant and equipment of \$161,428,474. A summary of the Commission's capital assets is presented in the following table:

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>
Capital Assets	219,647,103	212,840,740	6,806,363
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>(147,482,449)</u>	<u>(138,936,950)</u>	<u>(8,545,499)</u>
	<u>159,689,338</u>	<u>161,428,474</u>	<u>(1,739,136)</u>

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

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	2,575,000
Main Replacement	1,545,000
Valve Replacement	515,000
Meter Replacement	103,000
Plant/Distribution	618,000
Vehicles/Equipment	750,000
Dam Improvements - Point View Bridge	773,000
Ozone System Upgrade	258,000
Rehabilitate Chemical Systems	206,000
Residual Pumps	155,000
Hydro-Turbine Generators	258,000
Filter Valve Actuators	206,000
Filter Underdrain Replacement	515,000
Valve Replacement	104,000
Open Finished Water Reservoirs	1,373,000
Prospect Park	412,000
Great Falls Arch Bridge	258,000
Prefab Metal Building	30,000
Clifton Admin Building	222,000
WTP Admin Upgrades	103,000
Fencing	70,000
Totowa Pumps	103,000
Distribution SCADA	1,545,000
WTP SCADA	1,288,000
Commercial IT Systems Upgrade	1,738,000
Engineering Systems	229,000
Laboratory/Water Quality Systems	<u>320,000</u>
	<u>16,272,000</u>

**PASSAIC VALLEY WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

Debt Administration

At December 31, 2011, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the accreted amount of \$138,420,122. 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
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31,**

EXHIBIT A
Page 1 of 3

	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS:</u>		
<u>Unrestricted:</u>		
Cash and Cash equivalents	\$ 1,388,442	\$ 1,111,845
Accounts Receivable, net	14,640,412	14,930,671
Inventory	2,125,887	2,422,823
Other Receivables	7,126	6,751
Due From (To) Water Bank	12,522	66,478
Prepaid Expenses	<u>476,307</u>	<u>735,896</u>
Total Current Assets	<u>18,650,696</u>	<u>19,274,464</u>
<u>NON-CURRENT ASSETS:</u>		
<u>Restricted:</u>		
Construction Account:		
Cash and Cash equivalents	4,194,345	9,639,750
Due From NJEIT Trust	6,504,707	6,671,076
Bond Service Fund:		
Cash and Cash equivalents	2,367,314	2,472,223
Bond Reserve Account:		
Cash and Cash equivalents	12,890,135	12,888,847
Renewal and Extension Account:		
Cash and Cash equivalents	3,078,337	3,000,001
Operations Account:		
Cash and Cash equivalents	7,965,988	7,184,235
Unemployment Compensation Insurance:		
Cash and Cash equivalents	<u>188,807</u>	<u>221,651</u>
Total Restricted Assets	<u>37,189,633</u>	<u>42,077,783</u>
Capital Assets:		
Capital Assets	219,647,103	212,840,740
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>(147,482,449)</u>	<u>(138,936,950)</u>
Total Capital Assets	<u>159,689,338</u>	<u>161,428,474</u>
Other Assets:		
Deferred Costs	<u>2,884,205</u>	<u>3,186,110</u>
TOTAL ASSETS	\$ <u>218,413,872</u>	\$ <u>225,966,831</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
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31,**

EXHIBIT A

Page 2 of 3

	<u>2011</u>	<u>2010</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 10,147,967	\$ 10,547,105
Water Bank - Deferred Revenue (Expense)	12,522	66,478
Due To (From) Contractor	15,000	-
Meter Deposits Payable	285,900	290,685
Security Deposits Payable	8,078	8,078
	<u>10,469,467</u>	<u>10,912,346</u>
Payable from Restricted Assets:		
Accrued Interest Payable	765,804	753,020
Bonds Payable - Current Portion	9,099,431	8,797,022
Leases Payable - Current Portion	62,290	60,476
	<u>9,927,525</u>	<u>9,610,518</u>
Total Current Liabilities	<u>20,396,992</u>	<u>20,522,864</u>
Non-Current Liabilities:		
Bonds Payable - Long-Term Portion	129,320,691	137,338,250
Leases Payable - Long-Term Portion	762,634	782,764
Unamortized Costs in Excess of Refunded Debt, Net of /	(4,186,274)	(4,659,033)
Unamortized Savings from Refunded Debt, Net of Amor	722,424	768,212
Unamortized Bond Discount, Net of Amortization	(279,394)	(297,664)
Unamortized Bond Premium, Net of Amortization	3,428,001	3,666,366
Deferred Savings on Bond Refunding, Net of Amortizati	599,587	659,546
Total Non-Current Liabilities	<u>130,367,669</u>	<u>138,258,441</u>
TOTAL LIABILITIES	<u>150,764,661</u>	<u>158,781,305</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
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31,**

EXHIBIT A

Page 3 of 3

	<u>2011</u>	<u>2010</u>
<u>NET ASSETS:</u>		
Invested in Capital Assets, net of Related Debt	33,743,205	33,809,471
Restricted:		
Current Debt Service	1,601,510	1,719,203
Future Debt Service	12,890,135	12,888,847
Renewal and Extension	3,078,337	3,000,001
Operations	7,965,988	7,184,235
Unemployment Compensation Insurance	188,807	221,651
Unrestricted:		
Designated	2,629,935	2,629,935
Undesignated	<u>5,551,294</u>	<u>5,732,183</u>
TOTAL NET ASSETS	\$ <u>67,649,211</u>	\$ <u>67,185,526</u>

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

EXHIBIT B

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Service Agreements	\$ 64,373,370	\$ 65,873,606
Miscellaneous	7,089,460	6,697,885
Sale of Scrap	<u>53,967</u>	<u>6,414</u>
Total Operating Revenue	<u>71,516,797</u>	<u>72,577,905</u>
Operating Expenses:		
Cost of Providing Services	43,530,803	44,330,163
Administrative and General	11,403,803	11,222,953
Depreciation Expense	<u>8,545,499</u>	<u>8,117,800</u>
Total Operating Expenses	<u>63,480,105</u>	<u>63,670,916</u>
Operating Income	<u>8,036,692</u>	<u>8,906,989</u>
Non-Operating Revenue (Expenses):		
Interest on Investments	453,618	303,204
Finance Charges	333,391	293,931
Interest Expense	(7,905,407)	(7,801,530)
Net OPEB Obligation	-	654,543
Amortization Expense	<u>(454,609)</u>	<u>(491,254)</u>
Non-Operating Income (Loss)	<u>(7,573,007)</u>	<u>(7,041,106)</u>
Change In Net Assets	463,685	1,865,883
Net Assets - January 1	67,185,526	63,962,143
Contributed Capital:		
ARRA Principal Forgiveness	<u>-</u>	<u>1,357,500</u>
Net Assets - December 31	<u>\$ 67,649,211</u>	<u>\$ 67,185,526</u>

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

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PASSAIC VALLEY WATER COMMISSION

COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 72,103,617	\$ 73,283,449
Cash Paid to Vendors and Employees	(55,078,940)	(55,196,759)
Interest Received	787,009	597,135
	<u>17,811,686</u>	<u>18,683,825</u>
Net Cash Provided by Operating Activities		
Cash Flow from Investing Activities:		
Capital Expenditures	(7,245,972)	(6,199,601)
(Increase) Decrease in NJEIT Receivable	166,369	(5,596,293)
	<u>(7,079,603)</u>	<u>(11,795,894)</u>
Net Cash Provided by (used in) Investing Activities		
Cash Flow from Financing Activities:		
Issuance of Bonds		6,822,500
Principal Payment on Bonds and Notes	(7,715,150)	(9,219,435)
Interest Paid on Bonds and Notes	(7,892,623)	(7,930,749)
Increase (Decrease) in Deferred Costs	301,905	162,948
Increase (Decrease) in Lease Payable	(18,316)	(15,762)
Increase (Decrease) in Unamortized Items	146,917	382,184
	<u>(15,177,267)</u>	<u>(9,798,314)</u>
Net Cash Used in Financing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	(4,445,184)	(2,910,383)
Cash and Cash Equivalents at Beginning of Year	<u>36,518,552</u>	<u>39,428,935</u>
Cash and Cash Equivalents at End of Year	<u>\$ 32,073,368</u>	<u>\$ 36,518,552</u>
Analysis of Balance:		
Unrestricted	\$ 1,388,442	\$ 1,111,845
Restricted	<u>30,684,926</u>	<u>35,406,707</u>
	<u>\$ 32,073,368</u>	<u>\$ 36,518,552</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
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
CHANGE IN NET ASSETS	\$ <u>463,685</u>	\$ <u>1,865,883</u>
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation Expense	8,545,499	8,117,800
Interest Expense	7,905,407	7,801,530
Amortization Expense	454,609	491,254
Decrease (Increase) in Accounts Receivable	290,259	689,132
Decrease (Increase) in Other Receivable	(375)	1,699
Decrease (Increase) in Inventory	296,936	14,713
Decrease (Increase) in Prepaid Expenses	259,589	(79,294)
Increase (Decrease) in Accounts Payable	(399,138)	(210,082)
Increase (Decrease) in Meter Deposits Payable	<u>(4,785)</u>	<u>(8,810)</u>
Total Adjustments	<u>17,348,001</u>	<u>16,817,942</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>17,811,686</u></u>	\$ <u><u>18,683,825</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
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

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
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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	5-10 Years

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

	<u>Balance</u> <u>Dec.31, 2010</u>	<u>Net</u> <u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>Dec.31, 2011</u>
Capital Assets	212,840,740	6,806,363		219,647,103
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
	<u>300,365,424</u>	<u>6,806,363</u>	<u>0</u>	<u>307,171,787</u>
Accumulated Depreciation	<u>(138,936,950)</u>	<u>(8,545,499)</u>	<u>—</u>	<u>(147,482,449)</u>
Property, Plant and Equipment, Net	<u>161,428,474</u>	<u>(1,739,136)</u>	<u>0</u>	<u>159,689,338</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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.

O. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 60, Accounting and Financial Reporting for Services Concession Arrangements. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or private-public partnership that state and local governments are increasingly entering into. The Commission is currently evaluating the affect, if any, this statement will have on current practice. This Statement is effective for periods beginning after December 15, 2011 and will be applied retroactively for all periods presented.

The Government Accounting Standards Board issued GASB Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment to No. 14 and No. 34. This Statement will improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). The Commission does not believe this Statement will materially affect its current practice. This Statement is effective for periods beginning after June 15, 2012.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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

O. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins or the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

The Commission acknowledges this codification and has determined that it will have no effect on the financial presentation as of December 31, 2011.

The Government Accounting Standards Board issued GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources, inflows of resources, and net position as defined under the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Since the Commission reports only business-type activities as a program-specific entity, the provisions of this Statement are not applicable.

The Government Accounting Standards Board issued GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty of swap counterparty's credit support provider. The Commission has determined that this Statement is not applicable for the reporting period ending December 31, 2011.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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%.

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, 2011, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	1,388,442	1,388,442
Restricted	<u>30,684,926</u>	<u>30,684,926</u>
	<u>32,073,368</u>	<u>32,073,368</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2011 was \$32,073,368 and the bank balance was \$32,634,054. This entire amount was covered by federal depository insurance and the collateral pool maintained by the banks as required by New Jersey Statutes.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

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, 2011, \$-0- of the Commission's bank balance of \$32,634,054 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, 2011, the Commission had \$-0- invested in certificates of deposit with maturity dates greater than 3 months.

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.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 5. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

The Commission issued bonds in 2001, 2002, 2007 and 2010 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:

	<u>Balance Dec.31, 2010</u>	<u>Balance Dec.31, 2011</u>
NJEIT - Fund & Trust	<u>6,671,076</u>	<u>6,671,076</u>

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

NOTE 6. LONG-TERM DEBT

The Commission has issued and has outstanding the following bonds as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Series 1992 CAB Bonds	1,798,269	3,391,397
Series 2000A Bonds		
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	37,092,880	40,368,961
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	3,343,718	3,800,341
Series 2003 Refunding Bonds	34,115,000	34,375,000
Series 2005 Refunding Bonds	8,935,000	9,235,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	3,127,755	3,307,073
Series 2007C Refunding Bonds	6,080,000	6,345,000
Series 2009A Revenue Bonds	5,090,000	5,355,000
Series 2009B Revenue Bonds	12,185,000	12,185,000
Series 2009C Revenue Bonds	20,370,000	20,950,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	4,032,500	4,032,500
Series 2010C Refunding Bonds	<u>2,250,000</u>	<u>2,790,000</u>
Net Carrying Amount of Debt	<u>138,420,122</u>	<u>146,135,272</u>
Current Portion	9,099,431	8,792,022
Long-Term Portion	<u>129,320,691</u>	<u>137,343,250</u>
	<u>138,420,122</u>	<u>146,135,272</u>

PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)

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>
2012	8,222,699	6,947,812	15,170,511
2013	9,310,395	5,969,407	15,279,802
2014	9,669,696	5,732,237	15,401,933
2015	9,809,982	5,478,788	15,288,770
2016	9,570,125	5,117,815	14,687,940
2017	9,922,268	4,755,624	14,677,892
2018	10,231,257	4,368,374	14,599,631
2019	10,491,331	3,957,083	14,448,414
2020	10,925,282	3,524,715	14,449,997
2021	11,374,513	3,064,654	14,439,167
2022	7,619,393	2,568,936	10,188,329
2023	2,968,452	2,166,368	5,134,820
2024	3,145,481	1,989,178	5,134,659
2025	3,325,630	1,799,843	5,125,473
2026	3,532,120	1,588,897	5,121,017
2027	3,293,326	1,363,656	4,656,982
2028	2,732,724	1,143,134	3,875,858
2029	2,922,724	938,829	3,861,553
2030	1,002,724	719,774	1,722,498
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>138,420,122</u>	<u>66,673,851</u>	<u>205,093,973</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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. This amount is recorded on the Commission's books as an increase in interest expense and bonds payable. The Commission has been providing for this level debt service payment in its current rate structure.

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

<u>Year</u>	<u>Original Principal</u>	<u>Dec.31, 2011 Accreted Principal</u>	<u>Accreted Principal Remaining</u>	<u>Principal at Maturity</u>
2012	<u>\$708,554</u>	<u>\$1,798,269</u>	<u>\$876,731</u>	<u>\$2,675,000</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)

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, 2011, the Trust and Fund portions payable were as follows:

<u>Year</u>	<u>Series 2001A (Project S340322-02)</u>		<u>Fund Portion</u>		<u>Total</u>
	<u>Trust Portion</u>		<u>Principal</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>		
2012	180,000	82,087	196,621		458,708
2013	190,000	82,085	196,688		468,773
2014	200,000	82,082	196,388		478,470
2015	199,662	82,096	196,388		478,146
2016	213,968	72,094	199,383		485,445
2017	223,448	61,397	198,551		483,396
2018	232,921	50,228	197,387		480,536
2019	247,387	38,410	199,217		485,014
2020	256,997	25,866	197,220		480,083
2021	<u>271,496</u>	<u>13,287</u>	<u>198,669</u>		<u>483,452</u>
	<u>2,215,879</u>	<u>589,632</u>	<u>1,976,512</u>		<u>4,782,023</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2011, the Trust and Fund portions payable were as follows:

<u>Year</u>	<u>Series 2001B (Project 1605002-005)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>17,391,710</u>	<u>4,612,490</u>	<u>15,508,780</u>	<u>37,512,980</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2011, the Trust and Fund portions were as follows:

Year	Series 2002A (Project 05-1)			
	Trust Portion		Fund Portion	Total
	Principal	Interest	Principal	
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>1,540,359</u>	<u>400,898</u>	<u>1,447,439</u>	<u>3,388,696</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2011, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002B (Project 02-1)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2012	25,000	5,712	27,785	58,497
2013	25,000	5,714	26,968	57,682
2014	25,000	5,715	26,110	56,825
2015	14,164	5,706	28,520	48,390
2016	12,788	5,644	27,540	45,972
2017	11,341	5,672	26,559	43,572
2018	15,329	5,091	675	21,095
2019	14,528	4,150		18,678
2020	13,810	3,239		17,049
2021	17,791	2,345		20,136
2022	<u>17,012</u>	<u>1,248</u>		<u>18,260</u>
	<u>191,763</u>	<u>50,236</u>	<u>164,157</u>	<u>406,156</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2011, 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>
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>34,115,000</u>	<u>11,690,750</u>	<u>45,805,750</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2011, 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>
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>8,935,000</u>	<u>2,798,940</u>	<u>11,733,940</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2011, the outstanding principal and interest on the Series 2007A&B NJEIT Bonds is as follows:

<u>Year</u>	<u>Series 2007A&B</u>		<u>Principal</u>	<u>Total</u>
	<u>Trust Portion</u>	<u>Interest</u>		
2012	50,000	49,468	126,147	225,615
2013	50,000	47,768	123,991	221,759
2014	55,000	46,018	128,113	229,131
2015	55,000	44,038	125,602	224,640
2016	60,000	41,288	128,455	229,743
2017	60,000	38,288	124,651	222,939
2018	65,000	35,288	127,187	227,475
2019	65,000	32,038	123,065	220,103
2020	70,000	29,438	126,109	225,547
2021	75,000	26,638	128,899	230,537
2022	75,000	22,888	124,143	222,031
2023	80,000	19,138	125,729	224,867
2024	85,000	15,738	127,758	228,496
2025	85,000	11,913	122,907	219,820
2026	90,000	8,088	124,397	222,485
2027	95,000	4,038	125,602	224,640
	<u>1,115,000</u>	<u>472,073</u>	<u>2,012,755</u>	<u>3,599,828</u>

Series 2007C Water Supply System Revenue Bonds

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

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2011, 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>
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	515,000	25,750	540,750
	<u>6,080,000</u>	<u>2,615,810</u>	<u>8,695,810</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)

NOTE 6. LONG-TERM DEBT, (continued)

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

At December 31, 2011, 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>
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>37,645,000</u>	<u>40,897,039</u>	<u>78,542,039</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

Series 2010A&B NJ Environmental Infrastructure Trust Bonds

On October 5, 2010 and November 23, 2010, the Commission funded the improvements to New Jersey Environmental Infrastructure Trust \$5,390,000. These bonds were issued to provide for, among other things (1) the financing of costs of renovations, additions and improvements to the System; including specifically (i) cleaning and lining over 22,000 linear feet of 6", 8" and 12" water mains in the City of Passaic; (ii) approximately 5,100 linear feet of new 12" ductile iron water main to improve the hydraulics of their distribution system; and (iii) replacement of approximately 3,000 linear feet of 12" water main; (2) to provide security for loan(s) from the New Jersey Environmental Infrastructure Trust; and (3) the payment of the costs associated with the issuance of such bonds. Of this \$5,390,000, \$1,357,500 of principal was forgiven by a grant through the American Recovery and Reinvestment Act ("ARRA") of 2009.

At December 31, 2011, the outstanding principal and interest on the Series 2010A&B NJEIT Bonds is as follows:

<u>Year</u>	<u>Series 2010A&B</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2012	90,000	133,750	48,482	272,232
2013	90,000	129,250	72,723	291,973
2014	95,000	124,750	72,723	292,473
2015	100,000	120,000	72,723	292,723
2016	105,000	115,000	72,723	292,723
2017	110,000	109,750	72,723	292,473
2018	120,000	104,250	72,723	296,973
2019	125,000	98,250	72,723	295,973
2020	130,000	92,000	72,723	294,723
2021	135,000	85,500	72,723	293,223
2022	145,000	78,750	72,723	296,473
2023	150,000	71,500	72,723	294,223
2024	160,000	64,000	72,723	296,723
2025	165,000	56,000	72,723	293,723
2026	175,000	47,750	72,723	295,473
2027	180,000	39,000	72,723	291,723
2028	190,000	30,000	72,723	292,723
2029	200,000	20,500	72,723	293,223
2030	210,000	10,500	72,723	293,223
	<u>2,675,000</u>	<u>1,530,500</u>	<u>1,357,496</u>	<u>5,562,996</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 6. LONG-TERM DEBT, (continued)

Series 2010C Water Supply System Revenue Bonds

On December 22, 2010, the Commission issued Series 2010C Water Supply System Revenue Refunding Bonds in the amount of \$2,790,000 for: (i) the refunding of the outstanding Series 2000A Water Supply System Revenue Bonds; (ii) the funding of the Bond Reserve Requirement; and (iii) costs of issuance.

At December 31, 2010, the outstanding principal and interest on the Series 2010C Water Supply System Revenue Bonds is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	540,000	50,888	590,888
2013	555,000	41,438	596,438
2014	570,000	30,338	600,338
2015	<u>585,000</u>	<u>16,088</u>	<u>601,088</u>
	<u>2,250,000</u>	<u>138,752</u>	<u>2,388,752</u>

NOTE 7. CAPITALIZED LEASE PAYABLE - LODI WATER SYSTEM

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

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

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.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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

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

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

Total future minimum lease payments under lease obligations at December 31, 2011 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>
2012	62,290	90.70%	59,324
2013	64,159	86.38%	58,194
2014	66,084	82.27%	57,086
2015	68,066	78.35%	55,998
2016	70,108	74.62%	54,931
2017	72,211	71.07%	53,885
2018	74,378	67.68%	52,859
2019	76,609	64.46%	51,852
2020	78,907	61.39%	50,864
2021	81,274	58.47%	49,895
2022	83,712	55.68%	48,945
2023	86,224	53.03%	48,013
2024	88,811	50.51%	47,098
2025	91,475	48.10%	46,201
2026	94,219	45.81%	45,321
2027	97,046	43.63%	44,458
Lodi Lease Payable			<u>824,924</u>
Current Portion			62,290
Long-Term Portion			<u>762,634</u>
			<u>824,924</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 8. PENSION PLAN

Description of Plan

All of the Commission's employees participate in the Public Employees' Retirement System (PERS), a defined benefit public employee retirement system which has been established by State statute. This system is sponsored and administered by the State of New Jersey. The Public Employees' Retirement System is considered a cost sharing multiple-employer plan. 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.

Public Employees' Retirement System (PERS)

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8-10 years of service and 25 years for health care coverage. Members are eligible for retirement at age 60 with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service. Early retirement is available to those under age 60 with 25 or more years of credited service. 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 contributions. In case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 60, plus 3% for every year under age 55.

Chapter 89, P.L. 2008 increased the PERS eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008; increased the minimum annual compensation required for membership eligibility for new members. Also, it amended the early retirement reduction formula for members hired on or after November 1, 2008 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 62, plus 3% for every year under age 55.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 8. PENSION PLAN, (continued)

Public Employees' Retirement System (PERS), (continued)

Chapter 1, P.L. 2010, effective May 21, 2010, changed the membership eligibility criteria for new members of PERS from the amount of compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60 from 1/55, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 78, P.L. 2011, provides that new members of PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65. Tier 5 members will be eligible for a service retirement benefit at age 65.

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS. This amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning 2012 and 8.5% for PFRS, which increased to 10% in October 2011, of the employee's annual compensation, as defined by law. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS and PFRS. In the PERS and PFRS, the employer contribution includes funding for post-retirement medical premiums.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 8. PENSION PLAN, (continued)

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

<u>Year ended December 31,</u>	<u>Amount</u>
2011	1,306,423
2010	1,292,162
2009	1,182,608

Defined Contribution Retirement Program

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a minimum base salary of \$1,500.00 or more, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

If the eligible elected or appointed official will earn less than \$5,000.00 annually, the official may choose to waive participation in the DCRP for that office or position. The waiver is irrevocable.

This retirement program is a new pension system where the value of the pension is based on the amount of the contribution made by the employee, employer and through investment earnings. It is similar to a Deferred Compensation Program where the employee has a portion of tax deferred salary placed into an account that the employee manages through investment option provided by the employer.

The law requires that three classes of employees enroll in the DCRP detailed as follows:

All elected officials taking office on or after July 1, 2007, except that a person who is reelected to an elected office held prior to that date without a break in service may retain in the PERS.

A Governor appointee with advice and consent of the Legislature or who serves at the pleasure of the Governor only during that Governor's term of office.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 8. PENSION PLAN, (continued)

Defined Contribution Retirement Program, (continued)

Other employees commencing service after July 1, 2007, pursuant to an appointment by an elected official or elected governing body which include the statutory untenured Chief Administrative Officer such as the Business Administrator, County Administrator, or Municipal or County Manager, Department Heads, Legal Counsel, Municipal or County Engineer, Municipal Prosecutor and the Municipal Court Judge.

Notwithstanding the foregoing requirements, other employees who hold a professional license or certificate or meet other exceptions are permitted to remain to join or remain in PERS.

Contributions made by employees for DCRP are currently at 5.5% of the base wages. Member contributions are matched by a 3.0% employer contribution.

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.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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

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 2010 fiscal year), the amount actually contributed to the plan, and changes in the Commission's net OPEB Obligation.

Components of Net OPEB Obligation for 2010

Annual Required Contribution	1,655,078
Interest on Net OPEB Obligation	102,206
Adjustment to Annual Required Contribution	<u>(109,932)</u>
Annual OPEB Cost (Expense)	1,647,352
Contributions Made or Accrued	<u>(988,242)</u>
Increased in Net Obligation	<u>659,110</u>
Net OPEB Obligation (BOY)	683,307
Net OPEB Obligation (EOY)	2,021,851

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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

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 2010 was as follows:

Fiscal Year <u>Ended</u>	Annual OPEB <u>Cost</u>	Percentage of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>	Discount <u>Rate</u>
12/31/2010	1,647,352	59.99%	2,021,851	7.50%
12/31/2009	1,738,579	60.70%	1,362,742	7.50%
12/31/2008	1,738,579	60.70%	683,308	7.50%

In 2011, the Commission designated \$2,021,851 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, 2010, the most recent actuarial date, the plan was 0% funded. The actuarial accrued liability for benefits was \$23,679,371 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$23,679,371. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,511,000 and the ratio of the UAAL to the covered payroll was 175%.

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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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, 2010 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, 2010 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, 2011 and 2010, the amounts required by bond resolution were as follows:

	<u>2011</u>	<u>2010</u>
Cash and Investments on Hand	<u>2,367,314</u>	<u>2,472,233</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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, 2011, the amounts required by bond resolution were as follows:

	<u>Debt Service Reserve Requirement</u>	<u>Maximum Bond Surety Coverage</u>
Series 1992 CAB Bonds	535,000	2,140,000
Series 2000A Bonds	645,865	645,865
Series 2001A&B NJEIT Bonds	3,709,258	4,384,887
Series 2002A&B NJEIT Bonds	334,372	631,874
Series 2003 Refunding Bonds	3,411,500	3,588,000
Series 2005 Refunding Bonds	893,500	941,000
Series 2007A&B NJEIT Bonds	312,776	250,000
Series 2007C Bonds	545,500	500,000
Series 2009A Bonds	509,000	
Series 2009B Bonds	1,218,500	
Series 2009C Bonds	2,037,000	
Series 2010A&B NJEIT Bonds	296,973	
Series 2010C Bonds	225,000	

In addition to the insurance policies, the Commission has reserved \$12,890,135 cash and cash equivalents for the purpose of funding future debt service requirements.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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, 2011 and 2010, the amounts required by bond resolution were as follows:

	<u>2011</u>	<u>2010</u>
Cash and Investments on Hand	3,078,337	3,000,001
Renewal and Extension Requirement	<u>3,078,337</u>	<u>3,000,001</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, 2011 and 2009, the amounts required by bond resolution were as follows:

	<u>2011</u>	<u>2010</u>
Cash and Investments on Hand	<u>7,965,988</u>	<u>7,184,235</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 YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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

At December 31, 2011, the bond service coverage ratio was calculated as follows:

	<u>2011</u>	<u>2010</u>
Net Operating Income (including interest and Finance charges, excluding depreciation)	17,369,200	17,621,924
Bond Service Requirement	15,170,511	14,923,169
Debt Service Coverage Ratio	1.14	1.18

All principal and interest payments were made on a timely basis during the 2011 fiscal year and through the date of this report.

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2011, 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, except as follows:

Borough of Lodi and Lodi Housing Authority vs. PVWC

The Complaint, filed by the Borough of Lodi (the "Borough") on behalf of itself and its residents, and by the Lodi Housing Authority, alleges that the Commission's increase in its rates approved December 18, 2009, is in excess of the amount permitted by the 1997 Lease of the Borough's municipal water system to the Commission. The Complaint also alleges that the rate increase violates the New Jersey Consumer Fraud Act and constitutes legal and equitable fraud at common law.

The Complaint was served on August 6, 2009. The Commission successfully moved to dismiss the Plaintiffs' claims for violation of the New Jersey Consumer Fraud Act and legal and equitable fraud. By Order dated November 20, 2009, Counts Three and Four of Plaintiffs' Complaint were dismissed, leaving only Plaintiffs' claims for breach of contract and breach of the implied covenant of good faith and fair dealing. The matter was tried in the Superior Court in September 2011. On March 30, 2012, the Court entered final judgment (i) declaring that the Commission was only authorized to increase rates to customers in the Borough annually by the greater of 3.5% per year or the CPI-U plus 0.5%, and (ii) directing that rates increased beyond that amount for years 2009 through 2012 be refunded to the customers who paid them. The Commission is appealing the final judgment and has moved for a stay pending appeal.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
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(CONTINUED)**

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)

Borough of North Arlington vs. PVWC

The Complaint, filed by the Borough of North Arlington (the "Borough") on December 31, 2010, seeks to rescind the December 31, 2004 purchase by the Commission of the Borough's former municipal water system. Alternatively, it seeks to reform the Purchase Agreement to increase the purchase price on the ground of mutual mistake or the Borough's unilateral mistake with respect to the purchase price. In addition, the Complaint seeks damages in an unspecified amount based on the Commission's allegedly excessive rates and on the manner in which the Commission has maintained its system in the Borough, and it seeks to recover from the Commission real property taxes on Commission property that were never assessed by the Borough. Discovery is nearing completion, and the Commission expects to file a motion for summary judgment in or about May 2012.

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. As of December 31, 2011, coverage was as follows:

Property

PVWC Deductible = \$5,000
NJUA/MEL Coverage = \$150,000,000

General/Auto Liability

PVWC Liability SIR = \$250,000
NJUA JIF Coverage = \$50,000 (excess of \$250,000)
MEL JIF Coverage = \$700,000 (excess of \$300,000)
Munich Re Excess Liability = \$10,000,000 (excess of \$1,000,000)
Lexington Excess Liability (PVWC only) = \$10,000,000 (excess of \$11,000,000)

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 13. DEFERRED COMPENSATION PLAN

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

NOTE 14. OTHER MATTERS

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

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

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>2011</u>	<u>2010</u>
Designated for OPEB Obligation	2,021,851	2,021,851
Designated for Self-Insurance	<u>608,084</u>	<u>608,084</u>
Total Designated - Unrestricted	<u><u>2,629,935</u></u>	<u><u>2,629,935</u></u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)**

NOTE 16. SUBSEQUENT EVENTS

The Commission has received authorization from the Local Finance Board to issue up to \$4,835,000 in Revenue Bonds to finance costs of the Commission's system, including the acquisition, construction or improvement thereof and the funding of any deposits into any fund or account established and created under the General Bond Resolution.

Additionally, the Township of Lyndhurst and the Commission are currently discussing a 25-year lease of the Lyndhurst's water system. This System is currently operated by the Township and currently distributes water to approximately 5,500 customers including residences, businesses and other entities through a system of water distribution mains. The Township owns water distribution mains, water service lines, meters and fire hydrants located within the Township's boundaries, as more specifically detailed on a map dated 1977, on file in the office of the Township Engineer. The System currently purchases its water wholesale from the Commission at a rate of \$2,003.51 per million gallons.

The lease would include all of the structures or other real and personal property or any parts thereof including but not limited to reservoirs, standpipes, conduits, pipelines, mains, service lines, meters, valves, hydrants, other equipment, water distribution systems, water works, connections, rights of flowage or diversion and all other plants, structures, conveyances and other real and personal property, or rights therein owned by the Township, used for the provision of water service in the Township.

The Township would grant to the Commission the exclusive right to provide water service within the Township including, to the extent permitted by law, the right to impose and collect liens for unpaid water charges.

The Commission would make the following annual lease payments to the Township:

Initial Annual Lease Payment	\$4,150,000
Second Year Lease Payment	150,000
Third Year Lease Payment	300,000

The Annual Lease Payment for each lease year after the third lease year would be equal to the Annual Lease Payment for the immediately preceding lease year increased by the percentage increase in Owner Cities rates implemented by the Commission for the lease year with respect to which such Annual Lease Payment is payable.

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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, 2011

	Invested in Capital Assets	Current Debt Service Reserve	Future Debt Service Reserve	Restricted		Unemployment Compensation Insurance	Unrestricted		Total
				Renewal and Extension Reserve	Operations Reserve		Designated	Undesignated	
Operating Revenue:									
Service Agreements	-	-	-	-	-	-	-	64,373,370	64,373,370
Miscellaneous								7,089,460	7,089,460
Sale of Scrap								53,967	53,967
Total Operating Revenue	-	-	-	-	-	-	-	71,516,797	71,516,797
Operating Expense:									
Cost of Providing Services								43,530,803	43,530,803
Administrative and General								11,403,803	11,403,803
Depreciation								8,545,499	8,545,499
Total Operating Expense	-	-	-	-	-	-	-	63,480,105	63,480,105
Operating Income	-	-	-	-	-	-	-	8,036,692	8,036,692
Non-Operating Revenue (Expense):									
Interest Income	859	941	1,288	193	202	713		449,422	453,618
Finance Charges								333,391	333,391
Interest Expense								(7,905,407)	(7,905,407)
Amortization								(454,609)	(454,609)
	859	941	1,288	193	202	713	-	(7,577,203)	(7,573,007)
Net Income (Loss) Before Transfers	859	941	1,288	193	202	713	-	459,489	463,685
Transfers:									
Interest Income	(859)	(941)	(1,288)	(193)	(202)	(713)	-	4,196	-
Other Transfers	(66,266)	(117,693)	1,288	78,336	781,753	(32,844)	-	(644,574)	-
Increase/(Decrease) in Net Assets	(66,266)	(117,693)	1,288	78,336	781,753	(32,844)	-	(180,889)	463,685
Net Assets - January 1, 2011	33,809,471	1,719,203	12,883,847	3,000,001	7,184,235	221,651	2,629,935	5,732,183	67,185,526
Net Assets - December 31, 2011	33,743,205	1,601,510	12,890,135	3,078,337	7,965,988	188,807	2,629,935	5,551,294	67,649,211

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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, 2011**

	Construction Accounts	Bond Service Accounts	Bond Reserve Account	Renewal and Extension Account
Cash, Cash Equivalents and Investments - January 1, 2011	9,639,750	2,472,223	12,888,847	3,000,001
Cash Receipts:				
Interest on Investments	859	941	1,288	193
Service Agreements				
Miscellaneous				
Proceeds from Bonds				
Finance Charges				
Transfers		15,501,923		78,143
Total Cash Receipts	859	15,502,864	1,288	78,336
Cash and Investments Available	9,640,609	17,975,087	12,890,135	3,078,337
Cash Disbursements:				
Bond Principal Payments		7,715,150		
Interest Payments		7,892,623		
Operations				
Capital and Other Expenses				
Transfers	5,446,264			
Total Cash Disbursements	5,446,264	15,607,773	-	-
Cash, Cash Equivalents and Investments - December 31, 2011	4,194,345	2,367,314	12,890,135	3,078,337
Analysis of Balance:				
Cash and Cash Equivalents	4,194,345	2,367,314	12,890,135	3,078,337
Investments				
	4,194,345	2,367,314	12,890,135	3,078,337
Unrestricted	-	-	-	-
Restricted	4,194,345	2,367,314	12,890,135	3,078,337
	4,194,345	2,367,314	12,890,135	3,078,337

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, 2011**

	Operation Reserve Account	Unemployment Insurance Account	General Operating Accounts	Total
Cash, Cash Equivalents and Investments - January 1, 2011	7,184,235	221,651	1,111,845	36,518,552
Cash Receipts:				
Interest on Investments	202	713	449,422	453,618
Service Agreements			64,663,629	64,663,629
Miscellaneous			7,143,052	7,143,052
Proceeds from Bonds				-
Finance Charges			333,391	333,391
Transfers	91,366,551	23,003	95,814,824	202,784,444
Total Cash Receipts	91,366,753	23,716	168,404,318	275,378,134
Cash and Investments Available	98,550,988	245,367	169,516,163	311,896,686
Cash Disbursements:				
Bond Principal Payments				7,715,150
Interest Payments				7,892,623
Operations			55,992,854	55,992,854
Capital and Other Expenses			5,438,247	5,438,247
Transfers	90,585,000	56,560	106,696,620	202,784,444
Total Cash Disbursements	90,585,000	56,560	168,127,721	279,823,318
Cash, Cash Equivalents and Investments - December 31, 2011	7,965,988	188,807	1,388,442	32,073,368
	-	-	-	-
Analysis of Balance:				
Cash and Cash Equivalents	7,965,988	188,807	1,388,442	32,073,368
Investments	-	-	-	-
	7,965,988	188,807	1,388,442	32,073,368
Unrestricted	-	-	1,388,442	1,388,442
Restricted	7,965,988	188,807	-	30,684,926
	7,965,988	188,807	1,388,442	32,073,368

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	FY 2011 Adopted Budget	FY 2011 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Revenues:					
Service Charges	47,881,288	47,881,288	41,041,752	(6,839,536)	40,901,324
Service Agreements (Bulk)	24,052,422	24,052,422	23,331,618	(720,804)	24,972,282
Fines / Penalties	327,000	327,000	333,391	6,391	293,931
Fire Line Service	4,007,987	4,007,987	4,103,177	95,190	3,474,019
Other Services and Repairs	4,462,860	4,462,860	3,040,250	(1,422,610)	3,230,280
Non-operating Investments	250,000	250,000	453,618	203,618	303,204
Total Operating Revenues	80,981,557	80,981,557	72,303,806	(8,677,751)	73,175,040

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	FY 2011 Adopted Budget	FY 2011 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Expenses:					
Operating:					
Cost of Providing Services:					
Executive					
Salaries and Wages	534,080	534,080	543,745	(9,665)	621,410
Other Expenses	45,500	45,500	29,340	16,160	34,259
Legal					
Salaries and Wages	305,000	305,000	252,479	52,521	331,940
Other Expenses	765,500	765,500	1,306,184	(540,684)	913,595
Engineering					
Salaries and Wages	756,000	756,000	690,536	65,464	627,777
Other Expenses	380,000	380,000	510,438	(130,438)	371,537
Purchasing					
Salaries and Wages	188,000	188,000	191,394	(3,394)	186,393
Other Expenses	6,750	6,750	3,041	3,709	4,598
Accounting					
Salaries and Wages	454,000	454,000	588,885	(134,885)	366,328
Other Expenses	106,500	106,500	81,225	25,275	74,372
Customer Service					
Salaries and Wages	894,000	894,000	665,546	228,454	769,960
Other Expenses	950,500	950,500	768,251	182,249	1,057,358
Information Technology	442,800	442,800	133,219	309,581	-
Personnel					
Salaries and Wages	465,000	465,000	407,786	57,214	387,991
Other Expenses	50,000	50,000	52,092	(2,092)	67,427
Purification					
Salaries and Wages	1,418,500	1,418,500	1,437,992	(19,492)	1,397,487
Other Expenses	546,080	546,080	831,373	(285,293)	770,923
Process	7,532,000	7,532,000	6,186,876	1,345,124	7,323,534

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	FY 2011 Adopted Budget	FY 2011 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Operating:					
Cost of Providing Services (Continued):					
Pumping					
Salaries and Wages	1,014,000	1,014,000	958,771	55,229	1,059,986
Other Expenses	5,140,800	5,140,800	5,702,380	(561,580)	5,830,055
Plant:					
Salaries and Wages	3,605,000	3,605,000	3,105,073	499,927	3,184,867
Other Expenses	2,904,300	2,904,300	1,215,066	1,689,234	1,512,324
Construction (Non-Capital Expenditures)	-	-	173,416	(173,416)	868
Distribution					
Salaries and Wages	3,422,000	3,422,000	3,236,507	185,493	3,445,740
Other Expenses	241,500	241,500	269,425	(27,925)	133,792
Maintenance	1,736,500	1,736,500	2,138,033	(401,533)	1,737,699
Garage	362,100	362,100	307,914	54,186	345,982
Laboratory:					
Salaries and Wages	1,521,000	1,521,000	1,409,024	111,976	1,433,470
Other Expenses	86,000	86,000	55,983	30,017	22,467
General Chemistry	216,000	216,000	228,232	(12,232)	241,143
Trace Analysis	200,000	200,000	39,858	160,142	48,178
Microbiology	131,000	131,000	63,915	67,085	36,724
Online Gas Instruments	9,000	9,000	-	9,000	-
Online Water Instruments	55,000	55,000	98,302	(43,302)	27,294
Field Gas Instruments	49,000	49,000	25,916	23,084	27,267
NJDWSC Budget Expense	10,779,000	10,779,000	9,822,586	956,414	9,935,418
Sub-total Cost of Providing Services	47,312,410	47,312,410	43,530,803	3,781,607	44,330,163

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	FY 2011 Adopted Budget	FY 2011 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Administrative Expenses:					
Stationary, Postage and Supplies	339,000	339,000	275,053	63,947	251,423
Miscellaneous	365,000	365,000	476,992	(111,992)	1,015,910
Telephone	207,000	207,000	398,017	(191,017)	377,557
Wanaque So. - Lease Expense	33,000	33,000	62,936	(29,936)	58,915
Legal Advertisements	27,000	27,000	24,776	2,224	20,734
Tuition Reimbursement	32,000	32,000	806	31,194	-
Membership Affiliations	47,000	47,000	39,378	7,622	73,556
General Liability Insurance	690,000	690,000	740,000	(50,000)	746,046
Fees and Taxes	594,000	594,000	557,586	36,414	564,750
Outside Security	6,000	6,000	5,657	343	5,313
Bad Debt Expense	160,000	160,000	4,553	155,447	31,253
Employee Benefits:					
Worker's Compensation	387,000	387,000	502,822	(115,822)	358,189
Hospitalization	3,606,000	3,606,000	4,433,920	(827,920)	3,388,274
Group Life Insurance	5,000	5,000	6,264	(1,264)	5,795
Pension	1,533,000	1,533,000	1,306,423	226,577	1,292,162
Other Post Retirement Benefits	-	-	-	-	654,543
Social Security / Medicare	1,063,000	1,063,000	1,016,876	46,124	1,029,108
Unemployment and Disability	110,000	110,000	25,038	84,962	25,161
Dental	138,000	138,000	144,223	(6,223)	130,285
Prescription	947,000	947,000	1,254,401	(307,401)	982,115
Other	37,000	37,000	36,081	919	34,947
Professional Services:					
Auditing	40,000	40,000	38,000	2,000	37,500
Other	133,000	133,000	54,001	78,999	125,971

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	FY 2011 Adopted Budget	FY 2011 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Administrative Expenses (Continued):					
Repairs and Maintenance	-	-	-	-	5,843
Outside Contractors	5,000	5,000	-	5,000	7,603
Property Damages	360,000	360,000	-	360,000	-
Personal Injuries	10,864,000	10,864,000	11,403,803	(539,803)	11,222,953
Sub-total Operating	58,176,410	58,176,410	54,934,606	3,241,804	55,553,116
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	7,254,392	7,254,392	7,905,407	(651,015)	7,801,530
Bond Principal	7,910,625	7,910,625	6,042,022	1,868,603	7,744,749
Sub-total Other Costs	15,165,017	15,165,017	13,947,429	1,217,588	15,546,279
Total Costs Funded by Operating Revenues	73,341,427	73,341,427	68,882,035	4,459,392	71,099,395
Add: Excess / (Deficit)	7,640,130	7,640,130	3,421,771	(4,218,359)	2,075,645
	80,981,557	80,981,557	72,303,806	8,677,751	73,175,040

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	FY 2011 Adopted Budget	FY 2011 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Excess of Revenues Over Expenses:			3,421,771		2,075,645
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(8,545,499)		(8,117,800)
Amortization Expense			(454,609)		(491,254)
Other Post Retirement Benefits			-		654,543
Bond Principal			6,042,022		7,744,749
Total Adjustments			(2,958,086)		(209,762)
Change in Net Assets			463,685		1,865,883

PASSAIC VALLEY WATER COMMISSION

SCHEDULE 4

Page 1 of 1

**SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	FY 2011 Adopted Budget	FY 2011 Budget as Amended	Paid or Charged	Excess / (Deficit)
Financing Sources:				
Debt Authorization	15,180,000	15,180,000	6,415,992	8,764,008
Retained Earnings Appropriated	3,600,000	3,600,000	390,371	3,209,629
	<u>18,780,000</u>	<u>18,780,000</u>	<u>6,806,363</u>	<u>11,973,637</u>
Capital Outlays:				
Recurring Construction:				
Valve Replacement	750,000	750,000	463,352	286,648
Meter Replacement	186,000	186,000	1,478	184,522
Plant / Distribution	656,000	656,000	689,409	(33,409)
Vehicles / Equipment	800,000	800,000	578,395	221,605
Service Replacements	750,000	750,000	711,102	38,898
Office Furniture & Equipment	50,000	50,000	-	50,000
Dam Improvements:				
Point View	1,100,000	1,100,000	307,350	792,650
Production and Pumping:				
Main Pump Station Discharge Valves	1,273,000	1,273,000	138,080	1,134,920
Residual Pumps	159,000	159,000	-	159,000
PH / Alk. Adjustments for Wanaque Water	275,000	275,000	-	275,000
Hydro-electric Generators	200,000	200,000	-	200,000
Residuals Treatment	546,000	546,000	534,687	11,313
Main Pumping Station	164,000	164,000	137,858	26,142
Filter Underdrain Replacement	820,000	820,000	425,328	394,672
Distribution:				
Cleaning & Lining	1,500,000	1,500,000	1,934,184	(434,184)
Notch Road in Clifton	1,311,000	1,311,000	145,135	1,165,865
Valve Replacement	55,000	55,000	-	55,000
Storage Improvement Project	1,800,000	1,800,000	119,220	1,680,780
Propect Park Tank Replacement	1,311,000	1,311,000	19,794	1,291,206
Plant and General Structures:				
Prefab Metal Building - Lockers at Plant	32,000	32,000	35,559	(3,559)
Windows - Clifton Admin. Building	196,000	196,000	8,160	187,840
WTP Admin Upgrades	109,000	109,000	109,314	(314)
Electrical System Upgrades	219,000	219,000	37,105	181,895
Fencing - Point View, New Street & Levine	70,000	70,000	20,482	49,518
Totowa Pumps	109,000	109,000	-	109,000
Instrumentation, Controls and Information Technologies:				
SCADA - Distribution / WTP	1,400,000	1,400,000	37,470	1,362,530
IT Upgrades	2,241,000	2,241,000	237,733	2,003,267
Digital Mapping & GIS Assessment	36,000	36,000	-	36,000
Security Consultant / Vulnerability Imp.	126,000	126,000	-	126,000
Laboratory Equipment	536,000	536,000	115,168	420,832
Total Capital Outlays	<u>18,780,000</u>	<u>18,780,000</u>	<u>6,806,363</u>	<u>11,973,637</u>
Total Costs Funded by Capital Revenue	<u>18,780,000</u>	<u>18,780,000</u>	<u>6,806,363</u>	<u>11,973,637</u>
Add: Excess	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>18,780,000</u>	<u>18,780,000</u>	<u>6,806,363</u>	<u>11,973,637</u>

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PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Bonds (Series 1992)	6/10/1992	CAB	2012	1,798,268.75	3,391,397	1,081,872	2,675,000	1,798,269
NJEIT Bonds (Series 2001A&B)	10/15/2001							
Trust Portion								
(Refunded with Series 2007A)								
		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				
					21,132,589		1,525,000	19,607,589

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJ/EIT Bonds (Series 2001A&B) Fund Portion	10/15/2001	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				
					19,236,371		1,751,080	17,485,291
NJ/EIT Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/2002	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				
					1,942,123		210,000	1,732,123

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJBIT Bonds (Series 2002A&B) Fund Portion	10/15/2002	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				
					1,858,219		246,623	1,611,595
Refunding Bonds (Series 2003)	12/15/2003	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				
					34,375,000		260,000	34,115,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Refunding Bonds (Series 2005)	2/8/2005	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				
				9,235,000		300,000	8,935,000	

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Trust Portion	11/9/2007	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				
					1,165,000		50,000	1,115,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Fund Portion	11/9/2007	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				
					2,142,073		129,318	2,012,755

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Refunding Bonds (Series 2007C)	11/9/2007	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				
					6,345,000		265,000	6,080,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2011		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Water Supply Revenue Bonds (Series 2009A)	12/15/2009	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				
					5,355,000		265,000	5,090,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Water Supply Revenue Bonds (Series 2009B)	12/15/2009	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, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Water Supply Revenue Bonds (Series 2009C)	12/15/2009	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				
		8.00%	2029	1,965,000.00				
					20,950,000		580,000	20,370,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJ/EIT Bonds (Series Fall 2010A) Fund Portion	10/5/2010	n/a	2012	48,482.14				
		n/a	2013	72,723.21				
		n/a	2014	72,723.21				
		n/a	2015	72,723.21				
		n/a	2016	72,723.21				
		n/a	2017	72,723.21				
		n/a	2018	72,723.21				
		n/a	2019	72,723.21				
		n/a	2020	72,723.21				
		n/a	2021	72,723.21				
		n/a	2022	72,723.21				
		n/a	2023	72,723.21				
		n/a	2024	72,723.21				
		n/a	2025	72,723.21				
		n/a	2026	72,723.21				
		n/a	2027	72,723.21				
		n/a	2028	72,723.21				
		n/a	2029	72,723.21				
		n/a	2030	72,723.29				
					1,357,500			1,357,500

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJFIT Bonds (Series 2010B) Trust Portion	12/2/2010	5.00%	2012	90,000.00				
		5.00%	2013	90,000.00				
		5.00%	2014	95,000.00				
		5.00%	2015	100,000.00				
		5.00%	2016	105,000.00				
		5.00%	2017	110,000.00				
		5.00%	2018	120,000.00				
		5.00%	2019	125,000.00				
		5.00%	2020	130,000.00				
		5.00%	2021	135,000.00				
		5.00%	2022	145,000.00				
		5.00%	2023	150,000.00				
		5.00%	2024	160,000.00				
		5.00%	2025	165,000.00				
		5.00%	2026	175,000.00				
		5.00%	2027	180,000.00				
		5.00%	2028	190,000.00				
		5.00%	2029	200,000.00				
		5.00%	2030	210,000.00				
					2,675,000			2,675,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	Accreted Principal / Adjustments	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Refunding Bonds (Series 2010C)	12/22/2010	4.00%						
			2012	540,000.00				
			2013	555,000.00				
			2014	570,000.00				
			2015	585,000.00				
					2,790,000		540,000	2,250,000
					146,135,272	1,081,872	8,797,022	138,420,122
Current Portion					8,797,022			9,099,431
Noncurrent Portion					137,338,250			129,320,691
					146,135,272			138,420,122

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PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FUNDING PROGRESS
FOR THE RETIREE HEALTH PLAN
FOR THE YEAR ENDED DECEMBER 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/2010	\$ -	\$ 23,679,371	\$ 23,679,371	0.00%	\$ 13,511,000	175.26%
⁽¹⁾ 12/31/2008	\$ -	\$ 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.

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SCHEDULE 7

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

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

<u>Name</u>		<u>Office</u>
Robert Vannoy	Paterson	President
Rigo Sanchez	Passaic	Vice President
Jeffrey Levine	Paterson	Treasurer
Gloria Kolodziej	Clifton	Secretary
Thomas P. DeVita	Clifton	Commissioner
Menachem Bazian	Passaic	Commissioner
Idida Rodriguez	Paterson	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.

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Single Audit Section

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

Charles J. Ferraioli, Jr., MBA, 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, 2011, and have issued our report thereon dated April 23, 2012. 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

Management of the Passaic Valley Water Commission is responsible for establishing and maintaining effective 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (Findings 2011-1, 2011-2, 2011-3 and 2011-4). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 2011-5, 2011-6 and 2011-7).

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.

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

April 23, 2012

Ferraioli, Wielkottz, Cerullo & Cuva, P.A.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the Passaic Valley Water Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended December 31, 2011. The Passaic Valley Water Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the Passaic Valley Water Commission's management. Our responsibility is to express an opinion on the Passaic Valley Water Commission's compliance based on our audit.

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

In our opinion, the Passaic Valley Water Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the fiscal year ended December 31, 2011.

Internal Control Over Compliance

The management of the Passaic Valley Water Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Passaic Valley Water Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal controls over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

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

April 23, 2012

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

DECEMBER 31, 2011

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures	
				From	To	Prior Years	Current Year	Prior Years	Current Year
U.S. Department of Transportation: Pass Through New Jersey Department of Transportation									
Highway Planning and Construction Grant: Rt. 46 and Main Street Project	20.206	4860-711-001-702230	\$ 32,755	01/01/11	12/31/11	-	32,755	32,755	32,755
Rt. 3 and Notch / Rifle Camp Road Project	20.206	4860-711-001-702230	\$ 485,000	01/01/11	12/31/11	-	485,000	485,000	485,000
Utility Reconnaissance and Relocation	20.206	4860-711-001-702230	\$ 2,175	01/01/11	12/31/11	-	2,175	2,175	2,175
U.S. Department of Environmental Protection: Pass Through New Jersey Department of Environmental Protection									
Capitalization Grants for Clean Water Revolving Funds: Wastewater Treatment Fund	66.458	4860-510-017-702107	\$ 2,410,000	01/01/11	12/31/11	1,520,168	-	1,520,168	1,520,168
ARRA - Principal Forgiveness	66.458	4860-711-001-702230	\$ 1,357,500	01/01/11	12/31/11	-	-	1,357,500	1,357,500
ARRA - NJDEP Loan	66.458	4800-526-998200-60	\$ 1,357,500	01/01/11	12/31/11	-	-	118,455	118,455
U.S. Department of Law and Public Safety: Pass Through New Jersey Department of Law and Public Safety									
Urban Areas Security Initiative	97.008	1005-100-008-2011	\$ 301,433	01/01/11	12/31/11	-	301,433	301,433	301,433
Total Federal Financial Assistance				1,520,168	821,363	2,877,668	939,818	3,817,486	

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

DECEMBER 31, 2011

State Grantor/Pass-Through Grantor/Program	Pass Through Entity ID No.	State Account Number	Program Amount	Grant Period		Prior Years	Cash Received		Prior Years	Program Expenditures	
				From	To		Current Year	Total		Current Year	Total
<u>New Jersey Department of Environmental Protection:</u>											
NJ Environmental Infrastructure Trust Loan	n/a	526-042-4800-006	\$ 2,410,000	01/01/11	12/31/11	2,225,050	-	2,225,050	2,225,050	-	2,225,050
NJ Environmental Infrastructure Trust Loan	n/a	526-042-4800-006	\$ 2,714,924	01/01/11	12/31/11	-	-	-	-	236,910	236,910
Interest Portion	n/a	526-042-4800-006	\$ 166,369	01/01/11	12/31/11	-	166,369	166,369	-	166,369	166,369
Dam Repair Grant	n/a	n/a	\$ 63,884	01/01/11	12/31/11	-	63,884	63,884	-	63,884	63,884
<u>New Jersey Department of Military and Veteran Affairs:</u>											
New Jersey National Guard Support	n/a	n/a	\$ 4,970	01/01/11	12/31/11	-	4,970	4,970	-	4,970	4,970
<u>New Jersey Department of Transportation:</u>											
Physical Plant and Support Services	n/a	n/a	\$ 6,628	01/01/11	12/31/11	-	6,628	6,628	-	6,628	6,628
Revenue and Information Processing	n/a	n/a	\$ 1,579	01/01/11	12/31/11	-	1,579	1,579	-	1,579	1,579
<u>New Jersey Department of Treasury:</u>											
State Central Motor Pool - Automotive Services	n/a	n/a	\$ 692	01/01/11	12/31/11	-	692	692	-	692	692
Total State Financial Assistance						2,225,050	244,122	2,469,172	2,225,050	481,032	2,706,082

PASSAIC VALLEY WATER COMMISSION

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS YEAR ENDED DECEMBER 31, 2011

NOTE 1. GENERAL

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

NOTE 2. BASIS OF ACCOUNTING

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

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

	Grants Receivable <u>Dec.31, 2010</u>	Grants <u>Awarded</u>	Funds <u>Received</u>	Grants Receivable <u>Dec.31, 2011</u>
Federal Programs:				
U.S. Department of Transportation:				
Rt. 46 and Main Street Project		32,755	32,755	
Rt. 3 and Notch/Rifle Camp Road Project		485,000	485,000	
Utility Reconnaissance and Relocation		2,175	2,175	
U.S. Department of Environmental Protection:				
Capitalization Grants for Clean Water Revolving Fund	3,604,832			3,604,832
U.S. Department of Law and Public Safety:				
Urban Areas Security Initiative		301,433	301,433	
State Programs:				
N.J. Department of Environmental Protection:				
Environmental Infrastructure Trust	3,066,244		166,369	2,899,875
Damn Repair Grant		63,884	63,884	
N.J. Department of Military and Veteran Affairs:				
NJ National Guard Support		4,970	4,970	
N.J. Department of Transportation:				
Physical Plant and Support Services		6,628	6,628	
Revenue and Information Processing		1,579	1,579	
N.J. Department of Treasury:				
State Central Motor Pool - Automotive Services		692	692	
	<u>6,671,076</u>	<u>899,116</u>	<u>1,065,485</u>	<u>6,504,707</u>

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

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

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

1. Reportable condition(s) identified that are not considered to be material weaknesses? X yes none reported

2. Material weakness(es) identified? yes X no

Noncompliance material to basic financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

1. Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

2. Material weakness(es) identified? yes X no

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

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>66.458</u>	<u>Clean Water State Revolving Fund</u>
<u>20.206</u>	<u>Highway Planning and Construction Grant</u>

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

Auditee qualified as low-risk auditee? yes X no

PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)**

Section II - Financial Statement Findings

FINDING: 2011-1

Statement of Condition

There is an inadequate design of information technology (IT) controls that prevent the Commission's accounting system from providing complete and accurate information consistent with financial reporting objectives and current needs.

Criteria

A proper accounting system should allow its users to generate specific year-end report after the fiscal period has closed.

Effect

Year-end billing reports, accounts receivable ledgers and an itemized accounts payable list did not reconcile with the balances reported on the general ledger.

Cause

The accounting system can only generate balances for these specific accounting reports on the day the report is run. Subsequent adjustments, such as NSF checks, affect the general ledger balance, however, cannot be displayed on back dated reports.

Recommendation

The Commission should examine possible fixes, upgrades or replacements to the existing accounting software.

Management's Response

Management is currently undergoing a business process review which they believe will result in recommendations as to upgrades and/or replacement of existing software.

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

Section II - Financial Statement Findings, (continued)

FINDING: 2011-2*

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 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.

Management's Response

Management believes this finding will be corrected during the new fiscal period.

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2011 (continued)

Section II - Financial Statement Findings, (continued)

FINDING: 2011-3*

Statement of Condition

There are inadequate controls over safeguarding of assets, specifically the Commission's property, plant and equipment.

Criteria

Governmental entities should maintain a fixed asset list providing 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. Management should also have a system of monitoring assets that are included on this fixed asset list.

Effect

The Commission's property, plant and equipment are susceptible to misstatement, misappropriation and/or theft.

Cause

Since 1965, the Commission began recording fixed assets in a general, non-itemized format (i.e. "1969 Filter Plant Improvements). In 1985, the New Jersey Division of Local Government Services issued Technical Accounting Directive No. 2 which, among other things, required all local government units to maintain a physical inventory of all nonexpendable, tangible property. The Commission did not go back and inventory previously recorded items.

Recommendation

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

Management's Response

Management recognizes the importance of maintaining an itemized fixed asset schedule and is planning to budget for the hiring of an independent consulting firm who will establish a complete current fixed asset listing.

PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)**

Section II - Financial Statement Findings, (continued)

FINDING: 2011-4

Statement of Condition

There was a material misstatement of the financial statements for the period under audit that was not initially identified by management.

Criteria

Statements of Auditing Standards No. 115 suggests that such misstatements, although subsequently corrected by management, are indicators of a weakness in an entity's internal controls.

Effect

Additional accounts payable of \$1,022,963 was not initially recognized by management in the appropriate fiscal period.

Cause

The Commission's accounting system does not allow for the direct entry of old bills after the reporting period is closed out. A manual correcting adjustment was never made for these bills.

Recommendation

Liabilities should be charged to the correct accounting year.

Management's Response

This misstatement was the result of a miscommunication between the CFO and accounting personnel. Management is currently researching the cost / benefits of replacing the existing software package to avoid these problems in the future.

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

Section II - Financial Statement Findings, (continued)

FINDING: 2011-5*

Statement of Condition

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

Criteria

Receivable and liability accounts should represent obligations due to and from the Commission, respectively, at the closing date of a financial period.

Effect

Receivables and liabilities are possibly overstated.

Cause

Personnel changes in the accounting office in 2011 resulted in a different classification of certain receivables and payables. Receipts were not always matched against proper receivables and disbursements were not always matched against proper payables.

Recommendation

The Commission should review all old accounts receivable and payable balances.

Management's Response

Management plans to review and correct these old accounts receivable and payable balances during the 2012 fiscal year.

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

Section II - Financial Statement Findings, (continued)

FINDING: 2011-6

Statement of Condition

Overtime was incorrectly calculated on one employee's paycheck.

Criteria

Overtime should be paid in accordance with employment agreements.

Effect

The employee was overpaid for that pay period.

Cause

A glitch in the Commission's payroll system calculated overtime based on the time the employee worked, not the hours actually worked.

Recommendation

The Commission should work with the payroll company to correct this glitch.

Management's Response

Management recognizes this problem in the payroll system and will work with the payroll company to resolve this glitch.

PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)**

Section II - Financial Statement Findings, (continued)

FINDING: 2011-7*

Statement of Condition

The payroll tax transfer account is not properly reconciled.

Criteria

All bank accounts should be reconciled to their respective general ledger accounts on a monthly basis.

Effect

There is a \$14,269 unreconciled difference in the Commission's payroll tax transfer account.

Recommendation

Management should investigate all differences between the book and bank balances and make corrections as necessary.

Management's Response

The Commission changed payroll companies in 2011 and currently investigating the source of these differences. Corrections will be made to the system as necessary.

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

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

No matters were reported.

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

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 \$36,000, 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

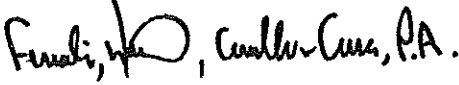
A review was performed on all prior year recommendations and corrective action was taken on all items, except those noted with an asterisk "*".

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.

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