

**PASSAIC VALLEY WATER COMMISSION**  
**REPORT OF AUDIT**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2012**

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# PASSAIC VALLEY WATER COMMISSION

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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

### **Report on the Financial Statements**

We have audited the accompanying statement of net position of the Passaic Valley Water Commission as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2012, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matters*

As discussed in Note 17 to the financial statements, in 2012 the Commission adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be 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 who considers it to be an essential part of the 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Passaic Valley Water Commission's financial statements. The Supplemental Schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2013 on our consideration of the Passaic Valley Water Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Passaic Valley Water Commission's internal control over financial reporting and compliance.

Very truly yours,



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

May 20, 2013



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## **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, 2012**

*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, 2012. Please read this analysis in conjunction with the Commission's financial statements, which follow this section.*

**Financial Highlights**

- The Commission's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$70,058,009 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$64,756,006, as restated.
- Total net assets are comprised of the following:
  - (1) Net investment in capital assets of \$31,945,109 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 \$27,778,984 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net assets of \$10,333,916 represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission decreased by \$7,112,781 to \$143,355,014 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 Commission 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 Position* includes all of the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets), the consumption of net assets that is applicable to a future period (deferred outflows of resources), the acquisition of net assets that is applicable to a future reporting period (deferred inflows of resources) 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, 2012**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. 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 Position* and the *Statement of Revenues, Expenses and Changes in Net Position* report information about the Commission's activities in a way that will help answer this question. These two statements report net position of the Commission and the changes in net position. The reader can think of the Commission's net position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – 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, 2012**

**Net Position**

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 position at fiscal year-end was \$70,058,009. This is a \$5,293,003 increase over last year's restated net position of \$64,765,006. A summary of the Commission's statement of net position is presented in the following table:

**Condensed Statement of Net Position**

	<u>FY 2012</u>	<u>Restated FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	53,290,992	55,827,807	(2,536,815)	(4.54)%
Capital Assets	<u>160,530,537</u>	<u>159,689,338</u>	<u>841,199</u>	0.53%
Total Assets	<u>213,821,529</u>	<u>215,517,145</u>	<u>(1,695,616)</u>	(0.79)%
Deferred Outflow of Resources	<u>4,011,068</u>	<u>4,478,190</u>	<u>(467,122)</u>	(10.43)%
Long-term Debt	121,626,748	130,083,325	(8,456,577)	(6.50)%
Other Liabilities	<u>21,728,266</u>	<u>20,384,470</u>	<u>1,343,796</u>	6.59%
Total Liabilities	<u>143,355,014</u>	<u>150,467,795</u>	<u>(7,112,781)</u>	(4.73)%
Deferred Inflows of Resources	<u>4,419,574</u>	<u>4,762,534</u>	<u>(342,960)</u>	(7.20)%
Net Investment in Capital Assets	31,945,109	30,859,000	1,086,109	3.52%
Restricted	27,778,984	25,724,777	2,054,207	7.99%
Unrestricted	<u>10,333,916</u>	<u>8,181,229</u>	<u>2,152,687</u>	26.31%
Total Net Assets	<u>70,058,009</u>	<u>64,765,006</u>	<u>5,293,003</u>	8.17%

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

**Net Position (Continued)**

A summary of the Commission's prior year statement of net assets is presented with comparative FY 2010 balances in the following table. This comparison has not been restated to reflect the financial reporting requirements of GASB No. 63 and the change in classification of bond issuance costs required by GASB No. 65.

	<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%

While the *Statement of Net Position* shows the change in financial position of net assets, the *Statement of Revenues, Expenses and Changes in Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position increased by \$5,293,003 and \$3,178,685 during the 2012 and restated 2011 fiscal years, respectively.



**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

**Net Position (Continued)**

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

	<u>FY 2012</u>	<u>Restated FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	79,531,218	71,516,797	8,014,421	11.21%
Non-operating Revenues	<u>593,287</u>	<u>1,446,119</u>	<u>(852,832)</u>	<u>(58.97)%</u>
Total Revenues	<u>80,124,505</u>	<u>72,962,916</u>	<u>7,161,589</u>	9.82%
Depreciation	9,008,349	8,545,499	462,850	5.42%
Other Operating Expenses	58,051,971	55,593,716	2,458,255	4.42%
Other Non-operating Expense	<u>7,771,182</u>	<u>8,058,111</u>	<u>(286,929)</u>	<u>(3.56)%</u>
Total Expenses	<u>74,831,502</u>	<u>72,197,326</u>	<u>2,634,176</u>	3.65%
Change in Net Position	5,293,003	765,590	4,527,413	591.36%
Beginning Net Position - Restated	64,765,006	67,185,526	(2,420,520)	(3.60)%
Prior-Period Adjustment	_____	<u>(3,186,110)</u>	<u>3,186,110</u>	(100.00)%
Ending Net Assets	<u>70,058,009</u>	<u>64,765,006</u>	<u>5,293,003</u>	8.17%

A summary of the Commission's prior year statement of revenues, expenses and change in net assets is presented with comparative FY 2010 figures in the following table. This comparison has not been updated to reflect the financial reporting requirements of GASB No. 63 and the change in classification of bond issuance costs required by GASB No. 65.

**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>	<u>(1.17)%</u>
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%

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

**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 2012 and FY 2011 budget comparison:

<b>Budget vs. Actual FY 2012</b>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	82,430,512	79,531,218	2,899,294
Non-Operating	<u>486,000</u>	<u>593,287</u>	<u>(107,287)</u>
	<u>82,916,512</u>	<u>80,124,505</u>	<u>2,792,007</u>
Expenses:			
Operating	62,117,250	58,051,971	4,065,279
Non-Operating	<u>15,232,801</u>	<u>14,948,181</u>	<u>284,620</u>
	<u>77,350,051</u>	<u>73,000,152</u>	<u>4,349,899</u>
Income before Depreciation	<u>5,566,461</u>	<u>7,124,353</u>	<u>(1,557,892)</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

**Budgetary Highlights (Continued)**

	<b>Budget vs. Actual FY 2011</b>		
	<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>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During fiscal year 2012, the Commission had an increase of \$9,849,548 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$160,530,537. This is a \$841,199 increase over last year's net property, plant and equipment of \$159,689,338. A summary of the Commission's capital assets is presented in the following table:

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>
Capital Assets	229,496,651	219,647,103	9,849,548
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>(156,490,798)</u>	<u>(147,482,449)</u>	<u>(9,008,349)</u>
	<u>160,530,537</u>	<u>159,689,338</u>	<u>841,199</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

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

Recurring Construction, Vehicles & Equipment	5,766,000
Source of Supply Improvements	2,520,000
Production and Pumping	4,454,000
Distribution	13,721,000
Plant and General Structures	1,465,000
Instrumentation, Controls and Information Technologies	<u>4,190,000</u>
	<u>32,116,000</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

**Debt Administration**

At December 31, 2012, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$130,197,422. The debt service schedule goes out to 2039. 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 POSITION  
DECEMBER 31,**

**EXHIBIT A**

Page 1 of 3

	<u>2012</u>	<u>Restated 2011</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
<b><u>Unrestricted:</u></b>		
Cash and Cash equivalents	\$ 2,712,031	\$ 1,388,442
Accounts Receivable, net	16,856,297	14,640,412
Inventory	1,871,047	2,125,887
Other Receivables	10,339	7,126
Prepaid Expenses	<u>580,516</u>	<u>476,307</u>
Total Unrestricted Assets	<u>22,030,230</u>	<u>18,638,174</u>
<b><u>Restricted:</u></b>		
Construction Account:		
Cash and Cash equivalents	894,751	4,194,345
Due From NJEIT Trust	1,929,629	6,504,707
Bond Service Fund:		
Cash and Cash equivalents	3,184,286	2,367,314
Bond Reserve Account:		
Cash and Cash equivalents	12,891,427	12,890,135
Renewal and Extension Account:		
Cash and Cash equivalents	4,347,254	3,078,337
Operations Account:		
Cash and Cash equivalents	7,798,993	7,965,988
Unemployment Compensation Insurance:		
Cash and Cash equivalents	<u>214,422</u>	<u>188,807</u>
Total Restricted Assets	<u>31,260,762</u>	<u>37,189,633</u>
<b>Non-Current Assets:</b>		
<b><u>Capital Assets:</u></b>		
Capital Assets	229,496,651	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
Less: Accumulated Depreciation	<u>(156,490,798)</u>	<u>(147,482,449)</u>
Total Capital Assets	<u>160,530,537</u>	<u>159,689,338</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>213,821,529</u></b>	<b>\$ <u>215,517,145</u></b>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

**PASSAIC VALLEY WATER COMMISSION  
COMPARATIVE STATEMENT OF NET POSITION  
DECEMBER 31,**

**EXHIBIT A**  
Page 2 of 3

	<b>2012</b>	<b>Restated 2011</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
<b>Deferred Outflows:</b>		
Due From Water Bank	13,674	12,522
Unamortized Costs in Excess of Refunded Debt, Net of Amortization	3,731,664	4,186,274
Unamortized Bond Discount, Net of Amortization	265,730	279,394
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>4,011,068</b>	<b>4,478,190</b>
 <b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
<u>Payable from Unrestricted Assets:</u>		
Accounts Payable and Accrued Liabilities	\$ 11,391,361	\$ 10,147,967
Due To (From) Contractor	15,000	15,000
Meter Deposits Payable	281,875	285,900
Security Deposits Payable	8,078	8,078
<b>Total Payable from Unrestricted Assets</b>	<b>11,696,314</b>	<b>10,456,945</b>
 <u>Payable from Restricted Assets:</u>		
Accrued Interest Payable	657,398	765,804
Bonds Payable - Current Portion	9,310,395	9,099,431
Leases Payable - Current Portion	64,159	62,290
<b>Total Payable from Restricted Assets</b>	<b>10,031,952</b>	<b>9,927,525</b>
 <b>Non-Current Liabilities:</b>		
Bonds Payable - Long-Term Portion	120,887,027	129,320,691
Leases Payable - Long-Term Portion	739,721	762,634
<b>Total Non-Current Liabilities</b>	<b>121,626,748</b>	<b>130,083,325</b>
<b>TOTAL LIABILITIES</b>	<b>143,355,014</b>	<b>150,467,795</b>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

**PASSAIC VALLEY WATER COMMISSION  
COMPARATIVE STATEMENT OF NET POSITION  
DECEMBER 31,**

**EXHIBIT A**

Page 3 of 3

	<u>2012</u>	<u>Restated 2011</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
<b>Deferred Inflows:</b>		
Water Bank - Deferred Revenue	13,674	12,522
Unamortized Savings from Refunded Debt, Net of Amortization	676,637	722,424
Unamortized Bond Premium, Net of Amortization	3,189,635	3,428,001
Deferred Savings on Bond Refunding, Net of Amortization	<u>539,628</u>	<u>599,587</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>4,419,574</u>	<u>4,762,534</u>
 <b><u>NET POSITION:</u></b>		
Net Investment in Capital Assets	31,945,109	30,859,000
Restricted:		
Current Debt Service	2,526,888	1,601,510
Future Debt Service	12,891,427	12,890,135
Renewal and Extension	4,347,254	3,078,337
Operations	7,798,993	7,965,988
Unemployment Compensation Insurance	214,422	188,807
Unrestricted:		
Designated	3,820,152	2,629,935
Undesignated	<u>6,513,764</u>	<u>5,551,294</u>
<b>TOTAL NET POSITION</b>	<u>\$ 70,058,009</u>	<u>\$ 64,765,006</u>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

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

**EXHIBIT B**

	<u>2012</u>	<u>Restated 2011</u>
<b>Operating Revenue:</b>		
Service Agreements	\$ 72,135,146	\$ 64,373,370
Miscellaneous	7,314,573	7,089,460
Sale of Scrap	<u>81,499</u>	<u>53,967</u>
Total Operating Revenue	<u>79,531,218</u>	<u>71,516,797</u>
<b>Operating Expenses:</b>		
Cost of Providing Services	46,335,071	43,530,803
Administrative and General	11,716,900	11,403,803
Depreciation Expense	<u>9,008,349</u>	<u>8,545,499</u>
Total Operating Expenses	<u>67,060,320</u>	<u>63,480,105</u>
Operating Income	<u>12,470,898</u>	<u>8,036,692</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	278,030	453,618
Finance Charges	315,257	333,391
Interest Expense	(7,647,019)	(7,905,407)
Amortization Expense	<u>(124,163)</u>	<u>(152,704)</u>
Non-Operating Income (Loss)	<u>(7,177,895)</u>	<u>(7,271,102)</u>
Change In Net Position	5,293,003	765,590
Net Position - January 1	<u>64,765,006</u>	<u>67,185,526</u>
<b>Prior-Period Adjustment:</b>		
Cumulative Effect of Change in Accounting Principle (Implementation of GASB No. 65)	<u>-</u>	<u>(3,186,110)</u>
Net Position - December 31	<u>\$ 70,058,009</u>	<u>\$ 64,765,006</u>

The accompanying "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>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 77,566,960	\$ 72,103,617
Cash Paid to Vendors and Employees	(56,916,811)	(55,078,940)
Interest Received	593,287	787,009
	<u>21,243,436</u>	<u>17,811,686</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>Cash Flow from Investing Activities:</b>		
Capital Expenditures	(9,973,711)	(6,944,067)
(Increase) Decrease in NJEIT Receivable	4,575,078	166,369
	<u>(5,398,633)</u>	<u>(6,777,698)</u>
<b>Net Cash Provided by (used in) Investing Activities</b>		
<b>Cash Flow from Financing Activities:</b>		
Issuance of Bonds		
Principal Payment on Bonds and Notes	(8,222,700)	(7,715,150)
Interest Paid on Bonds and Notes	(7,755,425)	(7,892,623)
Increase (Decrease) in Lease Payable	(21,044)	(18,316)
Increase (Decrease) in Unamortized Items	124,162	146,917
	<u>(15,875,007)</u>	<u>(15,479,172)</u>
<b>Net Cash Used in Financing Activities</b>		
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	(30,204)	(4,445,184)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>32,073,368</u>	<u>36,518,552</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 32,043,164</u>	<u>\$ 32,073,368</u>
<b>Analysis of Balance:</b>		
Unrestricted	\$ 2,712,031	\$ 1,388,442
Restricted	<u>29,331,133</u>	<u>30,684,926</u>
	<u>\$ 32,043,164</u>	<u>\$ 32,073,368</u>

The accompanying "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>2012</u>	<u>2011</u>
<b>CHANGE IN NET POSITION</b>	\$ <u>5,293,003</u>	\$ <u>765,590</u>
<b>Adjustments to Reconcile Change in Net Assets to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	9,008,349	8,545,499
Interest Expense	7,647,019	7,905,407
Amortization Expense	124,163	152,704
Decrease (Increase) in Accounts Receivable	(2,215,885)	290,259
Decrease (Increase) in Other Receivable	(3,213)	(375)
Decrease (Increase) in Inventory	254,840	296,936
Decrease (Increase) in Prepaid Expenses	(104,209)	259,589
Increase (Decrease) in Accounts Payable	1,243,394	(399,138)
Increase (Decrease) in Meter Deposits Payable	<u>(4,025)</u>	<u>(4,785)</u>
<b>Total Adjustments</b>	<u>15,950,433</u>	<u>17,046,096</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ <u><u>21,243,436</u></u>	\$ <u><u>17,811,686</u></u>

The accompanying "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, 2012 AND 2011**

**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, 2012 AND 2011  
(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, 2012 AND 2011  
(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, 2012 AND 2011  
(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, 2012, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net asset reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The classifications of net position are defined as follows:

- *Net Investment in Capital Assets* - This component of net position 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 net investment in capital assets. 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, 2012 AND 2011  
(CONTINUED)**

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

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

- *Restricted* - This component of net position consists of constraints placed on net assets used 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* - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**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.

**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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

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

**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, 2011</u>	<u>Net</u> <u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>Dec.31, 2012</u>
Capital Assets	219,647,103	9,849,548		229,496,651
Capital Improvements	75,312,423			75,312,423
Capital Leases	7,087,815			7,087,815
North Arlington Municipal Water System	4,309,300			4,309,300
Acquisition Expenses	<u>815,146</u>			<u>815,146</u>
	307,171,787	9,849,548	<u>0</u>	317,021,335
Accumulated Depreciation	<u>(147,482,449)</u>	<u>(9,008,349)</u>		<u>(156,490,798)</u>
Property, Plant and Equipment, Net	<u><u>159,689,338</u></u>	<u><u>841,199</u></u>	<u><u>0</u></u>	<u><u>160,530,537</u></u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(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, 2012 AND 2011  
(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 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.

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, 2012 AND 2011  
(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 Position**

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of reserves. 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.

**M. Reclassifications**

Certain reclassifications have been made to the 2011 amounts to conform to the 2012 financial statement presentation as a result of implementing GASB No. 63 and 65.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

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

**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. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority has applied GASB No. 65 for the year ending December 31, 2012.

The Government Accounting Standards Board issued GASB Statement No. 66, Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a government financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting Guidance Contained in Pre-November 20, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The Authority does not believe this Statement will materially affects its current practice.

**PASSAIC VALLEY WATER COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
**(CONTINUED)**

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

**O. Recent Accounting Pronouncements, (continued)**

The Government Accounting Standards Board issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision - useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve financial reporting by state and local government for pensions. It also improves information provided by state and local governmental employees about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating transparency. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term "government combinations" includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements beginning after December 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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(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 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, 2012, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	2,712,031	2,712,031
Restricted	<u>29,331,133</u>	<u>29,331,133</u>
	<u>32,043,164</u>	<u>32,043,164</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2012 was \$32,043,164 and the bank balance was \$32,850,139. 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, 2012 AND 2011  
(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, 2012, \$-0- of the Commission's bank balance of \$32,850,139 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, 2012, 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, 2012 AND 2011  
(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, 2011</u>	<u>Funds Received</u>	<u>Balance Dec.31, 2012</u>
NJEIT - Fund & Trust	<u>6,504,707</u>	<u>4,575,078</u>	<u>1,929,629</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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Series 1992 CAB Bonds		1,798,269
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	33,739,378	37,092,880
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	2,877,418	3,343,718
Series 2003 Refunding Bonds	33,845,000	34,115,000
Series 2005 Refunding Bonds	8,625,000	8,935,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	2,951,608	3,127,755
Series 2007C Refunding Bonds	5,805,000	6,080,000
Series 2009A Revenue Bonds	4,810,000	5,090,000
Series 2009B Revenue Bonds	12,185,000	12,185,000
Series 2009C Revenue Bonds	19,755,000	20,370,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	3,894,018	4,032,500
Series 2010C Refunding Bonds	<u>1,710,000</u>	<u>2,250,000</u>
Net Carrying Amount of Debt	<u>130,197,422</u>	<u>138,420,122</u>
Current Portion	9,310,395	9,099,431
Long-Term Portion	<u>120,887,027</u>	<u>129,320,691</u>
	<u>130,197,422</u>	<u>138,420,122</u>



**PASSAIC VALLEY WATER COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
**(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>
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	1,002,723	719,775	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>130,197,422</u>	<u>59,726,040</u>	<u>189,923,462</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

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

**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").

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, 2012, the Trust and Fund portions payable were as follows:

<u>Year</u>	<u>Series 2001A (Project S340322-02)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>2,035,879</u>	<u>507,545</u>	<u>1,779,891</u>	<u>4,323,315</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, 2012 AND 2011  
(CONTINUED)**

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

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

At December 31, 2012, 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>	
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>15,966,710</u>	<u>3,970,032</u>	<u>13,956,899</u>	<u>33,893,641</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, 2012 AND 2011  
(CONTINUED)**

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

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

At December 31, 2012, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002A (Project 05-1)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>1,345,359</u>	<u>355,113</u>	<u>1,228,924</u>	<u>2,929,396</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  
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(CONTINUED)**

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

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

At December 31, 2012, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002B (Project 02-1)</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>166,763</u>	<u>44,524</u>	<u>136,372</u>	<u>347,659</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  
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(CONTINUED)**

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

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

At December 31, 2012, 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>
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>33,845,000</u>	<u>9,985,000</u>	<u>43,830,000</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, 2012 AND 2011  
(CONTINUED)**

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

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

At December 31, 2012, 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>
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>8,625,000</u>	<u>2,453,385</u>	<u>11,078,385</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, 2012 AND 2011  
(CONTINUED)**

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

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

At December 31, 2012, the outstanding principal and interest on the Series 2007A&B NJEIT Bonds is as follows:

<u>Year</u>	<u>Series 2007A&amp;B</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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	<u>95,000</u>	<u>4,038</u>	<u>125,602</u>	<u>224,640</u>
	<u>1,065,000</u>	<u>422,605</u>	<u>1,886,608</u>	<u>3,374,213</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, 2012 AND 2011  
(CONTINUED)**

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

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

At December 31, 2012, 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>
2013	285,000	256,110	541,110
2014	300,000	244,710	544,710
2015	310,000	232,710	542,710
2016	325,000	220,310	545,310
2017	335,000	207,310	542,310
2018	350,000	193,910	543,910
2019	365,000	179,910	544,910
2020	380,000	165,310	545,310
2021	395,000	150,110	545,110
2022	410,000	134,310	544,310
2023	425,000	117,500	542,500
2024	445,000	96,250	541,250
2025	470,000	74,000	544,000
2026	495,000	50,500	545,500
2027	<u>515,000</u>	<u>25,750</u>	<u>540,750</u>
	<u>5,805,000</u>	<u>2,348,700</u>	<u>8,153,700</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, 2012 AND 2011**  
**(CONTINUED)**

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

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

At December 31, 2012, 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>
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>36,750,000</u>	<u>38,154,521</u>	<u>74,904,521</u>

**PASSAIC VALLEY WATER COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
**(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, 2012, the outstanding principal and interest on the Series 2010A&B NJEIT Bonds is as follows:

Series 2010A&B				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>2,585,000</u>	<u>1,396,750</u>	<u>1,309,014</u>	<u>5,290,764</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(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, 2012, 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>
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>1,710,000</u>	<u>87,864</u>	<u>1,797,864</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  
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(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, 2012 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>
2013	64,159	95.24%	61,104
2014	66,084	90.70%	59,940
2015	68,066	86.38%	58,798
2016	70,108	82.27%	57,678
2017	72,211	78.35%	56,579
2018	74,378	74.62%	55,502
2019	76,609	71.07%	54,445
2020	78,907	67.68%	53,407
2021	81,274	64.46%	52,390
2022	83,712	61.39%	51,392
2023	86,224	58.47%	50,413
2024	88,811	55.68%	49,453
2025	91,475	53.03%	48,511
2026	94,219	50.51%	47,587
2027	97,046	48.10%	46,681
Lodi Lease Payable			<u>803,880</u>
Current Portion			64,159
Long-Term Portion			<u>739,721</u>
			<u>803,880</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

**NOTE 8. PENSION PLAN**

**Description of Plan** - All required employees of the Commission are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate.

**Public Employees' Retirement System (PERS)** - Established in January 1955, under 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 a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

**Defined Contribution Retirement Program (DCRP)** - Established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership.

**Other Pension Funds**

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local government employers do not appropriate funds to SACT.

The cost of living increase for PERS is funded directly by the respective system and are considered in the annual actuarial calculation of the required State contribution for the system.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

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

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

**Basis of Accounting**

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

**Investment Valuation**

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained in writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS operate and to the benefit provisions of those systems.

This new legislation's provisions impacting employee pension and health benefits include:

- 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 early retirement benefit without a reduction of 1/4 to 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PERS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.

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

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

- Active member contribution rates have increased. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For Fiscal Year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

**Funding Status and Funding Progress**

The funded status and funding progress of the retirement system is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

**Actuarial Methods and Assumptions**

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate or return for the retirement systems and (2) 5.45 percent for projected salary increased for the PERS.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

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

**Employer and Employee Pension Contributions**

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey legislation with the amount of contributions by the State of New Jersey contingent upon the Annual Appropriations Act. As defined, the retirement systems require employee contributions based on 6.5% for PERS and 5.50% for DCRP of the employee's annual compensation.

**Annual Pension Costs (APC)**

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2012 for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. PERS employer contributions are made annually by the Authority to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

<b><u>Three Year Trend Information for PERS</u></b>			
<b>Year</b>	<b>Annual</b>	<b>Percentage</b>	<b>Net</b>
<b><u>Funding</u></b>	<b><u>Pension</u></b>	<b><u>of APC</u></b>	<b><u>Pension</u></b>
	<b><u>Cost (APC)</u></b>	<b><u>Contributed</u></b>	<b><u>Obligation</u></b>
12/31/12	\$1,330,388	100%	\$ 0
12/31/11	1,306,423	100%	0
12/31/10	1,292,162	100%	0

**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.

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

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

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

**Plan Description**

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

**Funding Policy**

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

**Annual OPEB Cost and Net OPEB Obligation**

The Water Commission's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Under State guidelines, the Commission is required to obtain an actuarial calculation every two years. The following table shows the components of the Commission's last annual OPEB cost (for the 2010 fiscal year), the amount actually contributed to the plan, and changes in the Commission's net OPEB Obligation.

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

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

**Components of Net OPEB Obligation for 2012**

Annual Required Contribution	1,932,863
Interest on Net OPEB Obligation	201,072
Adjustment to Annual Required Contribution	<u>(216,273)</u>
Annual OPEB Cost (Expense)	1,917,662
Contributions Made or Accrued	<u>(1,386,555)</u>
Increased in Net Obligation	<u>531,107</u>
Net OPEB Obligation (BOY)	2,680,961
Net OPEB Obligation (EOY)	3,212,068

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 2012 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>
12/31/2012	1,917,662	72.30%	3,212,068	7.50%
12/31/2011	1,647,352	59.99%	2,680,961	7.50%
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 2012, the Commission designated \$3,212,068 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.

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

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

**Funded Status and Funding Progress**

As of January 1, 2012, the most recent actuarial date, the plan was 0% funded. The actuarial accrued liability for benefits was \$28,844,102 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$28,844,102. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,187,000 and the ratio of the UAAL to the covered payroll was 258%.

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

**Actuarial Methods and Assumptions**

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

In the January 1, 2012 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 2012, 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, 2012 was 30 years.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

**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, 2012 and 2011, the amounts required by bond resolution were as follows:

	<u>2012</u>	<u>2011</u>
Cash and Investments on Hand	<u>3,184,286</u>	<u>2,367,314</u>

**Debt Service Reserve**

The 1992 General Bond Resolution states that the Commission's Bond Reserve Requirement equal the lesser of (i) 10% of the aggregate principal amount of Bonds upon original issuance or (ii) the amount equal to the Maximum Annual Debt Service. In 2005 and 2007, the Commission purchased bond service insurance policies covering the 1992, 2001A&B, 2002A&B, 2003, 2005, 2007A&B and 2007C Bonds. As a result, the Commission has amended the applicable bond resolution to allow for the use of insurance to meet it's future debt service requirement. At December 31, 2012, the amounts required by bond resolution were as follows:

	<u>Debt Service Reserve Requirement</u>	<u>Maximum Bond Surety Coverage</u>
Series 2001A&B NJEIT Bonds	3,373,938	4,384,887
Series 2002A&B NJEIT Bonds	287,742	631,874
Series 2003 Refunding Bonds	3,384,500	3,588,000
Series 2005 Refunding Bonds	862,500	941,000
Series 2007A&B NJEIT Bonds	230,537	250,750
Series 2007C Bonds	545,500	545,500
Series 2009A Bonds	481,000	
Series 2009B Bonds	1,218,500	
Series 2009C Bonds	1,975,500	
Series 2010A&B NJEIT Bonds	296,973	
Series 2010C Bonds	171,000	

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

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

In addition to the insurance policies, the Commission has reserved \$12,891,427 cash and cash equivalents for the purpose of funding future debt service requirements.

**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, 2012 and 2011, the amounts required by bond resolution were as follows:

	<u>2012</u>	<u>2011</u>
Cash and Investments on Hand	4,347,254	3,078,337
Renewal and Extension Requirement	<u>4,347,254</u>	<u>3,078,337</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, 2012 and 2011, the amounts required by bond resolution were as follows:

	<u>2012</u>	<u>2011</u>
Cash and Investments on Hand	<u>7,798,993</u>	<u>7,965,988</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  
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(CONTINUED)**

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

At December 31, 2012, the bond service coverage ratio was calculated as follows:

	<u>2012</u>	<u>2011</u>
Net Operating Income (including interest and Finance charges, excluding depreciation)	22,072,534	17,369,200
Bond Service Requirement	15,279,802	15,170,511
Debt Service Coverage Ratio	1.44	1.14

All principal and interest payments were made on a timely basis during the 2012 fiscal year and through the date of this report.

**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2012, 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 Compliant, 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 has appealed the final judgment, and the judgment has moved for a stay pending appeal.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

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

**Beatties Dam Flood Claims**

Notices of Multiple Claims have been received by the Passaic Valley Water Commission which allege that the Passaic Valley Water Commission was palpably unreasonable in the operation of its flood gates at Pompton Lakes Dam and/or improper design, maintenance and construction of Beatties dam. The allegations involve claims of property damage to numerous homeowners and business owners as a result of significant flooding. The basis for the damages claims has not been substantiated. The amounts of the total claims have yet to be determined. Matters are not yet in suite.

**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, 2012, 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, 2012 AND 2011  
(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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

**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>2012</u>	<u>2011</u>
Designated for OPEB Obligation	3,212,068	2,021,851
Designated for Self-Insurance	<u>608,084</u>	<u>608,084</u>
Total Designated - Unrestricted	<u>3,820,152</u>	<u>2,629,935</u>

**NOTE 16. SUBSEQUENT EVENTS**

The Commission has received authorization from the Local Finance Board to issue up to \$24,500,000 in Water 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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(CONTINUED)**

**NOTE 16. SUBSEQUENT EVENTS, (continued)**

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.

**NOTE 17. PRIOR PERIOD ADJUSTMENTS**

On January 1, 2012, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires, among other things, debt issuance costs, except any portion related to prepaid issuance costs, to be recognized as an expense in the period incurred. As a result, all previously unamortized bond issuance costs have been adjusted retroactively and are shown as a prior period adjustment on the 2011 financial statements.

	Balance 12/31/2011 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 12/31/2011 <u>as Restated</u>
Assets:			
Other Assets:			
Unamortized Bond Issuance Costs	\$2,884,205	(\$2,884,205)	-
Net Position:			
Invested in Capital Net of Related Debt	33,743,205	(2,884,205)	30,859,000

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## **Supplementary Schedules**

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## PASSAIC VALLEY WATER COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2012

	Net Investment in Capital Assets	Current Debt Service Reserve	Restricted			Unemployment Compensation Insurance	Unrestricted		Total
			Future Debt Service Reserve	Renewal and Extension Reserve	Operations Reserve		Designated	Undesignated	
Operating Revenue:									
Service Agreements	-	-	-	-	-	-	-	72,135,146	72,135,146
Miscellaneous	-	-	-	-	-	-	-	7,314,573	7,314,573
Sale of Scrap	-	-	-	-	-	-	-	81,499	81,499
Total Operating Revenue	-	-	-	-	-	-	-	79,531,218	79,531,218
Operating Expense:									
Cost of Providing Services	-	-	-	-	-	-	-	46,335,071	46,335,071
Administrative and General	-	-	-	-	-	-	-	11,716,900	11,716,900
Depreciation	-	-	-	-	-	-	-	9,008,349	9,008,349
Total Operating Expense	-	-	-	-	-	-	-	67,060,320	67,060,320
Operating Income	-	-	-	-	-	-	-	12,470,898	12,470,898
Non-Operating Revenue (Expense):									
Interest Income	-	-	-	-	-	-	-	278,030	278,030
Finance Charges	-	-	-	-	-	-	-	315,257	315,257
Interest Expense	-	-	-	-	-	-	-	(7,647,019)	(7,647,019)
Amortization	-	-	-	-	-	-	-	(124,163)	(124,163)
Net Income (Loss) Before Transfers	-	-	-	-	-	-	-	(7,177,895)	(7,177,895)
Transfers:									
Interest Income	-	-	-	-	-	-	-	5,293,003	5,293,003
Other Transfers	1,086,109	925,378	1,292	1,268,917	(166,995)	25,615	1,190,217	(4,330,533)	-
Increase/(Decrease) in Net Position	1,086,109	925,378	1,292	1,268,917	(166,995)	25,615	1,190,217	962,470	5,293,003
Net Position - Jan. 1, 2012 Restated	30,859,000	1,601,510	12,890,135	3,078,337	7,965,988	188,807	2,629,935	5,551,294	64,765,006
Net Position - December 31, 2012	31,945,109	2,526,888	12,891,427	4,347,254	7,798,993	214,422	3,820,152	6,513,764	70,058,009

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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, 2012**

	Construction Accounts	Bond Service Accounts	Bond Reserve Account	Renewal and Extension Account
<b>Cash, Cash Equivalents and Investments - January 1, 2012</b>	4,194,345	2,367,314	12,890,135	3,078,337
<b>Cash Receipts:</b>				
Interest on Investments	281	300	1,292	157
Service Agreements				
Miscellaneous				
Proceeds from Bonds				
Finance Charges				
Transfers		16,794,797		4,568,760
<b>Total Cash Receipts</b>	281	16,795,097	1,292	4,568,917
<b>Cash and Investments Available</b>	4,194,626	19,162,411	12,891,427	7,647,254
<b>Cash Disbursements:</b>				
Bond Principal Payments		8,222,700		
Interest Payments		7,755,425		
Operations				
Capital and Other Expenses				
Transfers	3,299,875			3,300,000
<b>Total Cash Disbursements</b>	3,299,875	15,978,125	-	3,300,000
<b>Cash, Cash Equivalents and Investments - December 31, 2012</b>	894,751	3,184,286	12,891,427	4,347,254
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	894,751	3,184,286	12,891,427	4,347,254
Investments				
	894,751	3,184,286	12,891,427	4,347,254
Unrestricted	-	-	-	-
Restricted	894,751	3,184,286	12,891,427	4,347,254
	894,751	3,184,286	12,891,427	4,347,254

## 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, 2012**

	Operation Reserve Account	Unemployment Insurance Account	General Operating Accounts	Total
<b>Cash, Cash Equivalents and Investments - January 1, 2012</b>	7,965,988	188,807	1,388,442	32,073,368
<b>Cash Receipts:</b>				
Interest on Investments	255	478	275,267	278,030
Service Agreements			69,919,261	69,919,261
Miscellaneous			7,392,859	7,392,859
Proceeds from Bonds				-
Finance Charges			315,257	315,257
Transfers	99,015,239	63,449	105,820,676	226,262,921
<b>Total Cash Receipts</b>	99,015,494	63,927	183,723,320	304,168,328
<b>Cash and Investments Available</b>	106,981,482	252,734	185,111,762	336,241,696
<b>Cash Disbursements:</b>				
Bond Principal Payments				8,222,700
Interest Payments				7,755,425
Operations			56,808,577	56,808,577
Capital and Other Expenses			5,148,909	5,148,909
Transfers	99,182,489	38,312	120,442,245	226,262,921
<b>Total Cash Disbursements</b>	99,182,489	38,312	182,399,731	304,198,532
<b>Cash, Cash Equivalents and Investments - December 31, 2012</b>	7,798,993	214,422	2,712,031	32,043,164
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	7,798,993	214,422	2,712,031	32,043,164
Investments	-	-	-	-
	7,798,993	214,422	2,712,031	32,043,164
Unrestricted	-	-	2,712,031	2,712,031
Restricted	7,798,993	214,422	-	29,331,133
	7,798,993	214,422	2,712,031	32,043,164

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>FY 2012 Adopted Budget</b>	<b>FY 2012 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Revenues:</b>					
Service Charges	48,816,995	48,816,995	45,869,758	(2,947,237)	41,041,752
Service Agreements (Bulk)	24,357,631	24,357,631	26,265,388	1,907,757	23,331,618
Fines / Penalties	336,000	336,000	315,257	(20,743)	333,391
Fire Line Service	4,488,170	4,488,170	4,082,453	(405,717)	4,103,177
Other Services and Repairs	4,767,716	4,767,716	3,313,619	(1,454,097)	3,040,250
Non-operating Investments	150,000	150,000	278,030	128,030	453,618
<b>Total Operating Revenues</b>	<b>82,916,512</b>	<b>82,916,512</b>	<b>80,124,505</b>	<b>(2,792,007)</b>	<b>72,303,806</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	FY 2012 Adopted Budget	FY 2012 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Expenses:</b>					
<b>Operating:</b>					
<b>Cost of Providing Services:</b>					
Executive					
Salaries and Wages	581,100	581,100	573,615	7,485	543,745
Other Expenses	45,500	45,500	30,783	14,717	29,340
Legal					
Salaries and Wages	371,600	371,600	260,583	111,017	252,479
Other Expenses	1,282,600	1,282,600	1,014,974	267,626	1,306,184
Engineering					
Salaries and Wages	837,400	837,400	733,359	104,041	690,536
Other Expenses	471,400	471,400	253,208	218,192	510,438
Purchasing					
Salaries and Wages	205,500	205,500	201,933	3,567	191,394
Other Expenses	7,100	7,100	3,799	3,301	3,041
Accounting					
Salaries and Wages	664,900	664,900	654,279	10,621	588,885
Other Expenses	93,000	93,000	71,530	21,470	81,225
Customer Service					
Salaries and Wages	607,600	607,600	594,694	12,906	665,546
Other Expenses	988,450	988,450	854,594	133,856	768,251
Information Technology	743,100	743,100	237,806	505,294	133,219
Personnel					
Salaries and Wages	483,000	483,000	491,376	(8,376)	407,786
Other Expenses	46,000	46,000	70,617	(24,617)	52,092
Purification					
Salaries and Wages	1,727,500	1,727,500	1,465,460	262,040	1,437,992
Other Expenses	680,100	680,100	201,957	478,143	831,373
Process	8,360,314	8,360,314	7,918,214	442,100	6,186,876

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	FY 2012 Adopted Budget	FY 2012 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Operating:</b>					
<b>Cost of Providing Services (Continued):</b>					
Pumping					
Salaries and Wages	948,000	948,000	1,080,523	(132,523)	958,771
Other Expenses	4,847,800	4,847,800	5,681,028	(833,228)	5,702,380
Plant:					
Salaries and Wages	3,436,000	3,436,000	3,558,335	(122,335)	3,105,073
Other Expenses	2,749,875	2,749,875	2,356,176	393,699	1,215,066
Construction (Non-Capital Expenditures)	627,600	627,600	170,112	457,488	173,416
Distribution					
Salaries and Wages	3,640,000	3,640,000	3,828,328	(188,328)	3,236,507
Other Expenses	377,000	377,000	248,135	128,865	269,425
Maintenance	2,039,700	2,039,700	1,490,275	549,425	2,138,033
Garage	338,500	338,500	392,315	(53,815)	307,914
Laboratory:					
Salaries and Wages	1,513,000	1,513,000	1,469,890	43,110	1,409,024
Other Expenses	74,000	74,000	144,574	(70,574)	55,983
General Chemistry	258,025	258,025	237,457	20,568	228,232
Trace Analysis	260,000	260,000	50,880	209,120	39,858
Microbiology	142,000	142,000	61,073	80,927	63,915
Online Gas Instruments	-	-	-	-	-
Online Water Instruments	60,000	60,000	77,347	(17,347)	98,302
Field Gas Instruments	23,000	23,000	33,256	(10,256)	25,916
NJDWSC Budget Expense	9,822,586	9,822,586	9,822,586	-	9,822,586
<b>Sub-total Cost of Providing Services</b>	<b>49,353,250</b>	<b>49,353,250</b>	<b>46,335,071</b>	<b>3,018,179</b>	<b>43,530,803</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	FY 2012 Adopted Budget	FY 2012 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Administrative Expenses:</b>					
Stationary, Postage and Supplies	320,000	320,000	253,844	66,156	275,053
Miscellaneous	513,000	513,000	466,546	46,454	476,992
Telephone	405,000	405,000	498,771	(93,771)	398,017
Wanaque So. - Lease Expense	65,000	65,000	62,896	2,104	62,936
Legal Advertisements	25,000	25,000	24,902	98	24,776
Tuition Reimbursement	-	-	-	-	806
Membership Affiliations	40,000	40,000	1,766	38,234	39,378
General Liability Insurance	700,000	700,000	610,950	89,050	740,000
Fees and Taxes	620,000	620,000	536,083	83,917	557,586
Outside Security	6,000	6,000	1,427	4,573	5,657
Bad Debt Expense	160,000	160,000	52,830	107,170	4,553
<b>Employee Benefits:</b>					
Worker's Compensation	387,000	387,000	415,554	(28,554)	502,822
Hospitalization	5,160,000	5,160,000	4,840,919	319,081	4,433,920
Group Life Insurance	125,000	125,000	6,391	118,609	6,264
Pension	1,500,000	1,500,000	1,330,388	169,612	1,306,423
Social Security / Medicare	1,152,000	1,152,000	1,028,840	123,160	1,016,876
Unemployment and Disability	30,000	30,000	77,110	(47,110)	25,038
Dental	162,000	162,000	169,136	(7,136)	144,223
Prescription	1,284,000	1,284,000	1,250,012	33,988	1,254,401
Other	40,000	40,000	35,999	4,001	36,081
<b>Professional Services:</b>					
Auditing	40,000	40,000	38,500	1,500	38,000
Other	30,000	30,000	14,036	15,964	54,001
<b>Sub-total Administrative</b>	<b>12,764,000</b>	<b>12,764,000</b>	<b>11,716,900</b>	<b>1,047,100</b>	<b>11,403,803</b>
<b>Sub-total Operating</b>	<b>62,117,250</b>	<b>62,117,250</b>	<b>58,051,971</b>	<b>4,065,279</b>	<b>54,934,606</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>FY 2012 Adopted Budget</b>	<b>FY 2012 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Other Costs Funded by Operating Revenues:</b>					
Debt Service:					
Interest Expense	7,105,417	7,105,417	7,647,019	(541,602)	7,905,407
Bond Principal	8,127,384	8,127,384	7,301,162	826,222	6,042,022
<b>Sub-total Other Costs</b>	<b>15,232,801</b>	<b>15,232,801</b>	<b>14,948,181</b>	<b>284,620</b>	<b>13,947,429</b>
<b>Total Costs Funded by Operating Revenues</b>	<b>77,350,051</b>	<b>77,350,051</b>	<b>73,000,152</b>	<b>4,349,899</b>	<b>68,882,035</b>
<b>Add: Excess / (Deficit)</b>	<b>5,566,461</b>	<b>5,566,461</b>	<b>7,124,353</b>	<b>1,557,892</b>	<b>3,421,771</b>
	<b>82,916,512</b>	<b>82,916,512</b>	<b>80,124,505</b>	<b>2,792,007</b>	<b>72,303,806</b>
<b>Excess of Revenues Over Expenses:</b>			<b>7,124,353</b>		<b>3,421,771</b>
<b>Reconciliation of Budgetary Basis to GAAP:</b>					
Depreciation Expense			(9,008,349)		(8,545,499)
Amortization Expense			(124,163)		(152,704)
Bond Principal			7,301,162		6,042,022
<b>Total Adjustments</b>			<b>(1,831,350)</b>		<b>(2,656,181)</b>
<b>Change in Net Position</b>			<b>5,293,003</b>		<b>765,590</b>

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**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, 2012**

	<b>FY 2012 Adopted Budget</b>	<b>FY 2012 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>
<b>Financing Sources:</b>				
Debt Authorization	13,142,000	13,142,000	6,749,548	6,392,452
Retained Earnings Appropriated	3,100,000	3,100,000	3,100,000	-
	<u>16,242,000</u>	<u>16,242,000</u>	<u>9,849,548</u>	<u>6,392,452</u>
<b>Capital Outlays:</b>				
<b>Recurring Construction:</b>				
Cleaning & Lining	2,575,000	2,575,000	2,574,800	200
Main Replacement	1,545,000	1,545,000	1,544,787	213
Valve Replacement	515,000	515,000	514,717	283
Meter Replacement	103,000	103,000	33,460	69,540
Plant / Distribution	618,000	618,000	617,985	15
Vehicle	750,000	750,000	207,002	542,998
<b>Dam Improvements:</b>				
Point View Bridge	773,000	773,000	765,392	7,608
<b>Production and Pumping:</b>				
Ozone System Upgrade	258,000	258,000		258,000
Rehabilitate Chemical System	206,000	206,000	19,850	186,150
Residual Pumps	155,000	155,000	154,525	475
Hydro-turbine Generators	258,000	258,000	108,852	149,148
Filter Valve Actuators	206,000	206,000	204,288	1,712
Filter Underdrain Replacement	515,000	515,000	513,596	1,404
<b>Distribution:</b>				
Valve Replacement	104,000	104,000	30,571	73,429
Open Finished Water Reservoirs	1,373,000	1,373,000		1,373,000
Propect Park Tank Replacement	412,000	412,000	403,490	8,510
Great Falls Arch Bridge Repair	258,000	258,000	23,672	234,328
<b>Plant and General Structures:</b>				
Windows - Clifton Admin. Building	222,000	222,000	219,881	2,119
WTP Admin Upgrades	103,000	103,000	47,156	55,844
Fencing - Point View, New Street & Levine	70,000	70,000	22,513	47,487
Totowa Pumps	103,000	103,000	71,204	31,796
<b>Instrumentation, Controls and Information Technologies:</b>				
SCADA - Distribution / WTP	2,833,000	2,833,000	1,245,412	1,587,588
IT Upgrades	1,738,000	1,738,000	291,441	1,446,559
Digital Mapping & GIS Assessment	129,000	129,000		129,000
Security Consultant / Vulnerability Imp.	100,000	100,000		100,000
Laboratory Equipment	320,000	320,000	234,954	85,046
<b>Unbudgeted Capital Expenditures</b>				
			-	-
<b>Total Capital Outlays</b>	<u>16,242,000</u>	<u>16,242,000</u>	<u>9,849,548</u>	<u>6,392,452</u>
<b>Total Costs Funded by Capital Revenue</b>	<u>16,242,000</u>	<u>16,242,000</u>	<u>9,849,548</u>	<u>6,392,452</u>
<b>Add: Excess</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>16,242,000</u>	<u>16,242,000</u>	<u>9,849,548</u>	<u>6,392,452</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, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
Bonds (Series 1992)	6/10/1992				1,798,269	876,731	2,675,000	
NJEIT Bonds (Series 2001A&B)	10/15/2001							
Trust Portion								
(Refunded with Series 2007A)								
		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				
					19,607,589		1,605,000	18,002,589

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
NJET Bonds (Series 2001A&B) Fund Portion	10/15/2001	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				
					17,485,291		1,748,502	15,736,789
NJET Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/2002	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				
					1,732,123		220,000	1,512,123

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
NJ/EIT Bonds (Series 2002A&B) Fund Portion	10/15/2002	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			246,300	1,365,295
					1,611,595			
Refunding Bonds (Series 2003)	12/15/2003	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				
					34,115,000		270,000	33,845,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
Refunding Bonds (Series 2005)	2/8/2005	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						
				8,935,000		310,000	8,625,000	

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Trust Portion	11/9/2007	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				
					1,115,000		50,000	1,065,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Fund Portion	11/9/2007	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				
					2,012,755		126,147	1,886,608



PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
Refunding Bonds (Series 2007C)	11/9/2007	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				
					6,080,000	275,000	5,805,000	

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
Water Supply Revenue Bonds (Series 2009A)	12/15/2009	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				
					5,090,000		280,000	4,810,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			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, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
Water Supply Revenue Bonds (Series 2009C)	12/15/2009	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				
					20,370,000		615,000	19,755,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
NJ/EIT Bonds (Series Fall 2010A) Fund Portion	10/5/2010	n/a	2013	72,723.21				
			2014	72,723.21				
			2015	72,723.21				
			2016	72,723.21				
			2017	72,723.21				
			2018	72,723.21				
			2019	72,723.21				
			2020	72,723.21				
			2021	72,723.21				
			2022	72,723.21				
			2023	72,723.21				
			2024	72,723.21				
			2025	72,723.21				
			2026	72,723.21				
			2027	72,723.21				
			2028	72,723.21				
			2029	72,723.21				
			2030	72,723.29				
					1,357,500		48,482	1,309,018

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accreted Principal / Adjustments	2012 Redeemed	Balance Dec 31, 2012
			Date	Amount				
NJET Bonds (Series 2010B) Trust Portion	12/2/2010	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		90,000	2,585,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2012	Accrued Principal / Adjustments	2012 Refeamed	Balance Dec. 31, 2012
			Date	Amount				
Refunding Bonds (Series 2010C)	12/22/2010	4.00%	2013	555,000.00				
		4.00%	2014	570,000.00				
		4.00%	2015	585,000.00				
					2,250,000		540,000	1,710,000
Current Portion Noncurrent Portion					138,420,122	876,731	9,099,431	130,197,422
					9,099,431			9,310,395
					129,320,691			120,887,027
					138,420,122			130,197,422

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**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF FUNDING PROGRESS  
FOR THE RETIREE HEALTH PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
12/31/2012	\$ -	\$ 28,844,102	\$ 28,844,102	0.00%	\$ 11,187,000	257.84%
12/31/2010	\$ -	\$ 23,679,371	\$ 23,679,371	0.00%	\$ 13,511,000	175.26%
<sup>(1)</sup> 12/31/2008	\$ -	\$ 24,453,445	\$ 24,453,445	0.00%	\$ 12,975,325	188.46%

<sup>(1)</sup> 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, 2012:

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

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## **INDEPENDENT AUDITOR'S 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, 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, the financial statements of the Passaic Valley Water Commission, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated May 20, 2013.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit on the financial statements, we considered the Passaic Valley Water Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the Passaic Valley Water Commission's internal control.

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 a 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. 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.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies (Finding 2012-1, 2012-2 and 2012-3).

### ***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 the schedule of findings and questioned costs (Findings 2012-4, 2012-5 and 2012-6).

This report is intended solely for the information of the 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.

### ***Passaic Valley Water Commission's Response to Findings***

The Passaic Valley Water Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commission's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

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

May 20, 2013





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

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

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

### **Report on Compliance for Each Major Federal Program**

We have audited the Passaic Valley Water Commission's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplements* and N.J. OMB Circular 04-04 that could have a direct and material effect on each of the Passaic Valley Water Commission's major federal and state programs for the year ended December 31, 2012. The Passaic Valley Water Commission's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Passaic Valley Water Commission's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, OMB Circular A-133 and N.J. OMB Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Passaic Valley Water Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Passaic Valley Water Commission's compliance.

### ***Opinion on Each Major Federal and State Program***

In our opinion, the Passaic Valley Water Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

Management of the Passaic Valley Water Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Passaic Valley Water Commission's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and N.J. OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Passaic Valley Water Commission's internal control 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 and state 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 noncompliance with a type of compliance requirement of a federal and state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal and state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and N.J. OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal and State Awards Required by OMB Circular A-133**

We have audited the financial statements of the Passaic Valley Water Commission as of and for the year ended December 31, 2012, and have issued our report there dated May 20, 2013 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and N.J. OMB Circular 04-04 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

May 20, 2013

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PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

DECEMBER 31, 2012

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	Total	Total
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	01/01/12	12/31/12	1,520,168	-	1,520,168	-	1,520,168	
ARRA - Principal Forgiveness	66.458	4860-711-001-702230	\$ 1,357,500	01/01/12	12/31/12	-	1,143,769	1,357,500	-	1,357,500	
ARRA - NJDEP Loan	66.458	4800-526-998200-60	\$ 1,357,500	01/01/12	12/31/12	-	1,143,769	118,455	1,025,314	1,143,769	
Total Federal Financial Assistance						1,520,168	2,287,538	2,996,123	3,807,706	1,025,314	4,021,437

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
DECEMBER 31, 2012

State Grantor/Pass-Through Grantor/Program	Pass Through Entity ID No.	State Account Number	Program Amount	Grant Period		Prior Years	Cash Received		Total	Program Expenditures	
				From	To		Current Year	Prior Years		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	01/01/12	12/31/12	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	01/01/12	12/31/12	-	2,287,540	2,287,540	2,287,540	2,050,630	2,287,540
Interest Portion	n/a	526-042-4800-006	\$ 166,293	01/01/12	12/31/12	166,369	-	166,369	166,369	-	166,369
<b>Total State Financial Assistance</b>						<b>2,391,419</b>	<b>2,287,540</b>	<b>2,628,329</b>	<b>4,678,959</b>	<b>2,050,630</b>	<b>4,678,959</b>

**PASSAIC VALLEY WATER COMMISSION**

**NOTES TO THE SCHEDULES OF EXPENDITURES**  
**OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED DECEMBER 31, 2012**

**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, 2011</u>	Funds Received	Grants Receivable <u>Dec.31, 2012</u>
Federal Programs:			
U.S. Department of Environmental Protection:			
Capitalization Grants for Clean Water			
Revolving Fund	3,604,832	2,287,538	1,317,294
State Programs:			0
N.J. Department of Environmental Protection:			0
Environmental Infrastructure Trust	<u>2,899,875</u>	<u>2,287,540</u>	<u>612,335</u>
	<u>6,504,707</u>	<u>4,575,078</u>	<u>1,929,629</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.

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PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2012

*Section I - Summary of Auditor's Results*

**Financial Statements**

Type of auditor's report issued: unmodified

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: unmodified

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:

CFDA Number(s)

Name of Federal Program or Cluster

66.458

Clean Water State Revolving Fund

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, 2012**  
**(continued)**

*Section I - Summary of Auditor's Results, (continued)*

**State Awards**

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes X no

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

Internal Control over major programs:

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

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

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

Identification of major programs:

**GMIS Number(s)**

**Name of State Program**

N/A

NJ Environmental Infrastructure Trust Fund

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2012**  
**(continued)**

***Section II - Financial Statement Findings***

**FINDING: 2012-1**

**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, 2012**  
**(continued)**

*Section II - Financial Statement Findings, (continued)*

**FINDING: 2012-2\***

**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, 2012 (continued)**

### ***Section II - Financial Statement Findings, (continued)***

#### **FINDING: 2012-3\***

##### **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, 2012  
(continued)

*Section II - Financial Statement Findings, (continued)*

**FINDING: 2012-4\***

**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 throughout the last few years 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 2013 fiscal year.

**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2012  
(continued)**

***Section II - Financial Statement Findings, (continued)***

**FINDING: 2012-5**

**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, 2012**  
**(continued)**

***Section II - Financial Statement Findings, (continued)***

**FINDING: 2012-6**

**Statement of Condition**

The cashier's account includes several old outstanding checks.

**Criteria**

Old outstanding checks should be reviewed and cancelled.

**Effect**

There are several checks in the Commission's cashier's account that have been outstanding for more than a year.

**Recommendation**

Management should investigate all outstanding checks that are over a year old.

**Management's Response**

The Commission is currently investigating those outstanding checks. Corrections will be made to the system as necessary.



**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2012  
(continued)**

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

No matters were reported.

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## 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.  
Certified Public Accountants