

**PASSAIC VALLEY WATER COMMISSION**  
**REPORT OF AUDIT**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2013**

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# PASSAIC VALLEY WATER COMMISSION

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying statement of net position of the Passaic Valley Water Commission as of December 31, 2013 and 2012, 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, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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*

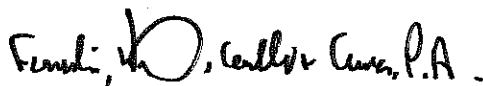
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Passaic Valley Water Commission's financial statements. The Supplemental Schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

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 April 11, 2014 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  
Pompton Lakes, New Jersey

April 11, 2014



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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, 2013**

*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, 2013. 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 \$74,975,515 (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 \$70,058,009.
- Total net assets are comprised of the following:
  - (1) Net investment in capital assets of \$41,111,177 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 position of \$25,352,907 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$8,511,431 represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission decreased by \$3,790,538 to \$139,564,476 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, 2013**

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 position 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, 2013**

**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 \$74,975,515. This is a \$4,917,506 increase over last year's restated net position of \$70,058,009. A summary of the Commission's statement of net position is presented in the following table:

**Condensed Statement of Net Position**

	<u>FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	54,586,366	53,290,992	1,295,374	2.43%
Capital Assets	<u>160,486,252</u>	<u>160,530,537</u>	<u>(44,285)</u>	(0.03)%
Total Assets	<u>215,072,618</u>	<u>213,821,529</u>	<u>1,251,089</u>	0.59%
Deferred Outflow of Resources	<u>4,491,953</u>	<u>4,011,068</u>	<u>480,885</u>	11.99%
Long-term Debt	111,596,163	121,626,748	(10,030,585)	(8.25)%
Other Liabilities	<u>27,968,313</u>	<u>21,728,266</u>	<u>6,240,047</u>	28.72%
Total Liabilities	<u>139,564,476</u>	<u>143,355,014</u>	<u>(3,790,538)</u>	(2.64)%
Deferred Inflows of Resources	<u>5,024,580</u>	<u>4,419,574</u>	<u>605,006</u>	13.69%
Net Investment in Capital Assets	41,111,177	31,945,109	9,166,068	28.69%
Restricted	25,352,907	25,383,660	(30,753)	(0.12)%
Unrestricted	<u>8,511,431</u>	<u>12,729,240</u>	<u>(4,217,809)</u>	(33.13)%
Total Net Position	<u>74,975,515</u>	<u>70,058,009</u>	<u>4,917,506</u>	7.02%

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013**

**Net Position (Continued)**

A summary of the Commission's prior year statement of net assets is presented with comparative FY 2011 balances in the following table.

**Condensed Statement of Net Position**

	<u>Restated 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	25,383,660	25,724,777	(341,117)	(1.33)%
Unrestricted	<u>12,729,240</u>	<u>8,181,229</u>	<u>4,548,011</u>	55.59%
Total Net Position	<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, 2013**

**Net Position (Continued)**

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 \$4,917,506 and \$5,293,003 during the 2013 and 2012 fiscal years, respectively.

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

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	79,848,492	79,531,218	317,274	0.40%
Non-operating Revenues	<u>467,945</u>	<u>593,287</u>	<u>(125,342)</u>	<u>(21.13)%</u>
Total Revenues	<u>80,316,437</u>	<u>80,124,505</u>	<u>191,932</u>	0.24%
Depreciation	9,488,977	9,008,349	480,628	5.34%
Other Operating Expenses	54,700,838	58,051,971	(3,351,133)	(5.77)%
Other Non-operating Expense	<u>11,209,116</u>	<u>7,771,182</u>	<u>3,437,934</u>	44.24%
Total Expenses	<u>75,398,931</u>	<u>74,831,502</u>	<u>567,429</u>	0.76%
Change in Net Position	4,917,506	5,293,003	(375,497)	(7.09)%
Beginning Net Position	<u>70,058,009</u>	<u>64,765,006</u>	<u>5,293,003</u>	8.17%
Ending Net Position	<u>74,975,515</u>	<u>70,058,009</u>	<u>4,917,506</u>	7.02%

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013**

**Net Position (Continued)**

A summary of the Commission's prior year statement of revenues, expenses and change in net assets is presented with comparative FY 2011 figures in the following table.

**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>	<u>9.82%</u>
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>	<u>3.65%</u>
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>	<u>(100.00)%</u>
Ending Net Position	<u>70,058,009</u>	<u>64,765,006</u>	<u>5,293,003</u>	<u>8.17%</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013**

**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 2013 and FY 2012 budget comparison:

**Budget vs. Actual  
FY 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	83,168,490	79,848,492	(3,319,998)
Non-Operating	<u>668,600</u>	<u>467,945</u>	<u>(200,655)</u>
	<u>83,837,090</u>	<u>80,316,437</u>	<u>(3,520,653)</u>
Expenses:			
Operating	61,412,697	54,700,838	6,711,859
Non-Operating	<u>17,710,403</u>	<u>15,687,617</u>	<u>2,022,786</u>
	<u>79,123,100</u>	<u>70,388,455</u>	<u>8,734,645</u>
Income before Depreciation	<u>4,713,990</u>	<u>9,927,982</u>	<u>5,213,992</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013**

**Budgetary Highlights (Continued)**

	<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>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During fiscal year 2013, the Commission had an increase of \$9,444,692 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$160,486,252. This is a \$44,285 decrease over last year's net property, plant and equipment of \$160,530,537. A summary of the Commission's capital assets is presented in the following table:

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>
Capital Assets	238,941,343	229,496,651	9,444,692
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>(165,979,775)</u>	<u>(156,490,798)</u>	<u>(9,488,977)</u>
	<u>160,486,252</u>	<u>160,530,537</u>	<u>(44,285)</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013**

**Capital Assets (Continued)**

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	46,274,000
Source of Supply Improvements	3,771,000
Production and Pumping	17,210,000
Distribution	102,570,000
Plant and General Structures	7,273,000
Instrumentation, Controls and Information Technologies	<u>13,911,000</u>
	<u>191,009,000</u>

**Debt Administration**

At December 31, 2013, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$120,552,027. 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>2013</u>	<u>Restated 2012</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
<b><u>Unrestricted:</u></b>		
Cash and Cash equivalents	\$ 6,027,188	\$ 5,107,355
Accounts Receivable, net	17,856,648	16,856,297
Inventory	1,781,284	1,871,047
Other Receivables	5,455	10,339
Prepaid Expenses	496,664	580,516
	<hr/>	<hr/>
Total Unrestricted Assets	26,167,239	24,425,554
	<hr/>	<hr/>
<b><u>Restricted:</u></b>		
Construction Account:		
Cash and Cash equivalents	894,866	894,751
Due From NJEIT Trust	1,594,629	1,929,629
Bond Service Fund:		
Cash and Cash equivalents	2,086,173	2,136,216
Bond Reserve Account:		
Cash and Cash equivalents	8,384,326	12,891,427
Investments	4,507,578	-
Renewal and Extension Account:		
Cash and Cash equivalents	3,000,000	3,000,000
Operations Account:		
Cash and Cash equivalents	7,718,752	7,798,993
Unemployment Compensation Insurance:		
Cash and Cash equivalents	99,203	214,422
Investments	133,600	-
	<hr/>	<hr/>
Total Restricted Assets	28,419,127	28,865,438
	<hr/>	<hr/>
<b>Non-Current Assets:</b>		
<b><u>Capital Assets:</u></b>		
Capital Assets	238,941,343	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	815,146	815,146
Less: Accumulated Depreciation	(165,979,775)	(156,490,798)
	<hr/>	<hr/>
Total Capital Assets	160,486,252	160,530,537
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 215,072,618</b>	<b>\$ 213,821,529</b>
	<hr/>	<hr/>

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

	<u>2013</u>	<u>Restated 2012</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
<b>Deferred Outflows:</b>		
Due From Water Bank	-	13,674
Water Bank - Deferred Expense	962,833	-
Unamortized Costs in Excess of Refunded Debt, Net of Amortization	3,277,054	3,731,664
Unamortized Bond Discount, Net of Amortization	252,066	265,730
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>4,491,953</u>	<u>4,011,068</u>
 <b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
<b><u>Payable from Unrestricted Assets:</u></b>		
Accounts Payable and Accrued Liabilities	\$ 12,651,173	\$ 11,391,361
Due To (From) Contractor	15,000	15,000
Meter Deposits Payable	273,825	281,875
Lodi Refund Payable	4,707,732	-
Security Deposits Payable	8,078	8,078
<b>Total Payable from Unrestricted Assets</b>	<u>17,655,808</u>	<u>11,696,314</u>
 <b><u>Payable from Restricted Assets:</u></b>		
Accrued Interest Payable	576,725	657,398
Bonds Payable - Current Portion	9,669,696	9,310,395
Leases Payable - Current Portion	66,084	64,159
<b>Total Payable from Restricted Assets</b>	<u>10,312,505</u>	<u>10,031,952</u>
 <b>Non-Current Liabilities:</b>		
Bonds Payable - Long-Term Portion	110,882,331	120,887,027
Leases Payable - Long-Term Portion	713,832	739,721
<b>Total Non-Current Liabilities</b>	<u>111,596,163</u>	<u>121,626,748</u>
<b>TOTAL LIABILITIES</b>	<u>139,564,476</u>	<u>143,355,014</u>

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>2013</u>	<u>Restated 2012</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
<b>Deferred Inflows:</b>		
Water Bank - Deferred Revenue	-	13,674
Due To Water Bank	962,833	-
Unamortized Savings from Refunded Debt, Net of Amortization	630,850	676,637
Unamortized Bond Premium, Net of Amortization	2,951,228	3,189,635
Deferred Savings on Bond Refunding, Net of Amortization	479,669	539,628
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>5,024,580</u>	<u>4,419,574</u>
 <b><u>NET POSITION:</u></b>		
Net Investment in Capital Assets	41,111,177	31,945,109
Restricted:		
Current Debt Service	1,509,448	1,478,818
Future Debt Service	12,891,904	12,891,427
Renewal and Extension	3,000,000	3,000,000
Operations	7,718,752	7,798,993
Unemployment Compensation Insurance	232,803	214,422
Unrestricted:		
Designated	4,351,259	3,820,152
Undesignated	4,160,172	8,909,088
<b>TOTAL NET POSITION</b>	<u>\$ 74,975,515</u>	<u>\$ 70,058,009</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>2013</u>	<u>2012</u>
<b>Operating Revenue:</b>		
Service Agreements	\$ 71,047,653	\$ 72,135,146
Miscellaneous	8,754,441	7,314,573
Sale of Scrap	46,398	81,499
	<u>79,848,492</u>	<u>79,531,218</u>
<b>Total Operating Revenue</b>		
<b>Operating Expenses:</b>		
Cost of Providing Services	41,798,121	46,335,071
Administrative and General	12,902,717	11,716,900
Depreciation Expense	9,488,977	9,008,349
	<u>64,189,815</u>	<u>67,060,320</u>
<b>Total Operating Expenses</b>		
<b>Operating Income</b>	<u>15,658,677</u>	<u>12,470,898</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	142,223	278,030
Finance Charges	325,722	315,257
Interest Expense	(6,377,222)	(7,647,019)
Lodi Refund	(4,707,732)	-
Amortization Expense	(124,162)	(124,163)
	<u>(10,741,171)</u>	<u>(7,177,895)</u>
<b>Non-Operating Income (Loss)</b>		
<b>Change In Net Position</b>	4,917,506	5,293,003
<b>Net Position - January 1</b>	<u>70,058,009</u>	<u>64,765,006</u>
<b>Net Position - December 31</b>	<u>\$ 74,975,515</u>	<u>\$ 70,058,009</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>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 78,942,788	\$ 77,566,960
Cash Paid to Vendors and Employees	(53,365,224)	(56,916,811)
Interest Received	467,945	593,287
<b>Net Cash Provided by Operating Activities</b>	<u>26,045,509</u>	<u>21,243,436</u>
<b>Cash Flow from Investing Activities:</b>		
Capital Expenditures	(9,568,895)	(9,973,712)
(Increase) Decrease in Investments	(4,641,178)	
(Increase) Decrease in NJEIT Receivable	335,000	4,575,078
<b>Net Cash Provided by (used in) Investing Activities</b>	<u>(13,875,073)</u>	<u>(5,398,634)</u>
<b>Cash Flow from Financing Activities:</b>		
Principal Payment on Bonds and Notes	(9,645,395)	(8,222,700)
Interest Paid on Bonds and Notes	(6,457,895)	(7,755,425)
Increase (Decrease) in Lease Payable	(23,964)	(21,044)
Increase (Decrease) in Unamortized Items	124,162	124,163
<b>Net Cash Used in Financing Activities</b>	<u>(16,003,092)</u>	<u>(15,875,006)</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	(3,832,656)	(30,204)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>32,043,164</u>	<u>32,073,368</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 28,210,508</u>	<u>\$ 32,043,164</u>
<b>Analysis of Balance:</b>		
Unrestricted	\$ 6,027,188	\$ 5,107,355
Restricted	<u>22,183,320</u>	<u>26,935,809</u>
	<u>\$ 28,210,508</u>	<u>\$ 32,043,164</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>2013</u>	<u>2012</u>
<b>CHANGE IN NET POSITION</b>	\$ 4,917,506	\$ 5,293,003
<b>Adjustments to Reconcile Change in Net Assets to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	9,488,977	9,008,349
Interest Expense	6,377,222	7,647,019
Amortization Expense	124,162	124,163
Decrease (Increase) in Accounts Receivable	(1,000,351)	(2,215,885)
Decrease (Increase) in Other Receivable	4,884	(3,213)
Decrease (Increase) in Inventory	89,763	254,840
Decrease (Increase) in Prepaid Expenses	83,852	(104,209)
Increase (Decrease) in Accounts Payable	1,259,812	1,243,394
Increase (Decrease) in Lodi Refund Payable	4,707,732	
Increase (Decrease) in Meter Deposits Payable	<u>(8,050)</u>	<u>(4,025)</u>
<b>Total Adjustments</b>	<u>21,128,003</u>	<u>15,950,433</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 26,045,509</u>	<u>\$ 21,243,436</u>



## **Notes to Financial Statements**

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**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

**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, 2013 AND 2012  
(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, 2013 AND 2012  
(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, 2013 AND 2012  
(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 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, 2013 AND 2012  
(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 position 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 position 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.D.H.S., 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, 2013 AND 2012  
(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.

	Balance <u>Dec.31, 2012</u>	Net <u>Additions</u>	<u>Disposals</u>	Balance <u>Dec.31, 2013</u>
Capital Assets	229,496,651	9,444,692		238,941,343
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>
	317,021,335	9,444,692	0	326,466,027
Accumulated Depreciation	<u>(156,490,798)</u>	<u>(9,488,977)</u>		<u>(165,979,775)</u>
Property, Plant and Equipment, Net	<u><u>160,530,537</u></u>	<u><u>(44,285)</u></u>	<u>0</u>	<u><u>160,486,252</u></u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(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, 2013 AND 2012  
(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, 2013 AND 2012  
(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. Sick and Vacation Leave**

Commission employees are granted carrying amounts of sick leave in accordance with the Commission's personnel policy and union agreements.

**K. Net Position**

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of reserves. Net investment in capital assets 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 position is 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. Impairment of Long-Lived Assets**

The Commission has adopted FASB Accounting Standards Codification 360 "Property, Plant and Equipment" (ASC 360). Pursuant to ASC 360, 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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

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

**M. Impairment of Long-Lived Assets, (continued)**

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.

**N. Recent Accounting Pronouncements**

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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

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

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

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 Commission 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 Commission does not believe this Statement will materially affect its current practice.

In April of 2013, the Government Accounting Standards Board issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for reporting periods beginning after June 15, 2013. The Commission does not believe this Statement will materially affect its current practice.

The Government Accounting Standards Board issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement requires a state or local government employer to recognize a net pension liability measured as of a date no earlier than the end of its prior fiscal year. This Statement is effective for financial statements with fiscal years beginning after June 15, 2014. The Commission is currently reviewing what effect, if any, this Statement might have on future financial statements.

**O. Reclassifications/Restatements**

After a review of the cash restriction requirements of the general bond resolution, certain reclassifications have been made to restrictions of 2012 amounts to conform with the 2013 financial presentation.

**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, 2013, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	6,027,188	6,027,188
Restricted	<u>22,183,320</u>	<u>22,183,320</u>
	<u>28,210,508</u>	<u>28,210,508</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2013 was \$28,210,508 and the bank balance was \$28,681,848. 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  
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(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, 2013, \$-0- of the Commission's bank balance of \$32,246,746 was exposed to custodial risk.

**NOTE 4. INVESTMENTS**

Investments are stated at fair value, which is determined using selected bases. The Commission classifies municipal notes 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, 2013, the Commission had \$4,641,178 invested in various municipal notes with maturity dates greater than 3 months but less than 12 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 a \$5,000,000 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, 2013 AND 2012  
(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, 2012</u>	<u>Funds Deobligated</u>	<u>Balance Dec.31, 2013</u>
NJEIT - Fund & Trust	<u>1,929,629</u>	<u>335,000</u>	<u>1,594,629</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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	30,303,056	33,739,378
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	2,410,059	2,877,418
Series 2003 Refunding Bonds	31,150,000	33,845,000
Series 2005 Refunding Bonds	8,035,000	8,625,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	2,777,617	2,951,608
Series 2007C Refunding Bonds	5,520,000	5,805,000
Series 2009A Revenue Bonds	4,515,000	4,810,000
Series 2009B Revenue Bonds	12,185,000	12,185,000
Series 2009C Revenue Bonds	19,105,000	19,755,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	3,396,295	3,894,018
Series 2010C Refunding Bonds	<u>1,155,000</u>	<u>1,710,000</u>
Net Carrying Amount of Debt	<u>120,552,027</u>	<u>130,197,422</u>
Current Portion	9,669,696	9,310,395
Long-Term Portion	<u>110,882,331</u>	<u>120,887,027</u>
	<u>120,552,027</u>	<u>130,197,422</u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(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>
2014	9,669,696	5,715,487	15,385,183
2015	9,809,982	5,462,038	15,272,020
2016	9,570,125	5,101,065	14,671,190
2017	9,922,268	4,738,874	14,661,142
2018	10,231,257	4,351,624	14,582,881
2019	10,491,331	3,940,333	14,431,664
2020-2024	36,033,122	13,230,100	49,263,222
2025-2029	15,681,523	6,750,608	22,432,131
2030-2034	4,052,723	2,954,396	7,007,119
2035-2039	<u>5,090,000</u>	<u>1,233,605</u>	<u>6,323,605</u>
	<u>120,552,027</u>	<u>53,478,130</u>	<u>174,030,157</u>

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, 2013, the Trust and Fund portions payable were as follows:

<u>Series 2001A (Project S340322-02)</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>1,845,879</u>	<u>425,460</u>	<u>1,583,203</u>	<u>3,854,542</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

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

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

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.

At December 31, 2013, the Trust and Fund portions payable were as follows:

Year	Series 2001B (Project 1605002-005)			
	Trust Portion		Fund Portion	Total
	Principal	Interest	Principal	
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>14,466,710</u>	<u>3,327,592</u>	<u>12,407,265</u>	<u>30,201,567</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  
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(CONTINUED)**

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

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

At December 31, 2013, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002A (Project 05-1)</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2014	210,000	45,812	215,062	470,874
2015	105,234	45,810	217,677	368,721
2016	104,429	45,366	216,855	366,650
2017	103,048	45,150	215,704	363,902
2018	111,371	39,999	148,235	299,605
2019	114,875	33,075		147,950
2020	123,774	25,894		149,668
2021	132,112	18,198		150,310
2022	<u>140,516</u>	<u>10,010</u>		<u>150,526</u>
	<u>1,145,359</u>	<u>309,314</u>	<u>1,013,533</u>	<u>2,468,206</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, 2013, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002B (Project 02-1)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
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>141,763</u>	<u>38,810</u>	<u>109,404</u>	<u>289,977</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, 2013, 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>
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>31,150,000</u>	<u>8,292,750</u>	<u>39,442,750</u>

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

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

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

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

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

At December 31, 2013, 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>
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>8,035,000</u>	<u>2,117,750</u>	<u>10,152,750</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, 2013 AND 2012  
(CONTINUED)**

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

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

At December 31, 2013, 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>	
2014	55,000	46,018	128,113	229,131
2015	55,000	44,038	125,602	224,640
2016	60,000	41,288	128,455	229,743
2017	60,000	38,288	124,651	222,939
2018	65,000	35,288	127,187	227,475
2019	65,000	32,038	123,065	220,103
2020	70,000	29,438	126,109	225,547
2021	75,000	26,638	128,899	230,537
2022	75,000	22,888	124,143	222,031
2023	80,000	19,138	125,729	224,867
2024	85,000	15,738	127,758	228,496
2025	85,000	11,913	122,907	219,820
2026	90,000	8,088	124,397	222,485
2027	95,000	4,038	125,602	224,640
	<u>1,015,000</u>	<u>374,837</u>	<u>1,762,617</u>	<u>3,152,454</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, 2013 AND 2012  
(CONTINUED)**

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

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

At December 31, 2013, 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>
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>5,520,000</u>	<u>2,092,590</u>	<u>7,612,590</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, 2013 AND 2012  
(CONTINUED)**

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

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

At December 31, 2013, 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>
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>35,805,000</u>	<u>35,463,603</u>	<u>71,268,603</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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(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. On April 12, 2013, \$335,000 of the trust loan was deobligated and used to defease a portion of the Series 2010B Bonds.

At December 31, 2013, the outstanding principal and interest on the Series 2010A&B NJEIT Bonds is as follows:

<u>Year</u>	<u>Series 2010A&amp;B</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2014	95,000	108,000	72,723	275,723
2015	100,000	103,250	72,723	275,973
2016	105,000	98,250	72,723	275,973
2017	110,000	93,000	72,723	275,723
2018	120,000	87,500	72,723	280,223
2019	125,000	81,500	72,723	279,223
2020	130,000	75,250	72,723	277,973
2021	135,000	68,750	72,723	276,473
2022	145,000	62,000	72,723	279,723
2023	150,000	54,750	72,723	277,473
2024	160,000	47,250	72,723	279,973
2025	165,000	39,250	72,723	276,973
2026	175,000	31,000	72,723	278,723
2027	180,000	22,250	72,723	274,973
2028	190,000	13,250	72,723	275,973
2029	75,000	3,750	72,723	151,473
2030	-	-	72,723	72,723
	<u>2,160,000</u>	<u>989,000</u>	<u>1,236,291</u>	<u>4,385,291</u>

**PASSAIC VALLEY WATER COMMISSION  
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**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, 2013, 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>
2014	570,000	30,338	600,338
2015	585,000	16,088	601,088
	<u>1,155,000</u>	<u>46,426</u>	<u>1,201,426</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.

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**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, 2013 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>
2014	66,084	95.24%	62,937
2015	68,066	90.70%	61,738
2016	70,108	86.38%	60,562
2017	72,211	82.27%	59,408
2018	74,378	78.35%	58,277
2019	76,609	74.62%	57,167
2020	78,907	71.07%	56,078
2021	81,274	67.68%	55,009
2022	83,712	64.46%	53,962
2023	86,224	61.39%	52,934
2024	88,811	58.47%	51,926
2025	91,475	55.68%	50,937
2026	94,219	53.03%	49,966
2027	97,046	50.51%	<u>49,015</u>
Lodi Lease Payable			<u>779,916</u>
Current Portion			66,084
Long-Term Portion			<u>713,832</u>
			<u>779,916</u>

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**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  
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**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 63 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  
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**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.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- 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).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement system.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60<sup>th</sup> from 1/55<sup>th</sup>, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the

**PASSAIC VALLEY WATER COMMISSION  
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**NOTE 8. PENSION PLAN, (continued)**

pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7<sup>th</sup> of the required amount, beginning in fiscal years 2012.

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

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appoint officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

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.



**PASSAIC VALLEY WATER COMMISSION  
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**NOTE 8. PENSION PLAN, (continued)**

**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.

**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.

**Three Year Trend Information for PERS**

<b>Year Funding</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
12/31/13	\$1,422,093	100%	\$ 0
12/31/12	1,330,388	100%	0
12/31/11	1,306,423	100%	0

**PASSAIC VALLEY WATER COMMISSION  
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**NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

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

The Commission currently vests employees for lifetime prescription drug coverage after 20 years of service and lifetime health benefits after 25 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 Commission will either contribute 100% for some individuals (and their spouses) or the retiree may have to pay for some or all of the coverage.

**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 2012 fiscal year), the amount actually contributed to the plan, and changes in the Commission's net OPEB Obligation.

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**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 2013 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>
12/31/2013	1,917,662	72.30%	3,212,068	7.50%
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%

In 2013, the Commission designated \$3,743,175 in net position 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  
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**NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)**

**Funded Status and Funding Progress**

As of December 31, 2013, the most recent actuarial date, the plan was 12.98% funded. The actuarial accrued liability for benefits was \$28,844,102 and the actuarial value of assets (designated in net position) was \$3,743,175 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.

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**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, 2013 and 2012, the amounts required by bond resolution were as follows:

	<u>2013</u>	<u>2012</u>
Cash and Investments on Hand	<u>2,086,173</u>	<u>2,136,216</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, 2013, the amounts required by bond resolution were as follows:

	Debt Service Reserve <u>Requirement</u>	Maximum Bond Surety <u>Coverage</u>
Series 2001A&B NJEIT Bonds	3,030,306	4,384,887
Series 2002A&B NJEIT Bonds	241,006	631,874
Series 2003 Refunding Bonds	3,115,000	3,588,000
Series 2005 Refunding Bonds	803,500	941,000
Series 2007A&B NJEIT Bonds	230,537	250,750
Series 2007C Bonds	545,500	545,500
Series 2009A Bonds	451,500	-
Series 2009B Bonds	1,218,500	-
Series 2009C Bonds	1,910,500	-
Series 2010A&B NJEIT Bonds	296,973	-
Series 2010C Bonds	115,500	-

**PASSAIC VALLEY WATER COMMISSION  
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**NOTE 10. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)**

In addition to the insurance policies, the Commission has reserved \$12,891,904 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, 2013 and 2012, the amounts required by bond resolution were as follows:

	<u>2013</u>	<u>2012</u>
Cash and Investments on Hand	4,349,679	4,347,254
Renewal and Extension Requirement	<u>3,000,000</u>	<u>3,000,000</u>
Excess (Deficit)	<u>1,349,679</u>	<u>1,347,254</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, 2013 and 2012, the amounts required by bond resolution were as follows:

	<u>2013</u>	<u>2012</u>
Cash and Investments on Hand	<u>7,718,752</u>	<u>7,798,993</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  
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**NOTE 10. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)**

At December 31, 2013, the bond service coverage ratio was calculated as follows:

	<u>2013</u>	<u>2012</u>
Net Operating Income (including interest and		
Finance charges, excluding depreciation)	25,615,599	22,072,534
Bond Service Requirement	15,385,183	15,279,802
Debt Service Coverage Ratio	1.66	1.44

All principal and interest payments were made on a timely basis during the 2013 fiscal year and through the date of this report.

**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2013, the Commission's general counsel has advised that there is no pending litigation that would have a material effect on the Commission's financial statements, except as follows:

**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.

**Borough of North Arlington**

The Complaint in this matter, filed on December 31, 2010, seeks to rescind the December 31, 2004 purchase by the Commission of the Borough's former municipal waste system. Alternatively, it seeks to reform the Purchase Agreement to increase the purchase price on the ground of mutual mistake or the Borough's unilateral mistake with respect to the purchase price. In addition, the Complaint seeks damages in an

**PASSAIC VALLEY WATER COMMISSION  
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**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)**

unspecified amount based on the Commission's allegedly excessive rates and on the manner in which the Commission has maintained its system in the Borough, and it seeks to recover from the Commission real property taxes on Commission property that were never assessed by the Borough. The court granted partial summary judgment dismissing the Borough's claims for reformation and rescission, as well as its claims for unpaid taxes and its claims relating to allegedly excessive rates and maintenance of the water system. The Commission and the Borough have agreed to settle remaining claims for damages based on unpaid permit fees, and definitive settlement documents being negotiated.

**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, 2013, 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, 2013 AND 2012  
(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.

A complaint was filed by the Borough of Lodi on behalf of itself and its residents, and by the Lodi Housing Authority, alleging that the Commission's increase to its rates approved December 18, 2009 were in excess of the amount permitted by the 1997 Lease of the Borough's municipal water system to the Commission. 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 the rates increased beyond that amount for the years 2009 through 2012 be refunded to the customers who paid them. The Commission appealed the final judgment and in 2013 it was decided that (i) the Commission is authorized to increase rates prospectively to Lodi customers based on its wholesale water costs and (ii) a portion of the Commission's rate increase in 2009 and 2010 was not authorized and that refunds of the unauthorized increase are required. The Commission has recognized this decision in the 2013 financial statements as a payable for \$4,707,732. In 2014, the Commission made the refund required by the Appellate Division.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**NOTE 14. OTHER MATTERS, (continued)**

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. The Commission has also been named as a defendant in a wrongful termination claim relating to the termination of services from a contractor. Management is vigorously defending against these claims and believes the contingency and self-insurance reserve funds should be sufficient to cover any unfavorable decisions.

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

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

	<u>2013</u>	<u>2012</u>
Designated for OPEB Obligation	3,743,175	3,212,068
Designated for Self-Insurance	<u>608,084</u>	<u>608,084</u>
Total Designated - Unrestricted	<u>4,351,259</u>	<u>3,820,152</u>

**NOTE 16. SUBSEQUENT EVENTS**

In 2014, the Commission was approved by the New Jersey Local Finance Board to issue up to \$24,500,000 in Water Supply System Revenue Bonds, Series 2014. These bonds will be issued to finance various capital improvements to the Commission's water and distribution system, including, among other things, construction and replacement of water supply system components, including cleaning and lining of water lines; main, valve and meter replacements; equipment upgrades to the water plant; acquisition of vehicles and equipment; dam improvements; improvements to pump station systems and hydro-turbine generators; design and project costs for water main replacements; upgrades to instrumentation and control systems; a deposit to the debt service reserve fund; and the payment of costs associated with the issuance of such bonds.

The Commission has evaluated subsequent events through April 11, 2014, the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

## **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, 2013

	Net Investment in Capital Assets	Current Debt Service Reserve	Future Debt Service Reserve	Restricted		Unemployment Compensation Insurance	Unrestricted		Total
				Renewal and Extension Reserve	Operations Reserve		Designated	Undesignated	
<b>Operating Revenue:</b>									
Service Agreements								71,047,653	71,047,653
Miscellaneous								8,754,441	8,754,441
Sale of Scrap								46,398	46,398
<b>Total Operating Revenue</b>	-	-	-	-	-	-	-	79,848,492	79,848,492
<b>Operating Expense:</b>									
Cost of Providing Services								41,798,121	41,798,121
Administrative and General								12,902,717	12,902,717
Depreciation								9,488,977	9,488,977
<b>Total Operating Expense</b>	-	-	-	-	-	-	-	64,189,815	64,189,815
<b>Operating Income</b>	-	-	-	-	-	-	-	15,658,677	15,658,677
<b>Non-Operating Revenue (Expense):</b>									
Interest Income								142,223	142,223
Finance Charges								325,722	325,722
Interest Expense								(6,377,222)	(6,377,222)
Lodi Refund								(4,707,732)	(4,707,732)
Amortization								(124,162)	(124,162)
	-	-	-	-	-	-	-	(10,741,171)	(10,741,171)
<b>Net Income (Loss) Before Transfers</b>	-	-	-	-	-	-	-	4,917,506	4,917,506
<b>Transfers:</b>									
Interest Income								-	-
Other Transfers	9,166,068	(1,017,440)	477	-	(80,241)	18,381	531,107	(8,618,352)	-
<b>Increase/(Decrease) in Net Position</b>	9,166,068	(1,017,440)	477	-	(80,241)	18,381	531,107	(3,700,846)	4,917,506
<b>Net Position - Jan. 1, 2013, Restated</b>	31,945,109	2,526,888	12,891,427	3,000,000	7,798,993	214,422	3,820,152	7,861,018	70,058,009
<b>Net Position - December 31, 2013</b>	41,111,177	1,509,448	12,891,904	3,000,000	7,718,752	232,803	4,351,259	4,160,172	74,975,515

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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, 2013**

	Construction Accounts	Bond Service Accounts	Bond Reserve Account	Renewal and Extension Account
<b>Cash, Cash Equivalents and Investments - January 1, 2013</b>	894,751	3,184,286	12,891,427	4,347,254
<b>Cash Receipts:</b>				
Interest on Investments	115	284	477	2,425
Service Agreements				
Miscellaneous				
Proceeds from Bonds				
Finance Charges				
Transfers		14,669,893		
<b>Total Cash Receipts</b>	115	14,670,177	477	2,425
<b>Cash and Investments Available</b>	894,866	17,854,463	12,891,904	4,349,679
<b>Cash Disbursements:</b>				
Bond Principal Payments		9,310,395		
Interest Payments		6,457,895		
Operations				
Capital and Other Expenses				
Transfers				
<b>Total Cash Disbursements</b>	-	15,768,290	-	
<b>Cash, Cash Equivalents and Investments - December 31, 2013</b>	894,866	2,086,173	12,891,904	4,349,679
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	894,866	2,086,173	8,384,326	4,349,679
Investments			4,507,578	
	894,866	2,086,173	12,891,904	4,349,679
Unrestricted	-	-	-	1,349,679
Restricted	894,866	2,086,173	12,891,904	3,000,000
	894,866	2,086,173	12,891,904	4,349,679

## 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, 2013**

	Operation Reserve Account	Unemployment Insurance Account	General Operating Accounts	Total
<b>Cash, Cash Equivalents and Investments - January 1, 2013</b>	7,798,993	214,422	2,712,031	32,043,164
<b>Cash Receipts:</b>				
Interest on Investments	43	222	138,657	142,223
Service Agreements			70,141,949	70,141,949
Miscellaneous		18,328	8,800,839	8,819,167
Proceeds from Bonds				-
Finance Charges			325,722	325,722
Transfers	99,898,057	231,964	103,510,411	218,310,325
<b>Total Cash Receipts</b>	99,898,100	250,514	182,917,578	297,739,386
<b>Cash and Investments Available</b>	107,697,093	464,936	185,629,609	329,782,550
<b>Cash Disbursements:</b>				
Bond Principal Payments				9,310,395
Interest Payments				6,457,895
Operations			53,441,026	53,441,026
Capital and Other Expenses		63	9,411,160	9,411,223
Transfers	99,978,341	232,070	118,099,914	218,310,325
<b>Total Cash Disbursements</b>	99,978,341	232,133	180,952,100	296,930,864
<b>Cash, Cash Equivalents and Investments - December 31, 2013</b>	7,718,752	232,803	4,677,509	32,851,686
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	7,718,752	99,203	4,677,509	28,210,508
Investments	-	133,600	-	4,641,178
	7,718,752	232,803	4,677,509	32,851,686
Unrestricted	-	-	4,677,509	6,027,188
Restricted	7,718,752	232,803	-	26,824,498
	7,718,752	232,803	4,677,509	32,851,686



**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	FY 2013 Adopted Budget	FY 2013 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Revenues:</b>					
Service Charges	47,732,367	47,732,367	45,172,227	(2,560,140)	45,869,758
Service Agreements (Bulk)	25,354,843	25,354,843	25,875,426	520,583	26,265,388
Fines / Penalties	332,000	332,000	325,722	(6,278)	315,257
Fire Line Service	4,905,444	4,905,444	5,072,205	166,761	4,082,453
Other Services and Repairs	5,175,836	5,175,836	3,728,634	(1,447,202)	3,313,619
Non-operating Investments	336,600	336,600	142,223	(194,377)	278,030
<b>Total Operating Revenues</b>	<b>83,837,090</b>	<b>83,837,090</b>	<b>80,316,437</b>	<b>(3,520,653)</b>	<b>80,124,505</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>FY 2013 Adopted Budget</b>	<b>FY 2013 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Expenses:</b>					
<b>Operating:</b>					
<b>Cost of Providing Services:</b>					
Executive					
Salaries and Wages	558,400	558,400	601,890	(43,490)	573,615
Other Expenses	30,500	30,500	29,107	1,393	30,783
Legal					
Salaries and Wages	356,400	356,400	331,442	24,958	260,583
Other Expenses	993,600	993,600	369,194	624,406	1,014,974
Engineering					
Salaries and Wages	752,900	752,900	826,070	(73,170)	733,359
Other Expenses	405,800	405,800	294,770	111,030	253,208
Purchasing					
Salaries and Wages	199,100	199,100	213,139	(14,039)	201,933
Other Expenses	4,350	4,350	6,020	(1,670)	3,799
Accounting					
Salaries and Wages	648,100	648,100	620,478	27,622	654,279
Other Expenses	93,000	93,000	87,021	5,979	71,530
Customer Service					
Salaries and Wages	611,500	611,500	709,144	(97,644)	594,694
Other Expenses	718,200	718,200	831,501	(113,301)	854,594
Information Technology	703,300	703,300	174,348	528,952	237,806
Personnel					
Salaries and Wages	471,600	471,600	430,168	41,432	491,376
Other Expenses	51,000	51,000	29,403	21,597	70,617
Purification					
Salaries and Wages	1,487,500	1,487,500	1,412,267	75,233	1,465,460
Other Expenses	333,750	333,750	344,792	(11,042)	201,957
Process	10,086,250	10,086,250	6,160,656	3,925,594	7,918,214

**PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	FY 2013 Adopted Budget	FY 2013 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	1,146,400	1,146,400	1,079,062	67,338	1,080,523
Other Expenses	6,342,500	6,342,500	5,441,885	900,615	5,681,028
Plant:					
Salaries and Wages	3,319,300	3,319,300	3,098,896	220,404	3,558,335
Other Expenses	2,273,500	2,273,500	1,766,456	507,044	2,356,176
Construction (Non-Capital Expenditures)	508,600	508,600	192,532	316,068	170,112
Distribution					
Salaries and Wages	3,391,300	3,391,300	3,545,957	(154,657)	3,828,328
Other Expenses	251,000	251,000	179,224	71,776	248,135
Maintenance	1,074,000	1,074,000	952,384	121,616	1,490,275
Garage	403,000	403,000	388,240	14,760	392,315
Laboratory:					
Salaries and Wages	1,459,200	1,459,200	1,485,733	(26,533)	1,469,890
Other Expenses	129,000	129,000	71,037	57,963	144,574
General Chemistry	284,000	284,000	210,562	73,438	237,457
Trace Analysis	279,000	279,000	82,324	196,676	50,880
Microbiology	70,000	70,000	55,703	14,297	61,073
Online Gas Instruments				-	-
Online Water Instruments	70,000	70,000	107,494	(37,494)	77,347
Field Gas Instruments	40,000	40,000	5,265	34,735	33,256
NJDWSC Budget Expense	9,663,957	9,663,957	9,663,957	-	9,822,586
<b>Sub-total Cost of Providing Services</b>	<b>49,210,007</b>	<b>49,210,007</b>	<b>41,798,121</b>	<b>7,411,886</b>	<b>46,335,071</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	FY 2013 Adopted Budget	FY 2013 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Administrative Expenses:</b>					
Stationary, Postage and Supplies	320,000	320,000	291,614	28,386	253,844
Miscellaneous	378,000	378,000	291,514	86,486	466,546
Telephone	450,000	450,000	487,086	(37,086)	498,771
Wanaque So. - Lease Expense	67,000	67,000	66,222	778	62,896
Legal Advertisements	25,000	25,000	24,317	683	24,902
Tuition Reimbursement	-	-	-	-	-
Membership Affiliations	40,000	40,000	39,304	696	1,766
General Liability Insurance	710,000	710,000	908,820	(198,820)	610,950
Fees and Taxes	630,960	630,960	700,754	(69,794)	536,083
Outside Security	-	-	-	-	1,427
Bad Debt Expense	50,000	50,000	15,557	34,443	52,830
<b>Employee Benefits:</b>					
Worker's Compensation	387,000	387,000	611,696	(224,696)	415,554
Hospitalization	4,370,000	4,370,000	5,515,314	(1,145,314)	4,840,919
Group Life Insurance	10,000	10,000	2,990	7,010	6,391
Pension	1,725,000	1,725,000	1,422,093	302,907	1,330,388
Social Security / Medicare	1,085,000	1,085,000	1,041,598	43,402	1,028,840
Unemployment and Disability	83,830	83,830	104,341	(20,511)	77,110
Dental	201,250	201,250	135,955	65,295	169,136
Prescription	1,552,500	1,552,500	1,136,721	415,779	1,250,012
Other	47,150	47,150	39,697	7,453	35,999
<b>Professional Services:</b>					
Auditing	40,000	40,000	39,000	1,000	38,500
Other	30,000	30,000	28,124	1,876	14,036
<b>Sub-total Administrative</b>	<b>12,202,690</b>	<b>12,202,690</b>	<b>12,902,717</b>	<b>(700,027)</b>	<b>11,716,900</b>
<b>Sub-total Operating</b>	<b>61,412,697</b>	<b>61,412,697</b>	<b>54,700,838</b>	<b>6,711,859</b>	<b>58,051,971</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	FY 2013 Adopted Budget	FY 2013 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Other Costs Funded by Operating Revenues:</b>					
Debt Service:					
Interest Expense	6,885,849	6,885,849	6,377,222	508,627	7,647,019
Bond Principal	10,824,554	10,824,554	9,310,395	1,514,159	7,301,162
Sub-total Other Costs	17,710,403	17,710,403	15,687,617	2,022,786	14,948,181
<b>Total Costs Funded by Operating Revenues</b>	79,123,100	79,123,100	70,388,455	8,734,645	73,000,152
<b>Add: Excess / (Deficit)</b>	4,713,990	4,713,990	9,927,982	5,213,992	7,124,353
	83,837,090	83,837,090	80,316,437	3,520,653	80,124,505
<b>Excess of Revenues Over Expenses:</b>			9,927,982		7,124,353
<b>Reconciliation of Budgetary Basis to GAAP:</b>					
Depreciation Expense			(9,488,977)		(9,008,349)
Amortization Expense			(124,162)		(124,163)
Lodi Refund			(4,707,732)		-
Bond Principal			9,310,395		7,301,162
Total Adjustments			(5,010,476)		(1,831,350)
<b>Change in Net Position</b>			4,917,506		5,293,003

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## PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CAPITAL BUDGET PROGRAM  
FUNDED BY FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>FY 2013 Adopted Budget</b>	<b>FY 2013 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>
<b>Financing Sources:</b>				
Debt Authorization	17,000,000	17,000,000	8,137,501	8,862,499
Retained Earnings Appropriated	4,642,000	4,642,000	1,307,191	3,334,809
	<u>21,642,000</u>	<u>21,642,000</u>	<u>9,444,692</u>	<u>12,197,308</u>
<b>Capital Outlays:</b>				
Recurring Construction:				
Cleaning & Lining	3,000,000	3,000,000	2,669,795	330,205
Main Replacement	1,545,000	1,545,000	1,482,915	62,085
Valve Replacement	721,000	721,000	273,433	447,567
Meter Replacement	1,030,000	1,030,000	432,848	597,152
Plant / Distribution	618,000	618,000	611,707	6,293
Vehicle Repair	500,000	500,000	348,968	151,032
Dam Improvements:				
Seismic Reinforcement of Dam	773,000	773,000	27,600	745,400
Rehabilitate River Crossing Connections	515,000	515,000	83,506	431,494
Production and Pumping:				
Main Pump Station Discharge Valves	103,000	103,000	-	103,000
Ozone System Upgrade	206,000	206,000	52,595	153,405
Rehabilitate Chemical System	206,000	206,000	191,900	14,100
Hydro-turbine Generators	1,545,000	1,545,000	114,504	1,430,496
Residuals Treatment	412,000	412,000	-	412,000
Filter Underdrain Replacement	670,000	670,000	468,992	201,008
Distribution:				
Open Finished Water Reservoirs	1,236,000	1,236,000	311,276	924,724
Propect Park Tank Replacement	258,000	258,000	258,000	-
Great Falls Arch Bridge Repair	618,000	618,000	294,095	323,905
Plant and General Structures:				
Replace Roof & Skylights	57,000	57,000	40,937	16,063
Replace Windows - Main Pump Station	412,000	412,000	190,677	221,323
Clifton Bldg - Windows	144,000	144,000	49,705	94,295
Clifton Bldg - 2nd Floor Renovation	258,000	258,000	234,048	23,952
Electrical System Upgrades	206,000	206,000	-	206,000
Instrumentation, Controls and Information Technologies:				
Building Process Review	1,236,000	1,236,000	607,676	628,324
SCADA - Distribution / WTP	2,833,000	2,833,000	142,743	2,690,257
Telephone System Upgrades	479,000	479,000	108,758	370,242
Digital Mapping & GIS Assessment	1,288,000	1,288,000	-	1,288,000
Asset Georeferencing	773,000	773,000	448,014	324,986
	<u>21,642,000</u>	<u>21,642,000</u>	<u>9,444,692</u>	<u>12,197,308</u>
<b>Total Capital Outlays</b>	<u>21,642,000</u>	<u>21,642,000</u>	<u>9,444,692</u>	<u>12,197,308</u>
<b>Total Costs Funded by Capital Revenue</b>	<u>21,642,000</u>	<u>21,642,000</u>	<u>9,444,692</u>	<u>12,197,308</u>
<b>Add: Excess</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>21,642,000</u>	<u>21,642,000</u>	<u>9,444,692</u>	<u>12,197,308</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, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJ/EIT Bonds (Series 2001A&B) Trust Portion <i>(Refunded with Series 2007A)</i>	10/15/2001	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		18,002,589	1,690,000	16,312,589
NJ/EIT Bonds (Series 2001A&B) Fund Portion	10/15/2001	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		15,736,789	1,746,322	13,990,467

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJ/EIT Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/2002	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				
					1,512,123		225,000	1,287,123
NJ/EIT Bonds (Series 2002A&B) Fund Portion	10/15/2002	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			242,359	1,122,936
					1,365,295			

**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defensed	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
Refunding Bonds (Series 2003)	12/15/2003	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			2,695,000	31,150,000
					33,845,000			
Refunding Bonds (Series 2005)	2/8/2005	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			590,000	8,035,000
					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, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJBIT Bonds (Series 2007A&B) Trust Portion	11/9/2007	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				
					1,065,000		50,000	1,015,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Fund Portion	11/9/2007	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				
				1,886,608		123,991	1,762,617	

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
Refunding Bonds (Series 2007C)	11/9/2007	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			285,000	5,520,000
					5,805,000			

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
Water Supply Revenue Bonds (Series 2009A)	12/15/2009	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				
					4,810,000		295,000	4,515,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			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, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
Water Supply Revenue Bonds (Series 2009C)	12/15/2009	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				
					19,755,000		650,000	19,105,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJFIT Bonds (Series Fall 2010A) Fund Portion	10/5/2010	n/a	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				
					1,309,018		72,723	1,236,295

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJBIT Bonds (Series 2010B) Trust Portion	12/2/2010	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	75,000.00				
					2,585,000	335,000	90,000	2,160,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	Defaced	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
Refunding Bonds (Series 2010C)	12/22/2010	4.00%	2014	570,000.00				
		4.00%	2015	585,000.00				
					1,710,000		555,000	1,155,000
					<u>130,197,422</u>	<u>335,000</u>	<u>9,310,395</u>	<u>120,552,027</u>
Current Portion					9,310,395			9,669,696
Noncurrent Portion					<u>120,887,027</u>			<u>110,882,331</u>
					<u>130,197,422</u>			<u>120,552,027</u>

**SCHEDULE 6****PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF FUNDING PROGRESS  
FOR THE RETIREE HEALTH PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<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>
12/31/2013	\$ 3,743,175	\$ 28,844,102	\$ 28,844,102	12.98%	\$ 11,187,000	257.84%
12/31/2012	\$ 3,212,068	\$ 28,844,102	\$ 28,844,102	11.14%	\$ 11,187,000	257.84%
12/31/2011	\$ 2,021,851	\$ 23,679,371	\$ 23,679,371	8.54%	\$ 13,511,000	175.26%
12/31/2010	\$ 2,021,851	\$ 23,679,371	\$ 23,679,371	8.54%	\$ 13,511,000	175.26%
12/31/2009	\$ 1,367,308	\$ 24,453,445	\$ 23,086,137	5.92%	\$ 12,975,325	177.92%
<sup>(1)</sup> 12/31/2008	\$ 683,308	\$ 24,453,445	\$ 23,770,137	2.87%	\$ 12,975,325	183.19%

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

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PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

DECEMBER 31, 2013

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	CFDA Number	State Agency Account Number	Grant Award	Grant Receipts	Grant Period		Grant Expenditures	Cumulative Grant Expenditures
					From	To		
Department of Environmental Protection:								
Through New Jersey Department of Environmental Protection								
Capitalization Grants for Clean Water Revolving Funds:	66.458	4860-510-017-702107	\$ 2,410,000	-	01/01/13	12/31/13	-	1,520,168
Wastewater Treatment Fund								
ARRA - Principal Forgiveness	66.458	4860-711-001-702230	\$ 1,357,500	-	01/01/13	12/31/13	-	1,357,500
ARRA - NJDEP Loan	66.458	4800-526-998200-60	\$ 1,357,500	-	01/01/13	12/31/13	-	1,143,769
Department of Homeland Security:								
Through New Jersey State Police								
New Jersey State Police FEMA Bundle Grant	97.036	1200-100-A70-12	383,135	210,633	01/01/13	12/31/13	383,135	383,135
Total Federal Financial Assistance								
				210,633			383,135	4,404,572

**SCHEDULE 8**

**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

**DECEMBER 31, 2013**

State Funding Department	State Account Number	Grant Award	Grant Receipts	Grant Period		Grant Expenditures	Cumulative Grant Expenditures
				From	To		
<u>New Jersey Department of Environmental Protection:</u>							
NJ Environmental Infrastructure Trust Loan	526-042-4800-006	\$ 2,410,000	-	01/01/13	12/31/13	-	2,225,050
NJ Environmental Infrastructure Trust Loan	526-042-4800-006	\$ 2,379,924	-	01/01/13	12/31/13	-	2,287,540
Interest Portion	526-042-4800-006	\$ 166,370	-	01/01/13	12/31/13	-	166,369
<hr/>							
Total State Financial Assistance							4,678,959



## SCHEDULE 9

### ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2013:

<u>Name</u>		<u>Office</u>
Gloria Kolodziej	Clifton	President
Robert Vannoy	Paterson	Vice President
Jeffrey Levine	Paterson	Treasurer
Menachem Bazian	Passaic	Secretary
Chrystal A. Cleaves	Paterson	Commissioner
Thomas P. DeVita	Clifton	Commissioner
Rigoberto Sanchez	Passaic	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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# **Ferraioli, Wielkotz, Cerullo & Cuva, P.A.**

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

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

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

## **INDEPENDENT AUDITOR'S REPORT 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, 2013, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2014.

### ***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 2013-1, 2013-2, 2013-3 and 2013-4).

### ***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 no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 financials 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  
Pompton Lakes, New Jersey

April 11, 2014



## **Comments and Recommendations**

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**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2013**

**FINDING: 2013-1\***

**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 currently in the process of performing a complete inventory on their system.

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2013**  
**(continued)**

**FINDING: 2013-2**

**Statement of Condition**

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

**Criteria**

NJEIT receivable accounts should represent obligations due to the Commission at the closing date of a financial period.

**Effect**

NJEIT receivables have possibly been deobligated against related debt.

**Cause**

Unknown

**Recommendation**

The Commission should review all old NJEIT receivable balances.

**Management's Response**

Management plans to review and correct these old NJEIT receivable balances during the 2014 fiscal year.



**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2013**  
**(continued)**

**FINDING: 2013-3**

**Statement of Condition**

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

**Criteria**

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

**Effect**

Year-end accumulated sick and vacation reports list did not reconcile with the balances reported on the general ledger.

**Cause**

The payroll system can only generate balances for these specific accounting reports on the day the report is run.

**Recommendation**

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

**Management's Response**

Management is currently investigating options to improve or replace the existing payroll system.

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2013**  
**(continued)**

**FINDING: 2013-4\***

**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 is investigating options to improve or replace the existing payroll system.

## PASSAIC VALLEY WATER COMMISSION

### GENERAL COMMENTS

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

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

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the sum of \$36,000, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

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

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

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. No violations were discovered.

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

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

**PASSAIC VALLEY WATER COMMISSION**

**GENERAL COMMENTS, CONTINUED**

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

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

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

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

Respectfully submitted,

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

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