

**PASSAIC VALLEY WATER COMMISSION**  
**REPORT OF AUDIT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2014 AND 2013**

# PASSAIC VALLEY WATER COMMISSION

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying statement of net position of the Passaic Valley Water Commission as of December 31, 2014 and 2013, 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, 2014 and 2013, 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 14, 2015 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 14, 2015

## **Required Supplementary Information**

## **Management Discussion and Analysis**

## PASSAIC VALLEY WATER COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

*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, 2014. 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 \$80,916,400 (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 \$71,232,340, as restated.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$47,287,383 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 \$25,684,830 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$7,944,187 represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission increased by \$4,001,717 to \$147,309,368 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)**

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)**

**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 \$80,916,400. This is a \$9,684,060 increase over last year's net position of \$71,232,340, as restated. A summary of the Commission's statement of net position is presented in the following table:

**Condensed Statement of Net Position**

	<u>FY 2014</u>	<u>Restated FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	67,753,970	54,586,366	13,167,604	24.12%
Capital Assets	<u>162,902,486</u>	<u>160,486,252</u>	<u>2,416,234</u>	1.51%
Total Assets	<u>230,656,456</u>	<u>215,072,618</u>	<u>15,583,838</u>	7.25%
Deferred Outflow of Resources	<u>4,228,997</u>	<u>4,491,953</u>	<u>(262,956)</u>	(5.85)%
Long-term Debt	126,908,033	115,339,338	11,568,695	10.03%
Other Liabilities	<u>20,401,335</u>	<u>27,968,313</u>	<u>(7,566,978)</u>	(27.06)%
Total Liabilities	<u>147,309,368</u>	<u>143,307,651</u>	<u>4,001,717</u>	2.79%
Deferred Inflows of Resources	<u>6,659,685</u>	<u>5,024,580</u>	<u>1,635,105</u>	32.54%
Net Investment in Capital Assets	47,287,383	41,111,177	6,176,206	15.02%
Restricted	25,684,830	25,352,907	331,923	1.31%
Unrestricted	<u>7,944,187</u>	<u>4,768,256</u>	<u>3,175,931</u>	66.61%
Total Net Position	<u>80,916,400</u>	<u>71,232,340</u>	<u>9,684,060</u>	13.60%

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position (Continued)**

A summary of the Commission's prior year statement of net assets is presented with comparative FY 2012 balances in the following table. This comparison has not been restated to reflect the reclassification of the Commission's Other Post-employment Benefit Liability.

**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)**

**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 \$9,684,060 and \$4,917,506 during the 2014 and 2013 fiscal years, respectively.

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

	<u>FY 2014</u>	<u>Restated FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	82,447,178	79,848,492	2,598,686	3.25%
Non-operating Revenues	<u>2,418,136</u>	<u>467,945</u>	<u>1,950,191</u>	416.76%
Total Revenues	<u>84,865,314</u>	<u>80,316,437</u>	<u>4,548,877</u>	5.66%
Depreciation	10,481,183	9,488,977	992,206	10.46%
Other Operating Expenses	54,229,431	54,700,838	(471,407)	(0.86)%
Other Non-operating Expense	<u>10,470,640</u>	<u>11,209,116</u>	<u>(738,476)</u>	(6.59)%
Total Expenses	<u>75,181,254</u>	<u>75,398,931</u>	<u>(217,677)</u>	(0.29)%
Change in Net Position	9,684,060	4,917,506	4,766,554	96.93%
Beginning Net Position	71,232,340	70,058,009	1,174,331	1.68%
Prior Period Adjustment	_____	<u>(3,743,175)</u>	<u>3,743,175</u>	(100.00)%
Ending Net Position	<u>80,916,400</u>	<u>71,232,340</u>	<u>9,684,060</u>	13.60%

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**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 2012 figures in the following table. This comparison has not been restated to reflect the reclassification of the Commission's Other Post-employment Benefit Liability.

**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>	<u>0.24%</u>
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>	<u>44.24%</u>
Total Expenses	<u>75,398,931</u>	<u>74,831,502</u>	<u>567,429</u>	<u>0.76%</u>
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>	<u>8.17%</u>
Ending Net Position	<u>74,975,515</u>	<u>70,058,009</u>	<u>4,917,506</u>	<u>7.02%</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**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 2014 and FY 2013 budget comparison:

<b>Budget vs. Actual FY 2014</b>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	85,338,753	82,941,135	(2,397,618)
Non-Operating	<u>200,000</u>	<u>394,439</u>	<u>194,439</u>
	<u>85,538,753</u>	<u>83,335,574</u>	<u>(2,203,179)</u>
Expenses:			
Operating	61,564,117	54,229,431	7,334,686
Non-Operating	<u>17,235,506</u>	<u>16,629,450</u>	<u>606,056</u>
	<u>78,799,623</u>	<u>70,858,881</u>	<u>7,940,742</u>
Income before Depreciation	<u>6,739,130</u>	<u>12,476,693</u>	<u>5,737,563</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Budgetary Highlights (Continued)**

	<b>Budget vs. Actual FY 2013</b>		
	<u><b>Budget</b></u>	<u><b>Actual</b></u>	<u><b>Variance</b></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>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During fiscal year 2014, the Commission had an increase of \$12,897,417 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$162,902,486. This is a \$2,416,234 increase over last year's net property, plant and equipment of \$160,486,252. A summary of the Commission's capital assets is presented in the following table:

	<u><b>FY 2014</b></u>	<u><b>FY 2013</b></u>	<u><b>Dollar Change</b></u>
Capital Assets	251,838,760	238,941,343	12,897,417
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>(176,460,958)</u>	<u>(165,979,775)</u>	<u>(10,481,183)</u>
	<u>162,902,486</u>	<u>160,486,252</u>	<u>2,416,234</u>

**PASSAIC VALLEY WATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Capital Assets (Continued)**

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

Recurring Construction, Vehicles & Equipment	6,836,000
Production and Pumping	4,820,000
Distribution	16,550,000
Plant and General Structures	2,209,000
Instrumentation, Controls and Information Technologies	<u>4,596,000</u>
	<u>35,011,000</u>

**Debt Administration**

At December 31, 2014, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$131,352,330. 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.



## **Financial Statements**

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

**EXHIBIT A**

Page 1 of 3

	<u>2014</u>	<u>Restated 2013</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
<b><u>Unrestricted:</u></b>		
Cash and Cash equivalents	\$ 1,812,709	\$ 6,027,188
Investments	770,117	-
Accounts Receivable, net	17,775,626	17,856,648
Inventory	2,016,850	1,781,284
Other Receivables	9,437	5,455
Prepaid Expenses	206,670	496,664
	<hr/>	<hr/>
Total Unrestricted Assets	22,591,409	26,167,239
	<hr/>	<hr/>
<b><u>Restricted:</u></b>		
Construction Account:		
Cash and Cash equivalents	18,920,745	894,866
Due From NJEIT Trust	-	1,594,629
Bond Service Fund:		
Cash and Cash equivalents	2,187,017	2,086,173
Bond Reserve Account:		
Cash and Cash equivalents	901,675	8,384,326
Investments	12,115,560	4,507,578
Renewal and Extension Account:		
Cash and Cash equivalents	3,000,000	3,000,000
Operations Account:		
Cash and Cash equivalents	7,784,455	7,718,752
Unemployment Compensation Insurance:		
Cash and Cash equivalents	113,809	99,203
Investments	139,300	133,600
	<hr/>	<hr/>
Total Restricted Assets	45,162,561	28,419,127
	<hr/>	<hr/>
<b>Non-Current Assets:</b>		
<b><u>Capital Assets:</u></b>		
Capital Assets	251,838,760	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	815,146	815,146
Less: Accumulated Depreciation	(176,460,958)	(165,979,775)
	<hr/>	<hr/>
Total Capital Assets	162,902,486	160,486,252
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 230,656,456</b>	<b>\$ 215,072,618</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>2014</u>	<u>Restated 2013</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
<b>Deferred Outflows:</b>		
Water Bank - Deferred Expense	1,168,152	962,833
Unamortized Costs in Excess of Refunded Debt, Net of Amortization	2,822,443	3,277,054
Unamortized Bond Discount, Net of Amortization	238,402	252,066
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>4,228,997</u>	<u>4,491,953</u>
 <b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
<b><u>Payable from Unrestricted Assets:</u></b>		
Accounts Payable and Accrued Liabilities	\$ 9,184,237	\$ 12,651,173
Due To (From) Contractor	15,000	15,000
Meter Deposits Payable	3,985	273,825
Lodi Refund Payable	-	4,707,732
Security Deposits Payable	8,078	8,078
<b>Total Payable from Unrestricted Assets</b>	<u>9,211,300</u>	<u>17,655,808</u>
 <b><u>Payable from Restricted Assets:</u></b>		
Accrued Interest Payable	556,986	576,725
Bonds Payable - Current Portion	10,564,983	9,669,696
Leases Payable - Current Portion	68,066	66,084
<b>Total Payable from Restricted Assets</b>	<u>11,190,035</u>	<u>10,312,505</u>
 <b>Non-Current Liabilities:</b>		
Bonds Payable - Long-Term Portion	120,787,347	110,882,331
Leases Payable - Long-Term Portion	684,764	713,832
Other Postemployment Benefit Liability	5,435,922	3,743,175
<b>Total Non-Current Liabilities</b>	<u>126,908,033</u>	<u>115,339,338</u>
<b>TOTAL LIABILITIES</b>	<u>147,309,368</u>	<u>143,307,651</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

	<b>2014</b>	<b>Restated 2013</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
<b>Deferred Inflows:</b>		
Due To Water Bank	1,168,152	962,833
Unamortized Savings from Refunded Debt, Net of Amortization	585,063	630,850
Unamortized Bond Premium, Net of Amortization	4,486,760	2,951,228
Deferred Savings on Bond Refunding, Net of Amortization	419,710	479,669
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>6,659,685</b>	<b>5,024,580</b>
 <b><u>NET POSITION:</u></b>		
Net Investment in Capital Assets	47,287,383	41,111,177
Restricted:		
Current Debt Service	1,630,031	1,509,448
Future Debt Service	13,017,235	12,891,904
Renewal and Extension	3,000,000	3,000,000
Operations	7,784,455	7,718,752
Unemployment Compensation Insurance	253,109	232,803
Unrestricted:		
Designated	608,084	608,084
Undesignated	7,336,103	4,160,172
<b>TOTAL NET POSITION</b>	<b>\$ 80,916,400</b>	<b>\$ 71,232,340</b>

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

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

**EXHIBIT B**

	<u>2014</u>	<u>Restated 2013</u>
<b>Operating Revenue:</b>		
Service Agreements	\$ 72,974,874	\$ 71,047,653
Miscellaneous	9,461,799	8,754,441
Sale of Scrap	10,505	46,398
	<u>82,447,178</u>	<u>79,848,492</u>
<b>Total Operating Revenue</b>		
<b>Operating Expenses:</b>		
Cost of Providing Services	42,197,751	41,798,121
Administrative and General	12,031,680	12,902,717
Depreciation Expense	10,481,183	9,488,977
	<u>64,710,614</u>	<u>64,189,815</u>
<b>Total Operating Expenses</b>		
<b>Operating Income</b>	<u>17,736,564</u>	<u>15,658,677</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	394,439	142,223
Finance Charges	493,958	325,722
Interest Expense	(6,893,669)	(6,377,222)
Bond Issuance Costs	(235,315)	-
Cancellation of Old Receivables	(1,594,629)	-
Cancellation of Old Payables and Accruals	1,529,740	-
Other Postemployment Benefit Obligation	(1,692,747)	-
Lodi Refund	-	(4,707,732)
Amortization Expense	(54,280)	(124,162)
	<u>(8,052,504)</u>	<u>(10,741,171)</u>
<b>Non-Operating Income (Loss)</b>		
<b>Change In Net Position</b>	9,684,060	4,917,506
<b>Net Position - January 1</b>	<u>71,232,340</u>	<u>70,058,009</u>
<b>Prior-Period Adjustment:</b>		
Reclassification of Other Postemployment Benefit Obligation (GASB No. 45)	<u>-</u>	<u>(3,743,175)</u>
<b>Net Position - December 31</b>	<u>\$ 80,916,400</u>	<u>\$ 71,232,340</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>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 82,524,218	\$ 78,942,788
Cash Paid to Vendors and Employees	(57,911,779)	(53,365,224)
	<u>24,612,439</u>	<u>25,577,564</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>Cash Flow from Investing Activities:</b>		
Interest Received	888,396	467,945
(Increase) Decrease in Investments	(8,383,799)	(4,641,178)
	<u>(7,495,403)</u>	<u>(4,173,233)</u>
<b>Net Cash Provided by (used in) Investing Activities</b>		
<b>Cash Flow from Financing Activities:</b>		
Principal Payment on Bonds and Notes	(9,669,697)	(9,645,395)
Interest Paid on Bonds and Notes	(6,913,408)	(6,457,895)
Proceeds from Issuance of Bonds	20,470,000	
Bond Issuance Costs	(235,315)	
Capital Expenditures	(11,367,677)	(9,444,733)
NJEIT Receipts		335,000
Lease Payments	(27,086)	(23,964)
Lodi Refund	(4,707,732)	
Bond Premium Received	1,843,781	
	<u>(10,607,134)</u>	<u>(25,236,987)</u>
<b>Net Cash Used in Financing Activities</b>		
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	6,509,902	(3,832,656)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>28,210,508</u>	<u>32,043,164</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 34,720,410</u>	<u>\$ 28,210,508</u>
<b>Analysis of Balance:</b>		
Unrestricted	\$ 1,812,709	\$ 6,027,188
Restricted	<u>32,907,701</u>	<u>22,183,320</u>
	<u>\$ 34,720,410</u>	<u>\$ 28,210,508</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>2014</u>	<u>2013</u>
<b>OPERATING INCOME (LOSS)</b>	\$ <u>17,736,564</u>	\$ <u>15,658,677</u>
<b>Adjustments to Reconcile Change in Net Assets to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	10,481,183	9,488,977
Decrease (Increase) in Accounts Receivable	81,022	(1,000,351)
Decrease (Increase) in Other Receivable	(3,982)	4,884
Decrease (Increase) in Inventory	(235,566)	89,763
Decrease (Increase) in Prepaid Expenses	289,994	83,852
Increase (Decrease) in Accounts Payable	(3,466,936)	1,259,812
Increase (Decrease) in Meter Deposits Payable	<u>(269,840)</u>	<u>(8,050)</u>
<b>Total Adjustments</b>	<u>6,875,875</u>	<u>9,918,887</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ <u><u>24,612,439</u></u>	\$ <u><u>25,577,564</u></u>

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

## **Notes to Financial Statements**



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

**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.

**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, 2014 AND 2013  
(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, 2014 AND 2013  
(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, 2014 AND 2013  
(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 position component as the unspent proceeds.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(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 "net investment in capital assets."

**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, 2014 AND 2013  
(CONTINUED)**

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

**E. Property, Plant and Equipment**

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

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

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

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

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

	<u>Balance</u> <u>Dec.31, 2013</u>	<u>Net</u> <u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>Dec.31, 2014</u>
Capital Assets	238,941,343	12,897,417		251,838,760
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>
	326,466,027	12,897,417	0	339,363,444
Accumulated Depreciation	<u>(165,979,775)</u>	<u>(10,481,183)</u>		<u>(176,460,958)</u>
Property, Plant and Equipment, Net	<u>160,486,252</u>	<u>2,416,234</u>	<u>0</u>	<u>162,902,486</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(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, 2014 AND 2013  
(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, 2005 and 2014 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, 2014 AND 2013  
(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. The Commission uses estimates in determining the allowance for uncollectible receivables due to/from water bank and the useful life of depreciable assets. 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 the guidelines of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB No. 42, long-lived assets, or asset groups and certain identifiable intangible assets to be held and used are reviewed for impairment

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(CONTINUED)**

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

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

whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted cash flows resulting from the use of the asset, or asset groups and its eventual disposition. Measurement of an impairment loss for long-lived assets, or asset groups, and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets, or asset groups and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

**N. Recent Accounting Pronouncements**

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

The Government Accounting Standards Board issued GASB Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement

PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(CONTINUED)

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

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

date. This Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. 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. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68. This Statement is effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016. 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. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement applies to OPEB plans and basically parallels GASB Statement 67 and replaces GASB Statement 43 and is effective for fiscal years beginning after June 15, 2016. 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. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for fiscal years beginning after June 15, 2017. The Commission is currently reviewing what effect, if any, this Statement might have on future financial statements.

**O. Reclassifications**

After a review of the cash restriction requirements of the general bond resolution, certain reclassifications have been made to restrictions of 2013 amounts to conform with the 2014 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 that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

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

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

As of December 31, 2014, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	1,812,709	1,812,709
Restricted	<u>32,907,701</u>	<u>32,907,701</u>
	<u>34,720,410</u>	<u>34,720,410</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2014 was \$34,720,410 and the bank balance was \$32,217,583. 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, 2014, \$-0- of the Commission's bank balance of \$32,217,583 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, 2014, the Commission had \$13,024,977 invested in various municipal notes with maturity dates greater than 3 months but less than 12 months.

**Interest Rate Risk**

The Commission has 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  
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(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:

	Balance <u>Dec.31, 2013</u>	<u>Cancelled</u>	Balance <u>Dec.31, 2014</u>
NJEIT - Fund & Trust	<u>1,594,629</u>	<u>1,594,629</u>	<u>0</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, 2014 and 2013:

	<u>2013</u>	<u>Issued</u>	<u>Paid</u>	<u>2014</u>
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	30,303,056		3,532,687	26,770,369
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	2,410,059		476,173	1,933,886
Series 2003 Refunding Bonds	31,150,000		2,825,000	28,325,000
Series 2005 Refunding Bonds	8,035,000		615,000	7,420,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	2,777,617		183,113	2,594,504
Series 2007C Refunding Bonds	5,520,000		300,000	5,220,000
Series 2009A Revenue Bonds	4,515,000		310,000	4,205,000
Series 2009B Revenue Bonds	12,185,000			12,185,000
Series 2009C Revenue Bonds	19,105,000		690,000	18,415,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	3,396,295		167,724	3,228,571
Series 2010C Refunding Bonds	1,155,000		570,000	585,000
Series 2014 Revenue Bonds	_____	<u>20,470,000</u>	_____	<u>20,470,000</u>
Net Carrying Amount of Debt	<u>120,552,027</u>	<u>20,470,000</u>	<u>9,669,697</u>	<u>131,352,330</u>
Current Portion	9,669,696			10,564,983
Long-Term Portion	<u>110,882,331</u>			<u>120,787,347</u>
	<u>120,552,027</u>			<u>131,352,330</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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**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>
2015	10,564,982	6,280,125	16,845,107
2016	10,340,125	5,904,053	16,244,178
2017	10,717,268	5,518,762	16,236,030
2018	11,051,257	5,107,662	16,158,919
2019	11,336,331	4,671,771	16,008,102
2020	11,800,282	4,205,603	16,005,885
2021-2025	33,433,471	14,370,068	47,803,539
2026-2030	19,393,614	7,298,867	26,692,481
2031-2035	8,545,000	3,001,960	11,546,960
2036-2039	<u>4,170,000</u>	<u>835,567</u>	<u>5,005,567</u>
	<u>131,352,330</u>	<u>57,194,438</u>	<u>188,546,768</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, 2014, 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>	
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>1,645,879</u>	<u>343,378</u>	<u>1,386,815</u>	<u>3,376,072</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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(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, 2014, the Trust and Fund portions payable were as follows:

<u>Year</u>	<u>Series 2001B (Project 1605002-005)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>12,881,710</u>	<u>2,685,170</u>	<u>10,855,967</u>	<u>26,422,847</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, 2014, 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>	
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>935,359</u>	<u>263,502</u>	<u>798,471</u>	<u>1,997,332</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, 2014, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002B (Project 02-1)</u>		<u>Fund Portion</u>		<u>Total</u>
	<u>Trust Portion</u>		<u>Principal</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>		
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>116,763</u>	<u>33,095</u>	<u>83,294</u>		<u>233,152</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, 2014, 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>
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>28,325,000</u>	<u>6,735,250</u>	<u>35,060,250</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, 2014, 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>
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>7,420,000</u>	<u>1,801,290</u>	<u>9,221,290</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, 2014 AND 2013  
(CONTINUED)**

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

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

At December 31, 2014, 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>	
2015	55,000	44,038	125,602	224,640
2016	60,000	41,288	128,455	229,743
2017	60,000	38,288	124,651	222,939
2018	65,000	35,288	127,187	227,475
2019	65,000	32,038	123,065	220,103
2020	70,000	29,438	126,109	225,547
2021	75,000	26,638	128,899	230,537
2022	75,000	22,888	124,143	222,031
2023	80,000	19,138	125,729	224,867
2024	85,000	15,738	127,758	228,496
2025	85,000	11,913	122,907	219,820
2026	90,000	8,088	124,397	222,485
2027	<u>95,000</u>	<u>4,038</u>	<u>125,602</u>	<u>224,640</u>
	<u>960,000</u>	<u>328,819</u>	<u>1,634,504</u>	<u>2,923,323</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  
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(CONTINUED)**

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

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

At December 31, 2014, 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>
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>5,220,000</u>	<u>1,847,880</u>	<u>7,067,880</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  
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(CONTINUED)**

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

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

At December 31, 2014, 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>
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>34,805,000</u>	<u>32,827,173</u>	<u>67,632,173</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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**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, 2014, 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>	
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>2,065,000</u>	<u>881,000</u>	<u>1,163,568</u>	<u>4,109,568</u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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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, 2014, 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>
2015	<u>585,000</u>	<u>16,088</u>	<u>601,088</u>
	<u>585,000</u>	<u>16,088</u>	<u>601,088</u>

**Series 2014 Water Supply System Revenue Bonds**

On June 16, 2014, the Commission issued Series 2014 Water Supply System Revenue Bonds in the amount of \$20,470,000 to finance: (1) various capital improvements to the Commission's water treatment and distributing 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; and costs related thereto; and (2) the payment of the costs associates with the issuance of such bonds.

**PASSAIC VALLEY WATER COMMISSION  
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(CONTINUED)**

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

**Series 2014 Water Supply System Revenue Bonds, (continued)**

At December 31, 2014, the outstanding principal and interest of the Series 2014 Bonds is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	755,000	818,088	1,573,088
2016	770,000	802,987	1,572,987
2017	795,000	779,888	1,574,888
2018	820,000	756,037	1,576,037
2019	845,000	731,438	1,576,438
2020	875,000	697,637	1,572,637
2021	910,000	662,638	1,572,638
2022	955,000	617,137	1,572,137
2023	995,000	578,938	1,573,938
2024	1,045,000	529,187	1,574,187
2025	1,095,000	476,938	1,571,938
2026	1,150,000	422,187	1,572,187
2027	1,210,000	364,688	1,574,688
2028	1,245,000	326,875	1,571,875
2029	1,290,000	286,413	1,576,413
2030	1,350,000	221,912	1,571,912
2031	1,400,000	176,350	1,576,350
2032	1,445,000	127,350	1,572,350
2033	<u>1,520,000</u>	<u>55,100</u>	<u>1,575,100</u>
	<u>20,470,000</u>	<u>9,431,788</u>	<u>29,901,788</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.

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

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

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

The lease 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, 2014 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>
2015	68,066	95.24%	64,825
2016	70,108	90.70%	63,590
2017	72,211	86.38%	62,379
2018	74,378	82.27%	61,191
2019	76,609	78.35%	60,025
2020	78,907	74.62%	58,882
2021	81,274	71.07%	57,760
2022	83,712	67.68%	56,660
2023	86,224	64.46%	55,581
2024	88,811	61.39%	54,522
2025	91,475	58.47%	53,484
2026	94,219	55.687%	52,465
2027	97,046	53.03%	51,466
Lodi Lease Payable			<u>752,830</u>
Current Portion			68,066
Long-Term Portion			<u>684,764</u>
			<u>752,830</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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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.

**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  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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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. The amount for PERS will increase to 6.5% plus an additional 1% phased in over 7 years beginning 2012.

**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</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
<b><u>Funding</u></b>			
12/31/14	\$1,323,650	100%	\$ 0
12/31/13	1,422,093	100%	0
12/31/12	1,330,388	100%	0

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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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 2014 fiscal year), the amount actually contributed to the plan, and changes in the Commission's net OPEB Obligation.

**PASSAIC VALLEY WATER COMMISSION  
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(CONTINUED)**

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

**Components of Net OPEB Obligation for 2014**

Annual Required Contribution	1,713,971
Interest on Net OPEB Obligation	280,738
Adjustment to Annual Required Contribution	<u>(301,962)</u>
Annual OPEB Cost (Expense)	1,692,747
Contributions Made or Accrued	<u>(1,270,382)</u>
Increased in Net Obligation	<u>422,365</u>
Net OPEB Obligation (BOY)	3,743,175
Net OPEB Obligation (EOY)	4,165,540

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 2014 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>
12/31/2014	1,692,747	75.05%	4,165,540	7.50%
12/31/2013	1,917,662	72.30%	3,743,175	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%

In 2014, the Commission designated \$5,435,922 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, 2014, the most recent actuarial date, the plan was 25.64% funded. The actuarial accrued liability for benefits was \$26,635,729 and the actuarial value of assets (designated in net position) was \$5,435,922 resulting in an unfunded actuarial accrued liability (UAAL) of \$21,199,807. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,266,000 and the ratio of the UAAL to the covered payroll was 188.18%.

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, 2014 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 2014, 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, 2014 was 30 years.

**PASSAIC VALLEY WATER COMMISSION  
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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, 2014 and 2013, the amounts required by bond resolution were as follows:

	<u>2014</u>	<u>2013</u>
Cash and Investments on Hand	<u>2,187,017</u>	<u>2,086,173</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, 2014, 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	2,677,037	4,384,887
Series 2002A&B NJEIT Bonds	193,389	631,874
Series 2003 Refunding Bonds	2,832,500	3,588,000
Series 2005 Refunding Bonds	742,000	941,000
Series 2007A&B NJEIT Bonds	230,537	250,750
Series 2007C Bonds	522,000	545,500
Series 2009A Bonds	420,500	-
Series 2009B Bonds	1,218,500	-
Series 2009C Bonds	1,841,500	-
Series 2010A&B NJEIT Bonds	296,973	-
Series 2010C Bonds	58,500	-
Series 2014 Bonds	1,576,438	

**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 \$13,017,235 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, 2014 and 2013, the amounts required by bond resolution were as follows:

	<u>2014</u>	<u>2013</u>
Cash and Investments on Hand	4,360,766	4,349,679
Renewal and Extension Requirement	<u>3,000,000</u>	<u>3,000,000</u>
Excess (Deficit)	<u>1,360,766</u>	<u>1,349,679</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, 2014 and 2013, the amounts required by bond resolution were as follows:

	<u>2014</u>	<u>2012</u>
Cash and Investments on Hand	<u>7,784,455</u>	<u>7,718,752</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, 2014, the bond service coverage ratio was calculated as follows:

	<u>2014</u>	<u>2013</u>
Net Operating Income (including interest and Finance charges, excluding depreciation)	29,106,144	25,615,599
Bond Service Requirement	16,845,107	15,385,183
Debt Service Coverage Ratio	1.73	1.60

All principal and interest payments were made on a timely basis during the 2014 fiscal year and through the date of this report.

**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2014, 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 the case was dismissed with prejudice in December 2014.

**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, 2014, 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  
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**NOTE 13. DEFERRED COMPENSATION PLAN**

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

**NOTE 14. OTHER MATTERS**

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

The Commission has been named as a defendant or third-party defendant in various claims for damages, and claims by several administrative employees regarding employment, health hazards and pay discrimination. 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.

**PASSAIC VALLEY WATER COMMISSION  
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**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>2014</u>	<u>2013</u>
Designated for Self-Insurance	<u>608,084</u>	<u>608,084</u>
Total Designated - Unrestricted	<u>608,084</u>	<u>608,084</u>

**NOTE 16. SUBSEQUENT EVENTS**

In 2015, the New Jersey Local Finance Board approved an application from the Commission to issue \$12,500,000 Water Supply Revenue Refunding Bonds.

The Commission has evaluated subsequent events through April 14, 2015, the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

**NOTE 17. PRIOR PERIOD ADJUSTMENTS**

**Postretirement Benefits Other Than Pension**

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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
(CONTINUED)**

**NOTE 17. PRIOR PERIOD ADJUSTMENTS, (continued)**

reclassified its 2008 OPEB liability as a designation of net position in the 2009 fiscal year. In 2014, the Commission revisited both the GASB standards for reporting OPEB liabilities and requirements of Local Finance Notice 2009-25 and concluded that the classification detailed in GASB No. 45 would be the most appropriate presentation for an entity defined under NJSA 40:A-62-109.

	Balance 12/31/2013 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 12/31/2013 as Restated
Liabilities:			
Other Post-employment Benefits		3,743,175	3,743,175
Net Position:			
Unrestricted: Designated for Other Post-employment Benefits	3,743,175	(3,743,175)	-



## **Supplementary Schedules**

## PASSAIC VALLEY WATER COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2014

	Net Investment in Capital Assets	Restricted				Unrestricted		Total
		Current Debt Service Reserve	Future Debt Service Reserve	Renewal and Extension Reserve	Operations Reserve	Unemployment Compensation Insurance	Designated	Undesignated
<b>Operating Revenue:</b>								
Service Agreements	-	-	-	-	-	-	-	72,974,874
Miscellaneous								9,461,799
Sale of Scrap								10,505
<b>Total Operating Revenue</b>								82,447,178
<b>Operating Expense:</b>								
Cost of Providing Services								42,197,751
Administrative and General								12,031,680
Depreciation								10,481,183
<b>Total Operating Expense</b>								64,710,614
<b>Operating Income</b>								17,736,564
<b>Non-Operating Revenue (Expense):</b>								
Interest Income								394,439
Finance Charges								493,958
Interest Expense								(6,893,669)
Bond Insurance Costs								(235,315)
Cancellation of Old Receivables								(1,594,629)
Cancellation of Old Payables								1,529,740
Other Postemployment Benefit Obligation Amortization								(1,692,747)
								(54,280)
<b>Net Income (Loss) Before Transfers</b>								(8,052,504)
<b>Transfers:</b>								
Other Transfers	6,176,206	120,583	125,331		65,703	20,306	-	(6,508,129)
<b>Increase/(Decrease) in Net Position</b>	6,176,206	120,583	125,331	-	65,703	20,306	-	3,175,931
<b>Net Position - Jan. 1, 2014, as restated</b>	41,111,177	1,509,448	12,891,904	3,000,000	7,718,752	232,803	608,084	71,232,340
<b>Net Position - December 31, 2014</b>	47,287,383	1,630,031	13,017,235	3,000,000	7,784,455	253,109	608,084	80,916,400

## 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, 2014**

	<u>Construction Accounts</u>	<u>Bond Service Accounts</u>	<u>Bond Reserve Account</u>	<u>Renewal and Extension Account</u>
<b>Cash, Cash Equivalents and Investments - January 1, 2014</b>	894,866	2,086,173	12,891,904	4,349,679
<b>Cash Receipts:</b>				
Interest on Investments	1,094	391	2,488	11,087
Service Agreements				
Miscellaneous				
Proceeds from Bonds	22,313,781			
Finance Charges				
Transfers		16,683,658	124,843	
<b>Total Cash Receipts</b>	<u>22,314,875</u>	<u>16,684,049</u>	<u>127,331</u>	<u>11,087</u>
<b>Cash and Investments Available</b>	<u>23,209,741</u>	<u>18,770,222</u>	<u>13,019,235</u>	<u>4,360,766</u>
<b>Cash Disbursements:</b>				
Bond Principal Payments		9,669,697		
Interest Payments		6,913,408		
Operations				
Capital and Other Expenses	4,288,996			
Transfers				
<b>Total Cash Disbursements</b>	<u>4,288,996</u>	<u>16,583,105</u>	<u>-</u>	
<b>Cash, Cash Equivalents and Investments - December 31, 2014</b>	<u>18,920,745</u>	<u>2,187,117</u>	<u>13,019,235</u>	<u>4,360,766</u>
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	18,920,745	2,187,017	901,675	4,360,766
Investments			12,115,560	
	<u>18,920,745</u>	<u>2,187,017</u>	<u>13,017,235</u>	<u>4,360,766</u>
Unrestricted	-	100,844	-	1,360,766
Restricted	<u>18,920,745</u>	<u>2,086,173</u>	<u>13,017,235</u>	<u>3,000,000</u>
	<u>18,920,745</u>	<u>2,187,017</u>	<u>13,017,235</u>	<u>4,360,766</u>

## PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED AND RESTRICTED ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Operation Reserve Account	Unemployment Insurance Account	General Operating Accounts	Total
<b>Cash, Cash Equivalents and Investments - January 1, 2014</b>	7,718,752	232,803	4,677,509	32,851,686
<b>Cash Receipts:</b>				
Interest on Investments	1,544	47	871,745	888,396
Service Agreements			82,503,853	82,503,853
Miscellaneous		20,365	-	20,365
Proceeds from Bonds				22,313,781
Finance Charges				-
Transfers	64,159	231,964	232,070	17,336,694
<b>Total Cash Receipts</b>	65,703	252,376	83,607,668	123,063,089
<b>Cash and Investments Available</b>	7,784,455	485,179	88,285,177	155,914,775
<b>Cash Disbursements:</b>				
Bond Principal Payments				9,669,697
Interest Payments				6,913,408
Operations			57,911,779	57,911,779
Capital and Other Expenses			12,048,814	16,337,810
Transfers		232,070	17,104,624	17,336,694
<b>Total Cash Disbursements</b>	-	232,070	87,065,217	108,169,388
<b>Cash, Cash Equivalents and Investments - December 31, 2014</b>	7,784,455	253,109	1,219,960	47,745,387
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	7,784,455	113,809	451,943	34,720,410
Investments	-	139,300	770,117	13,024,977
	7,784,455	253,109	1,222,060	47,745,387
Unrestricted	-	-	1,222,060	2,683,670
Restricted	7,784,455	253,109	-	45,061,717
	7,784,455	253,109	1,222,060	47,745,387

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>FY 2014 Adopted Budget</b>	<b>FY 2014 Budget as Amended</b>	<b>Realized</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Revenues:</b>					
Service Charges	48,658,583	48,658,583	45,574,759	(3,083,824)	45,172,227
Service Agreements (Bulk)	26,321,998	26,321,998	27,400,115	1,078,117	25,875,426
Fines / Penalties	248,000	248,000	493,958	245,958	325,722
Fire Line Service	5,155,518	5,155,518	4,853,835	(301,683)	5,072,205
Other Services and Repairs	4,954,654	4,954,654	4,618,468	(336,186)	3,728,634
Non-operating Investments	200,000	200,000	394,439	194,439	142,223
<b>Total Operating Revenues</b>	<b>85,538,753</b>	<b>85,538,753</b>	<b>83,335,574</b>	<b>(2,203,179)</b>	<b>80,316,437</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	FY 2014 Adopted Budget	FY 2014 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
<b>Expenses:</b>					
<b>Operating:</b>					
<b>Cost of Providing Services:</b>					
Executive					
Salaries and Wages	579,600	579,600	530,685	48,915	601,890
Other Expenses	30,500	30,500	16,956	13,544	29,107
Legal					
Salaries and Wages	385,000	385,000	314,334	70,666	331,442
Other Expenses	765,000	765,000	725,119	39,881	369,194
Engineering					
Salaries and Wages	875,000	875,000	617,930	257,070	826,070
Other Expenses	408,800	408,800	330,110	78,690	294,770
Purchasing					
Salaries and Wages	207,900	207,900	195,549	12,351	213,139
Other Expenses	6,350	6,350	3,259	3,091	6,020
Accounting					
Salaries and Wages	635,500	635,500	627,274	8,226	620,478
Other Expenses	127,000	127,000	99,887	27,113	87,021
Customer Service					
Salaries and Wages	707,700	707,700	743,926	(36,226)	709,144
Other Expenses	736,800	736,800	1,397,086	(660,286)	831,501
Information Technology	721,000	721,000	176,225	544,775	174,348
Personnel					
Salaries and Wages	475,600	475,600	371,339	104,261	430,168
Other Expenses	54,000	54,000	43,688	10,312	29,403
Purification					
Salaries and Wages	1,455,200	1,455,200	1,256,067	199,133	1,412,267
Other Expenses	75,750	75,750	9,767	65,983	344,792
Process	9,406,250	9,406,250	6,522,311	2,883,939	6,160,656

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	FY 2014 Adopted Budget	FY 2014 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	1,118,200	1,118,200	970,481	147,719	1,079,062
Other Expenses	6,499,500	6,499,500	5,192,264	1,307,236	5,441,885
Plant:					
Salaries and Wages	3,688,800	3,688,800	2,860,540	828,260	3,098,896
Other Expenses	1,975,000	1,975,000	1,989,299	(14,299)	1,766,456
Construction (Non-Capital Expenditures)	287,000	287,000	566,585	(279,585)	192,532
Distribution					
Salaries and Wages	4,110,700	4,110,700	3,419,413	691,287	3,545,957
Other Expenses	251,000	251,000	163,855	87,145	179,224
Maintenance	1,097,500	1,097,500	980,912	116,588	952,384
Garage	356,000	356,000	455,893	(99,893)	388,240
Laboratory:					
Salaries and Wages	1,600,100	1,600,100	1,296,490	303,610	1,485,733
Other Expenses	145,000	145,000	66,877	78,123	71,037
General Chemistry	248,000	248,000	278,155	(30,155)	210,562
Trace Analysis	195,000	195,000	97,457	97,543	82,324
Microbiology	89,000	89,000	60,153	28,847	55,703
Online Gas Instruments					
Online Water Instruments	82,000	82,000	121,906	(39,906)	107,494
Field Gas Instruments	25,000	25,000	37,995	(12,995)	5,265
NJDWSC Budget Expense	10,000,000	10,000,000	9,657,964	342,036	9,663,957
<b>Sub-total Cost of Providing Services</b>	<b>49,420,750</b>	<b>49,420,750</b>	<b>42,197,751</b>	<b>7,222,999</b>	<b>41,798,121</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>FY 2014 Adopted Budget</b>	<b>FY 2014 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Administrative Expenses:</b>					
Stationary, Postage and Supplies	345,000	345,000	306,487	38,513	291,614
Miscellaneous	291,000	291,000	104,038	186,962	291,514
Telephone	450,000	450,000	450,481	(481)	487,086
Wanaque So. - Lease Expense	69,000	69,000	76,263	(7,263)	66,222
Legal Advertisements	26,000	26,000	28,169	(2,169)	24,317
Membership Affiliations	40,000	40,000	59,000	(19,000)	39,304
General Liability Insurance	720,000	720,000	322,781	397,219	908,820
Fees and Taxes	708,000	630,960	700,754	(69,794)	700,754
Bad Debt Expense	50,000	50,000	15,557	34,443	15,557
Employee Benefits:					
Worker's Compensation	500,000	500,000	303,764	196,236	611,696
Hospitalization / Prescription	5,500,000	5,500,000	6,751,349	(1,251,349)	6,652,035
Group Life Insurance	5,000	5,000	7,633	(2,633)	2,990
Pension	1,897,500	1,897,500	1,323,650	573,850	1,422,093
Social Security / Medicare	1,068,400	1,068,400	1,039,564	28,836	1,041,598
Unemployment and Disability	85,507	85,507	35,561	49,946	104,341
Dental	150,000	150,000	158,896	(8,896)	135,955
Other	110,000	110,000	125,544	(15,544)	39,697
Professional Services:					
Auditing	45,000	45,000	39,750	5,250	39,000
Other	160,000	160,000	182,439	(22,439)	28,124
<b>Sub-total Administrative</b>	<b>12,220,407</b>	<b>12,143,367</b>	<b>12,031,680</b>	<b>111,687</b>	<b>12,902,717</b>
<b>Sub-total Operating</b>	<b>61,641,157</b>	<b>61,564,117</b>	<b>54,229,431</b>	<b>7,334,686</b>	<b>54,700,838</b>



**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>FY 2014 Adopted Budget</b>	<b>FY 2014 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Other Costs Funded by Operating Revenues:</b>					
Debt Service:					
Interest Expense	6,649,726	6,649,726	6,893,669	(243,943)	6,377,222
Capital Leases	66,084	66,084	66,084	-	64,159
Bond Principal	10,519,696	10,519,696	9,669,697	849,999	9,310,395
<b>Sub-total Other Costs</b>	<b>17,235,506</b>	<b>17,235,506</b>	<b>16,629,450</b>	<b>606,056</b>	<b>15,687,617</b>
<b>Total Costs Funded by Operating Revenues</b>	<b>78,876,663</b>	<b>78,799,623</b>	<b>70,858,881</b>	<b>7,940,742</b>	<b>70,388,455</b>
<b>Add: Excess / (Deficit)</b>	<b>6,662,090</b>	<b>6,739,130</b>	<b>12,476,693</b>	<b>5,737,563</b>	<b>9,927,982</b>
	<b>85,538,753</b>	<b>85,538,753</b>	<b>83,335,574</b>	<b>2,203,179</b>	<b>80,316,437</b>
<b>Excess of Revenues Over Expenses:</b>			<b>12,476,693</b>		<b>9,927,982</b>
<b>Reconciliation of Budgetary Basis to GAAP:</b>					
Depreciation Expense			(10,481,183)		(9,488,977)
Amortization Expense			(54,280)		(124,162)
Lodi Refund			-		(4,707,732)
Bond Issuance Costs			(235,315)		-
Cancellation of Old Receivables			(1,594,629)		-
Cancellation of Old Payables and Accruals			1,529,740		-
Capital Leases			66,084		-
Bond Principal			9,669,697		9,310,395
Other Postemployment Benefit Obligation			(1,692,747)		
<b>Total Adjustments</b>			<b>(2,792,633)</b>		<b>(5,010,476)</b>
<b>Change in Net Position</b>			<b>9,684,060</b>		<b>4,917,506</b>

## PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CAPITAL BUDGET PROGRAM  
FUNDED BY FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>FY 2014 Adopted Budget</b>	<b>FY 2014 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>
<b>Financing Sources:</b>				
Debt Authorization	12,348,000	12,348,000	11,378,342	969,658
Retained Earnings Appropriated	6,400,000	6,400,000	1,519,075	4,880,925
	<u>18,748,000</u>	<u>18,748,000</u>	<u>12,897,417</u>	<u>5,850,583</u>
<b>Capital Outlays:</b>				
Recurring Construction:				
Cleaning & Lining	3,000,000	3,000,000	2,999,900	100
Main Replacement	1,545,000	1,545,000	1,541,630	3,370
Valve Replacement	1,500,000	1,500,000	1,499,913	87
Meter Replacement	103,000	103,000	102,793	207
Plant / Distribution	618,000	618,000	608,331	9,669
Vehicle Repair	500,000	500,000	496,380	3,620
Dam Improvements:				
Seismic Reinforcement of Dam	1,600,000	1,600,000	-	1,600,000
Production and Pumping:				
Main Pump Station Discharge Valves	103,000	103,000	-	103,000
Ozone System Upgrade	1,318,000	1,318,000	1,138,641	179,359
Rehabilitate Chemical System	900,000	900,000	711,584	188,416
MCC Pump Drives	618,000	618,000	610,429	7,571
Residuals Treatment	206,000	206,000	-	206,000
Distribution:				
Open Finished Water Reservoirs	1,236,000	1,236,000	944,642	291,358
Corrosion Inhibitor	515,000	515,000	393,600	121,400
Great Falls Arch Bridge Repair	618,000	618,000	18,368	599,632
Plant and General Structures:				
Replace Roof & Skylights	50,000	50,000	-	50,000
Replace Windows - Main Pump Station	57,000	57,000	-	57,000
Main Pumping Station	412,000	412,000	312,131	99,869
Great Falls - Misc. Reliability Enhancements	206,000	206,000	-	206,000
Point View - Roof Replacement	52,000	52,000	-	52,000
Instrumentation, Controls and Information Technologies:				
Building Process Review	1,236,000	1,236,000	220,986	1,015,014
SCADA - Distribution / WTP	510,000	510,000	81,257	428,743
WTP System Upgrade	1,803,000	1,803,000	1,216,832	586,168
Radio Meter Read Monthly Accts	42,000	42,000	-	42,000
	<u>18,748,000</u>	<u>18,748,000</u>	<u>12,897,417</u>	<u>5,850,583</u>
<b>Total Capital Outlays</b>	<u>18,748,000</u>	<u>18,748,000</u>	<u>12,897,417</u>	<u>5,850,583</u>
<b>Total Costs Funded by Capital Revenue</b>	<u>18,748,000</u>	<u>18,748,000</u>	<u>12,897,417</u>	<u>5,850,583</u>
<b>Add: Excess</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>18,748,000</u>	<u>18,748,000</u>	<u>12,897,417</u>	<u>5,850,583</u>

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
NJ/EIT Bonds (Series 2001A&B) Trust Portion (Refunded with Series 2007A)	10/15/2001	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			1,785,000	14,527,589
					16,312,589			
NJ/EIT Bonds (Series 2001A&B) Fund Portion	10/15/2001	5.00%	2015	1,748,185.80				
		5.00%	2016	1,749,016.95				
		5.00%	2017	1,750,015.73				
		5.00%	2018	1,747,686.22				
		5.00%	2019	1,752,012.56				
		4.75%	2020	1,749,184.05				
		4.75%	2021	1,746,679.30			1,747,687	12,242,780
					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, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
NJ/EIT Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/2002	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			235,000	1,052,123
					1,287,123			
NJ/EIT Bonds (Series 2002A&B) Fund Portion	10/15/2002	5.00%	2015	246,196.38				
		5.00%	2016	244,394.19				
		5.00%	2017	242,263.15				
		5.00%	2018	148,910.07			241,173	881,763
					1,122,936			

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
Refunding Bonds (Series 2003)	12/15/2003	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				
					31,150,000		2,825,000	28,325,000
Refunding Bonds (Series 2005)	2/8/2005	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			615,000	7,420,000
					8,035,000			

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Trust Portion	11/9/2007	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				
					1,015,000		55,000	960,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
NJET Bonds (Series 2007A&B) Fund Portion	11/9/2007	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				
					1,762,617		128,113	1,634,504

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
Refunding Bonds (Series 2007C)	11/9/2007	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			300,000	5,220,000
					5,520,000			



PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
Water Supply Revenue Bonds (Series 2009A)	12/15/2009	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				
					4,515,000		310,000	4,205,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			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, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
Water Supply Revenue Bonds (Series 2009C)	12/15/2009	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				
					19,105,000		690,000	18,415,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
NJET Bonds (Series Fall 2010A) Fund Portion	10/5/2010	n/a	2015	72,723.21				
		n/a	2016	72,723.21				
		n/a	2017	72,723.21				
		n/a	2018	72,723.21				
		n/a	2019	72,723.21				
		n/a	2020	72,723.21				
		n/a	2021	72,723.21				
		n/a	2022	72,723.21				
		n/a	2023	72,723.21				
		n/a	2024	72,723.21				
		n/a	2025	72,723.21				
		n/a	2026	72,723.21				
		n/a	2027	72,723.21				
		n/a	2028	72,723.21				
		n/a	2029	72,723.21				
		n/a	2030	72,723.29			72,724	1,163,571
					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, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
NJET Bonds (Series 2010B) Trust Portion	12/2/2010	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				
					2,160,000		95,000	2,065,000

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	Issued	Redeemed	Balance Dec. 31, 2014
			Date	Amount				
Refunding Bonds (Series 2010C)	12/22/2010	4.00%	2015	585,000.00	1,155,000		570,000	585,000
Water Supply Revenue Bonds (Series 2014)	12/15/2014	2.00%	2015	755,000.00				
		3.00%	2016	770,000.00				
		3.00%	2017	795,000.00				
		3.00%	2018	820,000.00				
		4.00%	2019	845,000.00				
		4.00%	2020	875,000.00				
		5.00%	2021	910,000.00				
		4.00%	2022	955,000.00				
		5.00%	2023	995,000.00				
		5.00%	2024	1,045,000.00				
		5.00%	2025	1,095,000.00				
		5.00%	2026	1,150,000.00				
		3.13%	2027	1,210,000.00				
		3.25%	2028	1,245,000.00				
		5.00%	2029	1,290,000.00				
		3.38%	2030	1,350,000.00				
		3.35%	2031	1,400,000.00				
		5.00%	2032	1,445,000.00				
		3.63%	2033	1,520,000.00				
					20,470,000			20,470,000
					<u>120,552,027</u>	<u>20,470,000</u>	<u>9,669,697</u>	<u>131,352,330</u>
Current Portion					9,669,697			10,564,983
Noncurrent Portion					<u>110,882,330</u>			<u>120,787,347</u>
					<u>120,552,027</u>			<u>131,352,330</u>

## PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FUNDING PROGRESS  
FOR THE RETIREE HEALTH PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/2014	\$ 5,435,922	\$ 26,635,729	\$ 21,199,807	25.64%	\$ 11,266,000	188.18%
12/31/2013	\$ 3,743,175	\$ 28,844,102	\$ 25,100,927	14.91%	\$ 11,187,000	224.38%
12/31/2012	\$ 3,212,068	\$ 28,844,102	\$ 25,632,034	12.53%	\$ 11,187,000	229.12%
12/31/2011	\$ 2,021,851	\$ 23,679,371	\$ 21,657,520	9.34%	\$ 13,511,000	160.30%
12/31/2010	\$ 2,021,851	\$ 23,679,371	\$ 21,657,520	9.34%	\$ 13,511,000	160.30%
(1) 12/31/2009	\$ 1,367,308	\$ 24,453,445	\$ 23,086,137	5.92%	\$ 12,975,325	177.92%
12/31/2008	\$ 683,308	\$ 24,453,445	\$ 23,770,137	2.87%	\$ 12,975,325	183.19%

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

**SCHEDULE 7**

**ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS**

The following officials were in office at December 31, 2014:

<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.



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

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
Steven D. Wielkottz, CPA, RMA  
James J. Cerullo, CPA, RMA  
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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Passaic Valley Water Commission, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 14, 2015.

### ***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 2014-1).

### ***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 financial statements and, accordingly, we express no opinion on it.

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

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



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

April 14, 2015

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2014**

**FINDING: 2014-1\***

**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.

## General Comments

## PASSAIC VALLEY WATER COMMISSION

### GENERAL COMMENTS

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

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

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

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

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

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

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

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

PASSAIC VALLEY WATER COMMISSION

GENERAL COMMENTS, CONTINUED


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

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

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

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

Respectfully submitted,



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