

**PASSAIC VALLEY WATER COMMISSION**  
**REPORT OF AUDIT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2015 AND 2014**

# PASSAIC VALLEY WATER COMMISSION

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## **Financial Section**

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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, 2015 and 2014, 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, 2015 and 2014, 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.

### **Emphasis of Matter**

#### ***Adoption of New Accounting Principles***

As discussed in Note 1 to the financial statements, during the fiscal year ended December 31, 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

#### ***Prior Period Restatement***

Because of the implementation of GASB Statements No. 68 and No. 71, beginning net position on the statement of revenues, expenses and changes in net position has been restated for fiscal year December 31, 2015, as discussed in Note 16 to the financial statements. Our opinion is not modified with respect to this matter.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, schedule of funding progress for the OPEB plan, schedule of employer contributions to the OPEB plan, schedule of the Authority's proportionate share of the net pension liability and schedule of Authority contributions as listed in the table of contents 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 comprise the Commission's basic financial statements. The supplementary information listed in the table of contents, as required by the Local Finance Board, and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 information listed in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Chairman and Members of the  
Passaic Valley Water Commission  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2016 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, Wielkottz, Cerullo & Cuva, P.A.*

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

August 23, 2016





**Required Supplementary Information - Part I**

## **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, 2015. 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 \$63,326,153 (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 \$51,361,391, as restated.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$51,060,260 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 \$25,535,173 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$(13,269,280) represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission decreased by \$2,639,068 to \$175,445,330 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 \$63,326,153. This is a \$11,964,762 increase over last year's net position of \$51,361,391, 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 2015</u>	<u>Restated FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	67,026,672	67,753,970	(727,298)	(1.07)%
Capital Assets	<u>165,876,632</u>	<u>162,902,486</u>	<u>2,974,146</u>	1.83%
Total Assets	<u>232,903,304</u>	<u>230,656,456</u>	<u>2,246,848</u>	0.97%
Deferred Outflow of Resources	<u>14,087,318</u>	<u>7,266,511</u>	<u>6,820,807</u>	93.87%
Current Liabilities	20,883,111	21,949,117	(1,066,006)	(4.86)%
Non-Current Liabilities	<u>154,562,219</u>	<u>156,135,281</u>	<u>(1,573,062)</u>	(1.01)%
Total Liabilities	<u>175,445,330</u>	<u>178,084,398</u>	<u>(2,639,068)</u>	(1.48)%
Deferred Inflows of Resources	<u>8,219,139</u>	<u>8,477,178</u>	<u>(258,039)</u>	(3.04)%
Net Investment in Capital Assets	51,060,260	47,287,383	3,772,877	7.98%
Restricted	25,535,173	25,684,830	(149,657)	(0.58)%
Unrestricted	<u>(13,269,280)</u>	<u>(21,610,822)</u>	<u>8,341,542</u>	(38.60)%
Total Net Position	<u>63,326,153</u>	<u>51,361,391</u>	<u>11,964,762</u>	23.30%

**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 2013 balances in the following table. This comparison has not been restated to reflect the reclassification of the Commission's Other Post-employment Benefit Liability or the changes required by GASB No. 68.

**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)**

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 \$11,964,762 and \$9,288,796 during the 2015 and 2014 fiscal years, respectively.

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

	<u>FY 2015</u>	<u>Restated FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	88,279,412	82,447,178	5,832,234	7.07%
Non-operating Revenues	<u>898,801</u>	<u>2,418,137</u>	<u>(1,519,336)</u>	(62.83)%
Total Revenues	<u>89,178,213</u>	<u>84,865,315</u>	<u>4,312,898</u>	5.08%
Depreciation	10,807,047	10,481,183	325,864	3.11%
Other Operating Expenses	59,387,625	55,895,077	3,492,548	6.25%
Other Non-operating Expense	<u>7,018,779</u>	<u>9,200,259</u>	<u>(2,181,480)</u>	(23.71)%
Total Expenses	<u>77,213,451</u>	<u>75,576,519</u>	<u>1,636,932</u>	2.17%
Change in Net Position	11,964,762	9,288,796	2,675,966	28.81%
Beginning Balance	51,361,391	71,232,340	(19,870,949)	(27.90)%
Prior Period Adjustment	_____	<u>(29,159,745)</u>	<u>29,159,745</u>	(100.00)%
Ending Balance	<u>63,326,153</u>	<u>51,361,391</u>	<u>11,964,762</u>	23.30%

**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 2013 figures in the following table. This comparison has not been restated to reflect the reclassification of the Commission's Other Post-employment Benefit Liability or the changes required by GASB No. 68.

**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>                    </u>	<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)**

**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 2015 and FY 2014 budget comparison:

**Budget vs. Actual  
FY 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	88,746,644	88,379,011	(367,633)
Non-Operating	<u>200,000</u>	<u>589,967</u>	<u>389,967</u>
	<u>88,946,644</u>	<u>88,968,978</u>	<u>22,334</u>
Expenses:			
Operating	62,250,575	57,485,693	4,764,882
Non-Operating	<u>16,948,603</u>	<u>17,140,935</u>	<u>(192,332)</u>
	<u>79,199,178</u>	<u>74,626,628</u>	<u>4,572,550</u>
Income before Depreciation	<u>9,747,466</u>	<u>14,342,350</u>	<u>4,594,884</u>

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

**Budgetary Highlights (Continued)**

	<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>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During fiscal year 2015, the Commission had an increase of \$13,781,193 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$165,876,632. This is a \$2,974,146 increase over last year's net property, plant and equipment of \$162,902,486. A summary of the Commission's capital assets is presented in the following table:

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>
Capital Assets	265,619,953	251,838,760	13,781,193
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>(187,268,005)</u>	<u>(176,460,958)</u>	<u>(10,807,047)</u>
	<u>165,876,632</u>	<u>162,902,486</u>	<u>2,974,146</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	11,167,000
Discrete Projects	1,257,000
Production and Pumping	5,190,000
Distribution	20,952,000
Plant and General Structures	2,362,000
Instrumentation, Controls and Information Technologies	<u>3,843,000</u>
	<u>44,771,000</u>

**Debt Administration**

At December 31, 2015, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$119,188,838. 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

	<b>2015</b>	<b>Restated 2014</b>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
<b><u>Unrestricted:</u></b>		
Cash and Cash equivalents	\$ 6,813,569	\$ 1,812,709
Investments	902,579	770,117
Accounts Receivable, net	22,049,096	17,775,626
Inventory	2,314,995	2,016,850
Other Receivables	8,595	9,437
Prepaid Expenses	219,350	206,670
Total Unrestricted Assets	<u>32,308,184</u>	<u>22,591,409</u>
<b><u>Restricted:</u></b>		
Construction Account:		
Cash and Cash equivalents	2,937,431	18,920,745
Investments	5,760,234	-
Bond Service Fund:		
Cash and Cash equivalents	1,838,734	2,187,017
Bond Reserve Account:		
Cash and Cash equivalents	792,883	901,675
Investments	12,324,650	12,115,560
Renewal and Extension Account:		
Cash and Cash equivalents	3,000,000	3,000,000
Operations Account:		
Cash and Cash equivalents	7,792,267	7,784,455
Unemployment Compensation Insurance:		
Cash and Cash equivalents	188,689	113,809
Investments	83,600	139,300
Total Restricted Assets	<u>34,718,488</u>	<u>45,162,561</u>
<b>Non-Current Assets:</b>		
<b><u>Capital Assets:</u></b>		
Capital Assets	265,619,953	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	815,146	815,146
Less: Accumulated Depreciation	<u>(187,268,005)</u>	<u>(176,460,958)</u>
Total Capital Assets	<u>165,876,632</u>	<u>162,902,486</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>232,903,304</u></b>	<b>\$ <u>230,656,456</u></b>

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

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

**EXHIBIT A**

Page 2 of 3

	<u>2015</u>	<u>Restated 2014</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
<b>Deferred Outflows:</b>		
Water Bank - Deferred Expense	1,249,055	1,168,152
Unamortized Costs in Excess of Refunded Debt, Net of Amortization	2,527,577	2,822,443
Unamortized Bond Discount, Net of Amortization	189,945	238,402
Deferred Outflows Related to Pensions	10,120,741	3,037,514
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>14,087,318</u>	<u>7,266,511</u>
 <b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
<u>Payable from Unrestricted Assets:</u>		
Accounts Payable and Accrued Liabilities	\$ 8,236,583	\$ 9,184,237
Accounts Payable - Pension Related	1,784,990	1,547,782
Due To (From) Contractor	15,000	15,000
Meter Deposits Payable	2,575	3,985
Security Deposits Payable	8,078	8,078
<b>Total Payable from Unrestricted Assets</b>	<u>10,047,226</u>	<u>10,759,082</u>
<u>Payable from Restricted Assets:</u>		
Accrued Interest Payable	485,650	556,986
Bonds Payable - Current Portion	10,280,127	10,564,983
Leases Payable - Current Portion	70,108	68,066
<b>Total Payable from Restricted Assets</b>	<u>10,835,885</u>	<u>11,190,035</u>
<b>Non-Current Liabilities:</b>		
Bonds Payable - Long-Term Portion	108,908,711	120,787,347
Leases Payable - Long-Term Portion	652,297	684,764
Net OPEB Obligation	4,587,905	4,165,540
Net Pension Obligation	40,413,306	30,497,630
<b>Total Non-Current Liabilities</b>	<u>154,562,219</u>	<u>156,135,281</u>
<b>TOTAL LIABILITIES</b>	<u>175,445,330</u>	<u>178,084,398</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>2015</b>	<b>Restated 2014</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
<b>Deferred Inflows:</b>		
Due To Water Bank	1,249,055	1,168,152
Unamortized Savings from Refunded Debt, Net of Amortization	539,276	585,063
Unamortized Bond Premium, Net of Amortization	5,421,290	4,486,760
Deferred Savings on Bond Refunding, Net of Amortization	359,750	419,710
Deferred Inflows Related to Pensions	649,768	1,817,493
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>8,219,139</b>	<b>8,477,178</b>
 <b><u>NET POSITION:</u></b>		
Net Investment in Capital Assets	51,060,260	47,287,383
Restricted:		
Current Debt Service	1,353,084	1,630,031
Future Debt Service	13,117,533	13,017,235
Renewal and Extension	3,000,000	3,000,000
Operations	7,792,267	7,784,455
Unemployment Compensation Insurance	272,289	253,109
Unrestricted:		
Designated	608,084	608,084
Undesignated	(13,877,364)	(22,218,906)
<b>TOTAL NET POSITION</b>	<b>\$ 63,326,153</b>	<b>\$ 51,361,391</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>2015</u>	<u>Restated 2014</u>
<b>Operating Revenue:</b>		
Service Agreements	\$ 79,802,521	\$ 72,974,874
Miscellaneous	8,459,919	9,461,799
Sale of Scrap	16,972	10,505
	<u>88,279,412</u>	<u>82,447,178</u>
<b>Total Operating Revenue</b>		
<b>Operating Expenses:</b>		
Cost of Providing Services	46,427,360	43,446,986
Administrative and General	12,960,265	12,448,091
Depreciation Expense	10,807,047	10,481,183
	<u>70,194,672</u>	<u>66,376,260</u>
<b>Total Operating Expenses</b>		
<b>Operating Income</b>	<u>18,084,740</u>	<u>16,070,918</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	589,967	394,439
Finance Charges	99,599	493,958
Interest Expense	(6,384,377)	(6,893,669)
Bond Issuance Costs	(212,037)	(235,315)
Cancellation of Old Receivables	-	(1,594,629)
Cancellation of Old Payables and Accruals	-	1,529,740
Other Postemployment Benefit Obligation	(422,365)	(422,365)
Amortization Expense	209,235	(54,280)
	<u>(6,119,978)</u>	<u>(6,782,122)</u>
<b>Non-Operating Income (Loss)</b>		
<b>Change In Net Position</b>	11,964,762	9,288,796
<b>Net Position - January 1</b>	<u>51,361,391</u>	<u>71,232,340</u>
<b>Prior-Period Adjustment:</b>		
Cumulative Effect of Change in Accounting Principle - Implementation of GASB Statement No. 68	<u></u>	<u>(29,159,745)</u>
<b>Net Position - December 31</b>	<u>\$ 63,326,153</u>	<u>\$ 51,361,391</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>2015</u>	<u>Restated 2014</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 84,006,784	\$ 82,524,218
Cash Paid to Vendors and Employees	<u>(60,647,514)</u>	<u>(57,911,779)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>23,359,270</u>	<u>24,612,439</u>
<b>Cash Flow from Investing Activities:</b>		
Interest Received	689,566	888,396
(Increase) Decrease in Investments	<u>(6,046,086)</u>	<u>(8,383,799)</u>
<b>Net Cash Provided by (used in) Investing Activities</b>	<u>(5,356,520)</u>	<u>(7,495,403)</u>
<b>Cash Flow from Financing Activities:</b>		
Principal Payment on Bonds and Notes	(22,358,492)	(9,669,697)
Interest Paid on Bonds and Notes	(6,455,713)	(6,913,408)
Proceeds from Issuance of Bonds	10,195,000	20,470,000
Bond Issuance Costs	(212,037)	(235,315)
Capital Expenditures	(11,879,261)	(11,367,677)
Lease Payments	(30,425)	(27,086)
Lodi Refund		(4,707,732)
Bond Premium Received	<u>1,381,341</u>	<u>1,843,781</u>
<b>Net Cash Used in Financing Activities</b>	<u>(29,359,587)</u>	<u>(10,607,134)</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	(11,356,837)	6,509,902
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>34,720,410</u>	<u>28,210,508</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 23,363,573</u>	<u>\$ 34,720,410</u>
<b>Analysis of Balance:</b>		
Unrestricted	\$ 6,813,569	\$ 1,812,709
Restricted	<u>16,550,004</u>	<u>32,907,701</u>
	<u>\$ 23,363,573</u>	<u>\$ 34,720,410</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>2015</u>	<u>Restated 2014</u>
<b>OPERATING INCOME (LOSS)</b>	\$ 18,084,740	\$ 16,070,918
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	10,807,047	10,481,183
Decrease (Increase) in Accounts Receivable	(4,273,470)	81,022
Decrease (Increase) in Other Receivable	842	(3,982)
Decrease (Increase) in Inventory	(298,145)	(235,566)
Decrease (Increase) in Prepaid Expenses	(12,680)	289,994
Increase (Decrease) in Accounts Payable	(947,654)	(1,801,290)
Increase (Decrease) in Meter Deposits Payable	(1,410)	(269,840)
<b>Total Adjustments</b>	<u>5,274,530</u>	<u>8,541,521</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 23,359,270</u>	<u>\$ 24,612,439</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, 2015 AND 2014**

**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, 2015 AND 2014  
(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, 2015 AND 2014  
(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, 2015 AND 2014  
(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, deferred outflows of resources and reduced by the outstanding balances of any bonds, mortgages, deferred inflows of resources, 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, 2015 AND 2014  
(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**

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, 2015 AND 2014  
(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, 2014</u>	<u>Net</u> <u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>Dec.31, 2015</u>
Capital Assets	251,838,760	13,781,193		265,619,953
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>
	339,363,444	13,781,193	0	353,144,637
Accumulated Depreciation	<u>(176,460,958)</u>	<u>(10,807,047)</u>		<u>(187,268,005)</u>
Property, Plant and Equipment, Net	<u>162,902,486</u>	<u>2,974,146</u>	<u>0</u>	<u>165,876,632</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

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

**E. Property, Plant and Equipment, (continued)**

	<u>Balance Dec.31, 2013</u>	<u>Net Additions</u>	<u>Disposals</u>	<u>Balance 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><u>160,486,252</u></u>	<u><u>2,416,234</u></u>	<u><u>0</u></u>	<u><u>162,902,486</u></u>

**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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

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

**F. Restricted Accounts, (continued)**

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.

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. Deferred Outflows and Deferred Inflows of Resources**

The Statement of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, reported after total assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after total liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

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

**G. Deferred Outflows and Deferred Inflows of Resources, (continued)**

Transactions are classified as deferred outflows of resources and deferred inflow of resources only when specifically prescribed by the Governmental Accounting Standards Board (GASB) standards. The Commission is required to report the following as deferred outflows of resources and deferred inflows of resources:

Defined Benefit Pension Plans - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the Commission's proportion of expenses and liabilities to the pension as a whole, differences between the Commission's pension contribution and its proportionate share of contributions, and the Commission's pension contributions subsequent to the pension valuation measurement date.

Deferred Loss on Refunding of Bonds - Deferred loss on refunding arising from the issuance of revenue refunding bonds, is recorded as s deferred outflow of resources. The deferred loss is amortized in a systematic and rational method as a component of interest expense.

Bond Discounts/Bond Premiums - Bond discounts/bond premiums arising from the issuance of long-term debt (bonds) are amortized over the life of the bonds, in a systematic and rational method, from the issue date to maturity as a component of interest expense.

**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.

**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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

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

**I. Use of Estimates, (continued)**

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 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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

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

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. 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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

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

The Government Accounting Standards Board issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. 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. 77, *Tax Abatement Disclosures*, which improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The Commission believes this Statement will have no impact on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition for pension liabilities, expense and expenditures; note disclosures of descriptive information about the plan, benefit terms, and contributions items; and required supplementary information presenting required contribution amounts for the past 10 fiscal years. The Commission is currently reviewing what effect this Statement might have on future financial statements.

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

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

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

The Government Accounting Standards Board issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participation*, which permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes. The Commission is currently reviewing what effect this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which provides clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The Commission does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Commission does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Commission does not believe this Statement will have any effect on future financial statements.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

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

**O. Recently Issued and Adopted Accounting Pronouncements**

For the fiscal year ended December 31, 2015, the Commission adopted GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting such Statements, the Commission was required to measure and recognize liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to their defined benefit pensions. The cumulative effect of adopting GASB Statements No. 68 and No. 71 totaled \$30,825,391, and was recognized as a restatement of the Commission's December 31, 2014 net position on the statements of net position (see Note 16).

**P. Reclassifications/Restatements**

Certain reclassifications have been made to restrictions of 2014 amounts to conform with the 2015 financial presentation.

**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%.

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

**NOTE 3. CASH AND CASH EQUIVALENTS, (continued)**

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

As of December 31, 2015, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	6,813,569	6,813,569
Restricted	<u>16,550,004</u>	<u>16,550,004</u>
	<u>23,363,573</u>	<u>23,363,573</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2015 was \$23,363,573 and the bank balance was \$24,989,359. This entire amount was covered by federal depository insurance and the collateral pool maintained by the banks as required by New Jersey Statutes.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Commission's policy is based on New Jersey statutes requiring cash be deposited only in New Jersey based on banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in a qualified investment established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2015, \$-0- of the Commission's bank balance of \$24,989,359 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, 2015, the Commission had \$19,071,063 invested in various municipal notes with maturity dates greater than 3 months but less than 12 months.

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

**NOTE 4. INVESTMENTS, (continued)**

**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.

**NOTE 5. LONG-TERM DEBT**

The Commission has issued and has outstanding the following bonds as of December 31, 2015 and 2014:

	<u>2014</u>	<u>Issued</u>	<u>Paid/ Refunded</u>	<u>2015</u>
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	26,770,369		3,531,062	23,239,307
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	1,933,886		365,594	1,568,292
Series 2003 Refunding Bonds	28,325,000		2,965,000	25,360,000
Series 2005 Refunding Bonds	7,420,000		7,420,000	0
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	2,594,504		730,382	1,864,122
Series 2007C Refunding Bonds	5,220,000		4,560,000	660,000
Series 2009A Revenue Bonds	4,205,000		325,000	3,880,000
Series 2009B Revenue Bonds	12,185,000			12,185,000
Series 2009C Revenue Bonds	18,415,000		735,000	17,680,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	3,228,571		386,454	2,842,117
Series 2010C Refunding Bonds	585,000		585,000	0
Series 2014 Revenue Bonds	20,470,000		755,000	19,715,000
Series 2015 Refunding Bonds		<u>10,195,000</u>		<u>10,195,000</u>
Net Carrying Amount of Debt	<u>131,352,330</u>	<u>10,195,000</u>	<u>22,358,492</u>	<u>119,188,838</u>
Current Portion	10,564,983			10,280,127
Long-Term Portion	<u>120,787,347</u>			<u>108,908,711</u>
	<u>131,352,330</u>			<u>119,188,838</u>

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

**NOTE 5. 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>
2016	10,280,127	6,094,055	16,374,182
2017	10,657,266	5,699,599	16,356,865
2018	10,966,257	5,101,866	16,068,123
2019	11,251,331	4,668,661	15,919,992
2020	11,710,283	4,205,892	15,916,175
2021-2025	32,768,689	14,287,837	47,056,526
2026-2030	18,839,885	7,268,265	26,108,150
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>119,188,838</u>	<u>51,163,702</u>	<u>170,352,540</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, 2015, 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>	
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>198,668</u>	<u>483,451</u>
	<u>1,446,217</u>	<u>261,282</u>	<u>1,190,426</u>	<u>2,897,925</u>

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

**NOTE 5. 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, 2015, 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>	
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>1,548,011</u>	<u>3,766,319</u>
	<u>11,298,495</u>	<u>2,042,770</u>	<u>9,304,169</u>	<u>22,645,434</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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**NOTE 5. LONG-TERM DEBT, (continued)**

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

At December 31, 2015, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002A (Project 05-1)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>830,125</u>	<u>217,692</u>	<u>580,794</u>	<u>1,628,611</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 5. LONG-TERM DEBT, (continued)**

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

At December 31, 2015, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002B (Project 02-1)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>102,599</u>	<u>27,389</u>	<u>54,774</u>	<u>184,762</u>

**Series 2003 Water Supply System Revenue Refunding Bonds**

On February 15, 2004, the Commission issued Series 2003 Water Supply System Revenue Refunding Bonds in the amount of \$35,880,000 for: (i) the retirement and refunding of 1993 Water Supply Revenue Refunding Bonds; (ii) the funding of the Bond Reserve Requirement; and (iii) costs of issuance.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 5. LONG-TERM DEBT, (continued)**

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

At December 31, 2015, 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>
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>25,360,000</u>	<u>5,319,000</u>	<u>30,679,000</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  
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(CONTINUED)**

**NOTE 5. LONG-TERM DEBT, (continued)**

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

At December 31, 2015, 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>	
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	76,613	175,751
2024	85,000	15,738		100,738
2025	85,000	11,913		96,913
2026	90,000	8,088		98,088
2027	<u>95,000</u>	<u>4,038</u>		<u>99,038</u>
	<u>905,000</u>	<u>284,781</u>	<u>959,122</u>	<u>2,148,903</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. An amount of \$4,250,000 was refunded in the Series 2015.

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

**NOTE 5. LONG-TERM DEBT, (continued)**

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

At December 31, 2015, 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>
2016	325,000	220,310	545,310
2017	335,000	207,310	542,310
	<u>660,000</u>	<u>427,620</u>	<u>1,087,620</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 5. LONG-TERM DEBT, (continued)**

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

At December 31, 2015, 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>
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>33,745,000</u>	<u>30,248,418</u>	<u>63,993,418</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 5. 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, 2015, 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>	
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	4,441	207,691
2029	75,000	3,750		78,750
2030	-	-		0
	<u>1,965,000</u>	<u>777,750</u>	<u>877,117</u>	<u>3,619,867</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 5. LONG-TERM DEBT, (continued)**

**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.

At December 31, 2015, 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>
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>19,715,000</u>	<u>8,613,700</u>	<u>28,328,700</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 5. LONG-TERM DEBT, (continued)**

**Series 2015 Water Supply Refunding Bonds**

On November 5, 2015, the Commission issued Series 2015 Water Supply Refunding Bonds in the amount of \$10,195,000 to finance: (i) the retirement and refunding of the Series 2005 Water Supply System Revenue Refunding Bonds and the Series 2007C Water Supply System Revenue Bonds; (ii) the funding of the Bond Reserve requirement; and (iii) costs of issuance.

At December 31, 2015, the outstanding principal and interest of the Series 2015 Bonds is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	595,000	461,900	1,056,900
2017	625,000	429,150	1,054,150
2018	980,000	410,400	1,390,400
2019	1,020,000	371,200	1,391,200
2020	1,065,000	330,400	1,395,400
2021	1,110,000	277,150	1,387,150
2022	1,175,000	221,650	1,396,650
2023	730,000	162,900	892,900
2024	755,000	126,400	881,400
2025	800,000	88,650	888,650
2026	845,000	48,650	893,650
2027	495,000	14,850	509,850
	<u>10,195,000</u>	<u>2,943,300</u>	<u>13,138,300</u>

**NOTE 6. 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  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 6. 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, 2015 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>
2016	70,108	95.24%	66,770
2017	72,211	90.70%	65,498
2018	74,378	86.38%	64,251
2019	76,609	82.27%	63,026
2020	78,907	78.35%	61,826
2021	81,274	74.62%	60,648
2022	83,712	71.07%	59,493
2023	86,224	67.68%	58,360
2024	88,811	64.46%	57,248
2025	91,475	61.39%	56,158
2026	94,219	58.47%	55,088
2027	97,046	55.68%	54,039
Lodi Lease Payable			<u>722,405</u>
Current Portion			70,108
Long-Term Portion			<u>652,297</u>
			<u>722,405</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 7. 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.

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/treasurey/pensions](http://www.state.nj.us/treasurey/pensions).



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 7. 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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(CONTINUED)**

**NOTE 7. 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 Commission to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

**Three Year Trend Information for PERS**

<b>Year Funding</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
12/31/15	\$1,441,276	3.57%	\$40,413,306
12/31/14	1,286,870	4.22%	30,497,630
12/31/13	1,330,388	4.36%	30,502,594

**Three Year Trend Information DCRP**

<b>Year Funding</b>	<b>DCRP Contributions</b>
12/31/15	\$208,835
12/31/14	136,780
12/31/13	91,705

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

**NOTE 7. PENSION PLAN, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE  
FINANCIAL STATEMENTS PER - GASB NO. 68**

**Public Employees Retirement System (PERS)**

At December 31, 2015, the Commission reported a liability of \$40,413,306 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2015, the Commission's proportion was 0.1800307948 percent, which was an increase of 0.0111218988 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Commission recognized pension expense of \$3,343,208. At December 31, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$4,340,066	\$
Net difference between projected and actual earnings on pension plan investments	964,120	649,768
Changes in proportion and differences between Commission contributions and proportionate share of contributions	1,590,379	
Deferred pension adjustment	1,441,276	
Commission contributions subsequent to the measurement date	<u>1,784,900</u>	<u>          </u>
Total	<u>\$10,120,741</u>	<u>\$649,768</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 7. PENSION PLAN, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE  
FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)**

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

The \$8,679,465 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2015, the plan measurement date is June 30, 2015) will be recognized as a reduction of the net pension liability in the year ended December 31, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2016	\$847,338
2017	847,338
2018	847,338
2019	1,349,522
2020	762,880

**Additional Information**

Local Group Collective balances at December 31, 2015 and 2014 are as follows:

	<u>Dec. 31, 2015</u>	<u>Dec. 31, 2014</u>
Collective deferred outflows of resources	\$3,578,755,666	\$952,194,675
Collective deferred inflows of resources	993,410,455	1,479,224,662
Collective net pension liability	22,447,996,119	18,722,735,003
Commission's Proportion	0.1800307948%	0.1628908896%

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

**NOTE 7. PENSION PLAN, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE  
FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)**

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

**Actuarial Assumptions**

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which rolled forward to June 30, 2015. The total pension liability for the July 1, 2014 measurement date was determined by an actuarial valuation as of July 1, 2014. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	3.04 Percent
Salary Increases:	
2012-2021	2.60-9.48 Percent (based on age)
Thereafter	3.60-10.48 Percent (based on age)
Investment Rate of Return	7.90 Percent

**Mortality Rates**

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback one year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

**Long-Term Rate of Return**

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

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

**NOTE 7. PENSION PLAN, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE  
FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)**

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

**Long-Term Rate of Return, (continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad U.S. Equities	27.25%	8.52%
Developed Foreign Markets	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Returns	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%
REIT	4.25%	5.12%

**Discount Rate**

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the

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

**NOTE 7. PENSION PLAN, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE  
FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)**

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

**Discount Rate, (continued)**

average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate**

The following presents the collective net pension liability of the participating employers as of June 30, 2015, respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1 -percentage-point higher than the current rate:

	<u>June 30, 2015</u>		
	<u>1% Decrease 3.90%</u>	<u>At Current Discount Rate 4.90%</u>	<u>1% Increase 5.90%</u>
Commission's proportionate share of the pension liability	\$50,228,794	\$40,413,306	\$32,184,071

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS).

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

**NOTE 8. 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 2015 fiscal year), the amount actually contributed to the plan, and changes in the Commission's net OPEB Obligation.



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

**NOTE 8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)**

**Components of Net OPEB Obligation for 2015\***

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><u>422,365</u></u>
Net OPEB Obligation (BOY)	4,165,540
Net OPEB Obligation (EOY)	4,587,905

\*Based on January 1, 2014 actuarial valuation.

In 2015, the Commission accrued \$4,587,905 to fund anticipated OPEB obligations. This amount was an estimate by management based on their most recent actuarial calculations of the Net OPEB Obligation.

**Funded Status and Funding Progress**

As of December 31, 2015, 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 was \$4,587,905 resulting in an unfunded actuarial accrued liability (UAAL) of \$22,047,824. 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 195.7%.

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

**NOTE 8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION, (continued)**

**Funded Status and Funding Progress, (continued)**

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.

**NOTE 9. AMOUNTS REQUIRED BY BOND RESOLUTIONS**

The following cash and investment accounts are required by the Commission's bond resolutions:

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 9. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)**

**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, 2015 and 2014, the amounts required by bond resolution were as follows:

	<u>2015</u>	<u>2014</u>
Cash and Investments on Hand	<u>1,838,734</u>	<u>2,187,017</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, 2015, the amounts required by bond resolution were as follows:

	<u>Debt Service Reserve Requirement</u>	<u>Maximum Bond Surety Coverage</u>
Series 2001A&B NJEIT Bonds	2,323,931	4,384,887
Series 2002A&B NJEIT Bonds	156,829	631,874
Series 2003 Refunding Bonds	2,536,000	3,588,000
Series 2007A&B NJEIT Bonds	186,412	250,750
Series 2007C Bonds	66,000	345,500
Series 2009A Bonds	388,000	
Series 2009B Bonds	1,218,500	
Series 2009C Bonds	1,768,500	
Series 2010A&B NJEIT Bonds	284,212	
Series 2014 Bonds	1,576,438	
Series 2015 Refunding Bonds	1,019,500	

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 9. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)**

In addition to the insurance policies, the Commission has reserved \$13,117,533 cash, cash equivalents and investments 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, 2015 and 2014, the amounts required by bond resolution were as follows:

	<u>2015</u>	<u>2014</u>
Cash and Investments on Hand	3,000,073	4,360,766
Renewal and Extension Requirement	<u>3,000,000</u>	<u>3,000,000</u>
Excess (Deficit)	<u>73</u>	<u>1,360,766</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, 2015 and 2014, the amounts required by bond resolution were as follows:

	<u>2015</u>	<u>2014</u>
Cash and Investments on Hand	<u>7,792,267</u>	<u>7,784,455</u>

**Coverage Covenant**

The Commission's 1992 General Bond Resolution also includes a covenant that, among other things, requires the Commission to estimate, make, impose, charge, revise and collect revenues for each fiscal year sufficient (i) to pay all operating expenses of the Commission in each fiscal year, (ii) provide an amount equal to 110% of the aggregate bond service requirement and sinking fund requirement for such fiscal year and (iii) provide an amount so that the Operating Fund Reserve Account and the Renewal and Extension Account are at their respective requirements.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 9. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)**

At December 31, 2015, the bond service coverage ratio was calculated as follows:

	<u>2015</u>	<u>2014</u>
Net Operating Income (including interest and Finance charges, excluding depreciation)	29,581,353	29,106,144
Bond Service Requirement	16,374,182	16,845,107
Debt Service Coverage Ratio	1.81	1.73

All principal and interest payments were made on a timely basis during the 2015 fiscal year and through the date of this report.

**NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2015, 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.

**Storage Tank Project**

In 2015, the Commission proposed a three-phase, \$135 million project to build storage tanks at the Stanley M. Levine, New Street and Great Notch reservoirs in response to federal guidelines. All three reservoirs are located in or near public parks and, since the project's initial proposal, there has been public suggestion to find alternatives. In response, the Commission is exploring a joint project with the City of Newark to build a treatment plant at the Cedar Grove reservoir, located a mile from Great Notch. The tank project at the Levine reservoir, located in the Great Falls Historic District and on the edge of the national park, is currently stalled while the site undergoes a federal historical review.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 11. 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, 2015, 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)

**NOTE 12. DEFERRED COMPENSATION PLAN**

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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 13. 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.

**NOTE 14. DESIGNATION OF UNRESTRICTED NET ASSETS**

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

	<u>2015</u>	<u>2014</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 15. SUBSEQUENT EVENTS**

The Commission has evaluated subsequent events through August 23, 2016, the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 16. PRIOR PERIOD ADJUSTMENTS**

**Postretirement Benefits Other Than Pension**

On December 15, 2007, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". Statement No. 45 established the standards and financial reporting requirements for Other Post Retirement Benefits ("OPEB") expenses and related OPEB liabilities, note disclosures and 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 reclassified it's 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. In 2015, management examined the net OPEB liability and determined that an adjustment was needed to coincide with the actuarial calculated net OPEB obligation.

	Balance 12/31/2014 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 12/31/2014 as Restated
Liabilities:			
Other Post-employment Benefits	\$5,435,922	(1,270,382)	4,165,540
Net Position:			
Unrestricted: Undesignated	7,336,103	1,270,382 <sup>(1)</sup>	8,606,485

<sup>(1)</sup> This retroactive adjustment is included in the 2014 non-operating expenses on Exhibit B.

**Net Pension Obligation**

On January 1, 2015, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. This statement requires, among other



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**NOTE 16. PRIOR PERIOD ADJUSTMENTS, (continued)**

**Net Pension Obligation, (continued)**

things, the recognition of unfunded net pension obligations and related deferred outflows and inflows in the financial statements of an entity. As a result, the following prior period adjustments have been made on the 2014 financial statements:

	Balance 12/31/2014 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 12/31/2014 as <u>Restated</u>
Deferred Outflows of Resources:			
Deferred Pension-Related Costs	\$ -	\$3,037,514	\$3,037,514
Liabilities:			
Net Pension Liability	\$ -	\$30,497,630	\$30,497,630
Accounts Payable - Pension-Related	\$ -	\$1,547,782	\$1,547,782
Deferred Inflows of Resources:			
Deferred Pension-Related Inflows	\$ -	\$1,817,493	\$1,817,493
Net Position:			
Unrestricted: Undesignated	\$8,606,485 <sup>(2)</sup>	(\$30,825,391) <sup>(3)</sup>	(\$22,218,906)

<sup>(2)</sup> Balance carried forward from previous paragraph.

<sup>(3)</sup> (\$1,665,646) of this retroactive adjustment is included in the 2014 operating expenses on Exhibit B. The remaining (\$29,159,745) is displayed separately in the area labeled "prior period adjustment".

**Required Supplementary Information - Part II**

**SCHEDULE RSI-1**

**PASSAIC VALLEY WATER COMMISSION**  
**Required Supplementary Information**  
**Schedule of Funding Progress for the OPEB Plan**

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)
12/31/2015	\$4,587,905	\$26,635,729	\$22,047,824	20.81%	\$11,266,000	195.70%
12/31/2014	4,165,540	26,635,729	22,470,189	18.54	11,266,000	199.45
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
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	183.91

**SCHEDULE RSI-2**

**PASSAIC VALLEY WATER COMMISSION**  
**Required Supplementary Information**  
**Schedule of Employer Contributions to the OPEB Plan**

Fiscal Year Ended	Annual OPEB Cost	Percentage OPEB Cost Contributed	Net OPEB Obligation	Discount Rate
12/31/2015	\$1,692,747	75.05%	\$4,587,905	7.50%
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
12/31/2009	1,738,579	60.70	1,362,742	7.50
12/31/2008	1,738,579	60.70	683,308	7.50

**SCHEDULE RSI-3**

**PASSAIC VALLEY WATER COMMISSION  
Required Supplementary Information  
Schedule of the Commission's Proportionate Share of the Net Pension Liability  
Public Employees' Retirement System (PERS)  
Last Two Fiscal Years**

	<b><u>Measurement Date Ending June 30,</u></b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>
Commission's Proportion of the Net Pension Liability	0.1800307948%	0.1628908896%
Commission's Proportionate Share of the Net Pension Liability	\$40,413,306	\$30,497,630
Commission's Covered-Employee Payroll	\$12,797,853	\$12,172,446
Commission's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	315.78%	250.55%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

**SCHEDULE RSI-4**

**PASSAIC VALLEY WATER COMMISSION  
Required Supplementary Information  
Schedule of the Commission's Contributions  
Public Employees' Retirement System (PERS)  
Last Two Fiscal Years**

	<b><u>Fiscal Year Ended December 31,</u></b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>
Contractually Required Contribution	\$1,441,276	\$1,286,870
Contributions in Relation to the Contractually Required Contribution	<u>(1,441,276)</u>	<u>(1,286,870)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Commission's Covered-Employee Payroll	\$12,797,853	\$12,172,446
Contributions as a Percentage of Commission's Covered-Employee Payroll	11.26%	10.57%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

**PASSAIC VALLEY WATER COMMISSION**  
**Notes to Required Supplementary Information**  
**For the Year ended November 30, 2015**

**Other Postemployment Benefits**

A summary of the inputs used in the FY 2015 OPEB calculation, the last actuarial valuation, are as follows:

**Cost Method:** Projected Unit Credit

**Assumptions:**

Investment Return:	7.50%
Discount Rate:	7.50%
Mortality:	SOA RP2014 gender specific
Turnover:	T5Standard table
Salary Scale:	4.50%
Marital Assumption:	80% are assumed married
Retirement Age:	As specified in the following table:

<i><u>Age at the beginning of year</u></i>	<i><u>Retirement Rate</u></i>
<u>With 25+ year of service</u>	
55	50%
56-64	20% per year
65	100%
<u>With less than 25 years of service</u>	
65	100%

**Valuation of Assets:** Assets are valued at market value. (Plan currently not funded).

**Premium Equivalence:** Based on most current rates available for retired group.

**Trend Rates:** Subsequent premiums are assumed to increase annually at a rate starting at 8% in 2014 and decreasing linearly each year to an ultimate annual increase of 5%.

**PASSAIC VALLEY WATER COMMISSION**  
**Notes to Required Supplementary Information**  
**For the Year ended November 30, 2015**  
**(continued)**

**Public Employees' Retirement System (PERS)**

Changes in Benefit Terms - None

Changes in Assumptions - The discount rate changed from 5.39% as of June 30, 2014 to 4.90% as of June 30, 2015, in accordance with Paragraph 44 of GASB Statement No. 67.

## **Supplementary Schedules**



## PASSAIC VALLEY WATER COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2015

	Net Investment in Capital Assets	Current Debt Service Reserve	Future Debt Service Reserve	Restricted		Unemployment Compensation Insurance	Unrestricted		Total
				Renewal and Extension Reserve	Operations Reserve		Designated	Undesignated	
Operating Revenue:									
Service Agreements	-	-	-	-	-	-	-	79,802,521	79,802,521
Miscellaneous								8,459,919	8,459,919
Sale of Scrap								16,972	16,972
Total Operating Revenue		-	-	-	-	-	-	88,279,412	88,279,412
Operating Expense:									
Cost of Providing Services								46,427,360	46,427,360
Administrative and General								12,960,265	12,960,265
Depreciation	10,807,047								10,807,047
Total Operating Expense	10,807,047	-	-	-	-	-	-	59,387,625	70,194,672
Operating Income	(10,807,047)	-	-	-	-	-	-	28,891,787	18,084,740
Non-Operating Revenue (Expense):									
Interest Income					7,812			582,155	589,967
Finance Charges								99,599	99,599
Interest Expense								(6,384,377)	(6,384,377)
Bond Issuance Costs	(212,037)							(212,037)	(212,037)
Other Postemployment Benefit Obligation	209,235							(422,365)	(422,365)
Amortization								209,235	209,235
	(2,802)	-	-	-	7,812	-	-	(6,124,988)	(6,119,978)
Net Income (Loss) Before Transfers	(10,809,849)	-	-	-	7,812	-	-	22,766,799	11,964,762
Transfers:									
Capital Expenditures - Funded									-
by Unrestricted: Undesignated	3,558,113							(3,558,113)	-
Bond Payments	10,688,492							(10,688,492)	-
Loan Payments	30,425							(30,425)	-
Other Transfers	305,696	(276,947)	100,298			19,180	-	(148,227)	-
		(276,947)	100,298		7,812	19,180	-	8,341,542	11,964,762
Increase/(Decrease) in Net Position	3,772,877			-	7,812	19,180	-		
Net Position - Jan. 1, 2015, as restated	47,287,583	1,630,031	13,017,235	3,000,000	7,784,455	253,109	608,084	(22,218,906)	51,361,391
Net Position - December 31, 2015	51,060,260	1,353,084	13,117,533	3,000,000	7,792,267	272,289	608,084	(13,877,364)	63,376,153

## 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, 2015

	Construction Accounts	Bond Service Accounts	Bond Reserve Account	Renewal and Extension Account
<b>Cash, Cash Equivalents and Investments -</b>				
<b>January 1, 2015</b>	18,920,745	2,187,117	13,019,235	4,360,766
<b>Cash Receipts:</b>				
Interest on Investments	14,889	595	98,298	9,124
Service Agreements				
Miscellaneous				
Proceeds from Bonds		10,195,000		
Finance Charges				
Transfers		18,270,227		
<b>Total Cash Receipts</b>	14,889	28,465,822	98,298	9,124
<b>Cash and Investments Available</b>	18,935,634	30,652,939	13,117,533	4,369,890
<b>Cash Disbursements:</b>				
Bond Principal Payments		22,358,492		
Interest Payments		6,455,713		
Operations				
Capital and Other Expenses	10,237,969			
Transfers				1,369,817
<b>Total Cash Disbursements</b>	10,237,969	28,814,205	-	1,369,817
<b>Cash, Cash Equivalents and Investments -</b>				
<b>December 31, 2015</b>	8,697,665	1,838,734	13,117,533	3,000,073
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	2,937,431	1,838,734	792,883	3,000,073
Investments	5,760,234	-	12,324,650	
	8,697,665	1,838,734	13,117,533	3,000,073
Unrestricted	-	-	-	73
Restricted	8,697,665	1,838,734	13,117,533	3,000,000
	8,697,665	1,838,734	13,117,533	3,000,073

## 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, 2015

	Operation Reserve Account	Unemployment Insurance Account	General Operating Accounts	Total
<b>Cash, Cash Equivalents and Investments - January 1, 2015</b>	7,784,455	253,109	1,219,960	47,745,387
<b>Cash Receipts:</b>				
Interest on Investments	7,812	994	557,854	689,566
Service Agreements			83,888,999	83,888,999
Miscellaneous		18,186	1,381,341	1,399,527
Proceeds from Bonds				10,195,000
Finance Charges			99,599	99,599
Transfers			1,369,890	19,640,117
<b>Total Cash Receipts</b>	<u>7,812</u>	<u>19,180</u>	<u>87,297,683</u>	<u>115,912,808</u>
<b>Cash and Investments Available</b>	<u>7,792,267</u>	<u>272,289</u>	<u>88,517,643</u>	<u>163,658,195</u>
<b>Cash Disbursements:</b>				
Bond Principal Payments				22,358,492
Interest Payments				6,455,713
Operations			62,088,790	62,088,790
Capital and Other Expenses			442,478	10,680,447
Transfers			18,270,300	19,640,117
<b>Total Cash Disbursements</b>	<u>-</u>	<u>-</u>	<u>80,801,568</u>	<u>121,223,559</u>
<b>Cash, Cash Equivalents and Investments - December 31, 2015</b>	<u><u>7,792,267</u></u>	<u><u>272,289</u></u>	<u><u>7,716,075</u></u>	<u><u>42,434,636</u></u>
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	7,792,267	188,689	6,813,496	23,363,573
Investments		83,600	902,579	19,071,063
	<u><u>7,792,267</u></u>	<u><u>272,289</u></u>	<u><u>7,716,075</u></u>	<u><u>42,434,636</u></u>
Unrestricted	-	-	7,716,075	7,716,148
Restricted	<u>7,792,267</u>	<u>272,289</u>	<u>-</u>	<u>34,718,488</u>
	<u><u>7,792,267</u></u>	<u><u>272,289</u></u>	<u><u>7,716,075</u></u>	<u><u>42,434,636</u></u>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	FY 2015 Adopted Budget	FY 2015 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
<b>Revenues:</b>					
Service Charges	50,241,568	50,241,568	47,906,308	(2,335,260)	45,574,759
Service Agreements (Bulk)	27,470,093	27,470,093	31,896,213	4,426,120	27,400,115
Fines / Penalties			99,599	99,599	493,958
Fire Line Service	5,395,213	5,395,213	4,335,926	(1,059,287)	4,853,835
Other Services and Repairs	5,639,770	5,639,770	4,140,965	(1,498,805)	4,618,468
Non-operating Investments	200,000	200,000	589,967	389,967	394,439
<b>Total Operating Revenues</b>	<b>88,946,644</b>	<b>88,946,644</b>	<b>88,968,978</b>	<b>22,334</b>	<b>83,335,574</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	FY 2015 Adopted Budget	FY 2015 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
<b>Expenses:</b>					
<b>Operating:</b>					
<b>Cost of Providing Services:</b>					
Executive					
Salaries and Wages	594,900	594,900	595,026	(126)	530,685
Other Expenses	30,500	30,500	16,576	13,924	16,956
Legal					
Salaries and Wages	421,200	421,200	410,172	11,028	314,334
Other Expenses	656,500	656,500	369,721	286,779	725,119
Engineering					
Salaries and Wages	852,100	852,100	767,144	84,956	617,930
Other Expenses	528,000	528,000	413,238	114,762	330,110
Purchasing					
Salaries and Wages	232,900	232,900	215,037	17,863	195,549
Other Expenses	7,100	7,100	3,288	3,812	3,259
Accounting					
Salaries and Wages	730,200	730,200	796,166	(65,966)	627,274
Other Expenses	102,000	102,000	90,368	11,632	99,887
Customer Service					
Salaries and Wages	865,300	865,300	880,059	(14,759)	743,926
Other Expenses	813,450	813,450	845,680	(32,230)	1,397,086
Information Technology	588,000	588,000	242,319	345,681	176,225
Personnel					
Salaries and Wages	466,000	466,000	443,041	22,959	371,339
Other Expenses	51,000	51,000	23,547	27,453	43,688
Purification					
Salaries and Wages	1,319,200	1,319,200	1,307,314	11,886	1,256,067
Other Expenses	95,750	95,750	4,819	90,931	9,767
Process	9,105,782	9,105,782	7,255,497	1,850,285	6,522,311

**PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	FY 2015 Adopted Budget	FY 2015 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
<b>Operating:</b>					
<b>Cost of Providing Services (Continued):</b>					
Pumping					
Salaries and Wages	1,053,400	1,053,400	1,022,136	31,264	970,481
Other Expenses	6,793,500	6,793,500	6,491,956	301,544	5,192,264
Plant:					
Salaries and Wages	3,743,600	3,743,600	3,472,718	270,882	2,860,540
Other Expenses	2,250,200	2,250,200	1,920,075	330,125	1,989,299
Construction (Non-Capital Expenditures)	357,000	357,000	358,187	(1,187)	566,585
Distribution					
Salaries and Wages	4,016,400	4,016,400	3,811,046	205,354	3,419,413
Other Expenses	257,000	257,000	177,387	79,613	163,855
Maintenance	1,114,000	1,114,000	863,376	250,624	980,912
Garage	540,000	540,000	350,722	189,278	455,893
Laboratory:					
Salaries and Wages	1,590,700	1,590,700	1,600,100	(9,400)	1,296,490
Other Expenses	140,500	140,500	44,223	96,277	66,877
General Chemistry	279,000	279,000	195,416	83,584	278,155
Trace Analysis	119,000	119,000	62,915	56,085	97,457
Microbiology	70,000	70,000	89,812	(19,812)	60,153
Online Gas Instruments					
Online Water Instruments	82,000	82,000	124,571	(42,571)	121,906
Field Gas Instruments	25,000	25,000	27,356	(2,356)	37,995
NJDWSC Budget Expense	10,500,000	10,500,000	9,657,694	842,306	9,657,964
<b>Sub-total Cost of Providing Services</b>	<b>50,391,182</b>	<b>50,391,182</b>	<b>44,948,702</b>	<b>5,442,480</b>	<b>42,197,751</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>FY 2015 Adopted Budget</b>	<b>FY 2015 Budget as Amended</b>	<b>Current Year Actual</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Administrative Expenses:</b>					
Stationary, Postage and Supplies	345,000	345,000	379,997	(34,997)	306,487
Miscellaneous	240,000	240,000	240,401	(401)	104,038
Telephone	450,000	450,000	506,571	(56,571)	450,481
Wanaque So. - Lease Expense	69,000	69,000	106,418	(37,418)	76,263
Legal Advertisements	26,000	26,000	20,083	5,917	28,169
Membership Affiliations	40,000	40,000	59,403	(19,403)	59,000
General Liability Insurance	730,000	730,000	697,189	32,811	322,781
Fees and Taxes	836,000	836,000	711,673	124,327	700,754
Bad Debt Expense	50,000	50,000	3,685	46,315	15,557
<b>Employee Benefits:</b>					
Worker's Compensation	387,000	387,000	756,698	(369,698)	303,764
Hospitalization / Prescription	5,429,526	5,429,526	5,927,996	(498,470)	6,751,349
Group Life Insurance	10,000	10,000	751	9,249	7,633
Pension	1,700,000	1,700,000	1,650,111	49,889	1,423,650
Social Security / Medicare	1,080,400	1,080,400	1,077,917	2,483	1,039,564
Unemployment and Disability	87,217	87,217	61,017	26,200	35,561
Dental	172,500	172,500	157,718	14,782	158,896
Other	51,750	51,750	36,463	15,287	25,544
<b>Professional Services:</b>					
Auditing	45,000	45,000	40,250	4,750	39,750
Other	110,000	110,000	102,650	7,350	182,439
<b>Sub-total Administrative</b>	<b>11,859,393</b>	<b>11,859,393</b>	<b>12,536,991</b>	<b>(677,598)</b>	<b>12,031,680</b>
<b>Sub-total Operating</b>	<b>62,250,575</b>	<b>62,250,575</b>	<b>57,485,693</b>	<b>4,764,882</b>	<b>54,229,431</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>FY 2015 Adopted Budget</b>	<b>FY 2015 Budget as Amended</b>	<b>Current Year Actual</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Other Costs Funded by Operating Revenues:</b>					
Debt Service:					
Interest Expense	6,315,555	6,315,555	6,384,377	(68,822)	6,893,669
Capital Leases			68,066	(68,066)	66,084
Bond Principal	10,633,048	10,633,048	10,688,492	(55,444)	9,669,697
<b>Sub-total Other Costs</b>	<b>16,948,603</b>	<b>16,948,603</b>	<b>17,140,935</b>	<b>(192,332)</b>	<b>16,629,450</b>
<b>Total Costs Funded by Operating Revenues</b>	<b>79,199,178</b>	<b>79,199,178</b>	<b>74,626,628</b>	<b>4,572,550</b>	<b>70,858,881</b>
<b>Add: Excess / (Deficit)</b>	<b>9,747,466</b>	<b>9,747,466</b>	<b>14,342,350</b>	<b>4,594,884</b>	<b>12,476,693</b>
	<b>88,946,644</b>	<b>88,946,644</b>	<b>88,968,978</b>	<b>(22,334)</b>	<b>83,335,574</b>
<b>Excess of Revenues Over Expenses:</b>			<b>14,342,350</b>		<b>12,476,693</b>
<b>Reconciliation of Budgetary Basis to GAAP:</b>					
Depreciation Expense			(10,807,047)		(10,481,183)
Amortization Expense			209,235		(54,280)
Bond Issuance Costs			(212,037)		(235,315)
Cancellation of Old Receivables			-		(1,594,629)
Cancellation of Old Payables and Accruals			-		1,529,740
Capital Leases			68,066		66,084
Bond Principal			10,688,492		9,669,697
Pension Adjustment			(1,901,932)		(1,665,646)
Other Postemployment Benefit Obligation			(422,365)		(422,365)
<b>Total Adjustments</b>			<b>(2,377,588)</b>		<b>(3,187,897)</b>
<b>Change in Net Position</b>			<b>11,964,762</b>		<b>9,288,796</b>



PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF CAPITAL BUDGET PROGRAM  
FUNDED BY FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2015

	FY 2015 Adopted Budget	FY 2015 Budget as Amended	Paid or Charged	Excess / (Deficit)
<b>Financing Sources:</b>				
Debt Authorization	24,043,000	24,043,000	11,393,576	12,649,424
Retained Earnings Appropriated	9,621,000	9,621,000	2,387,617	7,233,383
	<u>33,664,000</u>	<u>33,664,000</u>	<u>13,781,193</u>	<u>19,882,807</u>
<b>Capital Outlays:</b>				
Recurring Construction:				
Cleaning & Lining	2,252,000	2,252,000	2,251,947	53
Main Replacement	1,591,000	1,591,000	1,590,140	860
Valve Replacement	1,500,000	1,500,000	1,499,513	487
Hydrant Replacement	400,000	400,000	399,689	311
Meter Replacement	106,000	106,000	105,491	509
Plant / Distribution	637,000	637,000	636,639	361
Vehicle Repair	880,000	880,000	343,782	536,218
Production and Pumping:				
Main Pump Station Discharge Valves	106,000	106,000	105,943	57
Ozone System Upgrade	339,000	339,000	338,687	313
Rehabilitate Chemical System	1,800,000	1,800,000	449,162	1,350,838
MCC Pump Drives	412,000	412,000	154,000	258,000
Distribution:				
Open Finished Water Reservoirs	16,550,000	16,550,000	2,233,959	14,316,041
Plant and General Structures:				
Main Pumping Station	1,273,000	1,273,000	1,262,674	10,326
Electrical Systems Upgrade	106,000	106,000	21,950	84,050
Great Falls - Misc. Reliability Enhancements	212,000	212,000	-	212,000
Fencing - New Street & Levine	66,000	66,000	-	66,000
Fencing - Main Pump Station	27,000	27,000	-	27,000
Instrumentation, Controls and Information Technologies:				
SCADA - Distribution / WTP	1,273,000	1,273,000	937,927	335,073
WTP System Upgrade	525,500	525,500	438,796	86,704
Commercial System Upgrade	1,857,000	1,857,000	979,856	877,144
Security System Upgrade	160,000	160,000	-	160,000
CMMS and Related GIS	650,500	650,500	11,910	638,590
Engineering Systems	612,000	612,000	-	612,000
Laboratory/Water Quality Systems	329,000	329,000	19,128	309,872
<b>Total Capital Outlays</b>	<u>33,664,000</u>	<u>33,664,000</u>	<u>13,781,193</u>	<u>19,882,807</u>
<b>Total Costs Funded by Capital Revenue</b>	<u>33,664,000</u>	<u>33,664,000</u>	<u>13,781,193</u>	<u>19,882,807</u>
<b>Add: Excess</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>33,664,000</u>	<u>33,664,000</u>	<u>13,781,193</u>	<u>19,882,807</u>

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	Issued	Redeemed	Balance Dec. 31, 2015
			Date	Amount				
NJ/EIT Bonds (Series 2001 A&B) Trust Portion (Refunded with Series 2007A)	10/15/2001	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				
					14,527,589		1,782,877	12,744,712
NJ/EIT Bonds (Series 2001 A&B) Fund Portion	10/15/2001	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				
					12,242,780		1,748,185	10,494,595

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	Issued	Refunded	Balance Dec. 31, 2015
			Date	Amount				
NJ/EIT Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/2002	5.00%	2016	117,216.40				
		5.00%	2017	114,388.93				
		5.00%	2018	126,699.70				
		5.00%	2019	129,403.56				
		5.00%	2020	137,584.95				
		5.00%	2021	149,903.81				
		4.75%	2022	157,527.12				
					1,052,123		119,398	932,725
NJ/EIT Bonds (Series 2002A&B) Fund Portion	10/15/2002	5.00%	2016	244,394.19				
		5.00%	2017	242,263.15				
		5.00%	2018	148,910.07			246,196	635,567
					881,763			

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	Issued	Redeemed	Balance Dec. 31, 2015
			Date	Amount				
Refunding Bonds (Series 2003)	12/15/2003	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				
					28,325,000		2,965,000	25,360,000
Refunding Bonds (Series 2005) (Refunded with Series 2015)	2/8/2005				7,420,000		7,420,000	

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	Issued	Redeemed	Balance Dec. 31, 2015
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Trust Portion	11/9/2007	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				
					960,000		55,000	905,000
NJ/EIT Bonds (Series 2007A&B) Fund Portion	11/9/2007	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	76,612.27				
					1,634,504		675,382	959,122
Refunding Bonds (Series 2007C) (Refunded with Series 2015)	11/9/2007	4.00%	2016	325,000.00				
		4.00%	2017	335,000.00				
					5,220,000		4,560,000	660,000

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	Issued	Redeemed	Balance Dec. 31, 2015
			Date	Amount				
Water Supply Revenue Bonds (Series 2009A)	12/15/2009	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				
					4,205,000		325,000	3,880,000
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, 2015	Issued	Redeemed	Balance Dec. 31, 2015
			Date	Amount				
Water Supply Revenue Bonds (Series 2009C)	12/15/2009	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				
					18,415,000		735,000	17,680,000

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	Issued	Redeemed	Balance Dec. 31, 2015
			Date	Amount				
NJ/EIT Bonds (Series Fall 2010A) Fund Portion	10/5/2010	n/a	2016	72,723.21				
			2017	72,723.21				
			2018	72,723.21				
			2019	72,723.21				
			2020	72,723.21				
			2021	72,723.21				
			2022	72,723.21				
			2023	72,723.21				
			2024	72,723.21				
			2025	72,723.21				
			2026	72,723.21				
			2027	72,723.21				
			2028	4,438.71			286,454	877,117
NJ/EIT Bonds (Series 2010B) Trust Portion	12/2/2010	5.00%	2016	105,000.00	1,163,571			
			2017	110,000.00				
			2018	120,000.00				
			2019	125,000.00				
			2020	130,000.00				
			2021	135,000.00				
			2022	145,000.00				
			2023	150,000.00				
			2024	160,000.00				
			2025	165,000.00				
			2026	175,000.00				
			2027	180,000.00				
			2028	190,000.00				
Refunding Bonds (Series 2010C)	12/22/2010	5.00%	2029	75,000.00	2,065,000		100,000	1,965,000
					585,000		585,000	



PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	Issued	Redeemed	Balance Dec. 31, 2015
			Date	Amount				
Water Supply Revenue Bonds (Series 2014)	12/15/2014	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		755,000	19,715,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	Issued	Redeemed	Balance Dec. 31, 2015
			Date	Amount				
Water Supply Refunding Bonds (Series 2015)	11/5/2015							
		3.00%	2016	595,000.00				
		3.00%	2017	625,000.00				
		4.00%	2018	980,000.00				
		4.00%	2019	1,020,000.00				
		5.00%	2020	1,065,000.00				
		5.00%	2021	1,110,000.00				
		5.00%	2022	1,175,000.00				
		5.00%	2023	730,000.00				
		5.00%	2024	755,000.00				
		5.00%	2025	800,000.00				
		4.00%	2026	845,000.00				
		3.00%	2027	495,000.00				
						10,195,000		10,195,000
					131,352,330	10,195,000	22,358,492	119,188,838
Current Portion Noncurrent Portion					9,669,697			10,280,127
					121,682,633			108,908,711
					131,352,330			119,188,838
					Refunded		11,670,000	
					Paid/Deobligated		10,688,492	
							22,358,492	

**SCHEDULE 6**

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

The following officials were in office at December 31, 2015:

<u>Name</u>		<u>Office</u>
Chrystal A. Cleaves	Paterson	President
Rigoberto Sanchez	Passaic	Vice President
Menachem Bazian	Passaic	Treasurer
Thomas P. DeVita	Clifton	Secretary
Russell Graddy	Paterson	Commissioner
Gloria Kolodziej	Clifton	Commissioner
Jeffrey Levine	Paterson	Commissioner
Joseph A. Bella		Executive Director
James G. Duprey, P.E.		Director of Engineering
Yitzchak Weiss		Controller
James J. Gallagher		Director of Personnel
George T. Hanley, Esq.		General Counsel
Louis Amodio		Administrative Secretary

All members and employees are covered by insurance policies provided through the New Jersey Utility Authorities Joint Insurance Fund.

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

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

Certified Public Accountants  
401 Wanaque Avenue  
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973-835-7900  
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Fax 973-579-7128

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Passaic Valley Water Commission, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated August 23, 2016.

### *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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 2015-01).

### ***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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying schedules of findings and questioned costs as Findings 2015-02 and 2015-03. We noted certain other matters that we reported to management of the Commission in the comments and recommendations section of this report.

This report is intended solely for the information of the governing body, management, The Division of Local Government Services, Department of Community Affairs, State of New Jersey, Federal Awarding Agencies and Pass Through Entities and is not intended to be and should not be used by anyone other than these specified parties.

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

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

Honorable Chairman and Members of the  
Passaic Valley Water Commission  
Page 3.

*Purpose of this Report*

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

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

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

August 23, 2016

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**

**FINDING: 2015-01\***

**Statement of Condition**

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

**Criteria**

Governmental entities should maintain a fixed asset list providing cost and description of property and equipment, as well as any depreciation previously expensed against such listed assets. This list should be updated regularly to include purchases of new capital items and exclude capital assets that have been disposed of or replaced. Management should also have a system of monitoring assets that are included on this fixed asset list.

**Effect**

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

**Cause**

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

**Recommendation**

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

**Management's Response**

Management recognizes the importance of maintaining an itemized fixed asset schedule and is currently in the process of performing a complete inventory on their system.

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**  
**(continued)**

**FINDING 2015-02**

**Statement of Condition**

The Commission's trustee did not maintain sufficient cash balances in the current debt service accounts during the 2015 fiscal year.

**Criteria**

The Commission's 1992 General Bond Resolution states that the balances in the bond service accounts equal the amount of unpaid interest or principal payable throughout the year.

**Effect**

Insufficient balances in the bond service accounts cause legal restrictions on other Commission accounts.

**Cause**

Unknown.

**Recommendation**

Trustee accounts should maintain cash balances in compliance with the 1992 General Bond Resolution.

**Response**

The Commission acknowledges this finding and has taken steps to correct this in the 2016 fiscal year.



**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2015**  
**(continued)**

**FINDING 2015-03**

**Statement of Condition**

The Commission did not file IRS Forms 1094-C or issue forms 1095-C to eligible employees for fiscal year 2015.

**Criteria**

The Affordable Care Act requires entities with more 50 or more eligible employees to report IRS information about health care coverage they offered to full-time employees, as well as a statement that includes the same information to the IRS.

**Effect**

The Commission did not comply with the reporting requirements of the Affordable Care Act. Failure to comply with these information reporting requirements may expose the Commission to penalties.

**Cause**

Management was unable to compile the information needed for this filing.

**Recommendation**

The Commission should file all forms required by the Affordable Care Act.

**Response**

Management acknowledges this finding and has taken steps to correct this finding in 2016.

## 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 \$40,000, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

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

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

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

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

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

PASSAIC VALLEY WATER COMMISSION

GENERAL COMMENTS, CONTINUED

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

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

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

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

Respectfully submitted,

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

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