

PASSAIC VALLEY WATER COMMISSION
REPORT OF AUDIT
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

PASSAIC VALLEY WATER COMMISSION

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the Passaic Valley Water Commission as of December 31, 2016 and 2015, 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.

Basis for Qualified Opinion

Management has not updated the net other post-employment benefit (OPEB) obligation to a measurement date acceptable under current accounting standards for the year ended December 31, 2016. Government Accounting Standards Board Statement No. 45 requires an actuarial valuation of this obligation every two years. The amount by which this departure would affect the OPEB obligation and net position has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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

Honorable Chairman and Members of the
Passaic Valley Water Commission
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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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2017 on our consideration of the Passaic Valley Water Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Passaic Valley Water Commission's internal control over financial reporting and compliance.

Very truly yours,



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

June 15, 2017



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, 2016. Please read this analysis in conjunction with the Commission's financial statements, which follow this section.

Financial Highlights

- The Commission's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$74,603,055 (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 \$63,326,153.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$54,555,032 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 \$26,220,702 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$(6,172,679) represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission increased by \$5,710,512 to \$181,155,842 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 \$74,603,055. This is a \$11,276,902 increase over last year's net position of \$63,326,153. A summary of the Commission's statement of net position is presented in the following table:

Condensed Statement of Net Position

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	75,620,603	67,026,672	8,593,931	12.82%
Capital Assets	<u>163,837,398</u>	<u>165,876,632</u>	<u>(2,039,234)</u>	<u>(1.23)%</u>
Total Assets	<u>239,458,001</u>	<u>232,903,304</u>	<u>6,554,697</u>	<u>2.81%</u>
Deferred Outflow of Resources	<u>25,393,055</u>	<u>14,087,318</u>	<u>11,305,737</u>	<u>80.25%</u>
Current Liabilities	22,123,698	20,883,111	1,240,587	5.94%
Non-Current Liabilities	<u>159,032,144</u>	<u>154,562,219</u>	<u>4,469,925</u>	<u>2.89%</u>
Total Liabilities	<u>181,155,842</u>	<u>175,445,330</u>	<u>5,710,512</u>	<u>3.25%</u>
Deferred Inflows of Resources	<u>9,092,159</u>	<u>8,219,139</u>	<u>873,020</u>	<u>10.62%</u>
Net Investment in Capital Assets	54,555,032	51,060,260	3,494,772	6.84%
Restricted	26,220,702	25,535,173	685,529	2.68%
Unrestricted	<u>(6,172,679)</u>	<u>(13,269,280)</u>	<u>7,096,601</u>	<u>(53.48)%</u>
Total Net Position	<u>74,603,055</u>	<u>63,326,153</u>	<u>11,276,902</u>	<u>17.81%</u>

**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 2014, as restated, balances in the following table. This comparison has 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 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)

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 \$11,276,902 and \$11,964,762 during the 2016 and 2015 fiscal years, respectively.

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

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	90,008,261	88,279,412	1,728,849	1.96%
Non-operating Revenues	<u>1,154,158</u>	<u>898,801</u>	<u>255,357</u>	28.41%
Total Revenues	<u>91,162,419</u>	<u>89,178,213</u>	<u>1,984,206</u>	2.23%
Depreciation	11,117,337	10,807,047	310,290	2.87%
Other Operating Expenses	61,864,106	59,387,625	2,476,481	4.17%
Other Non-operating Expense	<u>6,904,074</u>	<u>7,018,779</u>	<u>(114,705)</u>	(1.63)%
Total Expenses	<u>79,885,517</u>	<u>77,213,451</u>	<u>2,672,066</u>	3.46%
Change in Net Position	11,276,902	11,964,762	(687,860)	(5.75)%
Beginning Balance	<u>63,326,153</u>	<u>51,361,391</u>	<u>11,964,762</u>	23.30%
Ending Balance	<u>74,603,055</u>	<u>63,326,153</u>	<u>11,276,902</u>	17.81%

**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 2014, as restated, figures in the following table. This comparison has 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 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>	<u>(62.83)%</u>
Total Revenues	<u>89,178,213</u>	<u>84,865,315</u>	<u>4,312,898</u>	<u>5.08%</u>
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>	<u>(23.71)%</u>
Total Expenses	<u>77,213,451</u>	<u>75,576,519</u>	<u>1,636,932</u>	<u>2.17%</u>
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> </u>	<u>(29,159,745)</u>	<u>29,159,745</u>	<u>(100.00)%</u>
Ending Balance	<u>63,326,153</u>	<u>51,361,391</u>	<u>11,964,762</u>	<u>23.30%</u>

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

Budgetary Highlights

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Commission Regulation of the Division of Local Government Services that the cash flows of the Commission for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

The following tables provides a FY 2016 and FY 2015 budget comparison:

Budget vs. Actual FY 2016			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	92,727,531	90,319,581	(2,407,950)
Non-Operating	<u>200,000</u>	<u>627,895</u>	<u>427,895</u>
	<u>92,927,531</u>	<u>90,947,476</u>	<u>(1,980,055)</u>
Expenses:			
Operating	66,256,696	57,357,449	8,899,247
Non-Operating	<u>16,385,144</u>	<u>16,831,944</u>	<u>(446,800)</u>
	<u>82,641,840</u>	<u>74,189,393</u>	<u>8,452,447</u>
Income before Depreciation	<u>10,285,691</u>	<u>16,758,083</u>	<u>6,472,392</u>

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

Budgetary Highlights (Continued)

	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>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During fiscal year 2016, the Commission had an increase of \$9,078,103 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$163,837,398. This is a \$2,039,234 decrease over last year's net property, plant and equipment of \$165,876,632. A summary of the Commission's capital assets is presented in the following table:

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar Change</u>
Capital Assets	274,698,056	265,619,953	9,078,103
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	<u>815,146</u>	<u>815,146</u>	<u>0</u>
	362,222,740	353,144,637	9,078,103
Less: Accumulated Depreciation	<u>(198,385,342)</u>	<u>(187,268,005)</u>	<u>(11,117,337)</u>
Net Property, Plant and Equipment	<u>163,837,398</u>	<u>165,876,632</u>	<u>(2,039,234)</u>

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

Capital Assets (Continued)

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

Recurring Construction, Vehicles & Equipment	57,124,093
Discrete Projects	16,150,000
Production and Pumping	20,340,000
Distribution	138,475,000
Plant and General Structures	7,731,000
Instrumentation, Controls and Information Technologies	<u>6,968,000</u>
	<u>246,788,093</u>

Debt Administration

At December 31, 2016, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$108,908,711. 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

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	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current Assets:		
<u>Unrestricted:</u>		
Cash and Cash equivalents	\$ 20,245,394	\$ 6,813,569
Investments	1,464,991	902,579
Accounts Receivable, net	21,545,499	22,049,096
Inventory	1,744,228	2,314,995
Other Receivables	6,255	8,595
Prepaid Expenses	<u>263,596</u>	<u>219,350</u>
Total Unrestricted Assets	<u>45,269,963</u>	<u>32,308,184</u>
<u>Restricted:</u>		
Construction Account:		
Cash and Cash equivalents	897,587	2,937,431
Investments	2,805,024	5,760,234
Bond Service Fund:		
Cash and Cash equivalents	1,798,746	1,838,734
Bond Reserve Account:		
Cash and Cash equivalents	943,786	792,883
Investments	12,305,566	12,324,650
Renewal and Extension Account:		
Cash and Cash equivalents	3,000,000	3,000,000
Operations Account:		
Cash and Cash equivalents	8,325,453	7,792,267
Unemployment Compensation Insurance:		
Cash and Cash equivalents	121,944	188,689
Investments	<u>152,534</u>	<u>83,600</u>
Total Restricted Assets	<u>30,350,640</u>	<u>34,718,488</u>
Non-Current Assets:		
<u>Capital Assets:</u>		
Capital Assets	274,698,056	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	815,146	815,146
Less: Accumulated Depreciation	<u>(198,385,342)</u>	<u>(187,268,005)</u>
Total Capital Assets	<u>163,837,398</u>	<u>165,876,632</u>
TOTAL ASSETS	\$ <u>239,458,001</u>	\$ <u>232,903,304</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

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	<u>2016</u>	<u>2015</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows:		
Water Bank - Deferred Expense	3,330,109	1,249,055
Unamortized Costs in Excess of Refunded Debt, Net of Amortization	2,232,711	2,527,577
Unamortized Bond Discount, Net of Amortization	141,488	189,945
Deferred Outflows Related to Pensions	<u>19,688,747</u>	<u>10,120,741</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>25,393,055</u>	<u>14,087,318</u>
 <u>LIABILITIES</u>		
Current Liabilities:		
<u>Payable from Unrestricted Assets:</u>		
Accounts Payable and Accrued Liabilities	\$ 9,180,817	\$ 8,236,583
Accounts Payable - Pension Related	1,768,500	1,784,990
Due To (From) Contractor	15,000	15,000
Meter Deposits Payable	2,575	2,575
Security Deposits Payable	<u>-</u>	<u>8,078</u>
Total Payable from Unrestricted Assets	<u>10,966,892</u>	<u>10,047,226</u>
 <u>Payable from Restricted Assets:</u>		
Accrued Interest Payable	427,327	485,650
Bonds Payable - Current Portion	10,657,268	10,280,127
Leases Payable - Current Portion	<u>72,211</u>	<u>70,108</u>
Total Payable from Restricted Assets	<u>11,156,806</u>	<u>10,835,885</u>
 Non-Current Liabilities:		
Bonds Payable - Long-Term Portion	98,251,443	108,908,711
Leases Payable - Long-Term Portion	616,204	652,297
Net OPEB Obligation	5,010,270	4,587,905
Net Pension Obligation	<u>55,154,227</u>	<u>40,413,306</u>
Total Non-Current Liabilities	<u>159,032,144</u>	<u>154,562,219</u>
TOTAL LIABILITIES	<u>181,155,842</u>	<u>175,445,330</u>

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

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

EXHIBIT A

Page 3 of 3

	<u>2016</u>	<u>2015</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows:		
Due To Water Bank	3,330,109	1,249,055
Unamortized Savings from Refunded Debt, Net of Amortization	493,489	539,276
Unamortized Bond Premium, Net of Amortization	4,968,771	5,421,290
Deferred Savings on Bond Refunding, Net of Amortization	299,790	359,750
Deferred Inflows Related to Pensions	<u>-</u>	<u>649,768</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>9,092,159</u>	<u>8,219,139</u>
 <u>NET POSITION:</u>		
Net Investment in Capital Assets	54,555,032	51,060,260
Restricted:		
Current Debt Service	1,371,419	1,353,084
Future Debt Service	13,249,352	13,117,533
Renewal and Extension	3,000,000	3,000,000
Operations	8,325,453	7,792,267
Unemployment Compensation Insurance	274,478	272,289
Unrestricted:		
Designated	608,084	608,084
Undesignated	<u>(6,780,763)</u>	<u>(13,877,364)</u>
TOTAL NET POSITION	<u>\$ 74,603,055</u>	<u>\$ 63,326,153</u>

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>2016</u>	<u>2015</u>
Operating Revenue:		
Service Agreements	\$ 82,431,588	\$ 79,802,521
Miscellaneous	7,570,354	8,459,919
Sale of Scrap	6,319	16,972
Total Operating Revenue	<u>90,008,261</u>	<u>88,279,412</u>
Operating Expenses:		
Cost of Providing Services	47,559,996	46,427,360
Administrative and General	14,304,110	12,960,265
Depreciation Expense	11,117,337	10,807,047
Total Operating Expenses	<u>72,981,443</u>	<u>70,194,672</u>
Operating Income	<u>17,026,818</u>	<u>18,084,740</u>
Non-Operating Revenue (Expenses):		
Interest on Investments	627,895	589,967
Finance Charges	311,320	99,599
Interest Expense	(6,481,709)	(6,384,377)
Bond Issuance Costs	-	(212,037)
Other Postemployment Benefit Obligation	(422,365)	(422,365)
Amortization Expense	214,943	209,235
Non-Operating Income (Loss)	<u>(5,749,916)</u>	<u>(6,119,978)</u>
Change In Net Position	11,276,902	11,964,762
Net Position - January 1	<u>63,326,153</u>	<u>51,361,391</u>
Net Position - December 31	<u>\$ 74,603,055</u>	<u>\$ 63,326,153</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>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 90,514,198	\$ 84,006,784
Cash Paid to Vendors and Employees	<u>(55,886,694)</u>	<u>(60,647,514)</u>
Net Cash Provided by Operating Activities	<u>34,627,504</u>	<u>23,359,270</u>
Cash Flow from Investing Activities:		
Interest Received	939,215	689,566
(Increase) Decrease in Investments	<u>2,342,948</u>	<u>(6,046,086)</u>
Net Cash Provided by (used in) Investing Activities	<u>3,282,163</u>	<u>(5,356,520)</u>
Cash Flow from Financing Activities:		
Principal Payment on Bonds and Notes	(10,280,127)	(22,358,492)
Interest Paid on Bonds and Notes	(6,540,032)	(6,455,713)
Proceeds from Issuance of Bonds		10,195,000
Bond Issuance Costs		(212,037)
Capital Expenditures	(9,086,181)	(11,879,261)
Lease Payments	(33,990)	(30,425)
Bond Premium Received	<u>1,381,341</u>	<u>1,381,341</u>
Net Cash Used in Financing Activities	<u>(25,940,330)</u>	<u>(29,359,587)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	11,969,337	(11,356,837)
Cash and Cash Equivalents at Beginning of Year	<u>23,363,573</u>	<u>34,720,410</u>
Cash and Cash Equivalents at End of Year	<u>\$ 35,332,910</u>	<u>\$ 23,363,573</u>
Analysis of Balance:		
Unrestricted	\$ 20,245,394	\$ 6,813,569
Restricted	<u>15,087,516</u>	<u>16,550,004</u>
	<u>\$ 35,332,910</u>	<u>\$ 23,363,573</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>2016</u>	<u>2015</u>
OPERATING INCOME (LOSS)	\$ 17,026,818	\$ 18,084,740
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	11,117,337	10,807,047
Decrease (Increase) in Accounts Receivable	503,597	(4,273,470)
Decrease (Increase) in Other Receivable	2,340	842
Decrease (Increase) in Inventory	570,767	(298,145)
Decrease (Increase) in Prepaid Expenses	(44,246)	(12,680)
Increase (Decrease) in Accounts Payable	5,450,891	(647,654)
Increase (Decrease) in Meter Deposits Payable		(1,410)
Total Adjustments	<u>17,600,686</u>	<u>5,574,530</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 34,627,504</u>	<u>\$ 23,659,270</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, 2016 AND 2015**

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, 2016 AND 2015
(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

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 1. GENERAL, (continued)

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.

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, 2016 AND 2015
(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, 2016 AND 2015
(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, 2016 AND 2015
(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, 2015</u>	<u>Net</u> <u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>Dec.31, 2016</u>
Capital Assets	265,619,953	9,078,103		274,698,056
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>
	353,144,637	9,078,103	0	362,222,740
Less: Accumulated Depreciation	<u>(187,268,005)</u>	<u>(11,117,337)</u>		<u>(198,385,342)</u>
Property, Plant and Equipment, Net	<u>165,876,632</u>	<u>(2,039,234)</u>	<u>0</u>	<u>163,837,398</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

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

E. Property, Plant and Equipment, (continued)

	<u>Balance Dec.31, 2014</u>	<u>Net Additions</u>	<u>Disposals</u>	<u>Balance 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>

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, 2016 AND 2015
(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, 2016 AND 2015
(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 a 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, 2016 AND 2015
(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
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

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. 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.

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.

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. 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.

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*

**PASSAIC VALLEY WATER COMMISSION
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

N. Recent Accounting Pronouncements, (continued)

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.

In November 2016, the Government Accounting Standards Board issued GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflows of resources for asset retirement obligations (AROs). The Commission does not believe this Statement will have any effect on future financial statements.

In January 2017, the Government Accounting Standards Board issued GASB Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify component units and postemployment benefit arrangements that are fiduciary activities. The Commission is currently evaluating the effects, if any, this Statement may have on future financial statements.

In March 2017, the Government Accounting Standards Board issued GASB Statement No. 85, Omnibus 2017, which addresses practice issues that have been identified during the implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues relating to blending component units, goodwill, fair value measurement and application, and postemployment benefits. 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
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

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

N. Recent Accounting Pronouncements, (continued)

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Commission is currently reviewing what effect, if any, this Statement might have on future financial statements.

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, 2016, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	20,245,394	20,245,394
Restricted	<u>15,087,516</u>	<u>15,087,516</u>
	<u>35,332,910</u>	<u>35,332,910</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2016 was \$35,332,910 and the bank balance was \$35,440,460. 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, 2016, \$-0- of the Commission's bank balance of \$35,440,460 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, 2016, the Commission had \$16,728,115 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
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(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, 2016 and 2015:

	<u>2015</u>	<u>Issued</u>	<u>Paid/ Refunded</u>	<u>2016</u>
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	23,239,307		3,622,338	19,616,969
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	1,568,292		361,611	1,206,681
Series 2003 Refunding Bonds	25,360,000		3,115,000	22,245,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	1,864,122		188,455	1,675,667
Series 2007C Refunding Bonds	660,000		325,000	335,000
Series 2009A Revenue Bonds	3,880,000		345,000	3,535,000
Series 2009B Revenue Bonds	12,185,000			12,185,000
Series 2009C Revenue Bonds	17,680,000		780,000	16,900,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	2,842,117		177,723	2,664,394
Series 2014 Revenue Bonds	19,715,000		770,000	18,945,000
Series 2015 Refunding Bonds	<u>10,195,000</u>		<u>595,000</u>	<u>9,600,000</u>
Net Carrying Amount of Debt	<u>119,188,838</u>	<u>0</u>	<u>10,280,127</u>	<u>108,908,711</u>
Current Portion	10,280,127			10,657,268
Long-Term Portion	<u>108,908,711</u>			<u>98,251,443</u>
	<u>119,188,838</u>			<u>108,908,711</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(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>
2017	10,657,268	5,699,597	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	32,768,687	14,287,839	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>108,908,711</u>	<u>45,069,647</u>	<u>153,978,358</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, 2016, 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>	
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>1,232,249</u>	<u>189,188</u>	<u>991,043</u>	<u>2,412,480</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, 2016, the Trust and Fund portions payable were as follows:

Year	Series 2001B (Project 1605002-005)			
	Trust Portion		Fund Portion	Total
	Principal	Interest	Principal	
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>9,639,143</u>	<u>1,479,495</u>	<u>7,754,535</u>	<u>18,873,173</u>

Series 2002A&B Environmental Infrastructure Trust Bonds

Due to unanticipated cost increases in the Project, the Commission requested and received additional funding from the NJEIT in the form of two additional loans. These loans were issued in December 2002 and are due August 21, 2021.

The first loan (Series 2002A) was for \$8,227,632, of which \$4,227,632 is a non-interest bearing Fund Loan payable in semi-annual installments and due August 1, 2021. This Fund Loan was adjusted \$1,046,046 by the NJ Bureau of Administration and Management for the remaining unspent portion of the Project (adjusted from the back-end of the loan). The remaining portion of the 2002A loan was a \$4,000,000 Trust Loan payable in semi-annual installments and due August 1, 2021.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 5. LONG-TERM DEBT, (continued)

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

At December 31, 2016, the Trust and Fund portions were as follows:

Year	Series 2002A (Project 05-1)			
	Trust Portion		Fund Portion	Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>725,696</u>	<u>172,326</u>	<u>363,939</u>	<u>1,261,961</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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NOTE 5. LONG-TERM DEBT, (continued)

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

At December 31, 2016, the Trust and Fund portions were as follows:

<u>Series 2002B (Project 02-1)</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>89,811</u>	<u>21,745</u>	<u>27,234</u>	<u>138,790</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, 2016 AND 2015
(CONTINUED)**

NOTE 5. LONG-TERM DEBT, (continued)

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

At December 31, 2016, 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>
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>22,245,000</u>	<u>4,051,000</u>	<u>26,296,000</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
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
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NOTE 5. LONG-TERM DEBT, (continued)

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

At December 31, 2016, the outstanding principal and interest on the Series 2007A&B NJEIT Bonds is as follows:

<u>Year</u>	<u>Series 2007A&B</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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	95,000	4,038		99,038
	<u>845,000</u>	<u>243,493</u>	<u>830,667</u>	<u>1,919,160</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
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FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
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NOTE 5. LONG-TERM DEBT, (continued)

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

At December 31, 2016, 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>
2017	<u>335,000</u>	<u>207,310</u>	<u>542,310</u>
	<u>335,000</u>	<u>207,310</u>	<u>542,310</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, 2016, 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>
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>32,620,000</u>	<u>27,733,475</u>	<u>60,353,475</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(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, 2016, the outstanding principal and interest on the Series 2010A&B NJEIT Bonds is as follows:

Year	Series 2010A&B			
	Trust Portion		Fund Portion	Total
	Principal	Interest	Principal	
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
	<u>1,860,000</u>	<u>679,500</u>	<u>804,394</u>	<u>3,343,894</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(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, 2016, 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>
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>18,945,000</u>	<u>7,810,713</u>	<u>26,755,713</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(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, 2016, 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>
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	<u>495,000</u>	<u>14,850</u>	<u>509,850</u>
	<u>9,600,000</u>	<u>2,481,400</u>	<u>12,081,400</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, 2016 AND 2015
(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, 2016 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>
2017	72,211	95.24%	68,772
2018	74,378	90.70%	67,463
2019	76,609	86.38%	66,178
2020	78,907	82.27%	64,917
2021	81,274	78.35%	63,680
2022	83,712	74.62%	62,467
2023	86,224	71.07%	61,278
2024	88,811	67.68%	60,111
2025	91,475	64.46%	58,966
2026	94,219	61.39%	57,842
2027	97,046	58.47%	<u>56,741</u>
Lodi Lease Payable			<u>688,415</u>
Current Portion			72,211
Long-Term Portion			<u>616,204</u>
			<u>688,415</u>

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 7. PENSION PLAN

Description of Plans:

Commission employees participate in one of the two contributory, defined benefit public employee retirement systems: the State of New Jersey Public Employees' Retirement System (PERS) or the Defined Contribution Retirement Program (DCRP), a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(a).

Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit

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

NOTE 7. PENSION PLAN, (continued)

Benefits Provided, (continued)

before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 50 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Defined Contribution Retirement Program

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS or PFRS, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the DCRP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS. This amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning 2012 of the employee's annual compensation, as defined by law. Employers are required to contribute at an actuarially determined rate in all

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

NOTE 7. PENSION PLAN, (continued)

Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums.

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.

<u>Three Year Trend Information for PERS</u>			
Year	Annual	Percentage	Net
<u>Funding</u>	<u>Pension</u>	<u>of APC</u>	<u>Pension</u>
	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
12/31/16	\$1,547,782	2.81%	\$55,154,227
12/31/15	1,441,276	3.57%	40,413,306
12/31/14	1,286,870	4.22%	30,497,630

<u>Three Year Trend Information DCRP</u>	
Year	DCRP
<u>Funding</u>	<u>Contributions</u>
12/31/16	\$224,564
12/31/15	208,835
12/31/14	136,780

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

Public Employees Retirement System (PERS)

At December 31, 2016 and 2015, the Commission reported a liability of \$55,154,227 and \$40,413,306 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Commission's proportion was 0.1862240656 percent, which was an increase of 0.0061932708 percent from its proportion measured as of June 30, 2015.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(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)

For the year ended December 31, 2016, the Commission recognized pension expense of \$6,161,045. At December 31, 2016, 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	\$11,425,010	\$
Net difference between projected and actual earnings on pension plan investments	3,128,782	
Changes in proportion and differences between Commission contributions and proportionate share of contributions	3,491,089	
Other deferred pension adjustments	(124,634)	
Commission contributions subsequent to the measurement date	<u>1,768,500</u>	<u> </u>
Total	<u>\$19,688,747</u>	<u>\$ </u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2016) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$3,276,654
2018	3,276,654
2019	3,796,114
2020	3,189,291
2021	1,015,079

**PASSAIC VALLEY WATER COMMISSION
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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)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.58, 5.53 and 6.17 years for 2016, 2015 and 2014 amounts, respectively.

Additional Information

Local Group Collective balances at December 31, 2016 and 2015 are as follows:

	<u>Dec. 31, 2016</u>	<u>Dec. 31, 2015</u>
Collective deferred outflows of resources	\$8,685,338,380	\$3,578,755,666
Collective deferred inflows of resources	870,133,595	993,410,455
Collective net pension liability	29,617,131,759	22,447,996,119
Commission's Proportion	0.1862240656%	0.1800307948%

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which rolled forward to June 30, 2016. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	3.08 Percent
Salary Increases:	
Through 2026	1.65-4.15 Percent (based on age)
Thereafter	2.65-5.15 Percent (based on age)
Investment Rate of Return	7.65 Percent

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
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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 actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality Rates

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plans actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) 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. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment

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

expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Markets	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Returns	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, 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

**PASSAIC VALLEY WATER COMMISSION
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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)

contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined 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 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, 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, 2016, 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:

	June 30, 2016		
	1% Decrease <u>2.98%</u>	At Current Discount Rate <u>3.98%</u>	1% Increase <u>4.98%</u>
Commission's proportionate share of the pension liability	\$67,585,067	\$55,154,227	\$44,891,490

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). The financial report may be accessed at www.state.nj.us/treasury/pensions.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
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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 2016 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
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

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

Components of Net OPEB Obligation for 2016*

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)	4,587,905
Net OPEB Obligation (EOY)	5,010,270

*Based on January 1, 2014 actuarial valuation.

In 2016, the Commission accrued \$5,010,270 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, 2016, 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 \$5,010,270 resulting in an unfunded actuarial accrued liability (UAAL) of \$21,625,459. 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 191.95%.

**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, 2016 AND 2015
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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, 2016 and 2015, the amounts required by bond resolution were as follows:

	<u>2016</u>	<u>2015</u>
Cash and Investments on Hand	<u>1,798,746</u>	<u>1,838,734</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, 2016, 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	1,961,697	4,384,887
Series 2002A&B NJEIT Bonds	120,668	631,874
Series 2003 Refunding Bonds	2,224,500	3,588,000
Series 2007A&B NJEIT Bonds	167,567	250,750
Series 2007C Bonds	33,500	345,500
Series 2009A Bonds	353,500	
Series 2009B Bonds	1,218,500	
Series 2009C Bonds	1,690,000	
Series 2010A&B NJEIT Bonds	266,439	
Series 2014 Bonds	1,576,438	
Series 2015 Refunding Bonds	960,000	

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

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

In addition to the insurance policies, the Commission has reserved \$13,249,352 in 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, 2016 and 2015, the amounts required by bond resolution were as follows:

	<u>2016</u>	<u>2015</u>
Cash and Investments on Hand	3,008,006	3,000,073
Renewal and Extension Requirement	<u>3,000,000</u>	<u>3,000,000</u>
Excess (Deficit)	<u>8,006</u>	<u>73</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, 2016 and 2015, the amounts required by bond resolution were as follows:

	<u>2016</u>	<u>2015</u>
Cash and Investments on Hand	<u>8,325,453</u>	<u>7,792,267</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, 2016 AND 2015
(CONTINUED)**

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

At December 31, 2016, the bond service coverage ratio was calculated as follows:

	<u>2016</u>	<u>2015</u>
Net Operating Income (including interest and Finance charges, excluding depreciation)	29,083,370	29,790,188
Bond Service Requirement	16,356,865	16,374,182
Debt Service Coverage Ratio	1.78	1.82

All principal and interest payments were made on a timely basis during the 2016 fiscal year and through the date of this report.

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2016, 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.

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 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, 2016, coverage was as follows:

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 11. RISK MANAGEMENT, (continued)

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.

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.

**PASSAIC VALLEY WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 13. OTHER MATTERS, (continued)

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.

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 as follows:

	<u>2016</u>	<u>2015</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

In April 2017, the Commission authorized the issuance of Water Supply System Revenue Bonds, Series 2017, in an amount not to exceed \$20,000,000 for the purpose of refunding its Water Supply System Reserve Bonds, Series 2009A and 2009C.

The Commission has evaluated subsequent events through June 15, 2017, the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

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)
12/31/2016	5,010,270	26,635,729	21,625,459	23.17	11,266,000	191.95
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
12/31/2016	1,692,747	75.05	5,010,270	7.50
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 Three Fiscal Years**

	<u>Measurement Date Ending June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's Proportion of the Net Pension Liability	0.1862240656%	0.1800307948%	0.1628908896%
Commission's Proportionate Share of the Net Pension Liability	\$55,154,227	\$40,413,306	\$30,497,630
Commission's Covered-Employee Payroll	\$13,223,975	\$12,797,853	\$12,172,446
Commission's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	417.08%	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 Three Fiscal Years**

	<u>Fiscal Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,547,782	\$1,441,276	\$1,286,870
Contributions in Relation to the Contractually Required Contribution	<u>(1,547,782)</u>	<u>(1,441,276)</u>	<u>(1,286,870)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's Covered-Employee Payroll	\$13,223,975	\$12,797,853	\$12,172,446
Contributions as a Percentage of Commission's Covered-Employee Payroll	11.70%	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 December 31, 2016

Other Postemployment Benefits

A summary of the inputs used in the FY 2016 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 December 31, 2016
(continued)

Public Employees' Retirement System (PERS)

Changes in Benefit Terms - None

Changes in Assumptions - The discount rate changed from 4.90% as of June 30, 2015 to 3.98% as of June 30, 2016, 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, 2016

	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	-	-	-	-	-	-	-	82,431,588	82,431,588
Miscellaneous								7,570,354	7,570,354
Sale of Scrap								6,319	6,319
Total Operating Revenue								90,008,261	90,008,261
Operating Expense:									
Cost of Providing Services								47,559,996	47,559,996
Administrative and General								14,304,110	14,304,110
Depreciation	11,117,337								11,117,337
Total Operating Expense	11,117,337	-	-	-	-	-	-	61,864,106	72,981,443
Operating Income	(11,117,337)	-	-	-	-	-	-	28,144,155	17,026,818
Non-Operating Revenue (Expense):									
Interest Income								627,895	627,895
Finance Charges								311,320	311,320
Interest Expense								(6,481,709)	(6,481,709)
Bond Issuance Costs									-
Other Postemployment Benefit Obligation								(422,365)	(422,365)
Amortization	214,943							214,943	214,943
Net Income (Loss) Before Transfers	(10,902,394)	-	-	-	-	-	-	(5,964,859)	(5,749,916)
Transfers:									
Capital Expenditures - Funded									
by Unrestricted: Undesignated	1,607,207							(3,558,113)	(1,950,906)
Bond Payments	10,280,127							(10,688,492)	(408,365)
Loan Payments	33,990							(30,425)	3,565
Other Transfers	2,475,842	18,335	131,819		533,186	2,189	-	(805,665)	2,355,706
Increase/(Decrease) in Net Position	3,494,772	18,335	131,819	-	533,186	2,189	-	7,096,601	11,276,902
Net Position - Jan. 1, 2016	51,060,260	1,353,084	13,117,533	3,000,000	7,792,267	272,289	608,084	(13,877,564)	63,326,153
Net Position - December 31, 2016	54,555,032	1,371,419	13,249,352	3,000,000	8,325,453	274,478	608,084	(6,780,763)	74,603,055

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, 2016

	Construction Accounts	Bond Service Accounts	Bond Reserve Account	Renewal and Extension Account
Cash, Cash Equivalents and Investments - January 1, 2016	8,697,665	1,838,734	13,117,533	3,000,073
Cash Receipts:				
Interest on Investments	16,046	595	131,819	7,933
Service Agreements				
Miscellaneous				
Finance Charges				
Transfers	4,075,081	16,779,576		
Total Cash Receipts	4,091,127	16,780,171	131,819	7,933
Cash and Investments Available	12,788,792	18,618,905	13,249,352	3,008,006
Cash Disbursements:				
Bond Principal Payments		10,280,127		
Interest Payments		6,540,032		
Operations				
Capital and Other Expenses	9,086,181			
Transfers				
Total Cash Disbursements	9,086,181	16,820,159	-	-
Cash, Cash Equivalents and Investments - December 31, 2016	3,702,611	1,798,746	13,249,352	3,008,006
Analysis of Balance:				
Cash and Cash Equivalents	897,587	1,798,746	943,786	3,008,006
Investments	2,805,024	-	12,305,566	
	3,702,611	1,798,746	13,249,352	3,008,006
Unrestricted	-	-	-	8,006
Restricted	3,702,611	1,798,746	13,249,352	3,000,000
	3,702,611	1,798,746	13,249,352	3,008,006

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, 2016**

	Operation Reserve Account	Unemployment Insurance Account	General Operating Accounts	Total
Cash, Cash Equivalents and Investments - January 1, 2016	7,792,267	272,289	7,716,075	42,434,636
Cash Receipts:				
Interest on Investments	43,267	891	427,344	627,895
Service Agreements			82,935,185	82,935,185
Miscellaneous		1,298	7,577,715	7,579,013
Finance Charges			311,320	311,320
Transfers	489,919			21,344,576
Total Cash Receipts	533,186	2,189	91,251,564	112,797,989
Cash and Investments Available	8,325,453	274,478	98,967,639	155,232,625
Cash Disbursements:				
Bond Principal Payments				10,280,127
Interest Payments				6,540,032
Operations			55,886,694	55,886,694
Capital and Other Expenses			33,990	9,120,171
Transfers			21,344,576	21,344,576
Total Cash Disbursements	-	-	77,265,260	103,171,600
Cash, Cash Equivalents and Investments - December 31, 2016	8,325,453	274,478	21,702,379	52,061,025
Analysis of Balance:				
Cash and Cash Equivalents	8,325,453	121,944	20,237,388	35,332,910
Investments		152,534	1,464,991	16,728,115
	8,325,453	274,478	21,702,379	52,061,025
Unrestricted	-	-	21,702,379	21,710,385
Restricted	8,325,453	274,478	-	30,350,640
	8,325,453	274,478	21,702,379	52,061,025

**PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2016**

	FY 2016 Adopted Budget	FY 2016 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Revenues:					
Service Charges	52,381,836	52,381,836	50,953,876	(1,427,960)	47,906,308
Service Agreements (Bulk)	28,834,721	28,834,721	31,477,712	2,642,991	31,896,213
Fines / Penalties	-	-	311,320	311,320	99,599
Fire Line Service	5,650,356	5,650,356	5,480,873	(169,483)	4,335,926
Other Services and Repairs	5,860,618	5,860,618	2,095,800	(3,764,818)	4,140,965
Non-operating Investments	200,000	200,000	627,895	427,895	589,967
Total Operating Revenues	92,927,531	92,927,531	90,947,476	(1,980,055)	88,968,978

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2016

	FY 2016 Adopted Budget	FY 2016 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Expenses:					
Operating:					
Cost of Providing Services:					
Executive					
Salaries and Wages	603,300	603,300	629,494	(26,194)	595,026
Other Expenses	30,500	30,500	34,971	(4,471)	16,576
Legal					
Salaries and Wages	406,200	406,200	357,596	48,604	410,172
Other Expenses	318,801	318,801	435,698	(116,897)	369,721
Engineering					
Salaries and Wages	935,500	935,500	765,040	170,460	767,144
Other Expenses	553,000	553,000	395,506	157,494	413,238
Purchasing					
Salaries and Wages	235,600	235,600	230,179	5,421	215,037
Other Expenses	7,100	7,100	4,579	2,521	3,288
Accounting					
Salaries and Wages	820,658	820,658	876,023	(55,365)	796,166
Other Expenses	117,000	117,000	82,041	34,959	90,368
Customer Service					
Salaries and Wages	903,242	903,242	816,965	86,277	880,059
Other Expenses	773,450	773,450	1,046,297	(272,847)	845,680
Information Technology	483,000	483,000	135,520	347,480	242,319
Personnel					
Salaries and Wages	412,100	412,100	529,083	(116,983)	443,041
Other Expenses	51,000	51,000	27,102	23,898	23,547
Purification					
Salaries and Wages	1,546,400	1,546,400	1,419,206	127,194	1,307,314
Other Expenses	88,600	88,600	10,782	77,818	4,819
Process	10,881,827	10,881,827	7,448,384	3,433,443	7,255,497

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2016

	FY 2016 Adopted Budget	FY 2016 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Operating:					
Cost of Providing Services (Continued):					
Pumping					
Salaries and Wages	1,104,200	1,104,200	1,067,615	36,585	1,022,136
Other Expenses	6,876,500	6,876,500	4,952,661	1,923,839	6,491,956
Plant:					
Salaries and Wages	4,057,400	4,057,400	3,402,738	654,662	3,472,718
Other Expenses	2,086,660	2,086,660	1,842,835	243,825	1,920,075
Construction (Non-Capital Expenditures)	622,500	622,500	309,294	313,206	358,187
Distribution					
Salaries and Wages	4,320,800	4,320,800	4,460,295	(139,495)	3,811,046
Other Expenses	149,000	149,000	161,249	(12,249)	177,387
Maintenance	1,020,000	1,020,000	864,455	155,545	863,376
Garage	540,000	540,000	332,785	207,215	350,722
Laboratory:					
Salaries and Wages	1,588,500	1,588,500	1,405,893	182,607	1,600,100
Other Expenses	169,500	169,500	107,100	62,400	44,223
General Chemistry	274,000	274,000	106,266	167,734	195,416
Trace Analysis	166,000	166,000	247,637	(81,637)	62,915
Microbiology	124,000	124,000	50,875	73,125	89,812
Online Gas Instruments	-	-	-	-	-
Online Water Instruments	85,000	85,000	5,104	79,896	124,571
Field Gas Instruments	25,000	25,000	6,108	18,892	27,356
NJDWSC Budget Expense	10,500,000	10,500,000	9,657,694	842,306	9,657,694
Sub-total Cost of Providing Services	52,876,338	52,876,338	44,225,070	8,651,268	44,948,702

**PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2016**

	FY 2016 Adopted Budget	FY 2016 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Administrative Expenses:					
Stationary, Postage and Supplies	345,000	345,000	335,550	9,450	379,997
Miscellaneous	238,000	238,000	245,042	(7,042)	240,401
Telephone	450,000	450,000	423,061	26,939	506,571
Wanaque So. - Lease Expense	110,000	110,000	99,075	10,925	106,418
Legal Advertisements	26,000	26,000	25,209	791	20,083
Membership Affiliations	57,000	57,000	48,353	8,647	59,403
General Liability Insurance	750,000	750,000	700,596	49,404	697,189
Fees and Taxes	826,000	826,000	670,608	155,392	711,673
Bad Debt Expense	50,000	50,000	-	50,000	3,685
Employee Benefits:					
Worker's Compensation	387,000	387,000	719,133	(332,133)	756,698
Hospitalization / Prescription	6,564,191	6,564,191	6,669,434	(105,243)	5,927,996
Group Life Insurance	10,000	10,000	1,615	8,385	751
Pension	1,900,000	1,900,000	1,772,346	127,654	1,650,111
Social Security / Medicare	1,135,700	1,135,700	1,088,621	47,079	1,077,917
Unemployment and Disability	87,217	87,217	54,828	32,389	61,017
Dental	172,500	172,500	136,641	35,859	157,718
Other	51,750	51,750	30,193	21,557	36,463
Professional Services:					
Auditing	45,000	45,000	40,500	4,500	40,250
Other	175,000	175,000	71,574	103,426	102,650
Sub-total Administrative	13,380,358	13,380,358	13,132,379	247,979	12,536,991
Sub-total Operating	66,256,696	66,256,696	57,357,449	8,899,247	57,485,693

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2016

	FY 2016 Adopted Budget	FY 2016 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	5,974,911	5,974,911	6,481,709	(506,798)	6,384,377
Capital Leases			70,108	(70,108)	68,066
Bond Principal	10,410,233	10,410,233	10,280,127	130,106	10,688,492
Sub-total Other Costs	16,385,144	16,385,144	16,831,944	(446,800)	17,140,935
Total Costs Funded by Operating Revenue	82,641,840	82,641,840	74,189,393	8,452,447	74,626,628
Add: Excess / (Deficit)	10,285,691	10,285,691	16,758,083	6,472,392	14,342,350
	92,927,531	92,927,531	90,947,476	1,980,055	88,968,978
Excess of Revenues Over Expenses:			16,758,083		14,342,350
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(11,117,337)		(10,807,047)
Amortization Expense			214,943		209,235
Bond Issuance Costs			-		(212,037)
Capital Leases			70,108		68,066
Bond Principal			10,280,127		10,688,492
Pension Adjustment			(4,506,657)		(1,901,932)
Other Postemployment Benefit Obligation			(422,365)		(422,365)
Total Adjustments			(5,481,181)		(2,377,588)
Change in Net Position			11,276,902		11,964,762

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	FY 2016 Adopted Budget	FY 2016 Budget as Amended	Paid or Charged	Excess / (Deficit)
Financing Sources:				
Unrestricted Net Position Utilized	3,629,000	3,629,000	1,607,207	2,021,793
Debt Authorization	22,848,000	22,848,000	2,277,479	20,570,521
Other Sources	8,400,000	8,400,000	5,193,417	3,206,583
	<u>34,877,000</u>	<u>34,877,000</u>	<u>9,078,103</u>	<u>25,798,897</u>
Capital Outlays:				
Recurring Construction:				
Cleaning & Lining	3,082,000	3,082,000	1,535,920	1,546,080
Main Replacement	1,689,000	1,689,000	1,688,909	91
Valve Replacement	1,265,000	1,265,000	94,471	1,170,529
Hydrant Replacement	500,000	500,000	928	499,072
Meter Replacement	500,000	500,000	173,439	326,561
Plant / Distribution	656,000	656,000	633,780	22,220
Vehicle Repair	1,080,000	1,080,000	359,995	720,005
Production and Pumping:				
Main Pump Station Discharge Valves	250,000	250,000	-	250,000
Rehabilitate Chemical System	1,100,000	1,100,000	255,400	844,600
MCC Pump Drives	2,000,000	2,000,000	281,457	1,718,543
Hydro-Turbine Generators	300,000	300,000	169,118	130,882
Residuals Treatment	159,000	159,000	-	159,000
Filter Valve Actuators	212,000	212,000	-	212,000
Distribution:				
Lodi Hydrants and Valves	546,000	546,000	-	546,000
Granite Ave. Tank	500,000	500,000	-	500,000
Open Finished Water Reservoirs	15,848,000	15,848,000	2,205,053	13,642,947
Lodi Tank	832,000	832,000	72,426	759,574
Verona Tank	832,000	832,000	-	832,000
Great Falls Arch Bridge Repair	150,000	150,000	-	150,000
Feasibility Study	150,000	150,000	-	150,000
Plant and General Structures:				
Electrical Systems Upgrade	109,000	109,000	3,488	105,512
Great Falls - Misc. Reliability Enhancements	212,000	212,000	20,000	192,000
Fencing - New Street & Levine	68,000	68,000	33,308	34,692
Fencing - Main Pump Station	27,000	27,000	-	27,000
Instrumentation, Controls and Information Technologies:				
WTP System Upgrade	400,000	400,000	399,199	801
Commercial System Upgrade	50,000	50,000	49,910	90
Security System Upgrade	160,000	160,000	-	160,000
CMMS and Related GIS	1,200,000	1,200,000	910,781	289,219
Engineering Systems	530,000	530,000	-	530,000
Laboratory/Water Quality Systems	142,000	142,000	104,356	37,644
ICP/MS or ICP	328,000	328,000	861	327,139
Non-Budgeted Capital Expenditures	-	-	85,304	(85,304)
Total Capital Outlays	<u>34,877,000</u>	<u>34,877,000</u>	<u>9,078,103</u>	<u>25,798,897</u>
Total Costs Funded by Capital Revenue	<u>34,877,000</u>	<u>34,877,000</u>	<u>9,078,103</u>	<u>25,798,897</u>
Add: Excess	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>34,877,000</u>	<u>34,877,000</u>	<u>9,078,103</u>	<u>25,798,897</u>

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
NJET Bonds (Series 2001A&B) Trust Portion - NSRF (Refunded with Series 2007A)	10/15/2001	5.00%	2017	1,744,778.14				
		5.00%	2018	1,830,129.68				
		5.00%	2019	1,926,739.33				
		4.75%	2020	2,022,684.41				
		4.75%	2021	2,114,810.96	11,298,495		1,659,353	9,639,142
NJET Bonds (Series 2001A&B) Fund Portion - NSRF	10/15/2001	5.00%	2017	1,551,464.48				
		5.00%	2018	1,550,299.54				
		5.00%	2019	1,552,795.84				
		4.75%	2020	1,551,963.74				
		4.75%	2021	1,548,011.43	9,304,169		1,549,634	7,754,535
NJET Bonds (Series 2001A&B) Trust Portion - CW (Refunded with Series 2007A)	10/15/2001	5.00%	2017	223,448.12				
		5.00%	2018	232,920.94				
		5.00%	2019	247,386.90				
		4.75%	2020	256,996.71				
		4.75%	2021	271,496.00	1,446,217		213,968	1,232,249
NJET Bonds (Series 2001A&B) Fund Portion - CW	10/15/2001	5.00%	2017	198,551.25				
		5.00%	2018	197,386.68				
		5.00%	2019	199,216.72				
		4.75%	2020	197,220.31				
		4.75%	2021	198,667.87	1,190,426		199,383	991,043

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
NJ/EIT Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/2002	5.00%	2017	103,047.94				
		5.00%	2018	111,370.85				
		5.00%	2019	114,875.26				
		5.00%	2020	123,774.48				
		5.00%	2021	132,112.37				
		4.75%	2022	140,515.56			104,429	725,696
					830,125			
NJ/EIT Bonds (Series 2002A&B) Fund Portion	10/15/2002	5.00%	2017	215,703.67				
		5.00%	2018	148,235.19			216,855	363,939
					580,794			
NJ/EIT Bonds (Series 2002A&B) Trust Portion - CW (Refunded with Series 2007B)	10/15/2002	5.00%	2017	11,340.99				
		5.00%	2018	15,328.85				
		5.00%	2019	14,528.30				
		5.00%	2020	13,810.47				
		5.00%	2021	17,791.44				
		4.75%	2022	17,011.56			12,788	89,812
					102,600			
NJ/EIT Bonds (Series 2002A&B) Fund Portion - CW	10/15/2002	5.00%	2017	26,559.48				
		5.00%	2018	674.88			27,539	27,234
					54,773			

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
Refunding Bonds (Series 2003)	12/15/2003	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				
					25,360,000		3,115,000	22,245,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
NJET Bonds (Series 2007A&B) Trust Portion	11/9/2007	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	905,000		60,000	845,000
NJFT Bonds (Series 2007A&B) Fund Portion	11/9/2007	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				
					959,122		128,455	830,667
Refunding Bonds (Series 2007C) (Refunded with Series 2015)	11/9/2007	4.00%	2017	335,000.00	660,000		325,000	335,000

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
Water Supply Revenue Bonds (Series 2009A)	12/15/2009	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				
					3,880,000		345,000	3,535,000
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, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
Water Supply Revenue Bonds (Series 2009C)	12/15/2009	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				
					17,680,000		780,000	16,900,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
NJEIT Bonds (Series Fall 2010A) Fund Portion	10/5/2010	n/a	2017	72,723.21				
		n/a	2018	72,723.21				
		n/a	2019	72,723.21				
		n/a	2020	72,723.21				
		n/a	2021	72,723.21				
		n/a	2022	72,723.21				
		n/a	2023	72,723.21				
		n/a	2024	72,723.21				
		n/a	2025	72,723.21				
		n/a	2026	72,723.21				
		n/a	2027	72,723.21				
		n/a	2028	4,438.71			72,723	804,394
					877,117			
NJEIT Bonds (Series 2010B) Trust Portion	12/2/2010	5.00%	2017	110,000.00				
		5.00%	2018	120,000.00				
		5.00%	2019	125,000.00				
		5.00%	2020	130,000.00				
		5.00%	2021	135,000.00				
		5.00%	2022	145,000.00				
		5.00%	2023	150,000.00				
		5.00%	2024	160,000.00				
		5.00%	2025	165,000.00				
		5.00%	2026	175,000.00				
		5.00%	2027	180,000.00				
		5.00%	2028	190,000.00				
		5.00%	2029	75,000.00			105,000	1,860,000
					1,965,000			

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
Water Supply Revenue Bonds (Series 2014)	12/15/2014	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				
					19,715,000		770,000	18,945,000

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2016	Issued	Redeemed	Balance Dec. 31, 2016
			Date	Amount				
Water Supply Refunding Bonds (Series 2015)	11/5/2015	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		595,000	9,600,000
					119,188,838		10,280,127	108,908,711
					10,280,127			10,657,268
					108,908,711			98,251,443
					119,188,838			108,908,711

Current Portion
Noncurrent Portion

SCHEDULE 6

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2016:

<u>Name</u>		<u>Office</u>
Gerald Friend	Clifton	President
Jeffrey Levine	Paterson	Vice President
Idida Rodriguez	Paterson	Treasurer
David Blumenthal	Passaic	Secretary
Joseph Kolodziej	Clifton	Commissioner
Rigo Sanchez	Passaic	Commissioner
Robert Vannoy	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
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Passaic Valley Water Commission, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated June 15, 2017.

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 2016-01 and 2016-04).

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 2016-02 and 2016-03. 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, Wielkottz, Cerullo & Cuva, P.A.

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

June 15, 2017



PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

FINDING: 2016-01*

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, 2016
(continued)

FINDING 2016-02

Statement of Condition

The Commission has not updated the net other post-employment benefit (OPEB) obligation to a measurement date acceptable under current accounting standards

Criteria

Government Accounting Standards Board (GASB) Statement No. 45 requires a state or local government unit calculating their obligation as "sole" must obtain an actuarially calculated OPEB obligation on a periodic basis every two years if it has 200 or more covered individuals.

Effect

The net OPEB obligation reported in the financial statements is based on a 2014 valuation and does not meet the measurement date requirements under GASB No. 45. The amount by which this departure would affect the net OPEB obligation and net position has not been determined.

Cause

The Commission relies on a valuation performed by an outside contractor. As of the date of this report, the valuation had not been completed.

Recommendation

The Commission should comply with the measurement guidelines of GASB Statement No. 45.

Response

Once the actuarial valuation is available, management will update all future financial reports with the new OPEB figures.

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016
(continued)

FINDING 2016-03*

Statement of Condition

The Commission did not file IRS Forms 1094-C or issue forms 1095-C to eligible employees for fiscal year 2016.

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 2017.

PASSAIC VALLEY WATER COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016
(continued)

FINDING 2016-04

Statement of Condition

The Commission's internal controls over inventory failed to identify an error in the amounts posted as unit cost on several meters on their December 31, 2016 inventory.

Criteria

To maintain an effective system of internal controls, an organization should select, develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. The organization should evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action.

Effect

Several errors in the "unit cost" column of the December 31, 2016 inventory went undetected until well after year end.

Cause

The Commission implemented a new system of recording inventory in 2016 and was in the process of developing new monitoring controls.

Recommendation

The Commission should periodically monitor internal controls around the components that make up the inventory number.

Response

Management acknowledges this finding and has taken the appropriate steps to remedy it in the 2017 fiscal year.

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,

A handwritten signature in dark ink, appearing to read "Ferraioli, Wielkotz, Cerullo & Cuva, P.A.", written in a cursive style.

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