

**PASSAIC VALLEY WATER COMMISSION**  
**REPORT OF AUDIT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2017 AND 2016**

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# PASSAIC VALLEY WATER COMMISSION

## CONTENTS

<u>Page</u>		<u>Exhibits</u>
1	Independent Auditor's Report	
<b><u>REQUIRED SUPPLEMENTARY INFORMATION - PART I</u></b>		
5	Management's Discussion and Analysis	
<b><u>FINANCIAL STATEMENTS</u></b>		
14	Comparative Statement of Net Position	A
17	Comparative Statement of Revenues, Expenses and Changes in Net Position	B
18	Comparative Statement of Cash Flows	C
20	Notes to Financial Statements	
<b><u>REQUIRED SUPPLEMENTARY INFORMATION - PART II</u></b>		
		<u>Schedules</u>
64	Schedule of Funding Progress for the OPEB Plan	RSI-1
64	Schedule of Employer Contributions to the OPEB Plan	RSI-2
65	Schedule of the Authority's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS)	RSI-3
66	Schedule of the Authority's Contributions Public Employees' Retirement System (PERS)	RSI-4
67	Notes to Required Supplementary Information	
<b><u>SUPPLEMENTARY SCHEDULES</u></b>		
69	Supplemental Schedule of Revenues, Expenses and Changes in Net Position	1
70	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments - Unrestricted and Restricted Accounts	2
72	Schedule of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget	3
77	Schedule of Capital Budget Program Funded by Financing Sources	4
78	Schedule of Revenue and Revenue Refunding Bonds	5
89	Roster of Officials and Report on Surety Bonds	6

# **PASSAIC VALLEY WATER COMMISSION**

## **CONTENTS, (continued)**

### **Page**

90	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
92	Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with Uniform Guidance
95	Schedule of Expenditures of Federal Financial Assistance
96	Schedule of Expenditures of State Financial Assistance
97	Notes to the Schedule of Expenditures of Federal and State Awards
98	Schedule of Findings and Questioned Costs
103	Summary Schedule of Prior Audit Findings
104	General Comments

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying statement of net position of the Passaic Valley Water Commission as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Passaic Valley Water Commission as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

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

The Commission's financial statements for the year ending December 31, 2016 were previously issued with a net Other Post-Employment Benefit (OPEB) measured at a date not acceptable under current accounting standards. Since the issuance of these financial statements, an actuary hired by the Commission completed their valuation of the Other Post-Employment Benefit (OPEB) as of December 31, 2016 and made their report available to management. The Commission has restated certain prior period balances based on this updated valuation to conform with the requirements of GASB No. 45, as discussed in Note 17 to the financial statements. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, schedule of funding progress for the OPEB plan, schedule of employer contributions to the OPEB plan, schedule of the Commission's proportionate share of the net pension liability and schedule of Commission contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements

in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The supplementary information listed in the table of contents and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the schedule of expenditures of state financial assistance 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 and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the schedule of expenditures of state financial assistance 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, schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the schedule of expenditures of state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Chairman and Members of the  
Passaic Valley Water Commission  
Page 4.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2018 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

May 11, 2018



**Required Supplementary Information - Part I**

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## **Management Discussion and Analysis**

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## 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, 2017. 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 \$99,231,718 (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 \$74,303,441, as restated.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$68,521,016 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 \$26,816,833 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$3,893,869 represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission increased by \$7,121,270 to \$188,576,726 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 \$99,231,718. This is a \$24,928,277 increase over last year's restated net position of \$74,303,441. A summary of the Commission's statement of net position is presented in the following table:

**Condensed Statement of Net Position**

	<u>FY 2017</u>	<u>Restated FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	118,187,201	75,620,603	42,566,598	56.29%
Capital Assets	<u>163,202,661</u>	<u>163,837,398</u>	<u>(634,737)</u>	(0.39)%
Total Assets	<u>281,389,862</u>	<u>239,458,001</u>	<u>41,931,861</u>	17.51%
Deferred Outflow of Resources	<u>26,197,408</u>	<u>25,393,055</u>	<u>804,353</u>	3.17%
Current Liabilities	23,771,981	22,123,698	1,648,283	7.45%
Non-Current Liabilities	<u>164,804,745</u>	<u>159,331,758</u>	<u>5,472,987</u>	3.44%
Total Liabilities	<u>188,576,726</u>	<u>181,455,456</u>	<u>7,121,270</u>	3.92%
Deferred Inflows of Resources	<u>19,778,826</u>	<u>9,092,159</u>	<u>10,686,667</u>	117.54%
Net Investment in Capital Assets	68,521,016	54,555,032	13,965,984	25.60%
Restricted	26,816,833	26,220,702	596,131	2.27%
Unrestricted	<u>3,893,869</u>	<u>(6,472,293)</u>	<u>10,366,162</u>	(160.16)%
Total Net Position	<u>99,231,718</u>	<u>74,303,441</u>	<u>24,928,277</u>	33.55%

**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 2015 balances in the following table. This comparison has been restated to reflect the reclassification of the Commission's Other Post-employment Benefit Liability.

**Condensed Statement of Net Position**

	<u>Restated 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>	(1.23)%
Total Assets	<u>239,458,001</u>	<u>232,903,304</u>	<u>6,554,697</u>	2.81%
Deferred Outflow of Resources	<u>25,393,055</u>	<u>14,087,318</u>	<u>11,305,737</u>	80.25%
Current Liabilities	22,123,698	20,883,111	1,240,587	5.94%
Non-Current Liabilities	<u>159,331,758</u>	<u>154,562,219</u>	<u>4,769,539</u>	3.09%
Total Liabilities	<u>181,455,456</u>	<u>175,445,330</u>	<u>6,010,126</u>	3.43%
Deferred Inflows of Resources	<u>9,092,159</u>	<u>8,219,139</u>	<u>873,020</u>	10.62%
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>(6,472,293)</u>	<u>(13,269,280)</u>	<u>6,796,987</u>	(51.22)%
Total Net Position	<u>74,303,441</u>	<u>63,326,153</u>	<u>10,977,288</u>	17.33%



**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 \$24,928,277 and \$10,977,288 during the 2017 and 2016 fiscal years, respectively.

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

	<u>FY 2017</u>	<u>Restated FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	90,089,874	90,008,261	81,613	0.09%
Non-operating Revenues	<u>1,845,536</u>	<u>1,154,158</u>	<u>691,378</u>	59.90%
Total Revenues	<u>91,935,410</u>	<u>91,162,419</u>	<u>772,991</u>	0.85%
Depreciation	11,242,334	11,117,337	124,997	1.12%
Other Operating Expenses	57,084,918	61,864,106	(4,779,188)	(7.73)%
Other Non-operating Expense	<u>6,600,029</u>	<u>7,203,688</u>	<u>(603,659)</u>	(8.38)%
Total Expenses	<u>74,927,281</u>	<u>80,185,131</u>	<u>(5,257,850)</u>	(6.56)%
Change in Net Position	17,008,129	10,977,288	6,030,841	54.94%
Beginning Balance	74,303,441	63,326,153	10,977,288	17.33%
Contributed Capital	<u>7,920,148</u>	<u>                    </u>	<u>7,920,148</u>	100.00%
Ending Balance	<u>99,231,718</u>	<u>74,303,441</u>	<u>24,928,277</u>	33.55%

**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 2015 figures in the following table. This comparison has been restated to reflect the reclassification of the Commission's Other Post-employment Benefit Liability.

	<u>Restated 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>7,203,688</u>	<u>7,018,779</u>	<u>184,909</u>	2.63%
Total Expenses	<u>80,185,131</u>	<u>77,213,451</u>	<u>2,971,680</u>	3.85%
Change in Net Position	10,977,288	11,964,762	(987,474)	(8.25)%
Beginning Balance	<u>63,326,153</u>	<u>51,361,391</u>	<u>11,964,762</u>	23.30%
Ending Balance	<u>74,303,441</u>	<u>63,326,153</u>	<u>10,977,288</u>	17.33%

**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 2017 and FY 2016 budget comparison:

<b>Budget vs. Actual FY 2017</b>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	97,181,261	91,075,081	(6,106,180)
Non-Operating	<u>500,000</u>	<u>846,485</u>	<u>346,485</u>
	<u>97,681,261</u>	<u>91,921,566</u>	<u>(5,759,695)</u>
Expenses:			
Operating	64,365,719	54,272,534	10,093,185
Non-Operating	<u>18,280,422</u>	<u>16,374,064</u>	<u>1,906,358</u>
	<u>82,646,141</u>	<u>70,646,598</u>	<u>11,999,543</u>
Income before Depreciation	<u>15,035,120</u>	<u>21,274,968</u>	<u>6,239,848</u>

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

**Budgetary Highlights (Continued)**

	<b>Budget vs. Actual FY 2016</b>		
	<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>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During fiscal year 2017, the Commission had an increase of \$10,607,597 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$163,202,661. This is a \$634,737 decrease over last year's net property, plant and equipment of \$163,837,398. A summary of the Commission's capital assets is presented in the following table:

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>
Capital Assets	285,305,653	274,698,056	10,607,597
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>
	372,830,337	362,222,740	10,607,597
Less: Accumulated Depreciation	<u>(209,627,676)</u>	<u>(198,385,342)</u>	<u>(11,242,334)</u>
Net Property, Plant and Equipment	<u>163,202,661</u>	<u>163,837,398</u>	<u>(634,737)</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	59,929,011
Discrete Projects	19,400,000
Production and Pumping	26,640,000
Distribution	125,875,000
Plant and General Structures	21,456,000
Instrumentation, Controls and Information Technologies	<u>5,657,000</u>
	<u>258,957,011</u>

**Debt Administration**

At December 31, 2017, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$124,711,887. The debt service schedule goes out to 2046. Full details of the specific bond issues outstanding are found in Note 6 to the financial statements and the supplementary schedules.

**Economic Factors, Future Years' Budgets and Rates**

The Commissioners and management of the Commission consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Commission's system and new regulations issued by the State and Federal governments.

**Contacting the Commission**

This financial report is designed to provide our customers and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Passaic Valley Water Commission, 1525 Main Avenue, Clifton, NJ 07011.

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## **Financial Statements**

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

**EXHIBIT A**

Page 1 of 3

	<u>2017</u>	<u>Restated 2016</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
<b><u>Unrestricted:</u></b>		
Cash and Cash equivalents	\$ 27,368,371	\$ 20,245,394
Investments	6,896,648	1,464,991
Accounts Receivable, net	23,003,565	21,545,499
Inventory	2,457,206	1,744,228
Other Receivables	15,030	6,255
Prepaid Expenses	190,172	263,596
Total Unrestricted Assets	<u>59,930,992</u>	<u>45,269,963</u>
<b><u>Restricted:</u></b>		
Construction Account:		
Cash and Cash equivalents	161	897,587
Investments	-	2,805,024
Due From NJEIT	30,997,905	-
Bond Service Fund:		
Cash and Cash equivalents	1,830,669	1,798,746
Bond Reserve Account:		
Cash and Cash equivalents	293,511	943,786
Investments	12,198,728	12,305,566
Renewal and Extension Account:		
Cash and Cash equivalents	3,000,000	3,000,000
Operations Account:		
Cash and Cash equivalents	9,658,003	8,325,453
Unemployment Compensation Insurance:		
Cash and Cash equivalents	133,232	121,944
Investments	144,000	152,534
Total Restricted Assets	<u>58,256,209</u>	<u>30,350,640</u>
<b>Non-Current Assets:</b>		
<b><u>Capital Assets:</u></b>		
Capital Assets	285,305,653	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	815,146	815,146
Less: Accumulated Depreciation	<u>(209,627,676)</u>	<u>(198,385,342)</u>
Total Capital Assets	<u>163,202,661</u>	<u>163,837,398</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>281,389,862</u></b>	<b>\$ <u>239,458,001</u></b>

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

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

**EXHIBIT A**

Page 2 of 3

	<u>2017</u>	<u>Restated 2016</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
<b>Deferred Outflows:</b>		
Water Bank - Deferred Expense	4,990,203	3,330,109
Unamortized Costs in Excess of Refunded Debt, Net of Amortization	5,040,610	2,232,711
Unamortized Bond Discount, Net of Amortization	93,032	141,488
Deferred Outflows Related to Pensions	16,073,563	19,688,747
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>26,197,408</u>	<u>25,393,055</u>
 <b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
<u>Payable from Unrestricted Assets:</u>		
Accounts Payable and Accrued Liabilities	\$ 9,943,896	\$ 9,180,817
Accounts Payable - Pension Related	1,926,140	1,768,500
Due To (From) Contractor	15,000	15,000
Meter Deposits Payable	-	2,575
<b>Total Payable from Unrestricted Assets</b>	<u>11,885,036</u>	<u>10,966,892</u>
<u>Payable from Restricted Assets:</u>		
Accrued Interest Payable	441,310	427,327
Bonds Payable - Current Portion	11,371,257	10,657,268
Leases Payable - Current Portion	74,378	72,211
<b>Total Payable from Restricted Assets</b>	<u>11,886,945</u>	<u>11,156,806</u>
<b>Non-Current Liabilities:</b>		
Bonds Payable - Long-Term Portion	113,340,630	98,251,443
Leases Payable - Long-Term Portion	576,247	616,204
Net OPEB Obligation	6,031,863	5,309,884
Net Pension Obligation	44,856,005	55,154,227
<b>Total Non-Current Liabilities</b>	<u>164,804,745</u>	<u>159,331,758</u>
<b>TOTAL LIABILITIES</b>	<u>188,576,726</u>	<u>181,455,456</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>2017</u>	<u>Restated 2016</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
<b>Deferred Inflows:</b>		
Due To Water Bank	4,990,203	3,330,109
Unamortized Savings from Refunded Debt, Net of Amortization	447,702	493,489
Unamortized Bond Premium, Net of Amortization	4,763,309	4,968,771
Deferred Savings on Bond Refunding, Net of Amortization	239,830	299,790
Deferred Inflows Related to Pensions	<u>9,337,782</u>	<u>-</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>19,778,826</u>	<u>9,092,159</u>
 <b><u>NET POSITION:</u></b>		
Net Investment in Capital Assets	68,521,016	54,555,032
Restricted:		
Current Debt Service	1,389,359	1,371,419
Future Debt Service	12,492,239	13,249,352
Renewal and Extension	3,000,000	3,000,000
Operations	9,658,003	8,325,453
Unemployment Compensation Insurance	277,232	274,478
Unrestricted:		
Designated	608,084	608,084
Undesignated	<u>3,285,785</u>	<u>(7,080,377)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 99,231,718</u>	<u>\$ 74,303,441</u>

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

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

**EXHIBIT B**

	<u>2017</u>	<u>Restated 2016</u>
<b>Operating Revenue:</b>		
Service Agreements	\$ 82,561,015	\$ 82,431,588
Miscellaneous	7,514,264	7,570,354
Sale of Scrap	14,595	6,319
	<u>90,089,874</u>	<u>90,008,261</u>
<b>Total Operating Revenue</b>		
<b>Operating Expenses:</b>		
Cost of Providing Services	45,655,796	47,559,996
Administrative and General	11,429,122	14,304,110
Depreciation Expense	11,242,334	11,117,337
	<u>68,327,252</u>	<u>72,981,443</u>
<b>Total Operating Expenses</b>		
<b>Operating Income</b>	<u>21,762,622</u>	<u>17,026,818</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	846,485	627,895
Finance Charges	985,207	311,320
Interest Expense	(5,644,586)	(6,481,709)
Bond Issuance Costs	(233,464)	-
Other Postemployment Benefit Obligation	(721,979)	(721,979)
Amortization Expense	13,844	214,943
	<u>(4,754,493)</u>	<u>(6,049,530)</u>
<b>Non-Operating Income (Loss)</b>		
<b>Change In Net Position</b>	17,008,129	10,977,288
<b>Net Position - January 1</b>	<u>74,303,441</u>	<u>63,326,153</u>
<b>Contributed Capital:</b>		
Principal Forgiveness	<u>7,920,148</u>	<u></u>
<b>Net Position - December 31</b>	<u>\$ 99,231,718</u>	<u>\$ 74,303,441</u>

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

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**PASSAIC VALLEY WATER COMMISSION**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 88,623,033	\$ 90,514,198
Cash Paid to Vendors and Employees	<u>(54,151,584)</u>	<u>(55,886,694)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>34,471,449</u>	<u>34,627,504</u>
<b>Cash Flow from Investing Activities:</b>		
Interest Received	1,831,692	939,215
(Increase) Decrease in Investments	<u>(2,511,261)</u>	<u>2,342,948</u>
<b>Net Cash Provided by (used in) Investing Activities</b>	<u>(679,569)</u>	<u>3,282,163</u>
<b>Cash Flow from Financing Activities:</b>		
Principal Payment on Bonds and Notes	(25,882,267)	(10,280,127)
Interest Paid on Bonds and Notes	(5,630,603)	(6,540,032)
Proceeds from Issuance of Bonds	17,925,000	
Bond Issuance Costs	(233,464)	
Capital Expenditures	(10,607,597)	(9,086,181)
NJEIT Receipts	682,686	
Lease Payments	(37,790)	(33,990)
Bond Premium Received	<u>(3,056,808)</u>	
<b>Net Cash Used in Financing Activities</b>	<u>(26,840,843)</u>	<u>(25,940,330)</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	6,951,037	11,969,337
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>35,332,910</u>	<u>23,363,573</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 42,283,947</u></u>	<u><u>\$ 35,332,910</u></u>
<b>Analysis of Balance:</b>		
Unrestricted	\$ 27,368,371	\$ 20,245,394
Restricted	<u>14,915,576</u>	<u>15,087,516</u>
	<u><u>\$ 42,283,947</u></u>	<u><u>\$ 35,332,910</u></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>2017</u>	<u>2016</u>
<b>OPERATING INCOME (LOSS)</b>	\$ <u>21,762,622</u>	\$ <u>17,026,818</u>
<b>Adjustments to Reconcile Change in Net Assets to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	11,242,334	11,117,337
Decrease (Increase) in Accounts Receivable	(1,458,066)	503,597
Decrease (Increase) in Other Receivable	(8,775)	2,340
Decrease (Increase) in Inventory	(712,978)	570,767
Decrease (Increase) in Prepaid Expenses	73,424	(44,246)
Increase (Decrease) in Accounts Payable	3,575,463	5,450,891
Increase (Decrease) in Meter Deposits Payable	<u>(2,575)</u>	<u></u>
<b>Total Adjustments</b>	<u>12,708,827</u>	<u>17,600,686</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ <u><u>34,471,449</u></u>	\$ <u><u>34,627,504</u></u>

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



## **Notes to Financial Statements**

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**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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, 2017 AND 2016  
(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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 1. GENERAL, (continued)**

Passaic Valley Water Commission completed its most recent major plant upgrade in 2004. The upgrade enhanced plant performance and expanded plant capacity using advanced treatment processes that meet quality goals for microbials and disinfection byproducts. The existing conventional clarification processes were 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 resulted in the achievement of significant construction cost savings. The second phase of the plant upgrade project, which included installation of ozonation for disinfection which, in conjunction with the upgrade of the existing filters, significantly improved the quality of water produced while enhancing the ability to control the formation of disinfection byproducts to meet future regulatory requirements. This upgrade also expanded treatment capacity to 120 MGD with a delivered water capacity of 110 MGD. The delivered water capacity of the main pumping station remained 160 MGD.

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, 2017 AND 2016  
(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, 2017 AND 2016  
(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, 2017 AND 2016  
(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, 2016</u>	<u>Net</u> <u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>Dec.31, 2017</u>
Capital Assets	274,698,056	10,607,597		285,305,653
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>
	362,222,740	10,607,597	0	372,830,337
Less: Accumulated Depreciation	<u>(198,385,342)</u>	<u>(11,242,334)</u>		<u>(209,627,676)</u>
Property, Plant and Equipment, Net	<u>163,837,398</u>	<u>(634,737)</u>	<u>0</u>	<u>163,202,661</u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

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

	<u>Balance Dec.31, 2015</u>	<u>Net Additions</u>	<u>Disposals</u>	<u>Balance 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><u>165,876,632</u></u>	<u><u>(2,039,234)</u></u>	<u>0</u>	<u><u>163,837,398</u></u>

**F. Restricted Accounts**

In accordance with the bond resolution as amended and supplemented, the Commission has established the following cash and investment accounts for the deposit, in the priority of the order shown as follows, of all revenue received by the Commission:

**Construction Account**

Proceeds of all new money bond issues for capital improvement and expansion programs for the enhancement and extension of the Commission's water supply system.

**Bond Reserve Account**

An amount equal to the greatest bond service requirement of any future fiscal year for any bond not covered by bond service insurance.

**Bond Renewal and Extension Account**

An amount reasonably necessary, with respect to the facilities, for major repairs, renewals and replacements or maintenance not recurring annually.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(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, 2017 AND 2016  
(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, 2017 AND 2016  
(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, 2017 AND 2016  
(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. 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.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

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

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 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.

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.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which is intended to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, as a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government's leasing activities. 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, 2017 AND 2016  
(CONTINUED)**

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

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

The Government Accounting Standards Board issued GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement is effective for reporting periods beginning after June 15, 2018. The Commission believes this may impact the disclosures relating to debt in the notes to the 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%.

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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

As of December 31, 2017, the Commission's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	<u>Total</u>
Unrestricted	27,368,371	27,368,371
Restricted	<u>14,915,576</u>	<u>14,915,576</u>
	<u>42,283,947</u>	<u>42,283,947</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2017 was \$42,283,947 and the bank balance was \$42,771,222. 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, 2017, \$-0- of the Commission's bank balance of \$42,771,222 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, 2017, the Commission had \$19,239,376 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, 2017 AND 2016  
(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; municipal notes; 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. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST**

The Commission issued bonds in 2017 through the Trust to finance various construction and improvement projects. The proceeds of the Bonds are held by the Trust until the Commission expends funds on the project. The Commission then submits for reimbursement these expenditures from the Trust. The following is the remaining amount of funds to be received from the Trust:

	Balance <u>Dec.31, 2016</u>	<u>Issued</u>	Less: Amounts <u>Received</u>	Balance <u>Dec.31, 2017</u>
Project No. 1605002-25A		1,919,884	238,670	1,681,214
Project No. 1605002-25B		21,840,559	325,851	21,514,708
Project No. 1605002-25B (Prin. Forgiveness)		<u>7,920,148</u>	<u>118,165</u>	<u>7,801,983</u>
		<u><u>31,680,591</u></u>	<u><u>682,686</u></u>	<u><u>30,997,905</u></u>

These funds shall be disbursed to the Commission under the terms of its loan agreements with the New Jersey Environmental Infrastructure Trust.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

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

In 2001, the Commission implemented major capital improvements at its Little Falls Treatment Plant ("the Project") to comply with the Safe Drinking Water Act ("SDWA"). The Commission initially funded this project with two loans from the New Jersey Environmental Infrastructure Trust ("NJEIT").

The first loan (Series 2001A) was for \$7,445,600, of which \$3,865,600 is a non-interest bearing Fund Loan payable in semi-annual installments and due August 1, 2021. The remaining portion of the 2001A loan was a \$3,865,000 Trust Loan payable in semi-annual installments and due August 1, 2021.

At December 31, 2017, 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>	
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>1,008,801</u>	<u>127,791</u>	<u>792,492</u>	<u>1,929,084</u>

The second loan (Series 2001B) was for \$58,367,600, of which \$30,302,600 is a non-interest bearing Fund Loan payable in semi-annual installments and due August 1, 2021. The remaining portion of the 2001B loan was a \$28,065,000 Trust Loan payable in semi-annual installments and due August 1, 2021.

At December 31, 2017, the Trust and Fund portions payable were as follows:

<u>Series 2001B (Project 1605002-005)</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>2,114,811</u>	<u>103,497</u>	<u>1,548,011</u>	<u>3,766,319</u>
	<u>7,894,364</u>	<u>999,222</u>	<u>6,203,071</u>	<u>15,096,657</u>

**PASSAIC VALLEY WATER COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**NOTE 6. LONG-TERM DEBT**

The Commission has issued and has outstanding the following bonds as of  
December 31, 2017 and 2016:

	<u>2016</u>	<u>Issued</u>	<u>Paid/ Refunded</u>	<u>2017</u>
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	19,616,969		3,718,241	15,898,728
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	1,206,681		356,652	850,029
Series 2003 Refunding Bonds	22,245,000		3,270,000	18,975,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	1,675,667		184,651	1,491,016
Series 2007C Refunding Bonds	335,000		335,000	0
Series 2009A Revenue Bonds	3,535,000		2,325,000	1,210,000
Series 2009B Revenue Bonds	12,185,000			12,185,000
Series 2009C Revenue Bonds	16,900,000		14,090,000	2,810,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	2,664,394		182,723	2,481,671
Series 2014 Revenue Bonds	18,945,000		795,000	18,150,000
Series 2015 Refunding Bonds	9,600,000		625,000	8,975,000
Series 2017 NJ Environmental Infrastructure Trust Bonds		23,760,443		23,760,443
Series 2017A Refunding Bonds		1,925,000		1,925,000
Series 2017B Refunding Bonds		16,000,000		16,000,000
Net Carrying Amount of Debt	<u>108,908,711</u>	<u>41,685,443</u>	<u>25,882,267</u>	<u>124,711,887</u>
Current Portion	10,657,268			11,371,257
Long-Term Portion	<u>98,251,443</u>			<u>113,340,630</u>
	<u>108,908,711</u>			<u>124,711,887</u>

Presented below is a summary of debt service requirements to maturity.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	11,371,257	4,434,459	15,805,716
2019	12,233,872	3,994,879	16,228,751
2020	12,984,094	3,524,837	16,508,931
2021	13,483,324	3,014,705	16,498,029
2022	9,723,205	2,529,335	12,252,540
2023	5,008,146	2,144,229	7,152,375
2024	5,081,534	1,984,994	7,066,528
2025	5,271,535	1,815,810	7,087,345
2026-2030	23,098,941	6,347,894	29,446,835
2031-2035	12,839,056	3,001,960	15,841,016
2036-2040	8,464,056	835,567	9,299,623
2041-2045	4,294,055		4,294,055
2046	858,812		858,812
	<u>124,711,887</u>	<u>33,628,669</u>	<u>158,340,556</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

**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.

At December 31, 2017, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002A (Project 05-1)</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>622,648</u>	<u>127,176</u>	<u>148,235</u>	<u>898,059</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  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

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

At December 31, 2017, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002B (Project 02-1)</u>			<u>Total</u>
	<u>Trust Portion</u>		<u>Fund Portion</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>17,013</u>	<u>1,247</u>	<u>—</u>	<u>18,260</u>
	<u>78,471</u>	<u>16,072</u>	<u>675</u>	<u>95,218</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.

At December 31, 2017, 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>
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>18,975,000</u>	<u>2,938,750</u>	<u>21,913,750</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

**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.

At December 31, 2017, the outstanding principal and interest on the Series 2007A&B NJEIT Bonds is as follows:

<u>Year</u>	<u>Series 2007A&amp;B</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>785,000</u>	<u>205,205</u>	<u>706,016</u>	<u>1,696,221</u>

**PASSAIC VALLEY WATER COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

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

**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. On September 27, 2017, the Series 2009A and 2009C bonds were partially refunded with the issuance of Series 2017A and 2017B Water Supply Refunding Bonds.

At December 31, 2017, the outstanding principal and interest on the Series 2009A, B & C Water Supply System Revenue Bonds is as follows:

<u>Year</u>	<u>Series 2009A</u>		<u>Series 2009B</u>		<u>Series 2009C</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	380,000	68,675		945,080	880,000	183,088	2,456,843
2019	405,000	47,775		945,080	935,000	128,088	2,460,943
2020	425,000	25,500		945,080	995,000	69,650	2,460,230
2021				945,080			945,080
2022				945,080			945,080
2023				945,080			945,080
2024				945,080			945,080
2025			565,000	945,080			1,510,080
2026			595,000	902,309			1,497,309
2027			620,000	857,268			1,477,268
2028			650,000	810,334			1,460,334
2029			685,000	761,129			1,446,129
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			1,120,000	87,584			1,207,584
	<u>1,210,000</u>	<u>141,950</u>	<u>12,185,000</u>	<u>15,079,681</u>	<u>2,810,000</u>	<u>380,826</u>	<u>31,807,457</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

**Series 2010A&B NJ Environmental Infrastructure Trust Bonds**

On October 5, 2010 and November 23, 2010, the Commission funded various improvements through the New Jersey Environmental Infrastructure Trust in the amount of \$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, 2017, the outstanding principal and interest on the Series 2010A&B NJEIT Bonds is as follows:

<u>Year</u>	<u>Series 2010A&amp;B</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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	<u>75,000</u>	<u>3,750</u>		<u>78,750</u>
	<u>1,750,000</u>	<u>586,500</u>	<u>731,671</u>	<u>3,068,171</u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 6. 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, 2017, 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>
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	1,520,000	55,100	1,575,100
	<u>18,150,000</u>	<u>7,030,825</u>	<u>25,180,825</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 6. 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, 2017, 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>
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>8,975,000</u>	<u>2,052,250</u>	<u>11,027,250</u>

**Series 2017 New Jersey Environmental Infrastructure Trust Bonds**

On June 19, 2017, the Commission funded two projects, \$1,919,884 (Project No. 1605002-025A) and \$29,760,707 (Project No. 1605002-025B), through the New Jersey Environmental Infrastructure Trust through the issuance of Series 2017 Bonds. Of the \$29,760,707, \$7,920,148 of principal was forgiven by a grant through the U.S. Department of Housing and Urban Development, Hurricane Sandy Community Development Bond Grant: Disaster Recovery Grant.

**PASSAIC VALLEY WATER COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

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

At December 31, 2017, the outstanding principal and interest of the Series 2017 NJEIT Bonds is as follows:

**Series 2017 New Jersey Environmental Infrastructure Trust Bonds, (continued)**

<u>Year</u>	<u>Series 2017</u>		<u>Total</u>
	<u>1605002-025A</u>	<u>1605002-025-B</u>	
	<u>Principal</u>	<u>Principal</u>	
2019	46,262	526,279	572,541
2020	69,394	789,418	858,812
2021	69,393	789,418	858,811
2022	69,394	789,418	858,812
2023	69,393	789,417	858,810
2024	69,393	789,418	858,811
2025	69,394	789,418	858,812
2026	69,393	789,418	858,811
2027	69,393	789,417	858,810
2028	69,394	789,418	858,812
2029	69,393	789,418	858,811
2030	69,393	789,418	858,811
2031	69,394	789,417	858,811
2032	69,394	789,418	858,812
2033	69,393	789,418	858,811
2034	69,394	789,418	858,812
2035	69,393	789,417	858,810
2036	69,393	789,418	858,811
2037	69,394	789,418	858,812
2038	69,393	789,418	858,811
2039	69,393	789,417	858,810
2040	69,394	789,418	858,812
2041	69,393	789,418	858,811
2042	69,393	789,418	858,811
2043	69,394	789,417	858,811
2044	69,393	789,418	858,811
2045	69,393	789,418	858,811
2046	69,394	789,418	858,812
	<u>1,919,884</u>	<u>21,840,559</u>	<u>23,760,443</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

**Series 2017A&B Water Supply Refunding Bonds**

On September 27, 2017, the Commission issued Series 2017A&B Water Supply Refunding Bonds in the amount of \$1,925,000 and \$16,000,000 to (1) advance refund a portion of the Commission's outstanding Water Supply System Revenue Bonds, Series 2009A in the aggregate principal amount of \$1,965,000; (2) advance refund a portion of the Commission's outstanding Water Supply System Revenue Bonds, Series 2009C in the aggregate principal amount of \$13,260,000; (3) fully fund the Bond Reserve Fund equal to the Bond Reserve Requirement; and (4) pay for certain costs associated with the issuance of these bonds.

At December 31, 2017, the outstanding principal and interest on the Series 2017A&B Bonds is as follows:

<u>Year</u>	<u>Series 2017A</u>		<u>Series 2017B</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018		91,750	405,000	419,543	496,750
2019		91,750	410,000	413,168	501,750
2020		91,750	415,000	405,895	506,750
2021	450,000	91,750	1,485,000	397,873	2,026,750
2022	470,000	73,750	1,515,000	366,822	2,058,750
2023	490,000	50,250	1,555,000	333,173	2,095,250
2024	515,000	25,750	1,590,000	295,589	2,130,750
2025			1,630,000	253,979	1,630,000
2026			1,675,000	209,333	1,675,000
2027			1,720,000	161,780	1,720,000
2028			1,775,000	111,229	1,775,000
2029			1,825,000	57,287	1,825,000
	<u>1,925,000</u>	<u>516,750</u>	<u>16,000,000</u>	<u>3,425,671</u>	<u>21,867,421</u>

**NOTE 7. CAPITALIZED LEASE PAYABLE - LODI WATER SYSTEM**

In July of 1997, a 30 year lease agreement between the Commission and the Borough of Lodi took effect. The lease agreement conveyed the real and personal property, plants, structures, including reservoirs, pumping stations, water distribution systems, sources of water supplies, connections, rights of flowage or diversion and all other rights therein owned by Lodi in connection with its water distribution system (hereinafter collectively referred to as the System) to the Commission. The lease also requires the Commission to manage, operate and maintain the System in an efficient and economical manner in accordance with its terms and otherwise in accordance with prudent industry and utility practices.

**PASSAIC VALLEY WATER COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

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

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

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

The lease contains options for the Borough of Lodi to terminate the lease after either ten (10) years or after twenty (20) years by paying the Commission an amount sufficient to pay or defease the outstanding principal amount and premium, if any, of the 1997A Bonds then outstanding. The lease also requires the Borough of Lodi to reimburse to Commission for all capital expenditures upon termination.

Total future minimum lease payments under lease obligations at December 31, 2017 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>
2018	74,378	95.24%	70,836
2019	76,609	90.70%	69,487
2020	78,907	86.38%	68,163
2021	81,274	82.27%	66,864
2022	83,712	78.35%	65,591
2023	86,224	74.62%	64,342
2024	88,811	71.07%	63,116
2025	91,475	67.68%	61,914
2026	94,219	64.46%	60,734
2027	97,046	61.39%	<u>59,578</u>
Lodi Lease Payable			<u>650,625</u>
Current Portion			74,378
Long-Term Portion			<u>576,247</u>
			<u>650,625</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 8. 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](http://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 1/55<sup>th</sup> 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 1/60<sup>th</sup> 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  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 8. 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  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 8. 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.

<b><u>Three Year Trend Information for PERS</u></b>			
<b><u>Year</u></b>	<b><u>Annual</u></b>	<b><u>Percentage</u></b>	<b><u>Net</u></b>
<b><u>Funding</u></b>	<b><u>Pension</u></b>	<b><u>of APC</u></b>	<b><u>Pension</u></b>
	<b><u>Cost (APC)</u></b>	<b><u>Contributed</u></b>	<b><u>Obligation</u></b>
12/31/17	\$1,575,745	2.86%	\$55,154,227
12/31/16	1,547,782	2.81%	55,154,227
12/31/15	1,441,276	3.57%	40,413,306

<b><u>Three Year Trend Information DCRP</u></b>	
<b><u>Year</u></b>	<b><u>DCRP</u></b>
<b><u>Funding</u></b>	<b><u>Contributions</u></b>
12/31/17	\$197,439
12/31/16	224,564
12/31/15	208,835

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

**Public Employees Retirement System (PERS)**

At December 31, 2017, the Commission reported a liability of \$44,856,005 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Commission's proportion was 0.1926936638 percent, which was an increase of 0.0064695982 percent from its proportion measured as of June 30, 2016.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 8. 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, 2017, the Commission recognized pension expense of \$4,388,129. At December 31, 2017, 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	\$9,036,939	\$
Net difference between projected and actual earnings on pension plan investments	1,361,643	9,003,808
Changes in proportion and differences between Commission contributions and proportionate share of contributions	3,748,841	
Other deferred pension adjustments		333,974
Commission contributions subsequent to the measurement date	<u>1,926,140</u>	
Total	<u>\$16,073,563</u>	<u>\$9,337,782</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2017) 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:	
2018	\$1,055,954
2019	1,593,460
2020	965,555
2021	(1,284,191)
2022	(936,004)

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 8. 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 5.48, 5.57, 5.72 and 6.44 years for 2017, 2016, 2015 and 2014 amounts, respectively.

**Additional Information**

Local Group Collective balances at December 31, 2017 and 2016 are as follows:

	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Collective deferred outflows of resources	\$6,424,455,842	\$8,685,338,380
Collective deferred inflows of resources	5,700,625,981	870,133,595
Collective net pension liability	23,278,401,588	29,617,131,759
Commission's Proportion	0.1926936638%	0.1862240656%

**Actuarial Assumptions**

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which rolled forward to June 30, 2017. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	2.25 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	7.00 Percent

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 8. 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, 2016 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 (7.00% at June 30, 2017) 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**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**(CONTINUED)**

**NOTE 8. 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>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

**Discount Rate**

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

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

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

assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 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, 2017, 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, 2017		
	1% Decrease <u>4.00%</u>	At Current Discount Rate <u>5.00%</u>	1% Increase <u>6.00%</u>
Commission's proportionate share of the pension liability	\$55,646,918	\$44,856,005	\$35,865,837

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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

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

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

**Plan Description**

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

**Funding Policy**

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

**Annual OPEB Cost and Net OPEB Obligation**

The Water Commission's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Under State guidelines, the Commission is required to obtain an actuarial calculation every two years. The following table shows the components of the Commission's last annual OPEB cost (for the 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, 2017 AND 2016  
(CONTINUED)**

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

**Components of Net OPEB Obligation for 2017\***

Annual Required Contribution	1,923,747
Interest on Net OPEB Obligation	344,093
Adjustment to Annual Required Contribution	<u>(370,106)</u>
Annual OPEB Cost (Expense)	1,897,734
Contributions Made or Accrued	<u>(1,175,755)</u>
Increased in Net Obligation	<u><u>721,979</u></u>
Net OPEB Obligation (BOY)	5,309,884
Net OPEB Obligation (EOY)	6,031,863

\*Based on January 1, 2016 actuarial valuation.

In 2017, the Commission accrued \$6,031,863 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, 2017, the most recent actuarial date, the plan was 25.84% funded. The actuarial accrued liability for benefits was \$29,375,217 and the actuarial value of assets was \$6,031,863 resulting in an unfunded actuarial accrued liability (UAAL) of \$23,343,354. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,318,000 and the ratio of the UAAL to the covered payroll was 206.25%.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 9. 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, 2016 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 7% initially for 2010, 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, 2016 was 30 years.

**NOTE 10. 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, 2017 AND 2016  
(CONTINUED)**

**NOTE 10. 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, 2017 and 2016, the amounts required by bond resolution were as follows:

	<u>2017</u>	<u>2016</u>
Cash and Investments on Hand	<u>1,830,699</u>	<u>1,798,746</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 and 2007A&B 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, 2017, 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	1,589,873	4,384,887
Series 2002A&B NJEIT Bonds	85,003	631,874
Series 2003 Refunding Bonds	1,897,500	3,588,000
Series 2007A&B NJEIT Bonds	149,102	250,750
Series 2009A Bonds	121,000	
Series 2009B Bonds	1,218,500	
Series 2009C Bonds	281,000	
Series 2010A&B NJEIT Bonds	284,434	
Series 2014 Bonds	1,576,438	
Series 2015 Refunding Bonds	879,500	
Series 2017A&B Refunding Bonds	1,792,500	

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

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

In addition to the insurance policies, the Commission has reserved \$12,492,239 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, 2017 and 2016, the amounts required by bond resolution were as follows:

	<u>2017</u>	<u>2016</u>
Cash and Investments on Hand	3,032,504	3,008,006
Renewal and Extension Requirement	<u>3,000,000</u>	<u>3,000,000</u>
Excess (Deficit)	<u>32,504</u>	<u>8,006</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, 2017 and 2016, the amounts required by bond resolution were as follows:

	<u>2017</u>	<u>2016</u>
Cash and Investments on Hand	<u>9,658,003</u>	<u>8,325,453</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, 2017 AND 2016  
(CONTINUED)**

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

At December 31, 2017, the bond service coverage ratio was calculated as follows:

	<u>2017</u>	<u>2016</u>
Net Operating Income (including interest and Finance charges, excluding depreciation)	34,836,648	29,083,370
Bond Service Requirement	15,805,716	16,356,865
Debt Service Coverage Ratio	2.20	1.78

All principal and interest payments were made on a timely basis during the 2017 fiscal year and through the date of this report.

**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2017, 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 12. RISK MANAGEMENT**

The Passaic Valley Water Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission currently has Property, Liability, Worker's Compensation, Public Officials Liability and Public Employee Dishonesty insurance purchased through various policies. There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage. As of December 31, 2017, coverage was as follows:

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 12. 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 13. DEFERRED COMPENSATION PLAN**

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

**NOTE 14. OTHER MATTERS**

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

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 14. 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 15. 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>2017</u>	<u>2016</u>
Designated for Self-Insurance	<u>608,084</u>	<u>608,084</u>
Total Designated - Unrestricted	<u>608,084</u>	<u>608,084</u>

The remaining, undesignated portion of the Commission's net position was comprised of the following at December 31, 2017 and 2016, as restated:

	<u>2017</u>	Restated <u>2016</u>
Pension Related	(40,046,364)	(37,233,980)
Available for Use in Future Budgets	<u>43,332,149</u>	<u>30,153,603</u>
	<u>3,285,785</u>	<u>(7,080,377)</u>

**NOTE 16. SUBSEQUENT EVENTS**

The Commission has evaluated subsequent events through May 11, 2018, the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(CONTINUED)**

**NOTE 17. PRIOR PERIOD ADJUSTMENTS**

**Net Other Post-Employment Benefits Obligation**

At December 31, 2016, the Authority had not updated the net Other Post-Employment Benefit (OPEB) to a measurement date acceptable under current accounting standards because the actuarial information was not available at that time. Since issuing the December 31, 2016 financial statements, the Authority has since received the actuarial prepared GASB No. 45 valuation and has adjusted the December 31, 2016 balances as follows:

	Balance Dec. 31, 2016 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance Dec. 31, 2016 as <u>Restated</u>
Liabilities:			
Net OPEB Obligation	5,010,270	299,614	5,309,884
Net Position:			
Unrestricted: Undesignated	(6,780,763)	(299,614)	(7,080,377)

**Required Supplementary Information - Part II**

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**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)
<sup>(1)</sup> 12/31/2017	\$6,031,863	\$29,375,217	\$23,343,354	25.84%	\$11,318,000	206.25%
12/31/2016	5,309,884	26,375,217	24,065,333	22.06	11,318,000	212.63
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

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

**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
12/31/2017	\$1,923,747	61.96%	\$6,031,863	7.50%
12/31/2016	1,923,747	61.96	5,309,884	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 Four Fiscal Years**

	<u>Measurement Date Ending June 30,</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's Proportion of the Net Pension Liability	0.1926936638	0.1862240656%	0.1800307948%	0.1628908896%
Commission's Proportionate Share of the Net Pension Liability	\$44,856,005	\$55,154,227	\$40,413,306	\$30,497,630
Commission's Covered-Employee Payroll	\$13,206,006	\$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	339.66%	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 Four Fiscal Years**

	<u>Fiscal Year Ended December 31,</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,575,745	\$1,547,782	\$1,441,276	\$1,286,870
Contributions in Relation to the Contractually Required Contribution	<u>(1,575,745)</u>	<u>(1,547,782)</u>	<u>(1,441,276)</u>	<u>(1,286,870)</u>
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Commission's Covered-Employee Payroll	\$13,206,006	\$13,223,975	\$12,797,853	\$12,172,446
Contributions as a Percentage of Commission's Covered-Employee Payroll	11.93%	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.

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**PASSAIC VALLEY WATER COMMISSION**  
**Notes to Required Supplementary Information**  
**For the Year ended December 31, 2017**

**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:	N/A
Discount Rate:	7.50%
Mortality:	SOA RP2014 adjusted to 2006 Total Dataset Headcount - weighted mortality with Scale MP-2016.
Turnover:	T5Standard table
Salary Scale:	4.50%
Marital Assumption:	60% 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 7% in 2017 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, 2017**  
**(continued)**

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

Changes in Benefit Terms - None

Changes in Assumptions - The discount rate changed from 3.98% as of June 30, 2016 to 5.00% as of June 30, 2017, in accordance with Paragraph 44 of GASB Statement No. 67.

## **Supplementary Schedules**

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PASSAIC VALLEY WATER COMMISSION  
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Net Investment in Capital Assets	Current Debt Service Reserve	Future Debt Service Reserve	Restricted Renewal and Extension Reserve	Operations Reserve	Unemployment Compensation Insurance	Unrestricted		Total
							Designated	Undesignated	
Operating Revenue:									
Service Agreements								82,561,015	82,561,015
Miscellaneous								7,514,264	7,514,264
Sale of Scrap								14,595	14,595
Total Operating Revenue		-	-	-	-	-	-	90,089,874	90,089,874
Operating Expense:									
Cost of Providing Services								45,655,796	45,655,796
Administrative and General								11,429,122	11,429,122
Depreciation	11,242,334								11,242,334
Total Operating Expense	11,242,334	-	-	-	-	-	-	57,084,918	68,327,252
Operating Income	(11,242,334)	-	-	-	-	-	-	33,004,956	21,762,622
Non-Operating Revenue (Expense):									
Interest Income								846,485	846,485
Finance Charges								985,207	985,207
Interest Expense								(5,644,586)	(5,644,586)
Bond Insurance Costs	(233,464)							(233,464)	(233,464)
Other Postemployment Benefit Obligation								(721,979)	(721,979)
Amortization	13,844								13,844
	(219,620)	-	-	-	-	-	-	(4,534,873)	(4,754,493)
Net Income (Loss) Before Transfers	(11,461,954)	-	-	-	-	-	-	28,470,083	17,008,129
Transfers:									
Capital Expenditures	10,607,597							(10,607,597)	-
Proceeds from Issuance of Debt	(17,925,000)							17,925,000	-
Bonds Refunded	15,225,000							(15,225,000)	-
Bond Payments	10,657,267							(10,657,267)	-
Lease Payments	37,790							(37,790)	-
NJEIT Receipts	(682,686)							682,686	-
Other Transfers	(412,178)	17,940	(757,113)		1,332,550	2,754		(183,953)	-
Contributed Capital:									
Principal Forgiveness	7,920,148								7,920,148
Increase/(Decrease) in Net Position	13,965,984	17,940	(757,113)	-	1,332,550	2,754	-	10,366,162	24,928,277
Net Position - Jan. 1, 2017, Restated	54,555,032	1,371,419	13,249,352	3,000,000	8,325,453	274,478	608,084	(7,080,377)	74,303,441
Net Position - December 31, 2017	68,521,016	1,389,359	12,492,239	3,000,000	9,658,003	277,232	608,084	3,285,785	99,231,718

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## PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED AND RESTRICTED ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Construction Accounts	Bond Service Accounts	Bond Reserve Account	Renewal and Extension Account
<b>Cash, Cash Equivalents and Investments - January 1, 2017</b>	3,702,611	1,798,746	13,249,352	3,008,006
<b>Cash Receipts:</b>				
Interest on Investments	2,666	1,002	148,615	24,498
Service Agreements				
Miscellaneous		17,925,000		
Finance Charges				
Transfers	6,902,481	13,618,791		
<b>Total Cash Receipts</b>	6,905,147	31,544,793	148,615	24,498
<b>Cash and Investments Available</b>	10,607,758	33,343,539	13,397,967	3,032,504
<b>Cash Disbursements:</b>				
Bond Principal Payments		25,882,267		
Interest Payments		5,630,603		
Operations				
Capital and Other Expenses	10,607,597			
Transfers				
<b>Total Cash Disbursements</b>	10,607,597	31,512,870	-	-
<b>Cash, Cash Equivalents and Investments - December 31, 2017</b>	161	1,830,669	13,397,967	3,032,504
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	161	1,830,669	1,199,239	3,032,504
Investments	-	-	12,198,728	
	161	1,830,669	13,397,967	3,032,504
Unrestricted	-	-	905,728	32,504
Restricted	161	1,830,669	12,492,239	3,000,000
	161	1,830,669	13,397,967	3,032,504

## 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, 2017**

	Operation Reserve Account	Unemployment Insurance Account	General Operating Accounts	Total
<b>Cash, Cash Equivalents and Investments - January 1, 2017</b>	8,325,453	274,478	21,702,379	52,061,025
<b>Cash Receipts:</b>				
Interest on Investments	7,943	1,549	660,212	846,485
Service Agreements			88,623,033	88,623,033
Miscellaneous		1,205	681,481	18,607,686
Finance Charges			985,207	985,207
Transfers	1,324,607			21,845,879
<b>Total Cash Receipts</b>	1,332,550	2,754	90,949,933	130,908,290
<b>Cash and Investments Available</b>	9,658,003	277,232	112,652,312	182,969,315
<b>Cash Disbursements:</b>				
Bond Principal Payments				25,882,267
Interest Payments				5,630,603
Operations			54,151,584	54,151,584
Capital and Other Expenses			3,328,062	13,935,659
Transfers			21,845,879	21,845,879
<b>Total Cash Disbursements</b>	-	-	79,325,525	121,445,992
<b>Cash, Cash Equivalents and Investments - December 31, 2017</b>	9,658,003	277,232	33,326,787	61,523,323
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	9,658,003	133,232	26,430,139	42,283,947
Investments		144,000	6,896,648	19,239,376
	9,658,003	277,232	33,326,787	61,523,323
Unrestricted	-	-	33,326,787	34,265,019
Restricted	9,658,003	277,232	-	27,258,304
	9,658,003	277,232	33,326,787	61,523,323

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	FY 2017 Adopted Budget	FY 2017 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
<b>Revenues:</b>					
Service Charges	54,860,107	54,860,107	52,144,987	(2,715,120)	50,953,876
Service Agreements (Bulk)	30,270,285	30,270,285	30,416,028	145,743	31,477,712
Fines / Penalties	-	-	985,207	985,207	311,320
Fire Line Service	5,943,613	5,943,613	5,625,425	(318,188)	5,480,873
Other Services and Repairs	6,107,256	6,107,256	1,903,434	(4,203,822)	2,095,800
Non-operating Investments	500,000	500,000	846,485	346,485	627,895
<b>Total Operating Revenues</b>	<b>97,681,261</b>	<b>97,681,261</b>	<b>91,921,566</b>	<b>(5,759,695)</b>	<b>90,947,476</b>

**PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	FY 2017 Adopted Budget	FY 2017 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
<b>Expenses:</b>					
<b>Operating:</b>					
<b>Cost of Providing Services:</b>					
Executive					
Salaries and Wages	618,800	618,800	572,233	46,567	629,494
Other Expenses	40,500	40,500	53,874	(13,374)	34,971
Legal					
Salaries and Wages	339,900	339,900	316,346	23,554	357,596
Other Expenses	297,000	297,000	415,278	(118,278)	435,698
Engineering					
Salaries and Wages	1,100,300	1,100,300	915,761	184,539	765,040
Other Expenses	591,000	591,000	552,386	38,614	395,506
Purchasing					
Salaries and Wages	178,700	178,700	201,926	(23,226)	230,179
Other Expenses	7,100	7,100	4,571	2,529	4,579
Accounting					
Salaries and Wages	900,100	900,100	926,409	(26,309)	876,023
Other Expenses	169,000	169,000	68,013	100,987	82,041
Customer Service					
Salaries and Wages	848,000	848,000	914,779	(66,779)	816,965
Other Expenses	892,150	892,150	966,923	(74,773)	1,046,297
Information Technology					
Personnel	538,000	538,000	150,085	387,915	135,520
Salaries and Wages	536,300	536,300	533,527	2,773	529,083
Other Expenses	53,000	53,000	74,958	(21,958)	27,102
Purification					
Salaries and Wages	1,697,900	1,697,900	1,478,040	219,860	1,419,206
Other Expenses	80,600	80,600	9,339	71,261	10,782
Process	8,140,000	8,140,000	6,176,335	1,963,665	7,448,384

**PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	FY 2017 Adopted Budget	FY 2017 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
<b>Operating:</b>					
<b>Cost of Providing Services (Continued):</b>					
Pumping					
Salaries and Wages	1,112,500	1,112,500	943,320	169,180	1,067,615
Other Expenses	5,866,500	5,866,500	4,965,623	900,877	4,952,661
Plant:					
Salaries and Wages	4,145,200	4,145,200	3,345,089	800,111	3,402,738
Other Expenses	2,005,660	2,005,660	1,755,460	250,200	1,842,835
Construction (Non-Capital Expenditures)	475,000	475,000	409,285	65,715	309,294
Distribution					
Salaries and Wages	4,657,200	4,657,200	4,090,371	566,829	4,460,295
Other Expenses	69,000	69,000	145,596	(76,596)	161,249
Maintenance	1,138,000	1,138,000	1,437,002	(299,002)	864,455
Garage	430,000	430,000	313,613	116,387	332,785
Laboratory:					
Salaries and Wages	1,641,500	1,641,500	1,472,452	169,048	1,405,893
Other Expenses	162,000	162,000	40,627	121,373	107,100
General Chemistry	274,000	274,000	203,444	70,556	106,266
Trace Analysis	161,000	161,000	126,654	34,346	247,637
Microbiology	124,000	124,000	51,708	72,292	50,875
Online Gas Instruments					
Online Water Instruments	153,000	153,000	116,954	36,046	5,104
Field Gas Instruments	40,000	40,000	810	39,190	6,108
NJDWSC Budget Expense	10,500,000	10,500,000	9,657,696	842,304	9,657,694
<b>Sub-total Cost of Providing Services</b>	<b>49,982,910</b>	<b>49,982,910</b>	<b>43,406,487</b>	<b>6,576,423</b>	<b>44,225,070</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>FY 2017 Adopted Budget</b>	<b>FY 2017 Budget as Amended</b>	<b>Current Year Actual</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Administrative Expenses:</b>					
Stationary, Postage and Supplies	355,000	355,000	328,219	26,781	335,550
Miscellaneous	250,000	250,000	248,005	1,995	245,042
Telephone	400,000	400,000	441,073	(41,073)	423,061
Wanaque So. - Lease Expense	100,000	100,000	94,298	5,702	99,075
Legal Advertisements	40,000	40,000	17,982	22,018	25,209
Membership Affiliations	57,000	57,000	10,096	46,904	48,353
General Liability Insurance	750,000	750,000	711,086	38,914	700,596
Fees and Taxes	928,000	928,000	558,106	369,894	670,608
Bad Debt Expense	50,000	50,000	127,958	(77,958)	-
<b>Employee Benefits:</b>					
Worker's Compensation	387,000	387,000	366,344	20,656	719,133
Hospitalization / Prescription	7,281,800	7,281,800	4,675,617	2,606,183	6,669,434
Group Life Insurance	10,000	10,000	2,770	7,230	1,615
Pension	2,100,000	2,100,000	1,773,184	326,816	1,772,346
Social Security / Medicare	1,195,048	1,195,048	1,143,103	51,945	1,088,621
Unemployment and Disability	88,961	88,961	48,597	40,364	54,828
Dental	150,000	150,000	129,563	20,437	136,641
Other	40,000	40,000	33,009	6,991	30,193
<b>Professional Services:</b>					
Auditing	45,000	45,000	43,000	2,000	40,500
Other	155,000	155,000	114,037	40,963	71,574
<b>Sub-total Administrative</b>	<b>14,382,809</b>	<b>14,382,809</b>	<b>10,866,047</b>	<b>3,516,762</b>	<b>13,132,379</b>
<b>Sub-total Operating</b>	<b>64,365,719</b>	<b>64,365,719</b>	<b>54,272,534</b>	<b>10,093,185</b>	<b>57,357,449</b>



**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>FY 2017 Adopted Budget</b>	<b>FY 2017 Budget as Amended</b>	<b>Current Year Actual</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Other Costs Funded by Operating Revenues:</b>					
Debt Service:					
Interest Expense	5,699,599	5,699,599	5,644,586	55,013	6,481,709
Capital Leases			72,211	(72,211)	70,108
Bond Principal	10,729,477	10,729,477	10,657,267	72,210	10,280,127
Reserves:					
Debt Service Reserve	1,200,000	1,200,000	-	1,200,000	-
Operations and Maintenance Reserve	651,346	651,346	-	651,346	-
<b>Sub-total Other Costs</b>	<b>18,280,422</b>	<b>18,280,422</b>	<b>16,374,064</b>	<b>1,906,358</b>	<b>16,831,944</b>
<b>Total Costs Funded by Operating Revenues</b>	<b>82,646,141</b>	<b>82,646,141</b>	<b>70,646,598</b>	<b>11,999,543</b>	<b>74,189,393</b>
<b>Add: Excess / (Deficit)</b>	<b>15,035,120</b>	<b>15,035,120</b>	<b>21,274,968</b>	<b>6,239,848</b>	<b>16,758,083</b>
	<b>97,681,261</b>	<b>97,681,261</b>	<b>91,921,566</b>	<b>5,759,695</b>	<b>90,947,476</b>
<b>Excess of Revenues Over Expenses:</b>			<b>21,274,968</b>		<b>16,758,083</b>
<b>Reconciliation of Budgetary Basis to GAAP:</b>					
Depreciation Expense			(11,242,334)		(11,117,337)
Amortization Expense			13,844		214,943
Bond Issuance Costs			(233,464)		-
Capital Leases			72,211		70,108
Bond Principal			10,657,267		10,280,127
Pension Adjustment			(2,812,384)		(4,506,657)
Other Postemployment Benefit Obligation			(721,979)		(721,979)
<b>Total Adjustments</b>			<b>(4,266,839)</b>		<b>(5,780,795)</b>
<b>Change in Net Position</b>			<b>17,008,129</b>		<b>10,977,288</b>

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## PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CAPITAL BUDGET PROGRAM  
FUNDED BY FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>FY 2017 Adopted Budget</b>	<b>FY 2017 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>
<b>Financing Sources:</b>				
Unrestricted Net Position Utilized	22,240,000	22,240,000	1,792,374	20,447,626
Debt Authorization	10,000,000	10,000,000	3,196,915	6,803,085
Other Sources	2,800,000	2,800,000	5,618,308	(2,818,308)
	<u>35,040,000</u>	<u>35,040,000</u>	<u>10,607,597</u>	<u>24,432,403</u>
<b>Capital Outlays:</b>				
Recurring Construction:				
Cleaning & Lining	2,884,000	2,884,000	2,884,694	(694)
Main Replacement	340,000	340,000	33,219	306,781
Valve Replacement	1,730,000	1,730,000	1,730,464	(464)
Meter Replacement	2,000,000	2,000,000	265,734	1,734,266
Plant / Distribution	618,000	618,000	265,441	352,559
Vehicle Repair	660,000	660,000	357,318	302,682
Production and Pumping:				
Main Pump Station Discharge Valves	500,000	500,000	-	500,000
Rehabilitate Chemical System	400,000	400,000	39,496	360,504
MCC Pump Drives	1,200,000	1,200,000	6,652	1,193,348
Hydro-Turbine Generators	1,500,000	1,500,000	35,290	1,464,710
Residuals Treatment	1,025,000	1,025,000	20,061	1,004,939
Misc. Plan and Chem Feed	75,000	75,000	26,804	48,196
Distribution:				
Lodi Phases 2 and 3	2,500,000	2,500,000	9,104	2,490,896
Large Valve Program	500,000	500,000	-	500,000
Open Finished Water Reservoirs	10,000,000	10,000,000	1,396,810	8,603,190
Lodi Tank	1,900,000	1,900,000	1,800,105	99,895
Lead Service Replacements	3,000,000	3,000,000	370,949	2,629,051
Plant and General Structures:				
Replace Windows - Main Pump Station	525,000	525,000	78,936	446,064
Great Falls - Misc. Reliability Enhancements	500,000	500,000	22,500	477,500
Fencing - New Street & Levine	70,000	70,000	9,841	60,159
Fencing - Main Pump Station	28,000	28,000	-	28,000
Instrumentation, Controls and Information Technologies:				
SCADA	1,010,000	1,010,000	366,279	643,721
Commercial System Upgrade	200,000	200,000	174,226	25,774
Security System Upgrade	200,000	200,000	-	200,000
CMMS and Related GIS	1,500,000	1,500,000	107,467	1,392,533
Laboratory/Water Quality Systems	155,000	155,000	103,706	51,294
ICP/MS or ICP	20,000	20,000	-	20,000
Non-Budgeted Capital Expenditures	-	-	502,501	(502,501)
<b>Total Capital Outlays</b>	<u>35,040,000</u>	<u>35,040,000</u>	<u>10,607,597</u>	<u>24,432,403</u>
<b>Total Costs Funded by Capital Revenue</b>	<u>35,040,000</u>	<u>35,040,000</u>	<u>10,607,597</u>	<u>24,432,403</u>
<b>Add: Excess</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>35,040,000</u>	<u>35,040,000</u>	<u>10,607,597</u>	<u>24,432,403</u>

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PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
NJ/EIT Bonds (Series 2001A&B) Trust Portion - NSRF (Refunded with Series 2007A)	10/15/2001							
		5.00%	2018	1,830,129.68				
		5.00%	2019	1,926,739.33				
		4.75%	2020	2,023,684.41				
		4.75%	2021	2,114,810.96				
					9,639,142		1,744,778	7,894,364
NJ/EIT Bonds (Series 2001A&B) Fund Portion - NSRF	10/15/2001							
		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				
					7,754,535		1,551,464	6,203,071
NJ/EIT Bonds (Series 2001A&B) Trust Portion - CW (Refunded with Series 2007A)	10/15/2001							
		5.00%	2018	232,920.94				
		5.00%	2019	247,386.90				
		4.75%	2020	256,996.71				
		4.75%	2021	271,496.00				
					1,232,249		223,448	1,008,801
NJ/EIT Bonds (Series 2001A&B) Fund Portion - CW	10/15/2001							
		5.00%	2018	197,386.68				
		5.00%	2019	199,216.72				
		4.75%	2020	197,220.31				
		4.75%	2021	198,667.87				
					991,043		198,551	792,492

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
NJ/EIT Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/2002	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	140,515.36			103,048	622,648
					725,696			
NJ/EIT Bonds (Series 2002A&B) Fund Portion	10/15/2002	5.00%	2018	148,235.19			215,704	148,235
					363,939			
NJ/EIT Bonds (Series 2002A&B) Trust Portion - CW (Refunded with Series 2007B)	10/15/2002	5.00%	2018	15,328.85				
		5.00%	2019	14,528.30				
		5.00%	2020	13,810.47				
		5.80%	2021	17,791.44				
		4.75%	2022	17,011.56			11,341	78,471
					89,812			
NJ/EIT Bonds (Series 2002A&B) Fund Portion - CW	10/15/2002	5.00%	2018	674.88			26,559	675
					27,234			

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
Refunding Bonds (Series 2003)	12/15/2003	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				
					22,245,000	3,270,000		18,975,000

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Trust Portion	11/9/2007	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	845,000		60,000	785,000
NJ/EIT Bonds (Series 2007A&B) Fund Portion	11/9/2007	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	830,667		124,651	706,016
Refunding Bonds (Series 2007C) (Refunded with Series 2015)	11/9/2007				335,000		335,000	



PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
Water Supply Revenue Bonds (Series 2009A)	12/15/2009	5.50%	2018	380,000.00				
		5.50%	2019	405,000.00				
		6.00%	2020	425,000.00			2,325,000	1,210,000
					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
Water Supply Revenue Bonds (Series 2009C)	12/15/2009	6.25%	2018	880,000.00				
		6.25%	2019	935,000.00				
		7.00%	2020	995,000.00			14,090,000	2,810,000
					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, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
NJET Bonds (Series Fall 2010A) Fund Portion	10/5/2010	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	731,671
					804,394			
NJET Bonds (Series 2010B) Trust Portion	12/2/2010	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				
							110,000	1,750,000

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
Water Supply Revenue Bonds (Series 2014)	12/15/2014	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				
					18,945,000		795,000	18,150,000

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
Water Supply Refunding Bonds (Series 2015)	11/5/2015	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				
					9,600,000		625,000	8,975,000

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
NJDEP Bonds (Series 2017) Fund Portion Project 1605002-02.5A	6/19/2017	n/a	2019	46,262.26				
			2020	69,393.39				
			2021	69,393.39				
			2022	69,393.39				
			2023	69,393.39				
			2024	69,393.39				
			2025	69,393.39				
			2026	69,393.39				
			2027	69,393.39				
			2028	69,393.39				
			2029	69,393.39				
			2030	69,393.39				
			2031	69,393.39				
			2032	69,393.39				
			2033	69,393.39				
			2034	69,393.39				
			2035	69,393.39				
			2036	69,393.39				
			2037	69,393.39				
			2038	69,393.39				
			2039	69,393.39				
			2040	69,393.39				
			2041	69,393.39				
			2042	69,393.39				
			2043	69,393.39				
			2044	69,393.39				
			2045	69,393.39				
			2046	69,393.60				
						1,919,884		1,919,884

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
NJDEP Bonds (Series 2017) Fund Portion Project 1605002-025B	6/19/2017	n/a	2019	526,278.53				
		n/a	2020	789,417.79				
		n/a	2021	789,417.79				
		n/a	2022	789,417.79				
		n/a	2023	789,417.79				
		n/a	2024	789,417.79				
		n/a	2025	789,417.79				
		n/a	2026	789,417.79				
		n/a	2027	789,417.79				
		n/a	2028	789,417.79				
		n/a	2029	789,417.79				
		n/a	2030	789,417.79				
		n/a	2031	789,417.79				
		n/a	2032	789,417.79				
		n/a	2033	789,417.79				
		n/a	2034	789,417.79				
		n/a	2035	789,417.79				
		n/a	2036	789,417.79				
		n/a	2037	789,417.79				
		n/a	2038	789,417.79				
		n/a	2039	789,417.79				
		n/a	2040	789,417.79				
		n/a	2041	789,417.79				
		n/a	2042	789,417.79				
		n/a	2043	789,417.79				
		n/a	2044	789,417.79				
		n/a	2045	789,417.79				
		n/a	2046	789,417.93				
						21,840,559		21,840,559

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2017	Issued	Redeemed	Balance Dec. 31, 2017
			Date	Amount				
Water Supply Refunding Bonds (Series 2017A)	9/27/2017	4.00%	2021	450,000.00				
		5.00%	2022	470,000.00				
		5.00%	2023	490,000.00				
		5.00%	2024	515,000.00				1,925,000
Water Supply Refunding Bonds (Series 2017B)	9/27/2017	1.57%	2018	405,000.00				
		1.77%	2019	410,000.00				
		1.93%	2020	415,000.00				
		2.09%	2021	1,485,000.00				
		2.22%	2022	1,515,000.00				
		2.42%	2023	1,555,000.00				
		2.62%	2024	1,590,000.00				
		2.74%	2025	1,630,000.00				
		2.84%	2026	1,675,000.00				
		2.94%	2027	1,720,000.00				
		3.04%	2028	1,775,000.00				
		3.14%	2029	1,825,000.00				16,000,000
Current Portion Noncurrent Portion					108,908,711	41,685,443	25,882,267	124,711,887
					10,657,268			11,371,257
					98,251,443			113,340,630
					108,908,711			124,711,887
Refunded Paid/Deobligated							15,225,000	
							10,657,267	
							25,882,267	

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

The following officials were in office at December 31, 2017:

<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		Chief Financial Officer
James J. Gallagher		Director of Personnel
George T. Hanley, Esq.		General Counsel
Louis Amodio		Administrative Secretary

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

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**Single Audit Section**

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Passaic Valley Water Commission, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated May 11, 2018.

### ***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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (Finding 2017-002).



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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (Finding 2017-01).

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Passaic Valley Water Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying schedule of findings and questioned costs as Finding 2017-03.

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

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

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

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

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

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

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

May 11, 2018

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

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE**

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

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

We have audited the Passaic Valley Water Commission's compliance with the types of compliance requirements described in the Office of Management and Budget (OMB)'s *Compliance Supplements* that could have a direct and material effect on each of the Passaic Valley Water Commission's major federal programs for the year ended December 31, 2017. The Passaic Valley Water Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

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

Our responsibility is to express an opinion on compliance for each of the Passaic Valley Water Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Passaic Valley Water Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the Passaic Valley Water Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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

Management of the Passaic Valley Water Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Passaic Valley Water Commission's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Passaic Valley Water Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

### **Report on Schedule of Expenditures of Federal Awards by Uniform Guidance**

We have audited the financial statements of the Passaic Valley Water Commission as of and for the year ended December 31, 2017, and have issued our report there dated May 11, 2018 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information of the management and the New Jersey State Department of Community Affairs, other state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



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

May 11, 2018

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PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

DECEMBER 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	CFDA Number	State Agency Account Number	Grant Award	Grant Receipts	Grant Period		Cumulative Grant Expenditures
					From	To	
U.S. Department of Housing and Urban Development:							
Pass Through New Jersey Department of Environmental Protection							
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants:							
Project No: 1605002-25B	14.269	042-4840-707-044	\$ 21,840,559	325,851	01/01/17	12/31/17	1,002,003
Project No: 1605002-25B - Prin. Forgiveness	14.269	042-4840-707-044	\$ 7,920,148	118,165	01/01/17	12/31/17	370,614
U.S. Department of Environmental Protection:							
Pass Through New Jersey Department of Environmental Protection							
Capitalization Grants for Drinking Water State Revolving Fund:							
Project No: 1605002-25A	66.468	042-4840-707-003	1,919,884	238,670	01/01/17	12/31/17	238,670
Total Federal Financial Assistance				682,686			1,611,287

See accompanying notes to the schedules of Federal and State Awards.

**SCHEDULE 8**

**PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

**DECEMBER 31, 2017**

<u>State Funding Department</u>	State Account Number	Grant Award	Grant Receipts	Grant Period		Grant Expenditures	Cumulative Grant Expenditures
				From	To		
<u>New Jersey Department of Environmental Protection:</u>							
Administrative Operations - New Street Reservoir Dam	042-4800-526-004	\$ 290,000	290,000	01/01/17	12/31/17	-	290,000
<b>Total State Financial Assistance</b>			290,000			-	290,000

## PASSAIC VALLEY WATER COMMISSION

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS DECEMBER 31, 2017

#### NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal and State Awards present the activity of all federal and state award programs of the Passaic Valley Water Commission. The Commission is defined in Note 1 to the Commission's basic financial statements. All state awards received directly from state agencies, as well as state financial assistance passed through other government agencies is included on the Schedule of Expenditures of State Financial Assistance.

#### NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Awards and Financial Assistance are presented on the accrual basis of accounting. These bases of accounting are described in Notes 2(A) to the Commission's basic financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations* and Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid.

#### NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Awards and financial assistance are reported in the Commission's basic financial statements on a GAAP basis as follows:

	<u>NJ Environmental Infrastructure Trust</u>		<u>NJ DEP Administrative Operations</u>	<u>Total</u>
	<u>New Jersey Environmental Trust</u>	<u>New Jersey Environmental Fund</u>		
Balance - 12/31/16	\$ -0-	\$ -0-	\$ -0-	\$0
Grants Awarded	29,760,707	1,919,884	290,000	31,970,591
Less: Grants Received	<u>444,016</u>	<u>238,670</u>	<u>290,000</u>	<u>972,686</u>
Balance - 12/31/17	<u>\$29,316,691</u>	<u>\$1,681,214</u>	<u>\$ -0-</u>	<u>\$30,997,905</u>

#### NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

#### NOTE 5. INDIRECT COST RATE

The Passaic Valley Water Commission has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

*Section I - Summary of Auditor's Results*

**Financial Statements**

Type of auditor's report issued: qualified

Internal control over financial reporting:

1. Reportable condition(s) identified that are not considered to be material weaknesses? X yes        none reported
2. Material weakness(es) identified? X yes        none

Noncompliance material to basic financial statements noted?        yes X no

**Federal Awards**

Internal Control over major programs:

1. Significant deficiencies identified that are not considered to be material weaknesses?        yes X none reported
2. Material weakness(es) identified?        yes X no

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 Section .510(a) of the Uniform Guidance?        yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.269</u>	<u>Hurricane Sandy Community Development Block Grant:</u> <u>Disaster Recovery Grants</u>
<u>66.468</u>	<u>Capitalization Grants for Drinking Water:</u> <u>State Revolving Fund</u>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?        yes X no

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

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

**FINDING: 2017-01\***

**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, 2017**

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

**FINDING 2017-02**

**Statement of Condition**

There were material misstatements in the financial statements for the period under audit that were not initially identified by management.

**Criteria**

Auditing standards suggest that such misstatements, although subsequently corrected by management, are indicators of a weakness in an entity's internal controls over financial reporting.

**Effect**

The Commission failed to record \$23,760,443 in bonds that were issued during the period through the New Jersey Environmental Infrastructure Trust ("NJEIT"). This resulted in understatements of assets by \$31,680,591, liabilities by \$23,760,443 and net position by \$7,920,148. Additionally, \$682,686 in reimbursements from the Trust were initially misclassified as revenue.

**Cause**

There appears to be a lack of effective communication between the Commission's executive, engineering and finance departments.

**Recommendation**

The Commission should consider improving communications between these three departments. The executive department should make the finance department aware of authorizations of new debt. The engineering department should share correspondence relating to grants, NJEIT reimbursements or deobligations of debt. The finance department should record all transactions based on this information and report back to the executive and engineering department on a regular basis to ensure nothing is overlooked.

**Response**

Management acknowledges this finding and will take the appropriate steps to remedy it in the 2018 year..

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2017**

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

**FINDING 2017-03**

**Statement of Condition**

The Commission is not depositing employee's unemployment contributions (SUI) into a separate trust fund.

**Criteria**

Entities who elect to fund SUI under the Benefit Reimbursement Method withhold a portion of the employee's contributions in a separate trust fund rather than submit directly to the State. As unemployment claims arise, the State bills the government directly and amounts are paid directly through the trust account.

**Effect**

The unemployment account is not properly utilized. Employee unemployment contributions are erroneously being submitted to the State of New Jersey.

**Cause**

Shortly after switching payroll service providers in 2017, the Commission began paying all SUI contributions directly to the State of New Jersey quarterly.

**Recommendation**

All employee contributions should be deposited into a separate trust. Additionally, the Commission should request reimbursement for all amounts erroneously paid to the State of New Jersey.

**Response**

Management acknowledges this finding and will take the appropriate steps to remedy it in the 2018 fiscal year.

**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**  
(continued)

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

No matters were reported

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**PASSAIC VALLEY WATER COMMISSION**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

**Status of Prior Year Findings**

N/A – There were no prior year audit findings.

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**PART II**

**\* \* \***

**COMMENTS AND RECOMMENDATIONS**

**YEAR ENDED NOVEMBER 30, 2017**

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# PASSAIC VALLEY WATER COMMISSION

## GENERAL COMMENTS

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

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

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

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

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

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

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

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

**PASSAIC VALLEY WATER COMMISSION**

**GENERAL COMMENTS, CONTINUED**

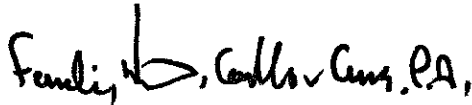
A review was performed on all prior year recommendations and corrective action was taken on all items, except those noted with an asterisk "\*\*".

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

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

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

Respectfully submitted,



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