

**PASSAIC VALLEY WATER COMMISSION**  
**REPORT OF AUDIT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2019 AND 2018**

# **PASSAIC VALLEY WATER COMMISSION**

## **CONTENTS**

<b><u>Page</u></b>		<b><u>Exhibits</u></b>
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>		
		<b><u>Schedules</u></b>
69	Schedule of Changes in Net OPEB Liability	RSI-1
70	Schedule of the Commission's Proportionate Share of the Net Pension Liability- Public Employees' Retirement System (PERS)	RSI-2
71	Schedule of the Commission's Contributions Public Employees' Retirement System (PERS)	RSI-3
72	Notes to Required Supplementary Information	
<b><u>SUPPLEMENTARY SCHEDULES</u></b>		
74	Supplemental Schedule of Revenues, Expenses and Changes in Net Position	1
75	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments - Unrestricted and Restricted Accounts	2
77	Schedule of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget	3
82	Schedule of Capital Budget Program Funded by Financing Sources	4
83	Schedule of Revenue and Revenue Refunding Bonds	5
94	Roster of Officials and Report on Surety Bonds	6

**PASSAIC VALLEY WATER COMMISSION**

**CONTENTS, (continued)**

**Page**

95	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
97	Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with Uniform Guidance
100	Schedule of Expenditures of Federal Financial Assistance
101	Notes to the Schedule of Expenditures of Federal and State Awards
102	Schedule of Findings and Questioned Costs
105	Summary Schedule of Prior Audit Findings

# **PASSAIC VALLEY WATER COMMISSION**

## **CONTENTS**

<b><u>Page</u></b>		<b><u>Exhibits</u></b>
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>		
		<b><u>Schedules</u></b>
70	Schedule of Changes in Net OPEB Liability	RSI-1
71	Schedule of the Commission's Proportionate Share of the Net Pension Liability- Public Employees' Retirement System (PERS)	RSI-2
72	Schedule of the Commission's Contributions Public Employees' Retirement System (PERS)	RSI-3
73	Notes to Required Supplementary Information	
<b><u>SUPPLEMENTARY SCHEDULES</u></b>		
75	Supplemental Schedule of Revenues, Expenses and Changes in Net Position	1
76	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments - Unrestricted and Restricted Accounts	2
78	Schedule of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget	3
83	Schedule of Capital Budget Program Funded by Financing Sources	4
84	Schedule of Revenue and Revenue Refunding Bonds	5
95	Roster of Officials and Report on Surety Bonds	6

**PASSAIC VALLEY WATER COMMISSION**

**CONTENTS, (continued)**

**Page**

96	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
98	Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with Uniform Guidance
101	Schedule of Expenditures of Federal Financial Assistance
102	Notes to the Schedule of Expenditures of Federal and State Awards
103	Schedule of Findings and Questioned Costs
106	Summary Schedule of Prior Audit Findings
107	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 (the "Commission") as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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

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

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

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



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Basis for Modified Opinion***

We were unable to perform audit procedures on a portion of accounts payable reported at year end. The Commission's accounting records do not permit adequate retroactive itemized reporting of these balances.

***Modified Opinion***

In our opinion, except for the matters described in the "Basis for Modified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Passaic Valley Water Commission as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, schedule of funding progress for the OPEB plan, schedule of employer contributions to the OPEB plan, schedule of the 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 September 22, 2020 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,

A handwritten signature in black ink, appearing to read "Wielkott & Company, LLC".

WIELKOTZ & COMPANY, LLC  
Certified Public Accountants  
Pompton Lakes, New Jersey

September 22, 2020

## **Required Supplementary Information - Part I**

## **Management Discussion and Analysis**

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

*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, 2019. 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 \$95,731,760 (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 \$86,067,124.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$123,566,625 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 \$32,435,505 are restricted by constraints imposed from outside the Commission such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$(60,270,370) represent the portion available to maintain the Commission's continuing obligations to citizens and creditors.
- Total liabilities of the Commission increased by \$4,368,643 to \$223,520,409 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 position that is applicable to a future period (deferred outflows of resources), the acquisition of net position 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)  
(UNAUDITED)**

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)  
(UNAUDITED)**

**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 \$95,731,760. This is a \$9,664,636 increase over last year's net position of \$86,067,124. A summary of the Commission's statement of net position is presented in the following table:

**Condensed Statement of Net Position**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	99,684,531	118,257,516	(18,572,985)	(15.71)%
Capital Assets	<u>209,747,716</u>	<u>189,585,429</u>	<u>20,162,287</u>	10.63%
Total Assets	<u>309,432,247</u>	<u>307,842,945</u>	<u>1,589,302</u>	0.52%
Deferred Outflow of Resources	<u>34,396,926</u>	<u>20,857,584</u>	<u>13,539,342</u>	64.91%
Current Liabilities	27,917,376	28,664,877	(747,501)	(2.61)%
Non-Current Liabilities	<u>195,603,033</u>	<u>190,486,889</u>	<u>5,116,144</u>	2.69%
Total Liabilities	<u>223,520,409</u>	<u>219,151,766</u>	<u>4,368,643</u>	1.99%
Deferred Inflows of Resources	<u>24,577,004</u>	<u>23,481,639</u>	<u>1,095,365</u>	4.66%
Net Investment in Capital Assets	123,566,625	99,929,812	23,636,813	23.65%
Restricted	32,435,505	30,532,539	1,902,966	6.23%
Unrestricted	<u>(60,270,370)</u>	<u>(44,395,227)</u>	<u>(15,875,143)</u>	35.76%
Total Net Position	<u>95,731,760</u>	<u>86,067,124</u>	<u>9,664,636</u>	11.23%

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

**Net Position (Continued)**

A summary of the Commission's prior year statement of net position is presented with comparative FY 2017, as restated, balances in the following table. This comparison has been restated to reflect the adjustment to the Commission's capital assets or implementation of GASB Statement No. 75.

**Condensed Statement of Net Position**

	<u>FY 2018</u>	<u>Restated FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	118,257,516	118,187,201	70,315	0.06%
Capital Assets	<u>189,585,429</u>	<u>178,349,099</u>	<u>11,236,330</u>	6.30%
Total Assets	<u>307,842,945</u>	<u>296,536,300</u>	<u>11,306,645</u>	3.81%
Deferred Outflow of Resources	<u>20,857,584</u>	<u>26,197,408</u>	<u>(5,339,824)</u>	(20.38)%
Current Liabilities	28,664,877	25,558,131	3,106,746	12.16%
Non-Current Liabilities	<u>190,486,889</u>	<u>209,452,722</u>	<u>(18,965,833)</u>	(9.05)%
Total Liabilities	<u>219,151,766</u>	<u>235,010,853</u>	<u>(15,859,087)</u>	(6.75)%
Deferred Inflows of Resources	<u>23,481,639</u>	<u>19,778,826</u>	<u>3,702,813</u>	18.72%
Net Investment in Capital Assets	99,929,812	83,667,454	16,262,358	19.44%
Restricted	30,532,539	26,816,833	3,715,706	13.86%
Unrestricted	<u>(44,395,227)</u>	<u>(42,540,258)</u>	<u>(1,854,969)</u>	4.36%
Total Net Position	<u>86,067,124</u>	<u>67,944,029</u>	<u>18,123,095</u>	26.67%

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

**Net Position (Continued)**

While the *Statement of Net Position* shows the change in financial position of net assets, the *Statement of Revenues, Expenses and Changes in Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position increased by \$9,664,636 and \$18,123,095 during the 2019 and 2018 fiscal years, respectively.

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

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	91,579,011	93,555,097	(1,976,086)	(2.11)%
Non-operating Revenues	<u>2,650,070</u>	<u>2,339,751</u>	<u>310,319</u>	13.26%
Total Revenues	<u>94,229,081</u>	<u>95,894,848</u>	<u>(1,665,767)</u>	(1.74)%
Depreciation	11,861,852	11,583,912	277,940	2.40%
Other Operating Expenses	64,149,253	59,959,468	4,189,785	6.99%
Other Non-operating Expense	<u>8,553,340</u>	<u>6,228,373</u>	<u>2,324,967</u>	37.33%
Total Expenses	<u>84,564,445</u>	<u>77,771,753</u>	<u>6,792,692</u>	8.73%
Change in Net Position	9,664,636	18,123,095	(8,458,459)	(46.67)%
Beginning Balance	<u>86,067,124</u>	<u>67,944,029</u>	<u>18,123,095</u>	26.67%
Ending Balance	<u>95,731,760</u>	<u>86,067,124</u>	<u>9,664,636</u>	11.23%



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

**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 2017, as restated, figures in the following table. This comparison has been restated to reflect the adjustment to the Commission's capital assets or implementation of GASB Statement No. 75.

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

	<u>FY 2018</u>	<u>Restated FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	93,555,097	89,705,533	3,849,564	4.29%
Non-operating Revenues	<u>2,339,751</u>	<u>1,845,536</u>	<u>494,215</u>	26.78%
Total Revenues	<u>95,894,848</u>	<u>91,551,069</u>	<u>4,343,779</u>	4.74%
Depreciation	11,583,912	11,242,334	341,578	3.04%
Other Operating Expenses	59,959,468	57,084,918	2,874,550	5.04%
Other Non-operating Expense	<u>6,228,373</u>	<u>6,600,029</u>	<u>(371,656)</u>	(5.63)%
Total Expenses	<u>77,771,753</u>	<u>74,927,281</u>	<u>2,844,472</u>	3.80%
Change in Net Position	18,123,095	16,623,788	1,499,307	9.02%
Beginning Balance	67,944,029	74,303,441	(6,359,412)	(8.56)%
Contributed Capital		7,920,148	(7,920,148)	(100.00)%
Prior Period Adjustment	<u>                    </u>	<u>(30,903,348)</u>	<u>30,903,348</u>	(100.00)%
Ending Balance	<u>86,067,124</u>	<u>67,944,029</u>	<u>18,123,095</u>	26.67%

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

**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 2019 and FY 2018 budget comparison:

<b>Budget vs. Actual FY 2019</b>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	102,887,058	92,438,395	(10,448,663)
Non-Operating	<u>750,000</u>	<u>1,790,686</u>	<u>1,040,686</u>
	<u>103,637,058</u>	<u>94,229,081</u>	<u>(9,407,977)</u>
Expenses:			
Operating	69,224,075	62,594,279	6,629,796
Non-Operating	<u>18,911,006</u>	<u>19,095,220</u>	<u>(184,214)</u>
	<u>88,135,081</u>	<u>81,689,499</u>	<u>6,445,582</u>
Income before Depreciation	<u>15,501,977</u>	<u>12,539,582</u>	<u>(2,962,395)</u>

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

**Budgetary Highlights (Continued)**

	<b>Budget vs. Actual FY 2018</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	100,118,543	94,508,634	(5,609,909)
Non-Operating	<u>500,000</u>	<u>1,386,214</u>	<u>886,214</u>
	<u>100,618,543</u>	<u>95,894,848</u>	<u>(4,723,695)</u>
Expenses:			
Operating	64,997,690	58,821,942	6,175,748
Non-Operating	<u>17,133,021</u>	<u>16,691,698</u>	<u>441,323</u>
	<u>82,130,711</u>	<u>75,513,640</u>	<u>6,617,071</u>
Income before Depreciation	<u>18,487,832</u>	<u>20,381,208</u>	<u>1,893,376</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During fiscal year 2019, the Commission had an increase of \$391,291,295 in capital assets. The Commission's net property, plant and equipment at fiscal year end was \$209,747,716. This is a \$20,162,287 increase over last year's net property, plant and equipment of \$189,585,429. A summary of the Commission's capital assets is presented in the following table:

	<u>2019</u>	<u>2018</u>	<u>Dollar Change</u>
Land	33,260,191	33,260,191	0
Infrastructure and Improvements	347,586,812	317,510,146	30,076,666
Machinery, Vehicles and Equipment	<u>10,444,292</u>	<u>8,688,302</u>	<u>1,755,990</u>
	391,291,295	359,458,639	31,832,656
Less: Accumulated Depreciation	<u>(181,543,579)</u>	<u>(169,873,210)</u>	<u>(11,670,369)</u>
Net Property, Plant and Equipment	<u>209,747,716</u>	<u>189,585,429</u>	<u>20,162,287</u>

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

**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	71,588,695
Discrete Projects	44,500,000
Production and Pumping	44,720,000
Distribution	193,143,000
Plant and General Structures	62,296,000
Instrumentation, Controls and Information Technologies	<u>23,284,000</u>
	<u>439,531,695</u>

**Debt Administration**

At December 31, 2019, the Commission had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$101,106,757. 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.

## **Financial Statements**

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

**EXHIBIT A**

Page 1 of 3

	<u>2019</u>	<u>2018</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
<b><u>Unrestricted:</u></b>		
Cash and Cash equivalents	\$ 18,732,095	\$ 29,470,841
Investments	3,672,303	6,915,500
Accounts Receivable, net	25,661,071	23,988,554
Inventory	2,817,754	2,258,834
Other Receivables	8,549	10,007
Prepaid Expenses	147,490	48,400
Total Unrestricted Assets	<u>51,039,262</u>	<u>62,692,136</u>
<b><u>Restricted:</u></b>		
Construction Account:		
Cash and Cash equivalents	-	163
Due From NJEIT	15,909,587	24,660,191
Bond Service Fund:		
Cash and Cash equivalents	1,714,956	1,750,098
Bond Reserve Account:		
Cash and Cash equivalents	15,854,950	2,475,134
Investments	-	13,188,600
Renewal and Extension Account:		
Cash and Cash equivalents	869,500	3,000,000
Investments	2,130,500	-
Operations Account:		
Cash and Cash equivalents	11,812,448	10,154,931
Unemployment Compensation Insurance:		
Cash and Cash equivalents	19,528	124,263
Investments	333,800	212,000
Total Restricted Assets	<u>48,645,269</u>	<u>55,565,380</u>
<b>Non-Current Assets:</b>		
<b><u>Capital Assets:</u></b>		
Land	33,260,191	33,260,191
Infrastructure and Improvements	347,586,812	317,510,146
Machinery, Vehicles and Equipment	10,444,292	8,688,302
Less: Accumulated Depreciation	<u>(181,543,579)</u>	<u>(169,873,210)</u>
Total Capital Assets	<u>209,747,716</u>	<u>189,585,429</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>309,432,247</u></b>	<b>\$ <u>307,842,945</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>2019</u>	<u>2018</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
<b>Deferred Outflows:</b>		
Water Bank - Deferred Expense	4,832,775	5,035,705
Unamortized Costs in Excess of Refunded Debt, Net of Amortization	3,818,378	4,429,494
Unamortized Bond Discount, Net of Amortization	-	44,576
Deferred Outflows Related to OPEB	14,112,874	-
Deferred Outflows Related to Pensions	<u>11,632,899</u>	<u>11,347,809</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>34,396,926</u>	<u>20,857,584</u>
 <b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
<b><u>Payable from Unrestricted Assets:</u></b>		
Accounts Payable and Accrued Liabilities	\$ 12,377,455	\$ 11,863,973
Accounts Payable - Pension Related	2,180,500	1,954,250
Due To St. Joseph's Regional Medical Center	<u>-</u>	<u>2,163,686</u>
Total Payable from Unrestricted Assets	<u>14,557,955</u>	<u>15,981,909</u>
<b><u>Payable from Restricted Assets:</u></b>		
Accrued Interest Payable	300,177	372,487
Bonds Payable - Current Portion	12,984,094	12,233,872
Leases Payable - Current Portion	<u>75,150</u>	<u>76,609</u>
Total Payable from Restricted Assets	<u>13,359,421</u>	<u>12,682,968</u>
<b>Non-Current Liabilities:</b>		
Bonds Payable - Long-Term Portion	88,122,663	101,106,757
Leases Payable - Long-Term Portion	487,459	532,170
Net OPEB Obligation	69,609,519	51,875,814
Net Pension Obligation	<u>37,383,392</u>	<u>36,972,148</u>
Total Non-Current Liabilities	<u>195,603,033</u>	<u>190,486,889</u>
<b>TOTAL LIABILITIES</b>	<u>223,520,409</u>	<u>219,151,766</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>2019</u>	<u>2018</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
<b>Deferred Inflows:</b>		
Due To Water Bank	4,832,775	5,035,705
Unamortized Savings from Refunded Debt, Net of Amortization	356,128	401,915
Unamortized Bond Premium, Net of Amortization	3,763,651	4,258,848
Deferred Savings on Bond Refunding, Net of Amortization	119,911	179,870
Deferred Inflows Related to OPEB	696,668	-
Deferred Inflows Related to Pensions	<u>14,807,871</u>	<u>13,605,301</u>
 <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	 <u><u>24,577,004</u></u>	 <u><u>23,481,639</u></u>
 <b><u>NET POSITION:</u></b>		
Net Investment in Capital Assets	123,566,625	99,929,812
Restricted:		
Current Debt Service	1,414,779	1,377,611
Future Debt Service	15,854,950	15,663,734
Renewal and Extension	3,000,000	3,000,000
Operations	11,812,448	10,154,931
Unemployment Compensation Insurance	353,328	336,263
Unrestricted:		
Designated	608,084	608,084
Undesignated	<u>(60,878,454)</u>	<u>(45,003,311)</u>
 <b>TOTAL NET POSITION</b>	 <u><u>\$ 95,731,760</u></u>	 <u><u>\$ 86,067,124</u></u>

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



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

**EXHIBIT B**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenue:</b>		
Service Agreements	\$ 82,073,313	\$ 85,350,466
Miscellaneous	9,480,426	8,194,357
Sale of Scrap	<u>25,272</u>	<u>10,274</u>
<b>Total Operating Revenue</b>	<u>91,579,011</u>	<u>93,555,097</u>
<b>Operating Expenses:</b>		
Cost of Providing Services	49,972,652	46,774,101
Administrative and General	14,176,601	13,185,367
Depreciation Expense	<u>11,861,852</u>	<u>11,583,912</u>
<b>Total Operating Expenses</b>	<u>76,011,105</u>	<u>71,543,380</u>
<b>Operating Income</b>	<u>15,567,906</u>	<u>22,011,717</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	1,790,686	1,386,214
Finance Charges	859,384	953,537
Interest Expense	(4,179,093)	(4,969,532)
Other Postemployment Benefit Obligation	(4,317,499)	(1,195,974)
Amortization Expense	<u>(56,748)</u>	<u>(62,867)</u>
<b>Non-Operating Income (Loss)</b>	<u>(5,903,270)</u>	<u>(3,888,622)</u>
<b>Change In Net Position</b>	9,664,636	18,123,095
<b>Net Position - January 1</b>	<u>86,067,124</u>	<u>67,944,029</u>
<b>Net Position - December 31</b>	<u><u>\$ 95,731,760</u></u>	<u><u>\$ 86,067,124</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>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 89,907,952	\$ 92,575,131
Cash Paid to Vendors and Employees	<u>(66,457,467)</u>	<u>(54,509,327)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>23,450,485</u>	<u>38,065,804</u>
<b>Cash Flow from Investing Activities:</b>		
Interest Received	2,650,070	2,339,751
(Increase) Decrease in Investments	<u>16,309,997</u>	<u>(1,078,219)</u>
<b>Net Cash Provided by (used in) Investing Activities</b>	<u>18,960,067</u>	<u>1,261,532</u>
<b>Cash Flow from Financing Activities:</b>		
Principal Payment on Bonds and Notes	(12,233,872)	(11,371,258)
Interest Paid on Bonds and Notes	(4,251,403)	(5,038,355)
Capital Expenditures	(32,599,665)	(24,510,100)
NJEIT Receipts	8,750,604	6,337,714
Lease Payments	(46,170)	(41,846)
Bond Premium Received	<u>(1,999)</u>	<u>(13,503)</u>
<b>Net Cash Used in Financing Activities</b>	<u>(40,382,505)</u>	<u>(34,637,348)</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	2,028,047	4,689,988
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>46,975,430</u>	<u>42,285,442</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 49,003,477</u></u>	<u><u>\$ 46,975,430</u></u>
<b>Analysis of Balance:</b>		
Unrestricted	\$ 18,732,095	\$ 29,470,841
Restricted	<u>30,271,382</u>	<u>17,504,589</u>
	<u><u>\$ 49,003,477</u></u>	<u><u>\$ 46,975,430</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>2019</u>	<u>2018</u>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 15,567,906</b>	<b>\$ 22,011,717</b>
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	11,861,852	11,583,912
Decrease (Increase) in Accounts Receivable	(1,672,517)	(984,989)
Decrease (Increase) in Other Receivable	1,458	5,023
Decrease (Increase) in Inventory	(558,920)	198,372
Decrease (Increase) in Prepaid Expenses	(99,090)	141,772
Increase (Decrease) in Accounts Payable	513,482	4,732,461
Increase (Decrease) in Due to St. Joseph's RMC	(2,163,686)	377,536
<b>Total Adjustments</b>	<u>7,882,579</u>	<u>16,054,087</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>\$ 23,450,485</b></u>	<u><b>\$ 38,065,804</b></u>

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

## **Notes to Financial Statements**

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**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, 2019 AND 2018  
(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, 2019 AND 2018  
(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, 2019 AND 2018  
(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, 2019 AND 2018  
(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, 2019 AND 2018  
(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 Dec.31, 2018</u>	<u>Net Additions</u>	<u>Deletions</u>	<u>Balance Dec.31, 2019</u>
Land	33,260,191			33,260,191
Infrastructure & Improvements	317,510,146	30,076,666		347,586,812
Machinery, Vehicles & Equipment	<u>8,688,302</u>	<u>1,947,473</u>	<u>191,483</u>	<u>10,444,292</u>
	359,458,639	32,024,139	191,483	391,291,295
Less: Accumulated Depreciation	<u>(169,873,210)</u>	<u>(11,861,852)</u>	<u>(191,483)</u>	<u>(181,543,579)</u>
Property, Plant and Equipment, Net	<u>189,585,429</u>	<u>20,162,287</u>	<u>0</u>	<u>209,747,716</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

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

	<u>Balance Dec.31, 2017</u>	<u>Fixed Asset Adjustment</u>	<u>Restated Balance Dec. 31, 2017</u>	<u>Net Additions</u>	<u>Balance Dec.31, 2018</u>
Land	16,434,800	16,336,600	32,771,400	488,791	33,260,191
Infrastructure & Improvements	331,249,291	(36,070,596)	295,178,695	22,331,451	317,510,146
Machinery, Vehicles & Equipment	<u>25,146,246</u>	<u>(16,457,944)</u>	<u>8,688,302</u>	<u>8,688,302</u>	<u>8,688,302</u>
	372,830,337	(36,191,940)	336,638,397	22,820,242	359,458,639
Less: Accumulated Depreciation	<u>(209,627,676)</u>	<u>51,338,378</u>	<u>(158,289,298)</u>	<u>(11,583,912)</u>	<u>(169,873,210)</u>
Property, Plant and Equipment, Net	<u><u>163,202,661</u></u>	<u><u>15,146,438</u></u>	<u><u>178,349,099</u></u>	<u><u>11,236,330</u></u>	<u><u>189,585,429</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, 2019 AND 2018  
(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, 2019 AND 2018  
(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, 2019 AND 2018  
(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, 2019 AND 2018  
(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**

In May 2019, the Government Accounting Standards Board issued GASB Statement No. 91, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement is effective for reporting periods beginning after December 15, 2020. The Commission does not believe this Statement will have any effect on future financial statements.

In January 2020, the Government Accounting Standards Board issued GASB Statement No. 92, *Omnibus*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions. The Commission does not believe this Statement will have any effect on future financial statements.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

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

In March 2020, the Government Accounting Standards Board issued GASB Statement No. 93, *Replacement of Interbank Offering Rates*. The objective of this Statement is to address certain issues with Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, Statement No. 87, *Leases*, as amended and other accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of this Statement are effective for fiscal years beginning after June 15, 2020. The Commission does not believe this Statement will have any effect on future financial statements.

In March 2020, the Government Accounting Standards Board issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Commission does not believe this Statement will have any effect on future financial statements.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

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

In May 2020, the Government Accounting Standards Board issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year: Statement No. 83, *Certain Asset Retirement Obligations*; Statement No. 84, *Fiduciary Activities*; Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; Statement No. 90, *Majority Equity Interests*; Statement No. 91, *Conduit Debt Obligations*; Statement No. 92, *Omnibus 2020*; Statement No. 93, *Replacement of Interbank Offered Rates*; Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*; Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*; Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*; Implementation Guide No. 2019-2, *Fiduciary Activities*. The effective dates of the following pronouncements are postponed by 18 months: Statement No. 87, *Leases*; Implementation Guide No. 2019-3, *Leases*. The requirements of this Statement are effective immediately.

In May 2020, the Government Accounting Standards Board issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Commission is still determining the effects, if any, this statement will have on future financial statements.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

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

In June 2020, the Government Accounting Standards Board issued GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

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

encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Commission is currently reviewing what effect, if any, this Statement might have on future financial statements.

**NOTE 3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest.

N.J.S.A. 17:9-41 et. seq. establishes that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

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

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, 2019 AND 2018  
(CONTINUED)**

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

As of December 31, 2019, the Commission's cash and cash equivalents are summarized as follows:

	<u>2019</u>	<u>2018</u>
Unrestricted	18,732,095	29,470,841
Restricted	<u>30,271,382</u>	<u>17,504,589</u>
	<u>49,003,477</u>	<u>46,975,430</u>

The carrying amount of the Commission's cash and cash equivalents at December 31, 2019 was \$49,003,477 and the bank balance was \$48,488,810. 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, 2019, \$0- of the Commission's bank balance of \$48,488,810 was exposed to custodial risk.

**NOTE 4. INVESTMENTS**

The Commission invests the Funds (i) with any New Jersey banking institution covered by GUDPA and (ii) in short-term obligations of New Jersey government agencies and entities outlined in Local Finance Board 2017-24 which have (A) a final maturity date that is not longer than 12 months from the date of purchase in the case of any funds that are subject to the General Bonds Resolution and 397 days of otherwise (but if longer than 12 months, the maturity shall approximate the prospective uses of the funds invested) and (B) a minimum issuer investment grade rating of "A3" or "A-" (or equivalent) by Moody's, Standard and Poor's, or Fitch or a recent bond issue so rated. A rating of the bonds or notes is not required. The phrase "short-term obligations" includes bonds which have a maturity or redemption date of no longer than 12 months from the date of purchase. the Commission jointly purchases such investment with any municipality, county or authority that is authorized to make such investments.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

The Passaic Valley Water Commission had the following investments valued at cost, which approximates fair value, at December 31, 2019 and 2018, respectively:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Face Amount</u>	<u>Investment Maturities (in years)</u>		
			<u>≤1</u>	<u>1-5</u>	<u>&gt;5</u>
<u>2019</u>					
Government and Other Bonds	<u>6,136,603</u>	<u>6,147,748</u>	<u>6,147,748</u>		
	<u>6,136,603</u>	<u>6,147,748</u>	<u>6,147,748</u>	-	-
<u>2018</u>					
Certificates of Deposit	5,000,000	5,000,000	5,000,000		
Government and Other Bonds	<u>15,316,100</u>	<u>15,318,440</u>	<u>15,318,440</u>		
	<u>20,316,100</u>	<u>20,318,440</u>	<u>20,318,440</u>	-	-

**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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

**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, 2018</u>	<u>Issued</u>	Less: Amounts <u>Received</u>	Balance <u>Dec.31, 2019</u>
Project No. 1605002-25A	1,309,476		362,986	946,490
Project No. 1605002-25B	17,136,443		6,155,441	10,981,002
Project No. 1605002-25B (Prin. Forgiveness)	<u>6,214,272</u>		<u>2,232,177</u>	<u>3,982,095</u>
	<u>24,660,191</u>	<u>0</u>	<u>8,750,604</u>	<u>15,909,587</u>

	Balance <u>Dec.31, 2017</u>	<u>Issued</u>	Less: Amounts <u>Received</u>	Balance <u>Dec.31, 2018</u>
Project No. 1605002-25A	1,681,214		371,738	1,309,476
Project No. 1605002-25B	21,514,708		4,378,265	17,136,443
Project No. 1605002-25B (Prin. Forgiveness)	<u>7,801,983</u>		<u>1,587,711</u>	<u>6,214,272</u>
	<u>30,997,905</u>	<u>0</u>	<u>6,337,714</u>	<u>24,660,191</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, 2019 AND 2018**  
**(CONTINUED)**

**NOTE 6. LONG-TERM DEBT**

The Commission has issued and has outstanding the following bonds as of December 31, 2019 and 2018:

	<u>2018</u>	<u>Issued</u>	<u>Paid/ Refunded</u>	<u>2019</u>
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	12,087,991		3,926,139	8,161,852
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	574,419		129,404	445,015
Series 2003 Refunding Bonds	15,540,000		3,605,000	11,935,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	1,298,829		188,065	1,110,764
Series 2009A Revenue Bonds	830,000		405,000	425,000
Series 2009B Revenue Bonds	12,185,000			12,185,000
Series 2009C Revenue Bonds	1,930,000		935,000	995,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	2,288,948		197,723	2,091,225
Series 2014 Revenue Bonds	17,330,000		845,000	16,485,000
Series 2015 Refunding Bonds	7,995,000		1,020,000	6,975,000
Series 2017 NJ Environmental Infrastructure Trust Bonds	23,760,443		572,541	23,187,902
Series 2017A Refunding Bonds	1,925,000			1,925,000
Series 2017B Refunding Bonds	<u>15,595,000</u>		<u>410,000</u>	<u>15,185,000</u>
Net Carrying Amount of Debt	<u>113,340,630</u>	<u>0</u>	<u>12,233,872</u>	<u>101,106,758</u>
Current Portion	12,233,872			12,984,094
Long-Term Portion	<u>101,106,758</u>			<u>88,122,664</u>
	<u>113,340,630</u>			<u>101,106,758</u>

	<u>2017</u>	<u>Issued</u>	<u>Paid/ Refunded</u>	<u>2018</u>
Series 2001A&B NJ Environmental Infrastructure Trust Bonds	15,898,728		3,810,737	12,087,991
Series 2002A&B NJ Environmental Infrastructure Trust Bonds	850,029		275,610	574,419
Series 2003 Refunding Bonds	18,975,000		3,435,000	15,540,000
Series 2007A&B NJ Environmental Infrastructure Trust Bonds	1,491,016		192,187	1,298,829
Series 2009A Revenue Bonds	1,210,000		380,000	830,000
Series 2009B Revenue Bonds	12,185,000			12,185,000
Series 2009C Revenue Bonds	2,810,000		880,000	1,930,000
Series 2010A&B NJ Environmental Infrastructure Trust Bonds	2,481,671		192,723	2,288,948
Series 2014 Revenue Bonds	18,150,000		820,000	17,330,000
Series 2015 Refunding Bonds	8,975,000		980,000	7,995,000
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	<u>16,000,000</u>		<u>405,000</u>	<u>15,595,000</u>
Net Carrying Amount of Debt	<u>124,711,887</u>	<u>0</u>	<u>11,371,257</u>	<u>113,340,630</u>
Current Portion	11,371,257			12,233,872
Long-Term Portion	<u>113,340,630</u>			<u>101,106,758</u>
	<u>124,711,887</u>			<u>113,340,630</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>101,106,758</u>	<u>25,199,331</u>	<u>126,306,089</u>

**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, 2019, the Trust and Fund portions payable were as follows:

<u>Year</u>	<u>Series 2001A (Project S340322-02)</u>		<u>Fund Portion</u>		<u>Total</u>
	<u>Trust Portion</u>		<u>Principal</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>		
2020	256,997	25,866	197,220		480,083
2021	271,496	13,287	198,668		483,451
	<u>528,493</u>	<u>39,153</u>	<u>395,888</u>		<u>963,534</u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

**Series 2001A&B NJ Environmental Infrastructure Trust Bonds, (continued)**

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, 2019, 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>	
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>4,137,495</u>	<u>305,985</u>	<u>3,099,975</u>	<u>7,543,455</u>

**Series 2002A&B Environmental Infrastructure Trust Bonds**

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

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

At December 31, 2019, the Trust and Fund portions were as follows:

<u>Series 2002A (Project 05-1)</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>396,402</u>	<u>54,102</u>	<u>0</u>	<u>450,504</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

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

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.

At December 31, 2019, the Trust and Fund portions were as follows:

<u>Year</u>	<u>Series 2002B (Project 02-1)</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2020	13,810	3,239		17,049
2021	17,791	2,345		20,136
2022	<u>17,013</u>	<u>1,248</u>		<u>18,261</u>
	<u>48,614</u>	<u>6,832</u>	<u>0</u>	<u>55,446</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, 2019, 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>
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>11,935,000</u>	<u>1,213,000</u>	<u>13,148,000</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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, 2019, 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>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
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>655,000</u>	<u>137,879</u>	<u>455,764</u>	<u>1,248,643</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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, 2019, 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>	
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>425,000</u>	<u>25,500</u>	<u>12,185,000</u>	<u>13,189,521</u>	<u>995,000</u>	<u>69,650</u>	<u>26,889,671</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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, 2019, 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>	
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>1,505,000</u>	<u>417,500</u>	<u>586,225</u>	<u>2,508,725</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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, 2019, 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>
2020	875,000	697,637	1,572,637
2021	910,000	662,638	1,572,638
2022	955,000	617,137	1,572,137
2023	995,000	578,938	1,573,938
2024	1,045,000	529,187	1,574,187
2025	1,095,000	476,938	1,571,938
2026	1,150,000	422,187	1,572,187
2027	1,210,000	364,688	1,574,688
2028	1,245,000	326,875	1,571,875
2029	1,290,000	286,413	1,576,413
2030	1,350,000	221,912	1,571,912
2031	1,400,000	176,350	1,576,350
2032	1,445,000	127,350	1,572,350
2033	<u>1,520,000</u>	<u>55,100</u>	<u>1,575,100</u>
	<u>16,485,000</u>	<u>5,543,350</u>	<u>22,028,350</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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, 2019, 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>
2020	1,065,000	330,400	1,395,400
2021	1,110,000	277,150	1,387,150
2022	1,175,000	221,650	1,396,650
2023	730,000	162,900	892,900
2024	755,000	126,400	881,400
2025	800,000	88,650	888,650
2026	845,000	48,650	893,650
2027	495,000	14,850	509,850
	<u>6,975,000</u>	<u>1,270,650</u>	<u>8,245,650</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, 2019 AND 2018  
(CONTINUED)**

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

At December 31, 2019, 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>	
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>1,873,622</u>	<u>21,314,280</u>	<u>23,187,902</u>



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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, 2019, 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>	
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>333,250</u>	<u>15,185,000</u>	<u>2,592,960</u>	<u>20,036,210</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, 2019 AND 2018  
(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, 2019 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>
2020	78,907	95.24%	75,150
2021	81,274	90.70%	73,718
2022	83,712	86.38%	72,314
2023	86,224	82.27%	70,937
2024	88,811	78.35%	69,586
2025	91,475	74.62%	68,260
2026	94,219	71.07%	66,960
2027	97,046	67.68%	<u>65,684</u>
Lodi Lease Payable			<u>562,609</u>
Current Portion			78,907
Long-Term Portion			<u>483,702</u>
			<u>562,609</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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, 2019 AND 2018  
(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 55 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, 2019 AND 2018  
(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>Year</b>	<b>Annual</b>	<b>Percentage</b>	<b>Net</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>
12/31/19	\$1,990,263	5.32%	\$37,383,392
12/31/18	1,698,090	4.59%	36,972,148
12/31/17	1,575,745	3.51%	44,856,005

<b><u>Three Year Trend Information DCRP</u></b>	
<b>Year</b>	<b>DCRP</b>
<b><u>Funding</u></b>	<b><u>Contributions</u></b>
12/31/19	\$153,732
12/31/18	292,268
12/31/17	197,439

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

**Public Employees Retirement System (PERS)**

At December 31, 2019 and 2018, the Commission reported a liability of \$37,383,392 and \$36,972,148, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the Commission's proportion was 0.2074724706 percent, which was an increase of 0.019696524 percent from its proportion measured as of June 30, 2018.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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 years ended December 31, 2019 and 2018, the Commission recognized pension expense of \$3,545,237 and \$3,005,290, respectively. At December 31, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>2019</u>	<u>2018</u>
Deferred Outflows of Resources:		
Changes of assumptions	\$5,048,547	\$6,092,398
Net difference between projected and actual earnings on pension plan investments	670,983	705,064
Changes in proportion and differences between the Commission's contributions and proportionate share of contributions	3,732,869	2,596,097
Commission contributions subsequent to the measurement Date	<u>2,180,500</u>	<u>1,954,250</u>
Total	<u>\$11,632,899</u>	<u>\$11,347,809</u>
Deferred Inflows of Resources:		
Net difference between projected and actual earnings on pension plan investments	\$12,975,657	\$12,359,167
Changes in proportion and differences between Commission contributions and proportionate share of contributions	1,470,402	912,159
Other deferred pension adjustments	<u>361,812</u>	<u>333,975</u>
Total	<u>\$14,807,871</u>	<u>\$13,605,301</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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)**

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2019) 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:

	<u>2019</u>	<u>2018</u>
Year ended December 31:		
2019	-	256,606
2020	(1,079,462)	(355,274)
2021	(3,501,754)	(2,547,605)
2022	(3,126,863)	(2,208,304)
2023	(1,468,223)	(707,128)
2024	(150,758)	-

**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 5.21, 5.63, 5.48, 5.57, 5.72 and 6.44 years for 2019, 2018, 2017, 2016, 2015 and 2014 amounts, respectively.

**Additional Information**

Local Group Collective balances net of nonemployer (State of New Jersey) balances at December 31, 2019 and 2018 are as follows:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Collective deferred outflows of resources	\$3,149,522,616	\$4,684,852,302
Collective deferred inflows of resources	7,645,087,574	7,646,736,226
Collective net pension liability	18,018,482,972	19,689,501,539
Commission's Proportion	0.2074724706%	0.1877759468%

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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)**

**Actuarial Assumptions**

The collective total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018, which rolled forward to June 30, 2019. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through 2026	2.00-6.00% (based on years of service)
Thereafter	3.00-7.00% (based on years of service)
Investment Rate of Return	7.00 Percent

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018. 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 Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non- Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement based on Scale MP-2019.



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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)**

**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, 2019) 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 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, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	3.00%	4.67%
Cash equivalents	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment grade credit	10.00%	4.25%
High yield	2.00%	5.37%
Private credit	6.00%	7.92%
Real assets	2.50%	9.31%
Real estate	7.50%	8.33%
U.S. equity	28.00%	8.26%
Non-U.S. developed markets equity	12.50%	9.00%
Emerging markets equity	6.50%	11.37%
Private equity	12.00%	10.85%

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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)**

**Discount Rate**

The discount rate used to measure the total pension liability was 6.28% as of June 30, 2019. 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 3.50% as of June 30, 2019 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 70% 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 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057 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, 2019, 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, 2019		
	1% Decrease <u>5.28%</u>	At Current Discount Rate <u>6.28%</u>	1% Increase <u>7.28%</u>
Commission's proportionate share of the pension liability	\$47,549,803	\$37,383,392	\$29,295,957

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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)**

	<u>June 30, 2018</u>		
	1% Decrease <u>4.66%</u>	At Current Discount Rate <u>5.66%</u>	1% Increase <u>6.66%</u>
Commission's proportionate share of the pension liability	\$46,488,216	\$36,972,148	\$28,988,775

**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).

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

On December 15, 2018, the Commission implemented the Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the Commission to calculate their other postemployment benefit obligation using a method similar to the calculation used for pension obligations under GASB Statement No. 68..

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.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

**Total OPEB Liability**

At December 31, 2019 and 2018, the Commission had a liability of \$69,609,519 and \$51,875,814, respectively, for its share of the non-special funding net OPEB liability. The net OPEB liability was measured as of December 31, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

For the year ended December 31, 2019, the Commission recognized OPEB expense of \$4,370,547. At December 31, 2019 and 2018, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2019</u>	<u>2018</u>
Deferred Outflows of Resources:		
Changes of assumptions	<u>\$14,112,874</u>	<u>\$ -0-</u>
Total	<u><u>\$14,112,874</u></u>	<u><u>\$ -0-</u></u>
Deferred Inflows of Resources:		
Net difference between projected and actual earnings on pension plan investments	<u>\$696,668</u>	<u>-0-</u>
Total	<u><u>\$696,668</u></u>	<u><u>\$ -0-</u></u>

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

	<u>2019</u>	<u>2018</u>
Year ended December 31:		
2019	N/A	\$ -0-
2020	\$3,084,185	-0-
2021	3,084,185	-0-
2022	3,084,185	-0-
2023	3,084,185	-0-
2024	1,079,466	-0-
Thereafter	-0-	-0-

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

**Actual Assumptions and Other Inputs**

This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Measurement date:	December 31, 2019
Actuarial valuation date:	December 31, 2019
Actuarial cost method:	Entry Age Normal
Discount rate:	The discount rate used to measure the total OPEB liability was 2.74 percent. Because the plan is unfunded, the plan's projected benefits are discounted back using rates equivalent to Aa 20-year municipal bonds. The GO Bond Buyer Index was used to approximate those yields as of December 31, 2019.
Mortality:	Pub-2010 General Employee Headcount - weighted with fully generational Scale MP-2019. The mortality table was updated to represent the most recent mortality table released by the Society of Actuaries specifically for government employees.
Turnover:	T5 Standard table based on professional judgment
Salary scale:	4.50% based on input from the plan sponsor
Retirement age:	As specified in the following table:

<u>Age at the Beginning of Year</u>	<u>Retirement Rate</u>	
	<u>25+ years of service</u>	<u>&lt;25 Years of Service</u>
55	50%	0%
56-64	20% per year	0%
65	100%	100%

Professional judgment was used to develop retirement probabilities.

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

Utilization:	80% based on input from the plan sponsor
Marital Assumption:	60% are assumed married for active population, for current retirees actual experience used.
Valuation of assets:	N/A
Trend:	The pre-65 plan change was taken into account with premiums remaining constant through 4/30/21. Pre-65 per-capita claims costs are then assumed to increase annually at a rate starting at 6.5% in 2021 and decreasing linearly by 0.5% each year to an ultimate annual increase of 4.5%. Professional judgment was used for anticipated trends were expected to be 2.0% above the inflation rate. Post-65 rates are assumed to increase at 7.0% in 2020 and decreasing linearly by 0.5% each year to an ultimate annual increase of 4.5%.
Per Capita Claims:	Claims were developed by adjusting the underlying medical premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using the morbidity adjustments in Chart 5 from the 2013 Society of Actuaries Study "Health Care Costs from Birth to Death". The Direct 10 premium of 903.94 was used to determine the portion the retired participant portion pays. The post-65 premium was \$557.05.

**Sensitivity of Net OPEB Liability to Changes in the Discount Rate**

The following presents the Commission's proportionate share of the net OPEB liability as of December 31, as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1 percentage point higher than the current rate:

	December 31, 2019		
	1% Decrease <u>1.74%</u>	At Current Discount Rate <u>2.74%</u>	1% Increase <u>3.74%</u>
Commission's proportionate share of Net OPEB liability	\$82,875,271	\$69,609,519	\$59,272,639

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

	December 31, 2018		
	1% Decrease <u>3.09%</u>	At Current Discount Rate <u>4.09%</u>	1% Increase <u>5.09%</u>
Commission's proportionate share of Net OPEB liability	\$60,343,097	\$51,875,814	\$45,116,318

**Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rates:**

The following presents the Commission's proportionate share of the net OPEB liability as of December 31, as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage point lower or 1 percentage point higher than the current rate:

	December 31, 2019		
	1% <u>Decrease</u>	Healthcare Cost Trend Rate	1% <u>Increase</u>
Commission's proportionate share of Net OPEB liability	\$58,083,444	\$69,609,519	\$84,748,923

	December 31, 2018		
	1% <u>Decrease</u>	Healthcare Cost Trend Rate	1% <u>Increase</u>
Commission's proportionate share of Net OPEB liability	\$44,701,022	\$51,875,814	\$61,002,964

**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, 2019 AND 2018  
(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, 2019 and 2018, the amounts required by bond resolution were as follows:

	<u>2019</u>	<u>2018</u>
Cash and Investments on Hand	<u>1,714,956</u>	<u>1,750,098</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, 2019, 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	816,185	4,384,887
Series 2002A&B NJEIT Bonds	44,511	631,874
Series 2003 Refunding Bonds	1,193,500	3,588,000
Series 2007A&B NJEIT Bonds	111,076	250,750
Series 2009A Bonds	42,500	
Series 2009B Bonds	1,218,500	
Series 2009C Bonds	99,500	
Series 2010A&B NJEIT Bonds	209,123	
Series 2014 Bonds	1,648,500	
Series 2015 Refunding Bonds	697,500	
Series 2017A&B Refunding Bonds	1,711,000	



**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

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

In addition to the insurance policies, the Commission has reserved \$15,854,950 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, 2019 and 2018, the amounts required by bond resolution were as follows:

	<u>2019</u>	<u>2018</u>
Cash and Investments on Hand	4,011,159	3,081,582
Renewal and Extension Requirement	<u>3,000,000</u>	<u>3,000,000</u>
Excess (Deficit)	<u>1,011,159</u>	<u>81,582</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, 2019 and 2018, the amounts required by bond resolution were as follows:

	<u>2019</u>	<u>2018</u>
Cash and Investments on Hand	<u>11,812,448</u>	<u>10,154,931</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, 2019 AND 2018  
(CONTINUED)**

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

At December 31, 2019, the bond service coverage ratio was calculated as follows:

	<u>2019</u>	<u>2018</u>
Net Operating Income (including interest and Finance charges, excluding depreciation)	31,634,804	35,965,380
Bond Service Requirement	16,509,931	16,228,751
Debt Service Coverage Ratio	1.92	2.22

All principal and interest payments were made on a timely basis during the 2019 fiscal year and through the date of this report.

**NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2019, 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, 2019, coverage was as follows:

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(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, 2019 AND 2018  
(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 explore the feasibility of interconnecting the Great Notch and Cedar Grove Reservoirs for serving both PVWC's and the City of Newark's distribution systems while bringing both systems into compliance with the Administrative Consent Order and meeting the requirements of the Safe Drinking Water Act. 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 POSITION**

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

	<u>2019</u>	<u>2018</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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
OPEB Related	(56,193,313)	(51,875,814)
Pension Related	(42,738,864)	(41,183,890)
Available for Use in Future Budgets	<u>38,053,723</u>	<u>48,056,393</u>
	<u>(60,878,454)</u>	<u>(45,003,311)</u>

**PASSAIC VALLEY WATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(CONTINUED)**

**NOTE 16. SUBSEQUENT EVENTS**

On March 9, 2020 Governor Phil Murphy signed Executive Order No. 103 that declared a State of Emergency and Public Health Emergency across all 21 counties in New Jersey in response to address the novel coronavirus (COVID-19) outbreak. At the time of this report, the overall effects of the COVID-19 pandemic are unknown. In efforts to reduce the spread of the virus, many companies and organizations have either reduced staff or closed down, thus creating a potential financial dilemma among many of the ratepayers of the Passaic Valley Water Commission. The Commission has identified several risks as a result of this pandemic, including a possible delay in collection of water rents and potential cash flow shortages as the result of these delayed collection. The Commission will continue to monitor the situation closely.

The Commission has evaluated subsequent events through September 22, 2020, the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

## **Required Supplementary Information - Part II**

**SCHEDULE RSI-1**

**PASSAIC VALLEY WATER COMMISSION**  
**Required Supplementary Information**  
**Schedule of Changes in Net OPEB Liability**

	<u>Increase/(Decrease)</u>		
	<u>Total OPEB</u>	<u>Plan Fiduciary</u>	<u>Net OPEB</u>
	<u>Cost</u>	<u>Net Position</u>	<u>Liability</u>
Balance at January 1, 2019	\$51,875,814	\$ -	\$51,875,814
Changes for the year:			
Service cost	1,147,815	-	1,147,815
Interest	2,143,086	-	2,143,086
Difference between expected and actual experience	(856,822)	-	(856,822)
Assumption changes	17,357,213		17,357,213
Contributions - employer	-	(1,055,318)	(1,055,318)
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments	(1,055,318)	(1,055,318)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net Changes	<u>(1,002,269)</u>	<u>-</u>	<u>(1,002,269)</u>
Balance at December 31, 2019	<u>\$69,609,519</u>	<u>\$ -</u>	<u>\$69,609,519</u>

**SCHEDULE RSI-2**

**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 Six Fiscal Years**

	Measurement Date Ending June 30,					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's Proportion of the Net Pension Liability	0.2074724706%	0.1877759466%	0.1926936638%	0.1862240656%	0.1800307948%	0.1628908896%
Commission's Proportionate Share of the Net Pension Liability	\$37,383,392	\$36,972,148	\$44,856,005	\$55,154,227	\$40,413,306	\$30,497,630
Commission's Covered-Employee Payroll	\$15,431,286	\$14,479,759	\$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	242.26%	255.34%	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-3**

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

	Fiscal Year Ended December 31,					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,990,263	\$1,698,090	\$1,575,745	\$1,547,782	\$1,441,276	\$1,286,870
Contributions in Relation to the Contractually Required Contribution	(1,990,263)	(1,698,090)	(1,575,745)	(1,547,782)	(1,441,276)	(1,286,870)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Commission's Covered-Employee Payroll	\$15,431,286	\$14,479,759	\$13,206,006	\$13,223,975	\$12,797,853	\$12,172,446
Contributions as a Percentage of Commission's Covered-Employee Payroll	12.90%	11.73%	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.

**PASSAIC VALLEY WATER COMMISSION**  
**Notes to Required Supplementary Information**  
**For the Year ended December 31, 2019**

**Other Postemployment Benefits**

**Plan Membership as of December 31, 2019**

Number of Actives with coverage	182
Number of Retirees and Dependents covered	<u>181</u>
	363

<b>Covered Payroll</b>	<b>\$13,187,118</b>
------------------------	---------------------

<b>Average Future Service</b>	<b>5.35</b>
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**Total December 31, 2019 OPEB Liability By Active/Inactive**

Active Employees	\$36,364,487
Inactive Participants	<u>33,245,032</u>
Total OPEB Liability	\$69,609,519

Net OPEB Liability as a Percentage of Covered Payroll	527.86%
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**PASSAIC VALLEY WATER COMMISSION**  
**Notes to Required Supplementary Information**  
**For the Year ended December 31, 2019**  
**(continued)**

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

**Changes in Benefit Terms**

None

**Changes in Assumptions**

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date to the current measurement date resulting in a change in the discount rate from 5.66% to 6.8%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

## **Supplementary Schedules**

## PASSAIC VALLEY WATER COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2019

	Net Investment in Capital Assets	Current Debt Service Reserve	Future Debt Service Reserve	Restricted		Operations Reserve	Unemployment Compensation Insurance	Unrestricted		Total
				Renewal and Extension Reserve				Designated	Undesignated	
<b>Operating Revenue:</b>										
Service Agreements	-	-	-	-	-	-	-	-	82,073,313	82,073,313
Miscellaneous									9,480,426	9,480,426
Sale of Scrap									25,272	25,272
<b>Total Operating Revenue</b>									91,579,011	91,579,011
<b>Operating Expense:</b>										
Cost of Providing Services									49,972,652	49,972,652
Administrative and General									14,176,601	14,176,601
Depreciation	11,861,852								11,861,852	11,861,852
<b>Total Operating Expense</b>	11,861,852								64,149,253	64,149,253
<b>Operating Income</b>	(11,861,852)								27,429,758	15,567,906
<b>Non-Operating Revenue (Expense):</b>										
Interest Income									1,790,686	1,790,686
Finance Charges									859,384	859,384
Interest Expense									(4,179,093)	(4,179,093)
Other Postemployment Benefit Obligation									(4,317,499)	(4,317,499)
Amortization	(56,748)									(56,748)
	(56,748)								(5,846,522)	(5,903,270)
<b>Net Income (Loss) Before Transfers</b>	(11,918,600)								21,583,236	9,664,636
<b>Transfers:</b>										
Capital Expenditures	32,024,139								(32,024,139)	-
Bond Payments	12,233,872								(12,233,872)	-
Lease Payments	46,170								(46,170)	-
NJEIT Receipts	(8,750,604)								8,750,604	-
Other Transfers	1,836	37,168	191,216			1,657,517	17,065		(1,904,802)	-
<b>Increase/(Decrease) in Net Position</b>	23,636,813	37,168	191,216	-		1,657,517	17,065	-	(15,875,143)	9,664,636
<b>Net Position - Jan. 1, 2019</b>	99,929,812	1,377,611	15,663,734	3,000,000		10,154,931	336,263	608,084	(45,003,311)	86,067,124
<b>Net Position - December 31, 2019</b>	123,566,625	1,414,779	15,854,950	3,000,000		11,812,448	353,328	608,084	(60,878,454)	95,731,760

## 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, 2019**

	<u>Construction Accounts</u>	<u>Bond Service Accounts</u>	<u>Bond Reserve Account</u>	<u>Renewal and Extension Account</u>
<b>Cash, Cash Equivalents and Investments - January 1, 2019</b>	163	1,750,098	15,663,734	3,081,582
<b>Cash Receipts:</b>				
Interest on Investments		124,364	166,715	94,013
Service Agreements				
Miscellaneous		-		
Finance Charges				
Transfers		17,031,399	302,175	1,004,610
<b>Total Cash Receipts</b>	<u>-</u>	<u>17,155,763</u>	<u>468,890</u>	<u>1,098,623</u>
<b>Cash and Investments Available</b>	<u>163</u>	<u>18,905,861</u>	<u>16,132,624</u>	<u>4,180,205</u>
<b>Cash Disbursements:</b>				
Bond Principal Payments		12,233,872		
Interest Payments		4,251,403		
Operations				
Capital and Other Expenses				
Transfers	163	302,175	277,674	169,046
<b>Total Cash Disbursements</b>	<u>163</u>	<u>16,787,450</u>	<u>277,674</u>	<u>169,046</u>
<b>Cash, Cash Equivalents and Investments - December 31, 2019</b>	<u>-</u>	<u>2,118,411</u>	<u>15,854,950</u>	<u>4,011,159</u>
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	-	1,714,956	15,854,950	1,880,659
Investments	<u>-</u>		<u>-</u>	<u>2,130,500</u>
	<u>-</u>	<u>1,714,956</u>	<u>15,854,950</u>	<u>4,011,159</u>
Unrestricted	-	-		1,011,159
Restricted	<u>-</u>	<u>1,714,956</u>	<u>15,854,950</u>	<u>3,000,000</u>
	<u>-</u>	<u>1,714,956</u>	<u>15,854,950</u>	<u>4,011,159</u>

## PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED AND RESTRICTED ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Operation Reserve Account	Unemployment Insurance Account	General Operating Accounts	Total
<b>Cash, Cash Equivalents and Investments - January 1, 2019</b>	10,154,931	336,263	36,304,759	67,291,530
<b>Cash Receipts:</b>				
Interest on Investments	552,029	1,110	1,711,839	2,650,070
Service Agreements			89,907,952	89,907,952
Miscellaneous		15,955	9,957,596	9,973,551
Finance Charges			859,384	859,384
Transfers	2,110,098		446,883	20,895,165
<b>Total Cash Receipts</b>	2,662,127	17,065	102,883,654	124,286,122
<b>Cash and Investments Available</b>	12,817,058	353,328	139,188,413	191,577,652
<b>Cash Disbursements:</b>				
Bond Principal Payments				12,233,872
Interest Payments				4,251,403
Operations			66,457,467	66,457,467
Capital and Other Expenses			32,599,665	32,599,665
Transfers	1,004,610		19,141,497	20,895,165
<b>Total Cash Disbursements</b>	1,004,610	-	118,198,629	136,437,572
<b>Cash, Cash Equivalents and Investments - December 31, 2019</b>	11,812,448	353,328	20,989,784	55,140,080
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	11,812,448	19,528	17,720,936	49,003,477
Investments		333,800	3,672,303	6,136,603
	11,812,448	353,328	21,393,239	55,140,080
Unrestricted		-	21,393,239	22,404,398
Restricted	11,812,448	353,328	-	32,735,682
	11,812,448	353,328	21,393,239	55,140,080

**PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>FY 2019 Adopted Budget</b>	<b>FY 2019 Budget as Amended</b>	<b>Current Year Actual</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Revenues:</b>					
Service Charges	58,980,957	58,980,957	50,703,529	(8,277,428)	52,896,343
Service Agreements (Bulk)	31,937,456	31,937,456	31,369,784	(567,672)	32,454,123
Fines / Penalties	-	-	859,384	859,384	953,537
Fire Line Service	6,430,887	6,430,887	6,150,569	(280,318)	5,913,837
Other Services and Repairs	5,537,758	5,537,758	3,355,129	(2,182,629)	2,290,794
Non-operating Investments	750,000	750,000	1,790,686	1,040,686	1,386,214
<b>Total Operating Revenues</b>	<b>103,637,058</b>	<b>103,637,058</b>	<b>94,229,081</b>	<b>(9,407,977)</b>	<b>95,894,848</b>



**PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	FY 2019 Adopted Budget	FY 2019 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	584,800	584,800	650,904	(66,104)	559,134
Other Expenses	30,500	30,500	60,692	(30,192)	21,125
Legal					
Salaries and Wages	295,800	295,800	288,278	7,522	260,422
Other Expenses	652,000	652,000	815,876	(163,876)	754,195
Engineering					
Salaries and Wages	1,293,400	1,293,400	1,051,025	242,375	1,021,864
Other Expenses	638,000	638,000	720,097	(82,097)	745,252
Purchasing					
Salaries and Wages	298,600	298,600	273,471	25,129	242,375
Other Expenses	13,500	13,500	2,598	10,902	7,056
Accounting					
Salaries and Wages	1,150,100	1,150,100	988,995	161,105	927,872
Other Expenses	152,000	152,000	93,858	58,142	106,735
Customer Service					
Salaries and Wages	1,320,500	1,320,500	1,148,330	172,170	1,087,398
Other Expenses	1,080,000	1,080,000	1,604,696	(524,696)	1,322,015
Information Technology					
Personnel	556,000	556,000	150,700	405,300	155,901
Salaries and Wages	421,900	421,900	443,288	(21,388)	520,447
Other Expenses	95,000	95,000	37,555	57,445	77,034
Purification					
Salaries and Wages	2,375,400	2,375,400	1,741,348	634,052	1,486,903
Other Expenses	185,050	185,050	19,582	165,468	12,957
Process	8,220,600	8,220,600	7,129,422	1,091,178	6,518,670

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>FY 2019 Adopted Budget</b>	<b>FY 2019 Budget as Amended</b>	<b>Current Year Actual</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Operating:</b>					
<b>Cost of Providing Services (Continued):</b>					
Pumping					
Salaries and Wages	1,072,200	1,072,200	986,565	85,635	1,000,913
Other Expenses	6,563,900	6,563,900	6,224,761	339,139	5,196,724
Plant:					
Salaries and Wages	3,905,600	3,905,600	3,576,510	329,090	3,274,059
Other Expenses	1,666,000	1,666,000	1,967,208	(301,208)	1,832,802
Construction (Non-Capital Expenditures)	348,000	348,000	273,582	74,418	495,771
Distribution					
Salaries and Wages	5,948,200	5,948,200	5,367,439	580,761	5,221,417
Other Expenses	205,000	205,000	143,838	61,162	130,286
Maintenance	1,471,200	1,471,200	1,699,921	(228,721)	1,484,979
Garage	380,000	380,000	400,442	(20,442)	354,671
Laboratory:					
Salaries and Wages	1,752,800	1,752,800	1,749,451	3,349	1,509,891
Other Expenses	230,000	230,000	123,061	106,939	203,962
General Chemistry	349,000	349,000	200,747	148,253	241,280
Trace Analysis	253,000	253,000	155,507	97,493	126,422
Microbiology	84,000	84,000	82,346	1,654	79,809
Online Gas Instruments	-	-	126,952	(126,952)	
Online Water Instruments	153,000	153,000	15,913	137,087	131,904
Field Gas Instruments	25,000	25,000	-	25,000	4,162
NJDWSC Budget Expense	10,500,000	10,500,000	9,657,694	842,306	9,657,694
<b>Sub-total Cost of Providing Services</b>	<b>54,270,050</b>	<b>54,270,050</b>	<b>49,972,652</b>	<b>4,297,398</b>	<b>46,774,101</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>FY 2019 Adopted Budget</b>	<b>FY 2019 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	350,000	350,000	268,510	81,490	301,295
Miscellaneous	833,000	833,000	277,312	555,688	270,454
Telephone	425,000	425,000	605,226	(180,226)	485,567
Wanaque So. - Lease Expense	80,000	80,000	105,229	(25,229)	108,257
Legal Advertisements	250,000	250,000	19,600	230,400	16,565
Membership Affiliations	55,000	55,000	69,681	(14,681)	4,418
General Liability Insurance	800,000	800,000	689,295	110,705	764,055
Fees and Taxes	777,725	777,725	447,483	330,242	445,433
Bad Debt Expense	125,000	125,000	212,479	(87,479)	156,402
<b>Employee Benefits:</b>					
Worker's Compensation	650,000	650,000	670,456	(20,456)	821,767
Hospitalization / Prescription	6,533,300	6,533,300	5,480,479	1,052,821	5,151,359
Group Life Insurance	10,000	10,000	-	10,000	-
Pension	2,332,000	2,332,000	2,143,995	188,005	1,990,358
Social Security / Medicare	1,344,000	1,344,000	1,304,373	39,627	1,192,312
Unemployment and Disability	80,000	80,000	2,706	77,294	20,565
Dental	138,000	138,000	172,923	(34,923)	116,124
Other	46,000	46,000	39,074	6,926	33,202
<b>Professional Services:</b>					
Auditing	50,000	50,000	42,000	8,000	41,000
Other	75,000	75,000	70,806	4,194	128,708
<b>Sub-total Administrative</b>	<b>14,954,025</b>	<b>14,954,025</b>	<b>12,621,627</b>	<b>2,332,398</b>	<b>12,047,841</b>
<b>Sub-total Operating</b>	<b>69,224,075</b>	<b>69,224,075</b>	<b>62,594,279</b>	<b>6,629,796</b>	<b>58,821,942</b>

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>FY 2019 Adopted Budget</b>	<b>FY 2019 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	3,994,879	3,994,879	4,179,093	(184,214)	4,969,532
Capital Leases	76,609	76,609	76,609	-	74,378
Bond Principal	12,233,872	12,233,872	12,233,872	-	10,657,268
Reserves:					
Operations and Maintenance Reserve	2,605,646	2,605,646	2,605,646	-	990,520
<b>Sub-total Other Costs</b>	<b>18,911,006</b>	<b>18,911,006</b>	<b>19,095,220</b>	<b>(184,214)</b>	<b>16,691,698</b>
<b>Total Costs Funded by Operating Revenues</b>	<b>88,135,081</b>	<b>88,135,081</b>	<b>81,689,499</b>	<b>6,445,582</b>	<b>75,513,640</b>
<b>Add: Excess / (Deficit)</b>	<b>15,501,977</b>	<b>15,501,977</b>	<b>12,539,582</b>	<b>(2,962,395)</b>	<b>20,381,208</b>
	<b>103,637,058</b>	<b>103,637,058</b>	<b>94,229,081</b>	<b>9,407,977</b>	<b>95,894,848</b>
<b>Excess of Revenues Over Expenses:</b>			<b>12,539,582</b>		<b>20,381,208</b>
<b>Reconciliation of Budgetary Basis to GAAP:</b>					
Depreciation Expense			(11,861,852)		(11,583,912)
Amortization Expense			(56,748)		(62,867)
Operations and Maintenance Reserve			2,605,646		990,520
Bond Issuance Costs			-		-
Capital Leases			76,609		74,378
Bond Principal			12,233,872		10,657,268
Pension Adjustment			(1,554,974)		(1,137,526)
Other Postemployment Benefit Obligation			(4,317,499)		(1,195,974)
<b>Total Adjustments</b>			<b>(2,874,946)</b>		<b>(2,258,113)</b>
<b>Change in Net Position</b>			<b>9,664,636</b>		<b>18,123,095</b>

## PASSAIC VALLEY WATER COMMISSION

**SCHEDULE OF CAPITAL BUDGET PROGRAM  
FUNDED BY FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>FY 2019 Adopted Budget</b>	<b>FY 2019 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>
<b>Financing Sources:</b>				
Unrestricted Net Position Utilized	27,810,300	27,810,300	20,750,880	7,059,420
Debt Authorization	38,550,000	38,550,000	11,273,259	27,276,741
Other Sources	1,500,000	1,500,000	-	1,500,000
	<u>67,860,300</u>	<u>67,860,300</u>	<u>32,024,139</u>	<u>35,836,161</u>
<b>Capital Outlays:</b>				
<b>Recurring Construction:</b>				
Cleaning & Lining	817,400	817,400	816,996	404
Valve Replacement	530,450	530,450	530,906	(456)
Plant / Distribution	530,450	530,450	531,095	(645)
Vehicle Repair	945,000	945,000	406,819	538,181
<b>Production and Pumping:</b>				
Emergency Pump Rehab for MPS	200,000	200,000	200,000	-
Rehabilitate Pump Motors for MPS	150,000	150,000	150,261	(261)
Air Handlers for Lab	180,000	180,000		180,000
Filter Media	1,700,000	1,700,000	3,419,564	(1,719,564)
Rehabilitate Chemical System	400,000	400,000	313,636	86,364
MCC Pump Drives	4,000,000	4,000,000	4,000,809	(809)
Hydro-Turbine Generators	1,000,000	1,000,000	300,000	700,000
Residuals Treatment	500,000	500,000	-	500,000
Filter Valve Actuators	600,000	600,000	-	600,000
Replace Ferric Pumps	40,000	40,000	40,000	-
<b>Distribution:</b>				
Lodi New Northern End	800,000	800,000	799,500	500
Open Finished Water Reservoirs	35,550,000	35,550,000	10,176,250	25,373,750
6th Ave Main Replacement	5,000,000	5,000,000	4,965,858	34,142
Replacement of Kearny Multiples	2,000,000	2,000,000	1,615,000	385,000
Curb Stop Replacement for Shutoffs	500,000	500,000	433,545	66,455
Lead Service Replacements	3,093,000	3,093,000	1,689,957	1,403,043
<b>Plant and General Structures:</b>				
Main Pump Station - Roof and Windows	3,000,000	3,000,000	1,097,009	1,902,991
Botany P.S.	400,000	400,000	133,826	266,174
Electrical Upgrades - Plant, Outlying Stat.	250,000	250,000	-	250,000
Roof Rehabilitation - Great Falls Building	1,100,000	1,100,000	-	1,100,000
Fencing - New Street & Levine	72,000	72,000	-	72,000
Fencing - Main Pump Station	29,000	29,000	-	29,000
<b>Instrumentation, Controls and Information Technologies:</b>				
SCADA	350,000	350,000	4,650	345,350
Ozone Controls Upgrade	300,000	300,000	220	299,780
Commercial System Upgrade	350,000	350,000	252,372	97,628
NEC Upgrades	1,500,000	1,500,000	-	1,500,000
Security System Upgrade	150,000	150,000	-	150,000
CMMS and Related GIS	800,000	800,000	5,694	794,306
MM Field Book	75,000	75,000	-	75,000
Cross Connection Facility Survey	350,000	350,000	-	350,000
Laboratory/Water Quality Systems	598,000	598,000	140,172	457,828
<b>Total Capital Outlays</b>	<u>67,860,300</u>	<u>67,860,300</u>	<u>32,024,139</u>	<u>35,836,161</u>
<b>Total Costs Funded by Capital Revenue</b>	<u>67,860,300</u>	<u>67,860,300</u>	<u>32,024,139</u>	<u>35,836,161</u>
<b>Add: Excess</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>67,860,300</u>	<u>67,860,300</u>	<u>32,024,139</u>	<u>35,836,161</u>

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
NJ/EIT Bonds (Series 2001A&B) Trust Portion - NSRF (Refunded with Series 2007A)	10/15/2001	4.75%	2020	2,022,684.41				
		4.75%	2021	2,114,810.96				
					6,064,234		1,926,739	4,137,495
NJ/EIT Bonds (Series 2001A&B) Fund Portion - NSRF	10/15/2001	4.75%	2020	1,551,963.74				
		4.75%	2021	1,548,011.43				
					4,652,771		1,552,796	3,099,975
NJ/EIT Bonds (Series 2001A&B) Trust Portion - CW (Refunded with Series 2007A)	10/15/2001	4.75%	2020	256,996.71				
		4.75%	2021	271,496.00				
					775,880		247,387	528,493
NJ/EIT Bonds (Series 2001A&B) Fund Portion - CW	10/15/2001	4.75%	2020	197,220.31				
		4.75%	2021	198,667.87				
					595,105		199,217	395,888

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2019		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
NJGIT Bonds (Series 2002A&B) Trust Portion (Refunded with Series 2007B)	10/15/2002							
		5.00%	2020	123,774.48				
		5.00%	2021	132,112.37				
		4.75%	2022	140,515.56			114,875	396,402
					511,277			
NJGIT Bonds (Series 2002A&B) Trust Portion - CW (Refunded with Series 2007B)	10/15/2002							
		5.00%	2020	13,810.47				
		5.00%	2021	17,791.44				
		4.75%	2022	17,011.56			14,529	48,613
					63,142			

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
Refunding Bonds (Series 2003)	12/15/2003	5.00%	2020	3,785,000.00				
		5.00%	2021	3,975,000.00				
		5.00%	2022	4,175,000.00	15,540,000		3,605,000	11,935,000



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

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
NJ/EIT Bonds (Series 2007A&B) Trust Portion	11/9/2007	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	720,000		65,000	655,000
NJ/EIT Bonds (Series 2007A&B) Fund Portion	11/9/2007	4.62%	2020	126,109.10				
		4.66%	2021	128,899.20				
		4.69%	2022	124,143.35				
		4.75%	2023	76,612.27				
				578,829		123,065		455,764

-87-

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

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
NJ/EIT Bonds (Series Fall 2010A) Fund Portion	10/5/2010	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				
					658,948		72,723	586,225
NJ/EIT Bonds (Series 2010B) Trust Portion	12/2/2010	5.00%	2020	130,000.00				
		5.00%	2021	135,000.00				
		5.00%	2022	145,000.00				
		5.00%	2023	150,000.00				
		5.00%	2024	160,000.00				
		5.00%	2025	165,000.00				
		5.00%	2026	175,000.00				
		5.00%	2027	180,000.00				
		5.00%	2028	190,000.00				
		5.00%	2029	75,000.00			125,000	1,505,000
					1,630,000			

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
Water Supply Revenue Bonds (Series 2014)	12/15/2014	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				
					17,330,000		845,000	16,485,000

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
Water Supply Refunding Bonds (Series 2015)	11/5/2015	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				
					7,995,000		1,020,000	6,975,000

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
NJDEP Bonds (Series 2017) Fund Portion Project 1605002-025A	6/19/2017	n/a	2020	69,393.39				
		n/a	2021	69,393.39				
		n/a	2022	69,393.39				
		n/a	2023	69,393.39				
		n/a	2024	69,393.39				
		n/a	2025	69,393.39				
		n/a	2026	69,393.39				
		n/a	2027	69,393.39				
		n/a	2028	69,393.39				
		n/a	2029	69,393.39				
		n/a	2030	69,393.39				
		n/a	2031	69,393.39				
		n/a	2032	69,393.39				
		n/a	2033	69,393.39				
		n/a	2034	69,393.39				
		n/a	2035	69,393.39				
		n/a	2036	69,393.39				
		n/a	2037	69,393.39				
		n/a	2038	69,393.39				
		n/a	2039	69,393.39				
		n/a	2040	69,393.39				
		n/a	2041	69,393.39				
		n/a	2042	69,393.39				
		n/a	2043	69,393.39				
		n/a	2044	69,393.39				
		n/a	2045	69,393.39				
		n/a	2046	69,393.60				
					1,919,884		46,262	1,873,622

PASSAIC VALLEY WATER COMMISSION  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
NJDEP Bonds (Series 2017) Fund Portion Project 1605002-025B	6/19/2017	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		526,279	21,314,280

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
Water Supply Refunding Bonds (Series 2017A)	9/27/2017	4.00%	2021	450,000.00	1,925,000			1,925,000
		5.00%	2022	470,000.00				
		5.00%	2023	490,000.00				
		5.00%	2024	515,000.00				
Water Supply Refunding Bonds (Series 2017B)	9/27/2017	1.93%	2020	415,000.00	15,595,000		410,000	15,185,000
		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				
				15,595,000				
				113,340,629		12,233,872	101,106,757	
Current Portion Noncurrent Portion				12,233,872				12,984,094
				101,106,757				88,122,663
				113,340,629				101,106,757



## **SCHEDULE 6**

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

The following officials were in office at December 31, 2019:

<u>Name</u>		<u>Office</u>
Rigo Sanchez	Passaic	President
Joseph Kolodziej	Clifton	Vice President
Ronald Van Rensalier	Passaic	Treasurer
Robert Vannoy	Paterson	Secretary
Gerald Friend	Clifton	Commissioner
Jeffrey Levine	Paterson	Commissioner
Idida Rodriguez	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.

**Report Pursuant to Government Auditing Standards**



# WIELKOTZ & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN D. WIELKOTZ, CPA, RMA, PSA  
MATTHEW B. WIELKOTZ, CPA, PSA  
PAUL J. CUVA, CPA, RMA, PSA  
JAMES J. CERULLO, CPA, RMA, PSA  
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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, 2019, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2020.

***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.



Honorable Chairman and Members of the  
Passaic Valley Water Commission  
Page 2.

*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 2019-001).

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

As part of obtaining reasonable assurance about whether the Passaic Valley Water Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

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

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

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



WIELKOTZ & COMPANY, LLC  
Certified Public Accountants  
Pompton Lakes, New Jersey

September 22, 2020

## Single Audit Section



# WIELKOTZ & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN D. WIELKOTZ, CPA, RMA, PSA  
MATTHEW B. WIELKOTZ, CPA, PSA  
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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, 2019. 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, 2019.

### **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, 2019, and have issued our report there dated September 22, 2020 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.



WIELKOTZ & COMPANY, LLC  
Certified Public Accountants  
Pompton Lakes, New Jersey

September 22, 2020



**SCHEDULE 7**

**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE**

**DECEMBER 31, 2019**

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	CFDA Number	State Agency Account Number	Grant Award	Grant Receipts	Grant Period		Prior Years	Grant Expenditures	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	6,155,441	01/01/19	12/31/19	5,985,233	4,874,324	10,859,557
Project No. 1605002-25B - Prin. Forgiveness	14 269	042-4840-707-044	\$ 7,920,148	2,232,177	01/01/19	12/31/19	2,170,454	1,767,599	3,938,053
U.S. Environmental Protection Agency:									
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	1,915,884	362,986	01/01/19	12/31/19	610,408	362,986	973,394
Total Federal Financial Assistance				8,750,604			8,766,095	7,004,909	15,771,004

## PASSAIC VALLEY WATER COMMISSION

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2019

#### **NOTE 1. GENERAL**

The accompanying Schedule of Expenditures of Federal 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.

#### **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>		
	Funded by	Funded by	Total
	U.S. Dept.	U.S. E.P.A.	
	<u>of H.U.D.</u>	<u>U.S. E.P.A.</u>	
Balance - 12/31/18	\$23,350,715	\$1,309,476	\$24,660,191
Less: Grants Received	<u>8,387,618</u>	<u>362,986</u>	<u>8,750,604</u>
Balance - 12/31/19	<u>\$14,963,097</u>	<u>\$946,490</u>	<u>\$15,909,587</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.

## **Comments and Recommendations**

PASSAIC VALLEY WATER COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

*Section I - Summary of Auditor's Results*

**Financial Statements**

Type of auditor's report issued: Modified

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?        yes X none

Noncompliance material to basic financial statements noted? X yes        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>

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

Auditee qualified as low-risk auditee? X no        yes

**PASSAIC VALLEY WATER COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2019**

*Section II - Financial Statement Findings*

**FINDING 2019-01**

**Statement of Condition**

A portion of the Commission's accounts payable at year end was not properly supported by an itemized report.

**Criteria**

All accounts, including accounts payable, should be supported through the year.

**Effect**

Of the \$12,377,455 reported as accounts payable at year end, only \$9,781,248 was supported by an itemized list of outstanding vouchers. The remaining \$2,596,207 was not supported by documentation other than differences between batch entries posted in the Commission's general ledger.

**Cause**

The Commission's current accounting software does not allow management to recreate an itemized accounts payable report if generated after a certain period of time. Management did not generate this report within the appropriate time frame and could not regenerate at the time of our audit.

**Recommendation**

Management should maintain records that properly support all account balances, including accounts payable. If the Commission's accounting system does not provide the ability to regenerate certain reports after a specific period of time, management should make efforts to generate these reports before the allowable time expires.

**Response**

Management believes that the accounts payable balances presented in the financial statements at year end are accurate and that the statement of condition above only occurred due to limitations in the Commission's accounting software. Going forward, management plans to generate all year end reports from this accounting software within the appropriate time frame to avoid this from happening again.

**PASSAIC VALLEY WATER COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019**  
**(continued)**

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

No matters were reported

**PASSAIC VALLEY WATER COMMISSION**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019**

**Status of Prior Year Findings**

A review was performed on all prior year audit findings and corrective action was taken.