

**PASSAIC VALLEY SEWERAGE COMMISSION**

FINANCIAL STATEMENTS

December 31, 2023

# PASSAIC VALLEY SEWERAGE COMMISSION

## TABLE OF CONTENTS

December 31, 2023

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	<u>Page Number</u>
<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Basic Financial Statements – Modified Cash Basis</b>	
Statement of Assets, Liabilities and Reserves .....	3
Statement of Revenues, Expenditures and Changes in Reserves .....	5
Notes to Financial Statements .....	7

## **INDEPENDENT AUDITORS' REPORT**

## INDEPENDENT AUDITORS' REPORT

To the Commissioners of  
Passaic Valley Sewerage Commission

### ***Report on the Audit of the Financial Statements***

#### **Opinions**

We have audited the accompanying financial statements – modified cash basis of the various funds of the Passaic Valley Sewerage Commission (the “Commission”), as of and for the year ended December 31, 2023, and the related notes to financial statements, which collectively comprise the Commission’s basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of each fund of the Commission as of December 31, 2023, and the respective modified cash basis changes in financial position for the year then ended, in accordance with the financial reporting provisions of the modified cash basis of accounting as described in Note A to the financial statements.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (“GAAS”). Our responsibilities under this standards is further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Emphasis of Matter - Basis of Accounting**

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note A, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**


### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Warren A. Broudy, CPA, CGFM, PSA, CGMA  
Registered Municipal Accountant License No. 554

**MERCADIEN, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

September 19, 2024

## **FINANCIAL STATEMENTS**

## PASSAIC VALLEY SEWERAGE COMMISSION

### STATEMENT OF ASSETS, LIABILITIES AND RESERVES

December 31, 2023

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Bond Financed Projects Fund	Wastewater Treatment Trust Fund	Doremus Site Remediation Escrow Fund	Total
<b>Assets</b>									
Cash and cash equivalents	\$ 97,206,389	\$ 11,872,610	\$ 5,418,055	\$ 3,381,972	\$ 7,928,229	\$ 20,470,438	\$ -	\$ 131,568	\$ 146,409,262
Investments	17,497,055	-	-	-	-	-	-	-	17,497,055
Receivables									
Interfund receivables	268,732	-	617,691	15,598,535	12,707,700	141,553	-	-	29,334,211
Accounts receivable, net of allowance \$709,381	7,380,714	-	-	21,647	-	-	-	-	7,402,361
Federal/state grants and loans	-	-	-	120,385,748	-	-	164,905,151	-	285,290,899
Prepaid expenditures	544,627	-	351,417	-	-	-	-	-	896,044
Inventory	12,000,335	-	-	-	-	-	-	-	12,000,335
Property, plant and equipment									
Construction and acquisition cost	-	-	-	399,899,317	-	-	-	-	399,899,317
Buildings	252,159,560	-	-	-	-	-	-	-	252,159,560
Machinery and equipment	97,786,994	-	-	-	-	-	-	-	97,786,994
Improvements other than building	47,029,058	-	-	-	24,365,566	219,938,596	294,843,241	-	586,176,462
Projects authorized and in process	-	-	-	96,333,845	2,920,845	5,437,689	51,602,138	-	156,294,517
Other assets									
Amounts to be provided for bond, loan and note retirement	-	-	-	-	-	107,740,000	355,292,796	-	463,032,796
<b>Total Assets</b>	<b>\$ 531,873,465</b>	<b>\$ 11,872,610</b>	<b>\$ 6,387,163</b>	<b>\$ 635,621,063</b>	<b>\$ 47,922,341</b>	<b>\$ 353,728,275</b>	<b>\$ 866,643,326</b>	<b>\$ 131,568</b>	<b>\$ 2,454,179,812</b>

## PASSAIC VALLEY SEWERAGE COMMISSION

### STATEMENT OF ASSETS, LIABILITIES AND RESERVES (CONTINUED)

December 31, 2023

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Bond Financed Projects Fund	Wastewater Treatment Trust Fund	Doremus Site Remediation Escrow Fund	Total
<b>Liabilities</b>									
Current liabilities									
Loans payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,285,931	\$ -	\$ 7,285,931
Bonds payable	-	-	-	-	-	7,625,000	-	-	7,625,000
Notes payable	-	-	-	-	-	-	283,258,918	-	283,258,918
Accounts payable	4,695,029	-	-	2,364,072	474,225	200,194	3,201,170	-	10,934,690
Accrued expenses	11,531,118	-	889,365	500,993	-	-	-	8,342	12,929,818
Payroll deductions	504,615	-	-	-	-	-	-	-	504,615
Escrow deposits	334,191	-	-	-	-	-	-	121,102	455,292
Interfund payable	15,816,189	-	-	996,206	-	239,694	12,282,121	-	29,334,211
Total current liabilities	32,881,142	-	889,365	3,861,271	474,225	8,064,889	306,028,140	129,443	352,328,475
Noncurrent liabilities									
Loans payable	-	-	-	-	-	-	64,747,947	-	64,747,947
Bonds payable	-	-	-	-	-	100,115,000	-	-	100,115,000
Total noncurrent liabilities	-	-	-	-	-	100,115,000	64,747,947	-	164,862,947
<b>Total Liabilities</b>	<b>32,881,142</b>	<b>-</b>	<b>889,365</b>	<b>3,861,271</b>	<b>474,225</b>	<b>108,179,889</b>	<b>370,776,087</b>	<b>129,443</b>	<b>517,191,422</b>
<b>Reserves</b>									
Insurance trust	-	-	5,497,799	-	-	-	-	-	5,497,799
Investment in inventory	12,000,335	-	-	-	-	-	-	-	12,000,335
Investment in fixed assets	396,975,612	-	-	-	-	-	-	-	396,975,612
Construction and acquisition	-	-	-	399,899,317	24,365,566	219,938,596	294,843,241	-	939,046,720
Projects authorized	-	-	-	96,333,845	2,920,845	5,437,689	51,602,138	-	156,294,517
Debt service	-	11,872,610	-	-	-	-	-	-	11,872,610
Appropriated projects	-	-	-	135,526,630	20,161,704	20,172,102	149,421,860	2,125	325,284,422
Rate stabilization	90,016,375	-	-	-	-	-	-	-	90,016,375
<b>Total Reserves</b>	<b>498,992,323</b>	<b>11,872,610</b>	<b>5,497,799</b>	<b>631,759,792</b>	<b>47,448,116</b>	<b>245,548,387</b>	<b>495,867,239</b>	<b>2,125</b>	<b>1,936,988,390</b>
<b>Total Liabilities and Reserves</b>	<b>\$ 531,873,465</b>	<b>\$ 11,872,610</b>	<b>\$ 6,387,163</b>	<b>\$ 635,621,063</b>	<b>\$ 47,922,341</b>	<b>\$ 353,728,275</b>	<b>\$ 866,643,326</b>	<b>\$ 131,568</b>	<b>\$ 2,454,179,812</b>

See notes to financial statements.



## PASSAIC VALLEY SEWERAGE COMMISSION

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES

Year Ended December 31, 2023

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Bond Financed Projects Fund	Wastewater Treatment Trust Fund	Doremus Site Remediation Escrow Fund	Total
<b>Revenues</b>									
User charges billed	\$ 154,095,526	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,095,526
Sludge fees	38,508,893	-	-	-	-	-	-	-	38,508,893
Investment gain (loss), net	5,374,893	547,838	152,104	-	-	400,818	-	-	6,475,653
Miscellaneous	12,418,115	-	-	68,344	-	-	-	-	12,486,459
Federal/state grants and loans	-	-	-	1,460,452	-	-	44,243,748	-	45,704,200
<b>Total</b>	<b>210,397,427</b>	<b>547,838</b>	<b>152,104</b>	<b>1,528,796</b>	<b>-</b>	<b>400,818</b>	<b>44,243,748</b>	<b>-</b>	<b>257,270,732</b>
<b>Expenditures</b>									
Salaries	58,077,691	-	-	-	-	-	-	-	58,077,691
Payroll taxes	4,154,267	-	-	-	-	-	-	-	4,154,267
Employee benefits	7,547,740	-	11,244,928	-	-	-	-	-	18,792,668
Pension contribution	8,920,272	-	-	-	-	-	-	-	8,920,272
Supplies and postage	3,076,250	-	-	-	-	-	-	-	3,076,250
Replacement parts	9,290,815	-	-	-	-	-	-	-	9,290,815
Materials	11,077,276	-	-	-	-	-	-	-	11,077,276
Utilities	27,968,908	-	-	-	-	-	-	-	27,968,908
Rentals	389,326	-	-	-	-	-	-	-	389,326
Insurance	3,089,131	-	-	-	-	-	-	-	3,089,131
Equipment	4,950,615	-	-	-	-	-	-	-	4,950,615
Outside services	7,832,139	-	-	189,341	-	-	-	-	8,021,480
Professional fees	1,741,624	-	-	-	-	-	-	-	1,741,624
Permitting	861,825	-	-	-	-	-	-	-	861,825
Sludge disposal	8,084,720	-	-	-	-	-	-	-	8,084,720
Sundry	1,961,581	-	-	-	-	-	-	-	1,961,581
Advertising	39,614	-	-	-	-	-	-	-	39,614
Real estate taxes (in lieu)	1,121,390	-	-	-	-	-	-	-	1,121,390
Project expenditures	-	-	-	96,333,845	2,920,845	5,437,689	51,602,138	-	156,294,517
Bond issuance costs	-	-	-	-	-	-	833,439	-	833,439
Contingency	304,339	-	-	-	-	-	-	-	304,339
<b>Subtotal</b>	<b>160,489,521</b>	<b>-</b>	<b>11,244,928</b>	<b>96,523,186</b>	<b>2,920,845</b>	<b>5,437,689</b>	<b>52,435,577</b>	<b>-</b>	<b>329,051,746</b>

## PASSAIC VALLEY SEWERAGE COMMISSION

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES (CONTINUED)

Year Ended December 31, 2023

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Bond Financed Projects Fund	Wastewater Treatment Trust Fund	Doremus Site Remediation Escrow Fund	Total
Bond debt service									
Principal	16,210,319	-	-	-	-	-	-	-	16,210,319
Interest	4,684,098	-	-	-	-	-	-	-	4,684,098
Total expenditures	181,383,938	-	11,244,928	96,523,186	2,920,845	5,437,689	52,435,577	-	349,946,164
Excess of revenues over (under) expenditures	29,013,489	547,838	(11,092,823)	(94,994,390)	(2,920,845)	(5,036,871)	(8,191,829)	-	(92,675,432)
Other financing sources/(uses)									
Premium on bonds	-	-	-	-	-	-	203,472	-	203,472
Payment to refunding escrow agent	-	-	-	-	-	-	(72,783)	-	(72,783)
Interfund transfers	(27,596,345)	(9,700,000)	11,596,345	15,700,000	10,000,000	-	-	-	-
Excess of revenues over/(under) expenditures and other financing sources/(uses)	1,417,144	(9,152,162)	503,521	(79,294,390)	7,079,155	(5,036,871)	(8,061,140)	-	(92,544,743)
Reserves, beginning of year	88,599,231	21,024,772	4,994,277	214,821,020	13,082,550	25,208,973	157,483,000	2,125	525,215,948
Reserves, end of year	90,016,375	11,872,610	5,497,799	135,526,630	20,161,704	20,172,102	149,421,860	2,125	432,671,205
Investment in inventory	12,000,335	-	-	-	-	-	-	-	12,000,335
Investment in construction and acquisition	-	-	-	399,899,317	24,365,566	219,938,596	294,843,241	-	939,046,720
Investment in projects authorized	-	-	-	96,333,845	2,920,845	5,437,689	51,602,138	-	156,294,517
Investment in fixed assets	396,975,612	-	-	-	-	-	-	-	396,975,612
Total reserves	<u>\$ 498,992,323</u>	<u>\$ 11,872,610</u>	<u>\$ 5,497,799</u>	<u>\$ 631,759,792</u>	<u>\$ 47,448,116</u>	<u>\$ 245,548,387</u>	<u>\$ 495,867,239</u>	<u>\$ 2,125</u>	<u>\$ 1,936,988,390</u>

See notes to financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Organization**

In 1902, by a special Act of the New Jersey State Legislature 58:14-2, the Passaic Valley Sewerage Commission (the "Commission") was formed as an agency of the State of New Jersey to reduce pollution of the Passaic River and its tributaries. The Commission is one of the oldest and largest, in terms of operational capability, regional sewerage commissions in the United States and is directed by a Board of Commissioners ("Commissioners") appointed by the Governor and confirmed by the State of New Jersey Senate.

In order to protect and preserve local streams and rivers from water pollution, the Commission operates one of the United States largest treatment plants for the wastewaters of northern New Jersey. With many expansions and upgrading to secondary treatment, the facility has been striving since the beginning of its operations in 1924 to improve local water quality in accordance with federal and state water quality legislation. The Commission's customers include various municipalities, tax-exempt, industrial and non-industrial entities in the northern New Jersey region.

The Commission conducts its operations in compliance with environmental rules and regulations established by the United States Environmental Protection Agency ("USEPA") and New Jersey Department of Environmental Protection ("NJDEP") as well as administrative requirements established by the New Jersey Department of Community Affairs ("NJDCA"). The administrative requirements encompass operational areas such as procurement, banking and investments and rate setting. These requirements are established through New Jersey Administrative Code Title 58 statutes and certain elements of New Jersey Title 40A issued by NJDCA that the Commission implements as a best practice for procurement.

#### **Reporting Entity**

The Commission establishes funds to account for significant activities within its jurisdiction. Specific funds are maintained at the direction of the Commission and are included in the financial statements.

#### **Fund Accounting**

The funds of the Commission are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. The following are the various funds of the Commission:

##### General Fund

The General Fund accounts for the cost of providing sewerage collection and treatment services to its member municipalities. Services provided are financed primarily through user charges.

##### Bond Reserve Fund

In addition to the annual debt service payments made by the General Fund, the Commission has further secured the payment of its serial and term bonds by covenanting and establishing a Bond Reserve Fund. The amount maintained in this fund is equal to the maximum annual interest and principal payments required in any future year through the year 2045, the maturity date of the Series J Bonds.

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Fund Accounting (Continued)**

##### Insurance Trust Fund

The Insurance Trust Fund represents amounts set aside for possible damages resulting from liability claims.

##### Repair, Replacement and Improvement Fund

The Repair, Replacement and Improvement Fund represents amounts set aside for non-operating expenditures for equipment, accessories and appurtenances of the sewerage treatment plant, as well as expenditures related to Federal Emergency Management Agency ("FEMA") funding.

##### Capital Fund

The Capital Fund represents expenditures for permanent improvements to the sewerage treatment plant.

##### Bond Financed Projects Fund

The Bond Financed Projects Fund was established to account for the construction and/or acquisition of certain capital assets, principally financed by the proceeds of Revenue Bonds issued by the Commission. As of December 31, 2023, the series H, I and J bonds remain outstanding in the aggregate principal amount of \$107,740,000, the liability of which is presented in the Bond Financed Projects Fund.

##### Wastewater Treatment Trust Fund

The Wastewater Treatment Trust Fund was established for the purpose of funding the rehabilitation, renovation and improvement of the existing treatment facilities of the Commission. Funding was provided by the State of New Jersey, the New Jersey Wastewater Treatment Trust Fund, and the New Jersey Infrastructure Bank ("NJIB").

##### Doremus Site Remediation Escrow Fund

The Doremus Site Remediation Escrow Fund was established to set aside funds for future environmental remediation of property adjacent to a site acquired by the Commission.

#### **Basis of Accounting**

The accounting policies of the Commission conform to a modified cash basis, which constitute a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("U.S. GAAP"). These principles and practices are designed primarily for determining compliance with legal and budgetary restrictions as a means of reporting on the stewardship of public officials with respect to public funds. Had the Commission's financial statements been prepared under U.S. GAAP,

- federal and state grant revenues would be recognized when expended,
- fixed asset expenditures would be capitalized and depreciation expense recorded,
- pension and OPEB expense and resultant net pension and OPEB liabilities would be recognized on the accrual basis,
- principal payments on debt would not be recorded as an expenditure,
- the recording of certain reserves and related assets would not be recorded,
- investments would be stated at fair value,
- there would be no investment in inventory reserve account balance,
- leases would be recorded as a liability and amortized over the life of the lease term, and
- deferred gain or loss from bond refunding would be recorded and amortized on the accrual basis.

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Cash and Cash Equivalents**

The Commission considers all highly liquid investments, with maturities of ninety days or less from the date of purchase, to be cash equivalents.

#### **Investments**

Investments, including certificates of deposits not issued and held by a bank, are stated at cost in the statement of assets, liabilities and reserves. All interest income is reported in the statement of revenues, expenditures and changes in reserves as an increase in reserves.

#### **Revenue Recognition**

User charges are recognized when billed based on an annual rate, which is in accordance with the Act that created the Commission. This Act provides that each of the contracting municipalities or other users of the system reimburse the Commission annually for its proportionate share of the cost and expense of maintenance, repair and operation, including debt service, of the system.

Grant revenues are recognized when awarded and FEMA revenue is recognized when the project funding is obligated by the federal government and spent by the Commission.

Sludge fee revenue is recognized when waste is discharged at the facility and billed based on a contracted rate.

#### **Use of Estimates**

The financial statements are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. GAAP which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Accounts Receivable**

Accounts receivable consists primarily of user charges and sludge fees. The Commission charges an allowance for estimated uncollectible amounts based on past experience and an analysis of accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible.

#### **Inventory**

Inventory is made up of parts and supplies for the repair and maintenance of the facility. The Commission values its inventories at cost, using the first-in, first-out method.

#### **Fixed Assets**

The Commission records capital additions in the year of acquisition. The building, machinery and equipment balances of fixed assets recorded in the general fund reflect the original construction costs of the system and any improvements; no depreciation expense is recorded.

#### **Compensated Absences**

Employees of the Commission are entitled to paid vacation, sick days and personal days off, depending on length of service and other factors. The Commission has recorded the liability for accumulated vacation pay, sick leave and compensatory absences for all employees in accrued expenses.

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Serial Bonds Payable

Debt service payments are made by the General Fund. Serial Bonds payable are carried in the Bond Financed Projects Funds. Therefore, as payments are made to reduce debt, an adjustment is made in the corresponding fund.

#### Reserves

Reserves generally represent fund equity restricted for the stated purposes. Authorized project reserves represent fund equity that has been pledged to future project costs. Reserve for the Insurance Trust Fund represents amounts set aside for possible damages resulting from liability claims.

The Reserve for Rate Stabilization, which is included in the General Fund, was established in 1996 by the Commissioners to enable the Commission to stabilize user charges to its member municipalities in future years. Funds from the Reserve for Rate Stabilization are expended as needed and represent a revenue source to offset monies needed to meet the current year's budget. Increases and decreases to this Reserve for Rate Stabilization are affected by companies leaving and entering the sewerage treatment system during a measurement year in addition to any unexpended funds and revenues from the General Fund remaining at year end.

#### Rounding

Some amounts in the financial statements may have dollar differences due to rounding.

### B. CASH AND CASH EQUIVALENTS

The carrying amount of the Commission's cash and cash equivalents consisted mainly of demand and money market accounts. The difference between the bank balance and the book balance is due primarily to the timing of deposits and outstanding checks.

Cash and cash equivalents are substantially restricted under the terms of the Commission's bond resolutions for the payment of bond principal and interest expense and applicable project loans.

#### Deposits

**Custodial Credit Risk** – This is the risk that in the event of a bank failure, the Commission will not be able to recover the value of its deposits that are in the possession of an outside party. The deposits in the JP Morgan bank accounts were covered by the Federal Deposit Insurance Corporation ("FDIC"), as well as a collateral pledge from JP Morgan, which was greater than the deposit balance at December 31, 2023. The Bank of New York money market funds are invested in the Goldman Sachs Financial Square Treasury Obligation Fund, which is comprised of treasury securities backed by the U.S. Government and a Federal Home Loan Bank Discount Note. As of December 31, 2023, the Commission's bank balances were exposed to custodial credit risk as follows:

Insured (FDIC)	\$ 1,750,000
Collateralized (JP Morgan & Bank of NY)	57,328,684
Uninsured and Collateralized (GUDPA)	88,461,141
	<u>\$ 147,539,826</u>

## PASSAIC VALLEY SEWERAGE COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### B. CASH AND CASH EQUIVALENTS (CONTINUED)

##### Deposits (Continued)

Additional coverage in excess of FDIC insured amounts is provided by the New Jersey Governmental Unit Deposit Protection Act ("NJGUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with NJGUDPA. NJGUDPA institutions include the following elements:

Public depositories include state or federally chartered banks, savings banks, savings and loan associations and credit unions located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. Each depository participating in the NJGUDPA system must pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million. The minimum 5% pledge applies to institutions that are categorized as "well capitalized" by federal banking standards. The percentage of the required pledge will increase for institutions that are less than "well capitalized."

No collateral is required for amounts covered by FDIC or National Credit Union Share Insurance Fund ("NCUSIF") insurance. The collateral which may be pledged to support these deposits includes obligations of the State and federal governments, insured securities and other collateral approved by the Department of Banking and Insurance ("DOBI"). When the capital position of the depository deteriorates or the depository takes an unusually large amount of public deposits, the DOBI requires additional collateral to be pledged.

If a governmental depository fails and the FDIC or NCUSIF insurance does not insure or pay out the full amount of public deposits, the collateral pledged to protect these funds would first be liquidated and paid out. If this amount is insufficient, other institutions holding public funds would be assessed pro rata up to 4% of their uninsured public funds. Although these protections do not constitute a 100% guarantee of the safety of all funds, no governmental unit under NJGUDPA has ever lost protected deposits.

The amounts deposited in these accounts at December 31, 2023, are as follows:

	Book Balance	Bank Balance
JP Morgan Bank	\$ 24,355,073	\$ 25,485,637
ConnectOne Bank	20,093,042	20,093,042
Lakeland Bank	5,302,871	5,302,871
TD Bank	3,157,574	3,157,574
Unity Bank	20,975,043	20,975,043
Spencer Savings Bank	40,182,611	40,182,611
Bank of New York	32,343,048	32,343,048
	<u>\$ 146,409,262</u>	<u>\$ 147,539,826</u>



# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### C. INVESTMENTS

The bond resolutions for the outstanding Series H, I and J bonds payable limit investments of the bond reserve and bond financed funds to direct obligations in which payments and interest are unconditionally guaranteed by the United States of America, approved federal agencies, public housing authorities or any state or political subdivision with credit ratings in the two highest rating categories. In 2023, all bond reserve and other bond related funds were deposited in cash and cash equivalent accounts with no funds allocated to investments. As a result, the Commission followed its approved investment policy which allows for investment in U.S. Treasury and government guaranteed debt, federal agency and government sponsored enterprises, agency mortgage-backed securities, municipal bonds, corporate and other debt obligations, commercial paper, negotiable bank deposit obligations, repurchase agreements, money market funds, bank and time deposits and local government investment pools with specific diversification parameters.

**Concentration of Credit Risk** – This is the risk associated with the amount of investments the Commission has with any one issuer that exceeds five percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement. The Commission investment policy sets diversification strategies that limit the class, sector, issuer and maturity of securities to reduce this risk.

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission investment policy requires sets issuer maximums not exceeding 5% of the portfolio as well as maximum maturities to reduce this risk.

**Interest Rate Risk** – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations. Additionally, its practice is to hold investments to maturity.

All Commission investments are maintained in the General Fund. The total of the investments maintained in the General Fund at December 31, 2023, are as follows:

	Cost
Government Bonds/Notes	\$ 10,684,893
Corporate Bonds	6,562,341
Bank Note	249,820
	<u>\$ 17,497,054</u>

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### D. AMOUNTS TO BE PROVIDED FOR LOAN AND BOND RETIREMENT

The Commission has established a mechanism to record future amounts to be provided by member municipalities to fund retirement of loan and serial bond principal. These amounts are presented in the statement of assets, liabilities and reserves and correspond to the outstanding balances payable for serial bonds and loans.

### E. BONDS PAYABLE, LOANS PAYABLE AND NOTES PAYABLE

Pursuant to an amendment to Title 58, Chapter 14 of the New Jersey Revised Statutes, the Commission was granted the authority to issue bonds. See additional information regarding the Commission's ability to issue debt on the comments on page 37. The Commission also has various loans through the NJIB financing program. Both the bonds and loans are issued to fund various capital improvements.

Year, Series/Title	Original Issue Amount	Interest Rate Range	Maturity Date	Outstanding December 31, 2022	Additions	Reductions	Outstanding December 31, 2023	Due Within One Year
<b>Bonds</b>								
2016, Series H	\$ 74,795,000	3.00%-5.00%	2025	\$ 13,370,000	\$ -	\$ 4,240,000	\$ 9,130,000	\$ 4,455,000
2016, Series I	30,540,000	2.25%-5.00%	2036	23,905,000	-	1,305,000	22,600,000	1,370,000
2020, Series J	77,795,000			77,795,000	-	1,785,000	76,010,000	1,800,000
Total bonds payable				115,070,000	-	7,330,000	107,740,000	7,625,000
<b>Loans</b>								
2006 Trust & Fund Loan	38,894,500	4.00%-5.00%	2026	4,625,170	-	2,378,405	2,246,765	623,091
2010A ARRA Trust & Fund Loan	12,542,621	3.00%-5.00%	2029	5,174,742	-	706,534	4,468,208	716,534
2010 A Trust & Fund Loan	31,981,707	3.00%-5.00%	2029	11,987,733	-	1,772,928	10,214,805	1,790,928
2010 B Trust & Fund Loan	19,662,500	3.00%-5.00%	2030	6,375,472	-	1,068,972	5,306,500	1,091,972
2014 Trust & Fund Loan	26,791,177	3.00%-5.00%	2032	16,165,535	-	1,405,478	14,760,057	1,425,478
2016 Trust & Fund Loan	2,975,000	3.00%-5.00%	2036	2,191,695	-	144,407	2,047,288	149,407
2018 Trust & Fund Loan	907,481	4.00%-5.00%	2038	750,239	-	44,702	705,537	44,702
2020 Trust & Fund Loan	8,341,087	2.625%-5.00%	2039	5,886,382	-	311,846	5,574,536	311,846
2021 Trust & Fund Loan	24,737,205	2.00%-5.00%	2040	20,000,085	-	1,047,046	18,953,039	1,052,046
2023 Trust & Fund Loan	7,757,144	2.00%-5.00%	2040	-	7,757,144	-	7,757,144	79,926
Total loans payable				73,157,053	7,757,144	8,880,318	72,033,879	7,285,931
Total bonds and loans payable				\$ 188,227,053	\$ 7,757,144	\$ 16,210,318	\$ 179,773,879	\$ 14,910,931

### Summary of Future Maturities

Future maturities of bonds and loans payable at December 31, 2023, are as follows:

	Principal	Interest	Total
2024	\$ 14,910,932	\$ 4,364,105	\$ 19,275,036
2025	15,617,974	4,031,579	19,649,553
2026	15,590,310	3,552,252	19,142,562
2027	14,670,415	3,179,452	17,849,867
2028	14,611,832	2,834,357	17,446,188
2029-2033	57,273,821	9,256,655	66,530,476
2034-2038	25,156,226	4,303,738	29,459,963
2039-2043	14,544,655	2,068,123	16,612,778
2044-2048	5,901,974	467,647	6,369,620
2049-2053	1,495,739	104,683	1,600,421
	<u>\$ 179,773,878</u>	<u>\$ 34,162,588</u>	<u>\$ 213,936,466</u>

## PASSAIC VALLEY SEWERAGE COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### **E. BONDS PAYABLE, LOANS PAYABLE AND NOTES PAYABLE (CONTINUED)**

In 2020, the Commission adopted Resolution 29-20 authorizing the issuance of sewer system bonds not to exceed the principal amount of \$87,000,000. The final bond issuance during 2020 was for \$77,795,000. The bond issue resulted in \$46,000,000 in new money proceeds deposited into the project fund account and a current refunding of the remaining 2003 Sewer System Bonds, Series F principal totaling \$37,060,000. Payments totaling \$37,274,825 were deposited into the escrow fund to defease the Series F bonds which were redeemed on August 26, 2020. The current refunding resulted in a difference between the par amount of the refunding bonds and the par amount of the refunded bonds of \$823,712. Although the refunding resulted in an accounting gain, it was performed to reduce debt service by approximately \$5,265,000. The accounting gain, or deferred gain on the refunding, is not reported as a deferred inflow of resources on the Commission financials in line with the basis of accounting utilized.

In 2023, the Commission issued permanent NJIB Trust and Fund loans Series 2023A & 2023C-W1 totaling \$7,757,144 for the replacement and relocation of electrical switchgear and vehicle maintenance facility improvement projects.

The Commission also has temporary notes payable through the NJIB Infrastructure Financing Program for various ongoing construction projects. The notes will be repaid upon the issuance of future permanent bonds. Under the NJIB program the borrowers benefit from a loan formula under which participants borrow a percentage of cost from the State Revolving Fund maintained by the New Jersey Department of Environmental Protection at zero interest and the remaining percentage from the Trust at the same interest rate the Trust pays on its bonds. Under the State's Smart Growth Initiative, the interest rate is equivalent to 50 percent of the lowest available rate. Each NJIB loan carries a 20, 25, or 30-year life. All current Commission loans are 20 or 30-year maturities. In 2023, the Commission issued \$44,833,304 of temporary notes out of the authorized principal amount for projects number 44, 50, and 57 related to the Wallington pump station rehabilitation, vehicle maintenance facility improvement, and phase five line improvement projects. These transactions resulted in an increase of \$36,329,625 in total temporary notes payable to a total amount of \$283,258,918 on December 31, 2023.

#### **F. SELF-INSURANCE**

The Commission has established a reserve for self-insurance for general liability coverage to pay for claims up to their retention amount of \$500,000. As of December 31, 2023, the reserve balance was \$5,497,799. There were no deposits or claims paid in the current year. In 2023, the Commission exited from the cost sharing multi-employer state health benefit plan and implemented a single entity defined benefit plan. The contributions to the plan net of interest earned on plan funds held in cash accounts and interfund transfers resulted in the change of the reserve for self-insurance for the year ended December 31, 2023. See footnote H for additional information on the health benefit plan.

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### G. PENSION PLAN

#### Description and Benefits

The Commission contributes to the Public Employees' Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). The state-administered funds were established by an Act of the State Legislature that assigns the authority to establish and amend benefit provisions to the plan's board of trustees. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS and is also available on the State of New Jersey website (<https://www.nj.gov/treasury/pensions/financial-reports.shtml>). The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service.

The following represents the membership tiers for PERS:

Tier	Definition
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 are 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 are available to Tier 4 members upon reaching age 62 and Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, Tiers 3 and 4 members with 25 or more years of service credit before age 62, and Tier 5 members with 30 or more years of service credit 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 their respective tier.

The Commission also participates in the Defined Contribution Retirement Program ("DCRP"). The DCRP is a multiple-employer defined contribution pension fund established on July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et. seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code ("IRC") 401(a) et seq., and is a governmental plan within the meaning of IRC 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in PERS on or after July 1, 2007, who earn a salary in excess of established "maximum compensation" limits; employees enrolled in PERS after May 21, 2010, who earn a salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PERS on or after November 2, 2008, who do not earn the minimum annual salary for Tier 3 enrollment but who earn a salary of at least \$5,000.00 annually; and employees otherwise eligible to enroll in PERS after May 21, 2010, who do not work the minimum number of hours per week required for Tiers 4 or 5 enrollment, but who earn a salary of at least \$5,000.00 annually.

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### G. PENSION PLAN (CONTINUED)

#### Contributions

The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012, and will be adjusted by the rate of return on the actuarial value of assets. The Commission did not elect to defer any payments pursuant to Chapter 19, P.L. 2009.

Covered employees are required by PERS to contribute 7.5% of their annual compensation. The Commission is required by State statute to contribute the remaining amounts necessary to pay benefits when due. Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarially determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and non-employer allocations are applied to amounts presented in the schedule of pension amounts by employer and non-employer. The allocation percentages for each group as of the plan year ended June 30, 2023, are based on the ratio of each employer's contributions to total employer contributions of the group for the plan year ended June 30, 2023.

The Commission's contributions to PERS for the year ended December 31, 2023, were \$9,200,552, equal to the required contributions for each year. The Commission's covered payroll was \$53,400,911 for PERS.

For DCRP the contribution policy is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the Commission contributes 3% of the employees' base salary, for each pay period, to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period. For the current year ended, employee contributions totaled \$26,427 and the Commission's contributions were \$14,416. There were no forfeitures during the year.

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### G. PENSION PLAN (CONTINUED)

#### Contributions (Continued)

A special funding situation exists for the local employers of the Public Employees' Retirement System of New Jersey. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by local employers under Chapter 133, P.L. 2001. The special funding situation for Chapter 133, P.L. 2001 is due to the State paying the additional normal cost related to benefit improvements from Chapter 133. Previously, this additional normal cost was paid from the Benefit Enhancement Fund (BEF). As of June 30, 2023, there is no net pension liability associated with this special funding situation and there was no accumulated difference between the annual additional normal cost under the special funding situation and the actual State contribution through the valuation date. The state special funding situation pension expense of \$310,956, for the fiscal year ended June 30, 2023, is the actuarially determined contribution amount that the State owes for the fiscal year ended June 30, 2023. The pension expense is deemed to be a state administrative expense due to the special funding situation. The portion of the non-employer contributing entities' total proportionate share of the collective net pension liability that is associated with the Authority is 0.6910060154% and the total proportionate share of the employer pension benefit is \$0 for the June 30, 2023, measurement date.

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2023, the Commission reported a liability of \$99,709,329 for its proportionate share of the net pension liability in PERS. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At plan year ended June 30, 2023, the Authority's proportion was 0.06883923944%, which was a decrease of 0.0172934404% from its proportion measured as of plan year ended June 30, 2022. For the year ended December 31, 2023, the Authority recognized full accrual pension expense of \$8,920,272 in the financial statements. At December 31, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 953,349	\$ 407,580
Net difference between projected and actual investment earnings on pension plan investments	459,174	-
Changes in assumptions	219,041	6,042,813
Changes in proportion	4,727,853	2,956,153
Commission's contributions subsequent to the measurement date	4,600,276	-
	<u>\$ 10,959,693</u>	<u>\$ 9,406,546</u>

## PASSAIC VALLEY SEWERAGE COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### G. PENSION PLAN (CONTINUED)

##### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31,	PERS Amount
2024	\$ (5,264,279)
2025	(2,938,319)
2026	4,106,104
2027	(734,831)
2028	12,496
	<u>\$ (4,818,829)</u>

##### **Actuarial Assumptions**

The total 2023 pension liability was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to the June 30, 2023, measurement date. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: Price	2.75%
Inflation: Wage	3.25%
Salary Increases based on years of service	2.75-6.55%
Investment rate of return	7.00%

The actuarial assumptions used in the July 1, 2022, valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 2021.

##### **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 is based on Scale MP-2021.

## PASSAIC VALLEY SEWERAGE COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### G. PENSION PLAN (CONTINUED)

##### Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7% at the plan year ended June 30, 2023), is determined by the State Treasurer, after consultation with the directors of the Division of Investment 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 rates of return for each major asset class included in PERS's target asset allocation as of the plan year ended June 30, 2023, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	28.00%	8.98%
Non-U.S. developed markets equity	12.75%	9.22%
International Small Cap Equity	1.25%	9.22%
Emerging markets equity	5.50%	11.13%
Private equity	13.00%	12.50%
Real assets	8.00%	8.58%
Real estate	3.00%	8.40%
High yield	4.50%	6.97%
Private credit	8.00%	9.20%
Investment grade credit	7.00%	5.19%
Cash equivalents	2.00%	3.31%
U.S. Treasuries	4.00%	3.31%
Risk mitigation strategies	3.00%	6.21%
	<u>100.00%</u>	

##### Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of the plan year ended June 30, 2023. 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 employers and the non-employer contributing entity will be based on 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. 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. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.



## PASSAIC VALLEY SEWERAGE COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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#### G. PENSION PLAN (CONTINUED)

##### **Sensitivity of the Commission's Proportionate Share of Net Pension Liability to Changes in the Discount Rate**

The following presents the Commission's proportionate share of the net pension liability as of the plan year ended June 30, 2023, calculated using the discount rate as disclosed above as well as what the Commission's proportionate share of the 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:

	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
Commission's proportionate share of net pension liability	\$ 134,595,820	\$ 99,709,329	\$ 79,382,790

##### **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 PERS.

#### H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

During the year the Commission switched from the cost sharing multiple-employer defined benefit post-retirement plan administered by the State of New Jersey to a single employer local plan. The transition to the new plan was completed in April and May 2023. Contributions to the state plan were completed as required through the transition date at which point premium contributions to the new plan commenced.

##### **General Information About the OPEB Plan**

The Commission provides a single employer post-employment health benefits plan (the "Local OPEB Plan") for its employees and retirees through a single employer defined benefit healthcare plan. The Commission followed the accounting provisions of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This statement established guidelines for reporting costs associated with "other post-employment benefits" ("OPEB"). OPEB costs are calculated based on plan benefits (other than pensions), that the retired employees and their spouses have accrued as a result of their respective years of employment service.

The Commission's Local OPEB Plan provides health benefits to all active and retired Commission employees and their spouses, starting at age 55 and 25 years of service. The Local OPEB Plan is a comprehensive health benefits plan which pays for hospital services, doctor expenses and other medical related necessities which include prescription drugs, and mental health/substance abuse services, subject to provisions and limitations. The Local OPEB Plan is not a separate entity or trust and does not issue stand-alone financial statements. Assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. In the Local OPEB Plan there were 450 active and 415 (including Medicare-eligible spouses) retired employees eligible for benefits and participating at December 31, 2023. The Commission funds the Local OPEB Plan in the amount of the current annual premium net of employee contributions for all participants.

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

#### Local OPEB Plan Total OPEB Liability

The Commission's Local OPEB Plan total OPEB liability of \$194,019,717 was measured as of December 31, 2023. The components of the Commission's Local OPEB Plan total OPEB liability as of December 31, 2023, are as follows:

	December 31, 2023
Total OPEB liability	\$ 194,019,717
Plan Fiduciary Net Position	-
Net OPEB Liability	<u>\$ 194,019,717</u>
Plan Fiduciary Net Position as a % of total OPEB liability	0.00%
Balance Beginning of Year	\$ 124,632,904
Changes for the year:	
Interest Cost	4,406,958
Service Cost	2,311,722
Changes in assumptions for other inputs:	
Difference between expected & actual experience	(5,363,746)
Changes in assumptions	72,940,468
Benefit Payments	(4,908,589)
Net changes	<u>69,386,813</u>
Balance End of Year	<u>\$ 194,019,717</u>

#### Actuarial Assumptions

The Local OPEB Plan total OPEB liability as of December 31, 2023, was determined by an actuarial valuation as of December 31, 2023, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Salary increases	
Rate for all future years	2.50%
Discount Rate	3.54%
Medical Trend	
Medical - reducing .2% per year to 4.5% in 2026	5.10%
Prescription - reducing .5% per year to 4.5% in 2026	6.00%
Medicare Advantage	4.50%
Dental and Vision	3.50%
Mortality:	
PUB 2010 "General" classification headcount weighted mortality with generational improvement using Scale MP-2021	

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

#### Actuarial Assumptions (Continued)

The discount rate of 3.26% was based on the Bond Buyer 20 Index as of December 31, 2023. The valuation reflects per capita net premium costs based on 2023 premiums and the plan option selected. Local OPEB Plan selections are assumed to remain unchanged in retirement. The age-specific cost was derived based on per person costs at the average age of the active population (48) and scaled to each age based on the medical cost aging factors. At age 65, Medicare Advantage becomes the primary payor of medical benefits and aging factors are not applied. The Entry Age Normal Funding Method was used for the actuarial valuation method based on a level percentage of salary and 2023 covered payroll of \$45,621,000.

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

The following presents the net OPEB liability as of Local OPEB Plan year ended December 31, 2023, calculated using the discount rate as disclosed above as well as what the collective OPEB 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:

At December 31, 2023		
At 1% Decrease (2.26%)	At Current Discount Rate (3.26%)	At 1% Increase (4.26%)
\$ 212,400,068	\$ 194,019,717	\$ 180,973,448

#### Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the net OPEB liability as of Local OPEB Plan year ended December 31, 2023, calculated using the healthcare trend rate as disclosed above as well as what the OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

At December 31, 2023		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 181,818,851	\$ 194,019,717	\$ 207,966,451

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

#### Local OPEB Plan Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2023, the Commission would have recognized OPEB expense of (\$13,356,584) related to plan service and interest costs as detailed in the table below. Under the basis of accounting followed by the Commission this value is not recognized.

	Year Ended December 31, 2023
Interest Cost	\$ 4,406,958
Service Cost	2,311,722
Recognition of Experience Changes	(525,188)
Recognition of Assumption Changes and Other Inputs	7,141,924
Other Changes (Net Prior Inflows/Outflows)	(26,601,113)
Recognition of Investment Gain or Loss	(90,887)
Total GASB 75 OPEB Expense/(Revenue)	<u>\$ (13,356,584)</u>

#### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2023, the Commission would have reported net deferred outflows of resources of \$65,798,544 and deferred inflows of resources related to OPEB of \$11,834,461. These amounts will be amortized in equal installments of over five years starting in 2024. Under the basis of accounting followed by the Commission these values are not recorded on the basic financial schedules.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 4,838,558
Changes in assumptions	65,798,544	-
Changes in proportion	-	6,995,903
	<u>\$ 65,798,544</u>	<u>\$ 11,834,461</u>

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for plan year ended December 31, 2023:

Year Ending December 31,	Amount
2024	\$ 4,232,771
2025	1,492,437
2026	4,322,557
2027	11,499,501
2028	4,540,509
Thereafter	27,876,308
	<u>\$ 53,964,083</u>

# **PASSAIC VALLEY SEWERAGE COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **I. CONCENTRATION OF RISK AND UNCERTAINTIES**

For the year ended December 31, 2023, the Commission received approximately 43% of its total user charges from two customers, City of Newark 29% and City of Jersey City 14%. For the year ended December 31, 2023, the Commission received approximately 26% of its total sludge fees from City of New York DEP and 14% from Bergen County Utilities Authority. For the year ended December 31, 2023, the Commission received 97% of its total federal and state grant and loan revenue from FEMA and the NJIB.

### **J. UTILITY PURCHASE COMMITMENT**

The Commission entered into two futures contracts for electricity and natural gas in order to hedge energy costs. The electricity contract is for a term of 24 months, beginning January 1, 2021, and expiring on December 31, 2023. The Commission renewed its electric generation service contract in 2023 to commence in January 2023 for a 24-month contract period to expire at December 31, 2024. The terms and conditions of the original contract were renewed without material modifications. The natural gas contract is for a term of 36 months, beginning January 1, 2021, and expiring on December 31, 2023. See footnote O for additional information regarding the contract renewal after year end.

### **K. COLLECTIVE BARGAINING AGREEMENTS**

During 2023, the Commission was a party in four separate collective bargaining agreements covering various employees at the Commission. They were as follows:

- Local 1158 I.B.E.W.- Blue Collar covering January 1, 2022 – December 31, 2025
- Local 1158 I.B.E.W.- White Collar covering January 1, 2022 – December 31, 2025
- Local 1158 I.B.E.W.- Supervisors Group covering January 1, 2022 – December 31, 2025
- Local 1158 I.B.E.W.- Professional Group covering January 1, 2022 – December 31, 2025

### **L. LITIGATION**

The Commission is involved in various litigation and claims arising out of its operations. While the ultimate results of these matters cannot be predicted with certainty, management of the Commission expects that the ultimate resolution of these matters will not have a material adverse effect on their financial position or results of operations.

### **M. FEMA FUNDING**

The Commission is involved in discussions with FEMA to determine eligible recovery costs for substantial damage incurred by the Commission during the Superstorm Sandy event in October 2012. During 2023, the Commission received \$72,873,351 in reimbursements from the State of New Jersey for recovery costs under FEMA, which were included in federal/state grants and loans receivable in the repair, replacement and improvement fund. All costs not covered by insurance or FEMA will be self-funded through internal Commission funds or NJIB loans. The remaining receivable is \$120,385,748 at December 31, 2023.

# PASSAIC VALLEY SEWERAGE COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### N. LEASES AND SUBSCRIPTION BASED IT AGREEMENTS

Lease agreements are summarized as follows:

Lease	Date	Payment Terms	Payment Amount	Interest Rate	Lease Asset Balance December 31, 2023	Lease Liability Balance December 31, 2023
Roll Off Truck	1/23/2020	6 years	\$ 38,626	4.156%	\$ 62,492	\$ 104,153
			<u>\$ 38,626</u>		<u>\$ 62,492</u>	<u>\$ 104,153</u>

A master lease purchase agreement between the Commission and Jack Doheny Companies with National Cooperative Leasing for a 2020 Kenworth T880 Galfab roll off hoist truck with tandem pusher chassis. The lease for the truck was dated January 2020 for a term of 60 months, a stated interest rate of 4.156% and financed value of the truck of \$223,000. The annual lease payments of \$38,625.90 with a final balloon payment of \$55,750 for the truck were approved on Commission resolution 11-210. The lease is not renewable, and the Commission will have the option to acquire the truck at the end of the contract. Annual requirements to amortize long-term obligations and related interest are as follows:

	Principal	Interest	Total
2024	\$ 53,347	\$ 178	\$ 53,525
2025	50,805	-	50,805
	<u>\$ 104,153</u>	<u>\$ 178</u>	<u>\$ 104,331</u>

Subscription based IT agreements are summarized as follows:

IT Contract	Date	Payment Terms	Payment Amount	Interest Rate	Lease Asset Balance December 31, 2023	Lease Liability Balance December 31, 2023
Mythics Oracle Cloud Subscriptions	11/21/2023	3 years	\$ 67,807	8.500%	\$ 177,221	\$ 121,240
UKG Dimensions Software	3/20/2022	5 years	144,920	3.500%	422,747	395,555
			<u>\$ 212,727</u>		<u>\$ 599,968</u>	<u>\$ 516,795</u>

The Commission renewed their cloud-based subscription service for Oracle planning and budgeting cloud service, workforce planning and project financial planning software with Mythics for the period of November 2023 through November 2026 with option to renew annually through November 2029. The annual lease payment totaled \$67,806.90 for the initial years of 2023 through 2026 and \$72,553.38 for the renewal years of 2027 through 2029. The Commission also renewed their annual lease for payroll services and software with UKG for the UKG Dimensions Software for a term of 60 months from the contract effective date of March 2022. The contract required annual and monthly payments of \$16,100 and \$10,860, respectively. Additional one-time start up fees totaling \$40,902.50 were incurred in the prior year. These agreements are not renewable. The Commission will not acquire the software or any related equipment at the end of the contract. Annual requirements to amortize long-term obligations and related interest are as follows:

	Principal	Interest	Total
2024	\$ 177,939	\$ 21,688	\$ 199,627
2025	187,313	12,314	199,627
2026	129,002	2,818	131,820
2027	22,541	32	22,573
	<u>\$ 516,795</u>	<u>\$ 36,852</u>	<u>\$ 553,647</u>

## **PASSAIC VALLEY SEWERAGE COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **O. SUBSEQUENT EVENT**

The Commission renewed its natural gas contract to commence in January 2024 for a 24-month contract period to expire at December 31, 2025. The terms and conditions of the original contract were renewed without material modifications.

The Commission also issued NJIB long term and short term loans in 2024. A long term loan in the amount of \$6,049,582.15 to fund Project 45 was issued in June 2024. Short term loans in the amounts of \$116,185,254, \$15,693,017 and \$22,214,031 to fund Projects 51, 66 and 54 were issued in February and January 2024, respectively.