

PASSAIC VALLEY SEWERAGE COMMISSIONERS

Financial Statements
and
Supplementary Information

December 31, 2009

PASSAIC VALLEY SEWERAGE COMMISSIONERS

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INDEPENDENT AUDITORS' REPORT

To the Passaic Valley Sewerage Commissioners

We have audited the accompanying financial statements of the Passaic Valley Sewerage Commissioners (the "PVSC") as of and for the year ended December 31, 2009. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the PVSC's 2008 financial statements and, in our report dated June 4, 2010, we expressed an opinion that such financial statements presented fairly, in all material respects, the financial position of PVSC as of December 31, 2008, in conformity with the basis of accounting described in Note A.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PVSC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey and Chapter 14 of Title 58 of the New Jersey revised statutes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

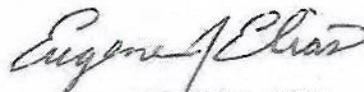
In our opinion, because of the Passaic Valley Sewerage Commissioners' policy of preparing its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the various funds of Passaic Valley Sewerage Commissioners as of December 31, 2009, or the results of its operations for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Passaic Valley Sewerage Commissioners as of December 31, 2009, and the results of their operations for the year then ended in conformity with the basis of accounting described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2010, on our consideration of Passaic Valley Sewerage Commissioners' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards required by U.S. OMB Circular Letter A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and N.J. OMB Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* and the other supplementary schedules, as listed in the table of contents under Supplementary Information, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole on the basis of accounting described in Note A.

The schedule of general fund expenditures by department is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Eugene J. Elias, CPA
Registered Municipal Accountant
License No. 505

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

October 20, 2010

PASSAIC VALLEY SEWERAGE COMMISSIONERS
STATEMENT OF ASSETS, LIABILITIES AND RESERVES

December 31, 2009
(With Comparative Totals for 2008)

	General Fund	Rate Stabilization Fund	Bond Reserve Fund	Insurance Trust Fund	Repair and Improvement Fund	Third Additional Project Fund	Wastewater Treatment Fund	Fifth Additional Project Fund	2009	2008
Cash	\$ 59,326,803	-	-	\$ 4,664,331	\$ 15,869,244	\$ 469,033	-	\$ 4,817,310	\$ 85,146,721	\$ 84,902,582
Receivables										
Municipalities	348,269	-	-	-	-	-	-	-	348,269	648,878
Interfund receivables	455,055	50,381,904	-	-	(8,686)	-	-	66,166	50,894,439	43,312,293
Miscellaneous	3,781,028	-	-	-	-	-	-	-	3,781,028	6,003,393
State/Federal grants and loans	-	-	-	-	6,611,243	-	32,406,488	-	39,017,731	40,662,133
Inventory	7,906,211	-	-	-	-	-	-	-	7,906,211	7,688,070
Property, plant and equipment										
Construction and acquisition cost	-	-	-	-	26,999,165	-	-	-	26,999,165	26,999,165
Buildings	252,159,560	-	-	-	-	-	-	-	252,159,560	252,159,560
Machinery and equipment	97,786,994	-	-	-	-	-	-	-	97,786,994	97,786,994
Improvements other than buildings	47,029,058	-	-	-	-	138,924,104	-	-	185,953,162	185,953,162
Projects authorized and in process	-	-	-	-	15,759,525	2,775,892	33,017,979	20,130,280	71,683,676	87,653,022
Other assets										
Amounts provided to fund deferred compensation	15,450,456	-	-	-	-	-	-	-	15,450,456	14,800,431
Amounts to be provided for bond and loan retirement	1,305,564	-	23,267,065	-	-	37,305,000	97,683,465	170,545,000	330,106,694	341,871,417
Total Assets	\$ 485,548,998	\$ 50,381,904	\$ 23,267,065	\$ 4,664,331	\$ 65,230,491	\$ 179,474,029	\$ 163,107,932	\$ 195,558,756	\$ 1,167,233,506	\$ 1,190,241,100
Bonds payable - current										
Loans payable - current	1,305,564	-	-	-	-	-	-	-	7,330,000	6,960,000
Contracts payable	-	-	-	-	-	-	7,155,788	-	8,461,352	5,018,536
Accounts payable	3,747,684	-	-	85,787	3,528,628	85,787	163,809	4,510,444	8,288,668	8,117,295
Accrued expenses	8,494,067	-	-	-	-	-	-	-	3,747,684	2,844,351
Payroll deductions	773,088	-	-	-	-	-	-	-	8,494,067	9,880,302
Interfund payable	50,896,454	-	-	-	521,221	-	(560,862)	37,626	50,894,439	892,810
Total current liabilities	65,216,857	-	-	-	4,049,849	85,787	6,758,735	11,878,070	87,989,298	77,025,587
Deferred compensation	15,450,456	-	-	-	-	-	-	-	15,450,456	14,800,431
Loans payable - noncurrent	-	-	-	-	-	-	90,527,677	-	90,527,677	98,989,021
Bonds payable - noncurrent	-	-	-	-	-	37,305,000	163,215,000	163,215,000	200,520,000	207,850,000
Total other liabilities	15,450,456	-	-	-	-	37,305,000	90,527,677	163,215,000	306,498,133	321,639,452
Total liabilities	80,667,313	-	-	-	4,049,849	37,390,787	97,286,412	175,093,070	394,487,431	398,665,039
Reserves										
Insurance trust	-	-	-	4,664,331	-	-	-	-	4,664,331	4,662,353
Investment in inventory	7,906,211	-	-	-	-	-	-	-	7,906,211	7,688,070
Investment in fixed assets	396,975,474	-	-	-	-	-	-	-	396,975,474	396,975,612
Construction and acquisition Projects authorized	-	-	-	-	26,999,165	138,924,104	-	-	165,923,269	165,923,269
Bonded debt	-	-	23,267,065	-	15,759,525	2,775,892	33,017,979	20,130,280	71,683,676	87,653,022
Appropriated projects	-	-	-	-	18,421,952	383,246	32,803,541	335,406	51,944,145	23,053,860
Rate stabilization	404,881,685	50,381,904	23,267,065	4,664,331	61,180,642	142,083,242	65,821,520	20,465,686	772,746,075	42,942,399
Total reserves	\$ 485,548,998	\$ 50,381,904	\$ 23,267,065	\$ 4,664,331	\$ 65,230,491	\$ 179,474,029	\$ 163,107,932	\$ 195,558,756	\$ 1,167,233,506	\$ 1,190,241,100
Total liabilities and reserves										

See Notes to Financial Statements

PASSAIC VALLEY SEWERAGE COMMISSIONERS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES

Year Ended December 31, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	General Fund	Rate Stabilization Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement and Improvement Fund	Third Additional Project Fund	Wastewater Treatment Fund	Fifth Additional Project Fund	2009	2008
Revenues										
User charges billed	\$ 127,525,062	-	-	-	-	-	-	-	\$ 127,525,062	\$ 125,403,855
Other income	36,320,102	-	-	-	1,700	-	-	-	36,321,802	38,711,460
Investment gains, net	118,634	-	-	20,978	79,247	2,487	-	35,737	257,083	1,896,636
State/Federal grants and loans	-	-	-	-	-	-	-	-	-	4,360,584
Rental of land and offices	60,188	-	-	-	-	-	-	-	60,188	80,375
Total	164,023,986	-	-	20,978	80,947	2,487	-	35,737	164,164,135	170,452,910
Expenditures										
Salaries	49,411,860	-	-	-	-	-	-	-	49,411,860	49,252,187
Payroll taxes	3,135,091	-	-	-	-	-	-	-	3,135,091	3,635,869
Health plan	15,131,931	-	-	-	-	-	-	-	15,131,931	15,459,272
Pension	4,200,382	-	-	-	-	-	-	-	4,200,382	3,272,160
Supplies and postage	922,412	-	-	-	-	-	-	-	922,412	848,164
Replacement parts	3,385,278	-	-	-	-	-	-	-	3,385,278	3,318,431
Materials	4,503,838	-	-	-	-	-	-	-	4,503,838	3,919,932
Utilities	30,486,788	-	-	-	-	-	-	-	30,486,788	26,712,278
Renals	126,717	-	-	-	-	-	-	-	126,717	111,505
Insurance	1,776,956	-	-	-	-	-	-	-	1,776,956	1,700,752
Equipment	1,074,906	-	-	-	-	-	-	-	1,074,906	883,442
Outside services	3,333,783	-	-	-	-	-	-	-	3,333,783	3,653,782
Professional fees	1,062,473	-	-	-	-	-	-	-	1,062,473	1,297,830
Sundry	8,038,842	-	-	-	-	-	-	-	8,038,842	1,151,178
Advertising	96,897	-	-	-	-	-	-	-	96,897	88,477
Real estate taxes	700,049	-	-	-	-	-	-	-	700,049	682,452
Newark Interceptor loans	-	-	-	-	-	-	-	-	-	975,000
Reserve for repairs	-	-	-	-	-	-	-	-	-	400,000
Contingency	6,551,433	-	-	-	-	-	-	-	6,551,433	12,090,730
Subtotal	133,939,636	-	-	-	-	-	-	-	133,939,636	129,462,381
Bond debt service	-	-	-	-	-	-	-	-	-	-
Principal	8,772,981	-	-	-	-	-	-	-	8,772,981	10,209,252
Interest	12,566,304	-	-	-	-	-	-	-	12,566,304	11,019,186
Principal on NJEDA loan	1,305,560	-	-	-	-	-	-	-	1,305,560	1,305,560
Construction expenditures/ (recovery) on completed projects	156,584,481	-	-	(1,000)	1,790,668	57,932	1,230,129	23,763,699	26,840,848	175,639,649
Total expenditures	-	-	-	(1,000)	1,790,668	57,932	1,230,129	23,763,699	183,425,329	327,536,028
Excess of revenues over (under) expenditures before interfund transfers	7,439,505	-	-	21,978	(1,709,121)	(55,465)	(1,230,129)	(23,727,962)	(19,261,194)	(157,183,118)
Interfund transfers	(7,439,505)	7,439,505	-	-	-	-	-	-	-	(122,467)
Bond reserve	-	-	213,205	-	-	-	-	-	213,205	(1,034,796)
Billing adjustment	-	-	-	-	-	-	-	-	-	-
Excess of revenues over (under) expenditures	-	7,439,505	213,205	21,978	(1,709,121)	(55,465)	(1,230,129)	(23,727,962)	(19,047,989)	(158,340,381)
Reserves, beginning of year	-	42,942,399	21,053,860	4,642,353	62,889,763	142,138,707	67,051,649	44,193,648	386,912,379	545,252,760
Reserves, end of year	-	50,381,904	23,267,065	4,664,331	61,180,642	142,081,242	65,821,520	20,465,686	367,864,390	386,912,379
Investment in inventory	7,906,211	-	-	-	-	-	-	-	7,906,211	7,688,070
Investment in fixed assets	396,975,474	-	-	-	-	-	-	-	396,975,474	396,975,612
Total investments	\$ 404,881,685	-	-	-	-	-	-	-	\$ 772,746,075	\$ 791,576,066

See Notes to Financial Statements

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

In 1902, by a special Act of the New Jersey State Legislature, the Passaic Valley Sewerage Commissioners (the "PVSC") was formed as an Agency of the State of New Jersey to reduce pollution of the Passaic River and its tributaries. The PVSC 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 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 PVSC operates one of the United State's largest treatment plants for the wastewaters of northern New Jersey. With many expansions and recent upgrading to secondary treatment, the facility has been striving, since beginning operations in 1924, to improve local water quality in accordance with federal and state water quality legislation.

Reporting Entity

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

Fund Accounting

The funds of the PVSC 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The following are the various funds of the PVSC:

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.

Rate Stabilization Fund

The Rate Stabilization Fund was established in 1996 by the Commissioners to enable the PVSC to stabilize user charges to its member municipalities in future years. Funds from the Rate Stabilization Fund 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 Rate Stabilization Fund 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.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Bond Reserve Fund

In addition to the annual debt service payments made by the General Fund, the PVSC 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 2032, the maturity date of the Series F Bonds.

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 dedicated expenditures for equipment, accessories and appurtenances of the sewerage treatment plant.

Third Additional Project Fund

The Third Additional Project Fund was established for the purpose of constructing certain capital improvements and was funded principally by proceeds of the Series D Bonds.

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 PVSC. Funding was provided by the State of New Jersey, the New Jersey Wastewater Treatment Trust Fund and the Environmental Infrastructure Trust Fund.

Fifth Additional Project Fund

The Fifth Additional Project Fund was established for the purpose of funding various capital improvements for the PVSC's existing system and was funded principally by proceeds of the Series F Bonds.

Basis of Accounting

The financial statements have been prepared in conformity with the accounting practices prescribed and permitted by Chapter 14 of Title 58 of the New Jersey revised statutes, which constitute a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. These prescribed principles 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 PVSC's financial statements been prepared under generally accepted accounting principles, ("GAAP"), expenditures would be recorded when incurred, not when encumbered; federal and state grants would have been recognized when earned, not when awarded; and property and equipment expenditures made during the current year would be capitalized and depreciation expense recorded. Other post retirement plan benefit expense would be recognized on the accrual basis. Principal payments on debt would not be recorded as an expenditure.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

The Governmental Accounting Standards Board ("GASB") is the accepted standards-setting body for establishing government accounting and financial reporting principles. GASB's Codification of Governmental Accounting and Financial Reporting Standards recognizes three fund categories and two account groups as appropriate for the accounting and reporting of the financial position and results of operations in accordance with generally accepted accounting principles. This structure of funds and account groups differs from the organization of funds prescribed under the statutory basis of accounting utilized by the PVSC. The resultant presentation of financial position and results of operations in the form of financial statements is not intended to present the general-purpose financial statements required by GASB.

Cash and Investments

The PVSC considers all highly liquid investments, with maturities of three months or less from the date of purchase, to be cash equivalents. Investments of the PVSC are stated at fair market value.

Revenue Recognition

Revenue is recognized in accordance with the Act that created the PVSC. This Act provides that each of the contracting municipalities or other users of the system reimburse the PVSC annually for its proportionate share of the cost and expense of maintenance, repair and operation, including debt service, of the system. The budgeted costs and expenses are adopted by the PVSC annually.

Contracting municipalities receive the excess revenues generated over the required budget expenditures generated in each operating year as appropriate. This amount is allocated to each contracting municipality based upon sewerage flow and strength of waste.

Use of Estimates

The financial statements are prepared on a modified accrual basis of accounting, which is an "other comprehensive basis of accounting" other than accounting principles generally accepted in the United States of America and 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

The PVSC uses the direct write-off method of recognizing uncollectible accounts receivable. Under this method, accounts are charged to expense when they are deemed by management to be uncollectible.

Inventory

Inventory is made up of parts and supplies for the repair and maintenance of the facility. Inventory was \$7,906,211 and \$7,688,070 at December 31, 2009 and 2008, respectively. The costs of supplies, materials and replacement parts are recorded as expenditures in the year of purchase. The PVSC values its inventories at cost, using the first-in, first-out method.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment

The PVSC records capital additions as expenditures in the year of acquisition. The balance of property, plant and equipment reflects the original construction costs of the system. Capital additions and improvements completed subsequent to original construction have not been adjusted or recorded as investments in fixed assets.

Compensated Absences

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

Serial Bonds Payable

Debt service payments are made by the General Fund. Serial Bonds payable are carried in the Third and Fifth Additional Project 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. Appropriated project reserves represent fund equity that has been pledged to future project costs. Reserve for insurance trust represents amounts set aside for possible damages resulting from claims. Reserve for rate stabilization represents the amount set aside to enable the PVSC to stabilize user charges to its member municipalities in future years.

Other Post Employment Benefits ("OPEB") Other than Pensions

As required by GASB, PVSC implemented accounting and financial reporting requirements for government employers with post employment benefit expenses and obligations other than pensions. Since PVSC's basis of accounting is similar in nature to a New Jersey Municipality or County, PVSC implemented the GASB in accordance with New Jersey Division of Local Government Services Local Finance Notice #2007-15 requirements. New Jersey budget and financial reporting laws allow, but do not require local municipal units to budget post employment benefit amounts that exceed their current cash cost or reflect the long-term liability on their statement of assets, liabilities and reserves, thus no liability is recorded on these financial statements. However, there are financial statement disclosure requirements that are included in Note J of these audited financial statements.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by fund balance category. Such information does not include sufficient detail to constitute a presentation in conformity with PVSC's basis of accounting. Accordingly, such information should be read in conjunction with PVSC's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS

Deposit accounts are maintained with contracted depository banks in interest-bearing accounts that were insured under the Government Unit Deposit Protection Act of the State of New Jersey. All such deposits are held in the PVSC's name.

The New Jersey Governmental Unit Deposit Protection Act ("NJGUDPA") permits the deposit of public funds into institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation or by any other agencies of the United States that insure deposits.

NJGUDPA requires public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

- The market value of the collateral must equal 5% of the average daily balance of public deposits; and
- If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

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

Uninsured and uncollateralized deposits are covered under the unit certificate of eligibility, as required by NJGUDPA.

The carrying amount of the PVSC's cash and cash equivalents, consisted mainly of demand and money market accounts. The bank balances at December 31, 2009, were as follows:

	Bank Balance	FDIC Insured	Collateralized through NJGUDPA
TD Bank	\$ 89,346,931	\$ 250,000	\$ 89,096,931
Bank of New York	23,267,065	250,000	23,017,065
	<u>\$ 112,613,996</u>	<u>\$ 500,000</u>	<u>\$ 112,113,996</u>

The difference between the bank balance and the book balance is due primarily to the timing of deposits and outstanding checks.

Deposits

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the PVSC's deposits may not be returned or the PVSC will not be able to recover collateral securities in the possession of an outside party.

Concentration of Credit Risk - This is the risk associated with the amount of investments the PVSC 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 risk.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the PVSC does not have an investment policy regarding credit risk, however, the PVSC had no investments that were subject to credit risk as of December 31, 2009.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The PVSC does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations. However, its practice is to hold investments to maturity.

C. AMOUNTS PROVIDED TO FUND DEFERRED COMPENSATION

The PVSC offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary. All assets of the deferred compensation plan are held in trust by Great-West Life & Annuity Insurance Company and consist of stock, bond, government security and money market mutual funds.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the PVSC (without being restricted to the provisions of benefits under the plan), subject only to the claims of the PVSC's general creditors. Participants' rights under the plan are equal to those of general creditors of the PVSC in an amount equal to the fair market value of the deferred account for each participant.

D. AMOUNTS TO BE PROVIDED FOR LOAN AND BOND RETIREMENT

The PVSC 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 statements of assets, liabilities and reserves and correspond to the outstanding balances payable for loans and serial bonds.

Also included is the bond reserve requirement amount of \$23,267,065, which represents a fixed income Federal National Mortgage Association Pool security which matures on December 1, 2010.

E. PENSION PLAN DESCRIPTION

The PVSC contributes to a cost-sharing multiple-employer defined benefit pension plan administered by Public Employees' Retirement System ("PERS") of New Jersey, which is part of the Division of Pensions in the Department of the Treasury, State of New Jersey. It provides retirement, disability, annual-cost-of-living and death benefits to plan members and beneficiaries. 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.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

E. PENSION PLAN DESCRIPTION (CONTINUED)

Plan members are required to contribute 5% of their annual covered salaries, and the PVSC is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the PVSC are established and may be amended by the plan's board of trustees. The PVSC's contributions to PERS for the years ended December 31, 2009, and 2008, were \$4,200,382 and \$3,272,160, respectively, equal to the required contributions for the year.

F. LOAN PAYABLE

Loan payable consists of a loan due to the New Jersey Economic Development Authority ("NJEDA") under an original agreement dated September 20, 1991, between the Port Authority of New York and New Jersey (the "Port Authority") and PVSC in connection with costs incurred for the interim sludge facility. This loan bears no interest and is payable in eighteen annual installments of \$1,305,560, commencing on October 1, 1993. On November 1, 1996, at the request of the Governor of the State of New Jersey, NJEDA entered into an agreement with the Port Authority whereby the Port Authority assigned its rights, title and interest in PVSC's original loan amount and all future loan payments to NJEDA. The amounts due as of December 31, 2009 and 2008, were \$1,305,564 and \$2,611,112, respectively.

G. BONDS PAYABLE

Pursuant to an amendment to Title 58, Chapter 14 of the Revised Statutes of the State of New Jersey, the PVSC was granted the authority to issue bonds. As of December 31, 2009, the following bond series were outstanding:

Series F Bonds

Series F Bonds, dated January 15, 2003, issued in the original amount of \$205,205,000, were used primarily to defease all of the remaining portion of the Series D bonds, issued in 1992 and for funding various capital improvements. These Series F Bonds consisted of serial bonds of \$168,145,000 and term bonds of \$37,060,000.

At December 31, 2009 and 2008, the outstanding principal balance was \$170,545,000 and 177,505,000, respectively. Interest paid on the serial bonds for the years 2009 through 2024 will be paid at 5.00% per annum, and for 2025, interest will be paid at 3.75% per annum. Interest on the term bonds, due in years 2026 through 2032, will be paid at 2.50% per annum.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

G. BONDS PAYABLE (CONTINUED)

Principal and interest payments will be made until maturity as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 7,330,000	\$ 7,541,563	\$ 14,871,563
2011	7,755,000	7,175,063	14,930,063
2012	8,170,000	6,787,313	14,957,313
2013	8,635,000	6,378,813	15,013,813
2014	9,115,000	5,947,063	15,062,063
2015-2019	53,840,000	22,366,813	76,206,813
2020-2024	33,905,000	9,704,313	43,609,313
2025-2029	25,130,000	4,061,063	29,191,063
2030-2032	16,665,000	840,000	17,505,000
	<u>\$ 170,545,000</u>	<u>\$ 70,802,004</u>	<u>\$ 241,347,004</u>

Series E Bonds

Series E Bonds, dated December 1, 1999, issued in the original amount of \$43,300,000, were used primarily to defease a portion of the Series D bonds issued in 1992. These Series E Bonds consisted of serial bonds of \$5,995,000 and term bonds of \$37,305,000.

At December 31, 2009 and 2008, the outstanding principal balance was \$37,305,000. For the years 2009 and 2010, there is a fixed interest payment of \$2,123,728. Interest on the term bonds, due in years 2011 through 2022, varies from 5.125% to 5.75% per annum.

Principal and interest payments will be made until maturity as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ 2,123,728	\$ 2,123,728
2011	580,000	2,123,728	2,703,728
2012	595,000	2,094,002	2,689,002
2013	700,000	2,062,765	2,762,765
2014	820,000	2,025,140	2,845,140
2015-2019	11,550,000	9,063,709	20,613,709
2020-2022	23,060,000	2,837,338	25,897,338
	<u>\$37,305,000</u>	<u>\$22,330,410</u>	<u>\$59,635,410</u>

Summary of Future Maturities

Future maturities of bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 7,330,000	\$ 9,665,291	\$ 16,995,291
2011	8,335,000	9,298,791	17,633,791
2012	8,765,000	8,881,315	17,646,315
2013	9,335,000	8,441,578	17,776,578
2014	9,935,000	7,972,203	17,907,203
2015-2019	65,390,000	31,430,522	96,820,522
2020-2024	56,965,000	12,541,651	69,506,651
2025-2029	25,130,000	4,061,063	29,191,063
2030-2032	16,665,000	840,000	17,505,000
	<u>\$ 207,850,000</u>	<u>\$ 93,132,414</u>	<u>\$ 300,982,414</u>

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

H. LOANS PAYABLE

On November 1, 1996, the PVSC entered into an interest-free loan agreement with the State of New Jersey that enables the PVSC to borrow a maximum of \$15,150,000. The funding has been appropriated by the State of New Jersey and is obligated and held separate from other commitments of the State. Payments on any outstanding borrowings are paid in semi-annual installments.

On November 1, 1996, the PVSC entered into a loan agreement with the New Jersey Environmental Infrastructure Trust that enables the PVSC to borrow a maximum amount of \$16,730,000 at an interest rate of approximately 4.4%. Principal and interest repayments are paid in semi-annual installments.

The PVSC will pay for the project expenditures as incurred and apply for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,940,071	\$ 617,166	\$ 2,557,237
2011	2,002,958	564,448	2,567,406
2012	2,056,018	344,857	2,400,875
2013	2,115,330	204,726	2,320,056
2014	2,180,737	140,414	2,321,151
2015-2016	<u>4,573,339</u>	<u>73,978</u>	<u>4,647,317</u>
	<u>\$14,868,453</u>	<u>\$ 1,945,589</u>	<u>\$16,814,042</u>

On November 5, 1998, the PVSC entered into an interest-free loan agreement with the State of New Jersey that enables it to borrow a maximum of \$4,300,000. The funding has been appropriated by the State of New Jersey and is obligated and held separate from other commitments of the State. Payments on outstanding borrowings are paid in semi-annual installments.

On November 5, 1998, the PVSC entered into another loan agreement with the New Jersey Environmental Infrastructure Trust that enables it to borrow a maximum amount of \$4,565,000 at interest rates ranging from 4.0% to 4.5%. Principal and interest repayments are paid in semi-annual installments.

The PVSC will pay for the project expenditures as incurred and apply for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 487,877	\$ 122,175	\$ 610,052
2011	505,284	110,925	616,209
2012	353,968	99,000	452,968
2013	285,000	86,625	371,625
2014	300,000	73,800	373,800
2015-2018	<u>1,340,000</u>	<u>153,675</u>	<u>1,493,675</u>
	<u>\$ 3,272,129</u>	<u>\$ 646,200</u>	<u>\$ 3,918,329</u>

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

H. LOANS PAYABLE (CONTINUED)

On November 5, 1999, the PVSC entered into an interest-free loan agreement with the State of New Jersey that enables the PVSC to borrow a maximum of \$11,600,000. The funding has been appropriated by the State of New Jersey and is obligated and held separate from other commitments of the state. Payments on outstanding borrowings are paid in semi-annual installments.

On November 5, 1999, the PVSC entered into another loan agreement with the New Jersey Environmental Infrastructure Trust that enables the PVSC to borrow a maximum amount of \$12,925,000 at interest rates ranging from 4.75% to 5.70%. Principal and interest repayments are paid in semi-annual installments.

The PVSC will pay for the project expenditures as incurred and apply for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,371,498	\$ 493,860	\$ 1,865,358
2011	1,412,748	455,910	1,868,658
2012	1,452,657	415,760	1,868,417
2013	1,491,224	373,410	1,864,634
2014	1,536,498	328,860	1,865,358
2015-2019	8,456,899	881,530	9,338,429
	<u>\$15,721,524</u>	<u>\$ 2,949,330</u>	<u>\$18,670,854</u>

On November 9, 2006, the PVSC entered into an interest-free loan agreement with the State of New Jersey that enables the PVSC to borrow a maximum of \$28,109,500. The funding has been appropriated by the State of New Jersey and is obligated and held separate from other commitments of the State. Payments on outstanding borrowings are paid in semi-annual installments.

On November 9, 2006, the PVSC entered into another loan agreement with the New Jersey Environmental Infrastructure Trust that enables the PVSC to borrow a maximum amount of \$10,785,000 at interest rates ranging from 4.00% to 5.00%. As due, principal and interest repayments, are paid in semi-annual installments.

The PVSC will pay for the project expenditures as incurred and apply for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,091,201	\$ 478,000	\$ 2,569,201
2011	2,101,848	460,600	2,562,448
2012	2,131,383	438,100	2,569,483
2013	2,144,580	414,350	2,558,930
2014	2,170,033	389,600	2,559,633
2015-2019	11,280,394	1,549,150	12,829,544
2020-2024	11,949,328	870,806	12,820,134
2025-2026	5,025,725	110,075	5,135,800
	<u>\$38,894,492</u>	<u>\$ 4,710,681</u>	<u>\$43,605,173</u>

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

H. LOANS PAYABLE (CONTINUED)

On May 22, 2007, the PVSC entered into an interest-free loan agreement with the State of New Jersey that enables the PVSC to borrow a maximum of \$18,141,867. The funding has been appropriated by the State of New Jersey and is obligated and held separate from other commitments of the State. Payments on outstanding borrowings are paid in semi-annual installments.

On May 22, 2007, the PVSC entered into another loan agreement with the New Jersey Environmental Infrastructure Trust that enables the PVSC to borrow a maximum amount of \$6,785,000 at interest rates ranging from 3.40% to 5.00%. As due, principal and interest repayments, are paid in semi-annual installments.

The PVSC will pay for the project expenditures as incurred and apply for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,265,141	\$ 303,832	\$ 1,568,973
2011	1,270,170	291,083	1,561,253
2012	1,288,333	277,832	1,566,165
2013	1,299,201	268,313	1,567,514
2014	1,308,930	258,163	1,567,093
2015-2019	6,742,448	1,074,063	7,816,511
2020-2024	7,196,864	642,038	7,838,902
2025-2027	4,555,780	136,163	4,691,943
	<u>\$24,926,867</u>	<u>\$ 3,251,487</u>	<u>\$28,178,354</u>

Summary of Future Maturities

Future maturities of loans payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 8,461,352	\$ 2,015,033	\$ 10,476,385
2011	7,293,008	1,882,966	9,175,974
2012	7,282,359	1,575,549	8,857,908
2013	7,335,335	1,347,425	8,682,760
2014	7,496,198	1,190,837	8,687,035
2015-2019	32,393,080	3,732,396	36,125,476
2020-2024	19,146,192	1,512,844	20,659,036
2025-2027	9,581,505	246,238	9,827,743
	<u>\$ 98,989,029</u>	<u>\$ 13,503,288</u>	<u>\$ 112,492,317</u>

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

I. SELF-INSURANCE

The PVSC has established a reserve for self-insurance for general liability coverage to pay for claims up to their retention amount of \$500,000. At December 31, 2009 and 2008, the reserve balance was \$4,664,331 and 4,642,353, respectively.

J. GASB 45 STATEMENT FOR ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

PVSC had an actuarial valuation done to calculate the cost and liabilities attributable to post retirement benefits other than pensions. The required disclosure information from the plan document and the December 31, 2009, biannual actuarial valuation is as follows:

Plan Description

- PVSC currently maintains an unfunded single-employer post employment benefits plan (the "Plan") other than for pensions, named the Passaic Valley Sewerage Commissioners Retiree Welfare Plan.
- The Plan provides eligible retirees with medical and prescription drug, vision, dental and chiropractic coverage; as well as Medicare Part B reimbursement, after termination or retirement.
- The Plan does not issue stand-alone financial statements and is not included in the report of another entity.

Funding Policy

- It is PVSC's policy at this time to fund this plan on a pay as you go basis.

Other Required Disclosures

- The annual required contribution for the year ended December 31, 2009 was \$18,079,000, assuming a 30-year amortization of the actuarial accrued liability.
- The annual OPEB cost for the year ended December 31, 2009 was \$17,646,000. There were no OPEB contributions made in 2009.
- The unfunded actuarial and accrued liability, which includes retirees and active employees, totaled \$186,711,000 as of December 31, 2009.
- The biannual actuarial valuation date was December 31, 2009.

Actuarial Assumptions and Methods

- An assumed discount rate of 4.5% was used for purposes of developing the liabilities and annual required contribution on the basis that the plan would not be funded.
- Health care cost trend rates were as follows:
 - Medical traditional, point of service, and prescription ranged from 9.5% in 2010 to 5% in year 2020 and later.
 - Dental, vision and chiropractic rate is 5% in 2010 through 2020 and later.
 - Medicare Part B ranged from 0.0% in 2010 to 5% in year 2020 and later.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTES TO FINANCIAL STATEMENTS

N. FORWARD BOND OPTION AGREEMENT

On March 8, 2006, the PVSC entered into a forward bond option agreement with Goldman Sachs with regard to the PVSC Sewer System Series G Bonds. The PVSC received approximately \$1.9 million in net proceeds from the sale, and Goldman Sachs received the option to purchase the rights to the bonds with the intention of selling the bonds at a lower rate. The PVSC Sewer System Series G Bonds delivery dates shall be between December 1, 2009, and November 30, 2010.

O. LITIGATION

The PVSC 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 PVSC expects that the ultimate resolution of these matters will not have a material adverse effect on their financial position or results of operations.

P. SUBSEQUENT EVENTS

In March 2010 the PVSC incurred loan obligations of \$36,600,000 in New Jersey Environmental Infrastructure Fund and Trust loans to fund various capital projects.

SUPPLEMENTARY INFORMATION

PASSAIC VALLEY SEWERAGE COMMISSIONERS
 Schedule of Federal Financial Assistance
 Year Ended December 31, 2009

Federal Funding Department Program Title	Federal CFDA Number	Pass-Through Grant Number	Grant Period	Original Grant Award Amount	Expenditures
U.S. Environmental Protection Agency					
Combined Sewer Overflow Project	66.202	N/A	03/01/2009 - 12/31/2013	\$ 477,000	\$ -
1996 Wastewater Fund Loan	66.468	S340 689-02	11/01/96- 08/01/16	15,150,000	468,443
2006 Wastewater Fund Loan	66.468	S340 689-01/03/10	11/09/06- 08/01/26	28,109,492	-
2007 Wastewater Fund Loan	66.468	S340-869-11/14	11/08/07- 08/01/27	18,141,867	-
Total Federal Assistance				<u>\$ 61,878,359</u>	<u>\$ 468,443</u>

No major programs

PASSAIC VALLEY SEWERAGE COMMISSIONERS
 Schedule of State Financial Assistance
 Year Ended December 31, 2009

State Funding Department Program Title	Grant Number	Grant Period	Award Amount	2009 Expended	Cumulative Expenditures
NJ Department of Environmental Protection/ Division of Water Quality					
*1996 Wastewater Trust Loan	S340 689-02	11/1/96-8/1/16	15,150,000	468,443	14,828,555
2006 Wastewater Trust Loan	S340 689-01/03/10	11/9/06-8/1/26	9,369,830	-	1,232,921
2007 Wastewater Trust Loan	S340-869-11/14	11/8/07-8/1/27	6,047,289	-	-
Public Wastewater Facilities	CSO-95-037	3/31/97 - until complete	2,235,938	455,055	2,235,938
Toxic Reduction Program	N/A	3/18/99 - until complete	415,000	-	413,247
Toxic Reduction Program Study I-G	N/A	10/25/99 - until complete	960,960	-	934,312
Sewerage Infrastructure Improvement Act	CSO-98-041A	10/26/98 - until complete	2,432,010	-	1,703,365
Sewerage Infrastructure Improvement Act	CSO-98-041G	4/1/05 - until complete	942,796	-	929,942
Sewerage Infrastructure Improvement Act	CSO-98-041F	6/15/07 - until complete	1,407,277	-	-
Sewerage Infrastructure Improvement Act	CSO-98-041H	6/15/08 - until complete	3,370,504	-	-
*New Jersey Department of Transportation/ Bureau of Local Aid-Newark	09 70138	9/10/08-9/10/11	838,029	838,029	838,029
Total State Assistance			<u>\$ 43,169,633</u>	<u>\$ 1,761,527</u>	<u>\$ 23,116,309</u>

*Denotes major program

PASSAIC VALLEY SEWERAGE COMMISSIONERS

NOTE TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE FINANCIAL ASSISTANCE

Year Ended December 31, 2009

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state financial assistance include the federal and state grant activity of Passaic Valley Sewerage Commissioners and are presented on the modified accrual basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey Circular Letter 04-04-OMB. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2009

Finding 2008-1: Financial Statement

Condition: This finding was a material weakness stating that several asset and liability accounts were not reconciled during the course of the year.

Recommendation: The auditor recommended that PVSC develop a monthly close manual to outline the process and reconciliations that need to be performed monthly and of year end to close the records in a more efficient manner.

Current Status: The recommendation was adopted to conduct a monthly and year-end close process. No similar findings were noted in the 2009 audit.

Finding 2008-2: Federal Award Finding and Questioned Costs

Condition: PVSC did not file the data collection form by the required date.

Recommendation: The financial statements should be completed timely to meet the data collection form filing guideline.

Current Status: The recommendation was adopted to complete financial statement reporting timely to file the data collection form. No data collection form was required to be filed for 2009 as federal grant awards expended were below the \$500,000 threshold.

**INDEPENDENT AUDITORS' 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**

To the Passaic Valley Sewerage Commissioners

We have audited the financial statements of Passaic Valley Sewerage Commissioners (the "PVSC") as of and for the year ended December 31, 2009, and have issued our report thereon dated October 20, 2010. We conducted our audit 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 audit requirements prescribed by the State of New Jersey OMB Circular Letter 04-04.

As noted in the Independent Auditors' Report, the accompanying financial statements are not intended to present financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Passaic Valley Sewerage Commissioners' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PVSC's internal control over financial reporting.

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 misstatements on a timely basis.

INDEPENDENT AUDITORS' 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 (CONTINUED)

Internal Control Over Financial Reporting (Continued)

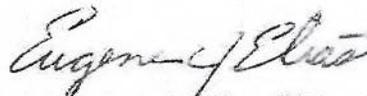
A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies or material weaknesses. We did not identify deficiencies in internal control over financial reporting that we consider to be material weaknesses as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Passaic Valley Sewerage Commissioners' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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*.

This report is intended solely for the information and use of the Passaic Valley Sewerage Commissioners, the audit committee, state and federal awarding agencies, management, bondholders and the State of New Jersey and is not intended to be and should not be used by anyone other than those specified parties.



Eugene J. Elias, CPA
Registered Municipal Accountant
License No. 505

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

October 20, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW
JERSEY OMB CIRCULAR LETTER 04-04

To the Passaic Valley Sewerage Commissioners

Compliance

We have audited Passaic Valley Sewerage Commissioners ("PVSC") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular *A-133 Compliance Supplement* and New Jersey Circular Letter 04-04-OMB that could have a direct and material effect on each of its major state programs for the year ended December 31, 2009. PVSC's major state programs are identified in the summary of auditor' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of Passaic Valley Sewerage Commissioners' management. Our responsibility is to express an opinion on PVSC's compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*; and New Jersey Circular Letter 04-04-OMB. Those standards, OMB Circular A-133, and the State of New Jersey Circular Letter 04-04-OMB 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 state program occurred. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PVSC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence about PVSC's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of PVSC's compliance with those requirements.

• AN INDEPENDENTLY OWNED MEMBER
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY
CIRCULAR LETTER 04-04-OMB (CONTINUED)

Compliance (Continued)

In our opinion, PVSC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2009. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and New Jersey OMB's Circular Letter 04-04-OMB.

Internal Control over Compliance

Management of PVSC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered PVSC's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04-OMB, but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PVSC's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a state 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 state program that will not be prevented or detected and corrected on a timely basis.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB
CIRCULAR LETTER 04-04 (CONTINUED)

Internal Control over Compliance (Continued)

This report is intended for the information and use of the management of PVSC, the audit committee, the State of New Jersey, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Eugene J. Elias, CPA
Registered Municipal Accountant
License No. 505

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

October 20, 2010

**PASSAIC VALLEY SEWERAGE COMMISSIONERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended December 31, 2009

Schedule I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal and State Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

<u>State Grant/Loan Number</u>	<u>Name of State Program or Loan</u>
S340 689-02	Wastewater Trust Loan 1996
09-70138	Bureau of Local Aid-Newark

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

All federal and state payroll tax returns were filed in a timely manner, and all required tax payments were made.

Schedule II - Financial Statement Findings

None Noted

Schedule III - State Award Findings

None Noted

PASSAIC VALLEY SEWERAGE COMMISSIONERS

COMMENTS

The Passaic Valley Sewerage Commissioners (the "PVSC") is a body politic and corporate created by Chapter 14 of Title 58 of the New Jersey revised status (section 58:14-1 et seq.). The entity is administered by nine commissioners who are appointed by the Governor of New Jersey and who normally serve for a period of five years.

The following were commissioners and key personnel as of December 31, 2009:

Anthony J. Luna	Chairman
Thomas J. Powell	Commissioner
Carl S. Czaplicki, Jr.	Vice Chairman
Frank J. Calandriello	Commissioner/Treasurer
William F. Flynn	Commissioner
Angelina M. Paserchia	Commissioner
Kenneth J. Lucianin	Commissioner
Bryan J. Christiansen	Executive Director
James Piro	Chief Counsel
Anthony W. Ardis	Clerk

Since August 1924, the PVSC has operated and maintained the principal sewerage collection and disposal system in the Passaic Valley, a densely populated industrial and residential section of northern New Jersey.

Under the original Act, the PVSC had no bond-issuing powers, and all outlays since completion of the system that might otherwise have been capitalized were included annually with current expenses for repairs, maintenance and operations charges.

Under the provisions of the Supplemental Act (Chapter 388, Laws of 1953, approved August 14, 1953), the pay-as-you-go procedure was modified to permit long-term payment of the cost of a rehabilitation program adopted in 1955. This Act permitted the PVSC to issue up to \$10,000,000 of bonds. As a result, \$9,100,000 of bonds were issued and sold in March 1955, pursuant to a resolution of the PVSC adopted October 22, 1954. The \$9,100,000 bonds sold in 1955 have subsequently been retired. By legislation which went into effect in 1970, the \$10,000,000 limitation was eliminated. The PVSC may now issue bonds after a public hearing, provided that 25% (by amount paid) of the contracting municipalities do not object at the public meeting.

Insurance

The PVSC carries insurance for possible loss or damage that, in its opinion, is sufficient. The PVSC did not renew its general liability coverage effective January 1, 1986. The PVSC pays claims that would formerly have been paid by such coverage. A reserve for self-insurance was established for this purpose.

Advertisement of Bids

The PVSC's minutes indicate that advertisement of bids occurred in the normal course of operations.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

SCHEDULE OF GENERAL FUND EXPENDITURES BY DEPARTMENT

Year Ended December 31, 2009
 (With Comparative Totals for Year Ended December 31, 2008)

	Total						
	Administration	Plant and Line Engineering	Plant Maintenance	Pollution and Treatment Control	Plant Operations	2009	2008
Salaries	\$ 10,907,325	\$ 1,727,553	\$ 12,883,570	\$ 7,604,210	\$ 16,289,202	\$ 49,411,860	\$ 49,252,187
Payroll taxes	242,243	113,590	984,375	561,367	1,233,516	3,135,091	3,635,809
Health plan	5,844,648	303,323	3,155,045	1,780,956	4,047,959	15,131,931	15,459,272
Pension	4,200,382	-	-	-	-	4,200,382	3,272,160
Supplies and postage	324,262	10,063	158,315	179,384	250,388	922,412	848,164
Replacement parts	572,278	65	119,451	63,255	2,630,229	3,385,278	3,318,431
Materials	86,895	2,792	62,467	110,348	4,241,336	4,503,838	3,919,932
Utilities	561,704	6,424	195,781	137,382	29,585,497	30,486,788	26,712,278
Rentals	94,632	6,765	5,334	9,245	10,741	126,717	111,505
Insurance	1,776,956	-	-	-	-	1,776,956	1,700,752
Equipment	438,344	-	162,303	23,119	451,140	1,074,906	883,442
Outside services	692,852	-	247,980	223,889	2,169,062	3,333,783	3,653,782
Professional fees	1,062,473	-	-	-	-	1,062,473	1,297,830
Sundry	919,922	7,941	18,894	35,146	7,056,939	8,038,842	1,151,178
Advertising	74,577	-	-	11,166	11,154	96,897	88,477
Real estate taxes	700,049	-	-	-	-	700,049	682,452
Newark interceptor lease	-	-	-	-	-	-	975,000
Reserve for repairs	-	-	-	-	-	-	400,000
Contingency	6,551,433	-	-	-	-	6,551,433	12,099,730
Subtotals	35,050,975	2,178,516	17,993,515	10,739,467	67,977,163	133,939,636	129,462,381
Bond principal	8,772,981	-	-	-	-	8,772,981	10,209,252
Bond interest	12,566,304	-	-	-	-	12,566,304	11,019,186
NIEDA loan repayments	1,305,560	-	-	-	-	1,305,560	1,305,560
Totals	\$ 57,695,820	\$ 2,178,516	\$ 17,993,515	\$ 10,739,467	\$ 67,977,163	\$ 156,584,481	\$ 151,996,379