PASSAIC VALLEY SEWERAGE COMMISSIONERS

Financial Statements
and
Supplementary Information

December 31, 2010

PASSAIC VALLEY SEWERAGE COMMISSIONERS

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December 31, 2010

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Executive Director of 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, 2010. 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 2009 financial statements and, in our report dated October 20, 2010, we expressed an opinion that such financial statements presented fairly, in all material respects, the financial position of PVSC as of December 31, 2009, 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, 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.

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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, 2010, or the results of its operations for the year then ended.

However, 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, 2010, 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 December 15, 2011, 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 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

Eugene J. Elias, CPA
Registered Municipal Accountant
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MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

December 15, 2011

PASSAIC VALLEY SEWERAGE COMMISSIONERS

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

December 31, 2010
(With Comparative Totals for 2009)

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement, and Improvement Fund	Third Additional Project Fund	Wastewater Treatment Fund	Fifth Additional Project Fund	Totals 2010	Totals 2009
Cash and investments	$ 68,336,491	$ 23,015,044	$ 4,684,863	$ 10,966,939	$ 390,498	$ 317,829	$ 1,477,504	$ 109,189,168	$ 108,415,777
Receivables									
Municipalities	64,753	-	-	-	-	-	-	64,753	348,269
Interfund receivables	3,784,059	-	-	2,089,060	-	1,793,100	28,540	7,694,759	50,894,439
Other receivables, net of allowance $650,000	3,337,990	-	-	-	-	-	-	3,337,990	3,781,028
State/Federal grants and loans	-	-	-	3,058,433	-	120,134,121	-	123,192,554	39,017,731
Inventory	8,118,460	-	-	-	-	-	-	8,118,460	7,906,211
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 building	47,029,058	-	-	-	138,924,105	-	-	185,953,163	185,953,162
Projects authorized and in process	-	-	-	21,278,878	2,775,892	68,649,670	21,619,815	114,324,255	71,683,676
Other assets									
Amounts to be provided for bond and loan retirement	-	-	-	-	37,305,000	154,714,494	163,215,000	355,234,494	306,837,038
Total Assets	$ 480,617,365	$ 23,015,044	$ 4,684,863	$ 64,392,475	$ 179,395,495	$ 345,609,214	$ 186,340,859	$ 1,284,055,315	$ 1,151,783,050
Bonds payable- current	$ -	$ -	$ -	$ -	$ 580,000	$ -	$ 7,755,000	$ 8,335,000	$ 7,330,000
Loans payable- current	-	-	-	-	-	7,293,008	-	7,293,008	8,461,352
Contracts payable	-	-	-	3,105,080	5,322	23,764,705	2,648,136	29,523,243	8,288,668
Accounts payable	5,482,865	-	-	-	-	-	-	5,482,865	3,747,684
Accrued expenses	8,298,627	-	-	-	-	-	-	8,298,627	8,494,067
Payroll deductions	716,530	-	-	-	-	-	-	716,530	773,088
Interfund payable	4,061,452	-	-	28,540	-	3,604,767	-	7,694,759	50,894,439
Total current liabilities	18,559,474	-	-	3,133,620	585,322	34,662,480	10,403,136	67,344,032	87,989,298
Loans payable- noncurrent	-	-	-	-	-	147,421,486	-	147,421,486	90,527,677
Bonds payable- noncurrent	-	-	-	-	36,725,000	-	155,460,000	192,185,000	200,520,000
Total other liabilities	-	-	-	-	36,725,000	147,421,486	155,460,000	339,606,486	291,047,677
Total liabilities	18,559,474	-	-	3,133,620	37,310,322	182,083,966	165,863,136	406,950,518	379,036,975
Reserves									
Insurance trust	-	-	4,684,863	-	-	-	-	4,684,863	4,664,331
Investment in inventory	8,118,460	-	-	-	-	-	-	8,118,460	7,906,211
Investment in fixed assets	396,975,612	-	-	-	-	-	-	396,975,612	396,975,474
Construction and acquisition	-	-	-	26,999,165	138,924,105	-	-	165,923,270	165,923,269
Projects authorized	-	-	-	21,278,878	2,775,892	68,649,670	21,619,815	114,324,255	71,683,676
Debt Service	-	23,015,044	-	-	-	-	-	23,015,044	23,267,065
Appropriated projects	-	-		12,980,812	385,176	94,875,578	(1,142,092)	107,099,474	51,944,145
Rate stabilization	56,963,819	-	-	-	-	-	-	56,963,819	50,381,904
Total reserves	462,057,891	23,015,044	4,684,863	61,258,855	142,085,173	163,525,248	20,477,723	877,104,797	772,746,075
Total liabilities and reserves	$ 480,617,365	$ 23,015,044	$ 4,684,863	$ 64,392,475	$ 179,395,495	$ 345,609,214	$ 186,340,859	$ 1,284,055,315	$ 1,151,783,050

See Notes to Financial Statements.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES

Year Ended December 31, 2010
(With Comparative Totals for the Year Ended December 31, 2009)

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement, and Improvement Fund	Third Additional Project Fund	Wastewater Treatment Fund	Fifth Additional Project Fund	2010	2009
Revenues									
User charges billed	$ 129,349,433	$ -	$ -	$ -	$ -	$ -	$ -	$ 129,349,433	$ 127,525,062
Other income	30,191,607	-	-	-	-	-	-	30,191,607	36,321,802
Investment gains, net	30,000	1,991	20,532	78,213	1,931	-	12,037	144,704	257,083
State/Federal grants and loans	-	-	-	-	-	97,703,728	-	97,703,728	-
Rental of land and offices	-	-	-	-	-	-	-	-	60,188
Total	159,571,040	1,991	20,532	78,213	1,931	97,703,728	12,037	257,389,472	164,164,135
Expenditures									
Salaries	51,678,392	-	-	-	-	-	-	51,678,392	49,411,860
Payroll taxes	3,486,681	-	-	-	-	-	-	3,486,681	3,135,091
Health plan	17,078,321	-	-	-	-	-	-	17,078,321	15,131,931
Pension	4,736,079	-	-	-	-	-	-	4,736,079	4,200,382
Supplies and postage	803,169	-	-	-	-	-	-	803,169	922,412
Replacement parts	3,858,650	-	-	-	-	-	-	3,858,650	3,385,278
Materials	4,908,767	-	-	-	-	-	-	4,908,767	4,503,838
Utilities	24,527,001	-	-	-	-	-	-	24,527,001	30,486,788
Rentals	115,541	-	-	-	-	-	-	115,541	126,717
Insurance	2,241,117	-	-	-	-	-	-	2,241,117	1,776,956
Equipment	996,932	-	-	-	-	-	-	996,932	1,074,906
Outside services	3,271,494	-	-	-	-	-	-	3,271,494	3,333,783
Professional fees	1,878,197	-	-	-	-	-	-	1,878,197	1,062,473
Sundry	6,667,673	-	-	-	-	-	-	6,667,673	8,038,842
Advertising	75,225	-	-	-	-	-	-	75,225	96,897
Real estate taxes	700,050	-	-	-	-	-	-	700,050	700,049
Bad debt expense	650,000	-	-	-	-	-	-	650,000	-
Contingency	-	-	-	-	-	-	-	-	6,551,433
Subtotal	127,673,289	-	-	-	-	-	-	127,673,289	133,939,636
Bond debt service									
Principal	14,485,799	-	-	-	-	-	-	14,485,799	8,772,981
Interest	11,104,429	-	-	-	-	-	-	11,104,429	12,566,304
Principal on NJEDA loan	1,305,556	-	-	-	-	-	-	1,305,556	1,305,560
Construction expenditures on completed projects	-	-	-	-	-	-	-	-	26,840,848
Total expenditures	154,569,073	-	-	-	-	-	-	154,569,073	183,425,329
Excess of revenues over (under) expenditures before interfund transfers	5,001,967	1,991	20,532	78,213	1,931	97,703,728	12,037	102,820,399	(19,261,194)
Interfund transfers		-	-	-	-	-	-	-	-
Bond reserve	-	(254,012)	-	-	-	-	-	(254,012)	213,205
Billing adjustment	-	-	-	-	-	-	-	-	-
Excess of revenues over (under) expenditures	5,001,967	(252,021)	20,532	78,213	1,931	97,703,728	12,037	102,566,387	(19,047,989)
Reserves, beginning of year	51,961,852	23,267,065	4,664,331	61,180,642	142,083,242	65,821,520	20,465,686	369,444,338	386,912,379
Reserves, end of year	56,963,819	$ 23,015,044	$ 4,684,863	$ 61,258,855	$ 142,085,173	$ 163,525,248	$ 20,477,723	472,010,725	367,864,390
Investment in inventory	8,118,460							8,118,460	7,906,211
Investment in fixed assets	396,975,612							396,975,612	396,975,474
Total investments	$ 462,057,891							$ 877,104,797	$ 772,746,075

See Notes to Financial Statements.

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.

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.

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.

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 New Jersey Environmental Infrastructure Trust.

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 accounting policies of the PVSC conform to the accounting principles which have been prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which constitute a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. These prescribed 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 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 change in fund balance is charged with an allowance for estimated uncollectible amounts based on past experience and an analysis of accounts receivable collectibility. 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. Inventory was $8,118,460 and $7,906,211 at December 31, 2010 and 2009, 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.

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.

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 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.

Reserve for Rate Stabilization

The Reserve for Rate Stabilization 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 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.

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, 2009, from which the summarized information was derived.

Reclassification

Certain amounts have been reclassified from the prior year to conform with current year presentation.

B. CASH AND INVESTMENTS

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

GUDPA permits the deposit of public funds into the State of New Jersey Cash Management Fund or institutions in New Jersey that are insured by the Federal Deposit Insurance Corporation (the "FDIC") or by any other agencies of the United States that insure deposits.

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

- Each depository participating in the GUDPA system must pledge collateral equal to at least 5% of the average amount of its balance of 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 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 Insurance and Banking. When the capital position of the depository deteriorates or the depository takes and unusually large amount of public deposits, the Department of Banking and Insurance requires additional collateral to be pledged.

If a governmental depository fails and the FDIC 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 the GUDPA has ever lost protected deposits.

Collateral maintenance:
Any Federal Reserve Bank;
Any Federal Home Loan Bank; and
Any other banking institutions in New Jersey with at least $25 million of Tier 1 Leverage Capital.

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

B. CASH AND INVESTMENTS (CONTINUED)

The carrying amount of the PVSC's cash, cash equivalents, and investments, consisted mainly of demand and money market accounts. The bank balances at December 31, 2010, were as follows:

	Book Balance	Bank Balance	FDIC Insured	Collateralized through GUDPA
TD Bank	$ 86,174,124	$ 86,849,086	$ 250,000	$ 86,599,086

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.

At December 31, 2010, the PVSC held 100% of its total investments with Federal National Mortgage Association ("FNMA").

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 is permitted to invest in various obligations per the bond indentures for the payment of principal on the bonds. At December 31, 2010, the PVSC held debt obligations with FNMA, rated AAA by standard and poors.

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. CONCENTRATION OF RISK AND UNCERTAINTIES

For the years ended December 31, 2010 and 2009, the PVSC received approximately 57% and 58%, respectively, of its total user charges from three customers. For the year ended December 31, 2010, approximately 34% of its total user charges were from Newark, 15% from Jersey City and and 8% from Paterson. For the year ended December 31, 2009, approximately 35% of its total user charges were from Newark, 15% from Jersey City and 8% from Paterson. If there was a significant reduction in these revenues from any of the three customers, there may be an adverse effect on the PVSC's operations.

D. 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.

Plan members are required to contribute 5.5% 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, 2010, 2009 and 2008, were $4,736,079, $4,200,382, and $3,272,160 respectively, equal to the required contributions for the year.

E. 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 $23,015,044, which represents a fixed income Federal National Mortgage Association Pool security which will mature on December 1, 2011.

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 $1,305,556, 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 loan was paid in full as of December 31, 2010.

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, 2010, the following bond series were outstanding:

G. BONDS PAYABLE (CONTINUED)

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, 2010 and 2009, the outstanding principal balance was $163,215,000 and 170,545,000, respectively. Interest paid on the serial bonds for the years 2011 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.

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

	Principal	Interest	Total
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	5,947,053	15,062,053
2015	9,625,000	5,491,313	15,116,313
2016-2020	56,855,000	19,674,813	76,529,813
2021-2025	26,000,000	8,009,063	34,009,063
2026-2030	25,815,000	3,373,625	29,188,625
2031-2032	11,245,000	423,375	11,668,375
	$ 163,215,000	$ 63,260,431	$ 226,475,431

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.

On November 30, 2010, the PVSC issued $29,950,000 Sewer System Bonds (the "Series G Bonds") for the purpose of refunding a portion of the outstanding balance of the PVSC Series E Bonds. The proceeds of the Series G Bonds together with funds made available by the PVSC, were deposited in an escrow fund with a trustee, to pay the interest, purchase of the defeasance series, principal and interest of the defeasance securities. At December 31, 2010 the amount considered defeased totaled $29,950,000.

The remaining balance of the Series E bonds principal and interest payments will be made until maturity as follows:

	Principal	Interest	Total
2011	$ 580,000	$ 405,615	$ 985,615
2012	595,000	375,890	970,890
2013	700,000	344,653	1,044,653
2014	820,000	307,028	1,127,028
2015	790,000	261,928	1,051,928
2016-2017	3,870,000	391,781	4,261,781
	$ 7,355,000	$ 2,086,895	$ 9,441,895

G. BONDS PAYABLE (CONTINUED)

Series G Bonds
In December 2010, the PVSC issued Sewer System Bonds, in the amount of $24,950,000 to currently refund the PVSC's Series E bonds and to pay the cost of issuing the bonds. Interest is payable June 1 and December 1 until maturity. Interest rates range from 5.625% to 5.750%. No interest nor principal payments were made during 2010.

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

	Principal	Interest	Total
2011	$ -	$ 1,722,885	$ 1,722,885
2012	-	1,718,112	1,718,112
2013	-	1,718,112	1,718,112
2014	-	1,718,112	1,718,112
2015	-	1,718,112	1,718,112
2016-2020	12,590,000	8,017,837	20,607,837
2021-2022	17,360,000	1,511,388	18,871,388
	$29,950,000	$18,124,558	$48,074,558

Summary of Future Maturities
Future maturities of bonds payable are as follows:

	Principal	Interest	Total
2011	$ 8,335,000	$ 9,303,563	$ 17,638,563
2012	8,765,000	8,881,315	17,646,315
2013	9,335,000	8,441,578	17,776,578
2014	9,935,000	7,972,193	17,907,193
2015	10,415,000	7,471,353	17,886,353
2016-2020	73,315,000	28,084,431	101,399,431
2021-2025	43,360,000	9,520,451	52,880,451
2026-2030	25,815,000	3,373,625	29,188,625
2031-2032	11,245,000	423,375	11,668,375
	$ 200,520,000	$ 83,471,884	$ 283,991,884

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.

H. LOANS PAYABLE (CONTINUED)

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

	Principal	Interest	Total
2011	$ 2,002,958	$ 397,950	$ 2,400,908
2012	2,056,018	339,675	2,395,693
2013	2,115,330	278,513	2,393,843
2014	2,180,737	214,200	2,394,937
2015	2,252,084	146,475	2,398,559
2016	2,321,255	75,075	2,396,330
	$12,928,382	$ 1,451,888	$14,380,270

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 was 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 pays for project expenditures as incurred and applies for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	Principal	Interest	Total
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	315,000	60,300	375,300
2016-2018	1,025,000	93,375	1,118,375
	$ 2,784,252	$ 524,025	$ 3,308,277

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 was 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.

H. LOANS PAYABLE (CONTINUED)

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 pays for project expenditures as incurred and applies for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	Principal	Interest	Total
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	1,588,312	281,835	1,870,147
2016-2019	6,868,587	599,695	7,468,282
	$14,350,026	$ 2,455,470	$16,805,496

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 was 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 pays for project expenditures as incurred and applies for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	Principal	Interest	Total
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	2,170,034	389,600	2,559,634
2015	2,193,220	363,600	2,556,820
2016-2020	11,421,562	1,417,550	12,839,112
2021-2025	12,110,938	711,694	12,822,632
2026	2,529,727	37,188	2,566,915
	$36,803,292	$ 4,232,682	$41,035,974

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 was 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 pays for project expenditures as incurred and applies for reimbursements of those project costs from each lender. Projected estimated annual debt service requirements for these two loans are as follows:

	Principal	Interest	Total
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	1,317,484	247,363	1,564,847
2016-2020	6,819,285	992,313	7,811,598
2021-2025	7,300,705	544,163	7,844,868
2026-2027	3,057,618	68,425	3,126,043
	$23,661,726	$ 2,947,655	$26,609,381

On March 10, 2010, the PVSC entered into an interest-free loan agreement with the State of New Jersey that enables the PVSC to borrow a maximum of $8,037,621. The funding was 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 March 10, 2010 the PVSC entered into another loan agreement with the New Jersey Environmental Infrastructure Trust that enables the PVSC to borrow a maximum amount of $4,505,000 at interest rates ranging from 3.00% to 5.00%. As due, principal and interest repayments, are paid in semi-annual installments.

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

	Principal	Interest	Total
2011	$ -	$ 192,000	$ 192,000
2012	611,534	192,000	803,534
2013	621,534	183,750	805,284
2014	631,535	175,000	806,535
2015	636,534	165,750	802,284
2016-2020	3,342,673	678,350	4,021,023
2021-2025	3,607,673	419,700	4,027,373
2026-2029	3,091,138	131,250	3,222,388
	$12,542,621	$ 2,137,800	$14,680,421

H. LOANS PAYABLE (CONTINUED)

On March 10, 2010, the PVSC entered into an interest-free loan agreement with the State of New Jersey that enables the PVSC to borrow a maximum of $23,776,707. The funding was 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 March 10, 2010, the PVSC entered into another loan agreement with the New Jersey Environmental Infrastructure Trust that enables the PVSC to borrow a maximum amount of $8,205,000 at interest rates ranging from 3.00% to 5.00%. As due, principal and interest repayments, are paid in semi-annual installments.

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

	Principal	Interest	Total
2011	$ -	$ 349,800	$ 349,800
2012	1,620,928	349,800	1,970,728
2013	1,640,928	334,800	1,975,728
2014	1,655,928	318,800	1,974,728
2015	1,670,928	302,050	1,972,978
2016-2020	8,629,640	1,233,500	9,863,140
2021-2025	9,109,640	763,550	9,873,190
2026-2029	7,653,711	238,600	7,892,311
	$31,981,703	$ 3,890,900	$35,872,603

On December 2, 2010, the PVSC entered into an interest-free loan agreement with the State of New Jersey that enables the PVSC to borrow a maximum of $11,537,500. The funding was 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 December 2, 2010, the PVSC entered into another loan agreement with the New Jersey Environmental Infrastructure Trust that enables the PVSC to borrow a maximum amount of $8,125,000 at an interest rate of 5.00% per annum. As due, principal and interest repayments, are paid in semi-annual installments.

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

	Principal	Interest	Total
2011	$ -	$ 303,559	$ 303,559
2012	-	406,250	406,250
2013	930,972	406,250	1,337,222
2014	945,972	391,750	1,337,722
2015	960,972	376,500	1,337,472
2016-2020	5,049,860	1,626,750	6,676,610
2021-2025	5,564,860	1,117,000	6,681,860
2026-2030	6,209,856	465,250	6,675,106
	$19,662,492	$ 5,093,309	$24,755,801

H. LOANS PAYABLE (CONTINUED)

Summary of Future Maturities

Future maturities of loans payable are as follows:

	Principal	Interest	Total
2011	$ 7,293,008	$ 2,561,827	$ 9,854,835
2012	9,514,821	2,518,417	12,033,238
2013	10,528,769	2,346,011	12,874,780
2014	10,729,634	2,150,173	12,879,807
2015	10,934,534	1,943,873	12,878,407
2016-2020	45,477,862	6,716,608	52,194,470
2021-2025	37,693,816	3,556,107	41,249,923
2026-2030	22,542,050	940,713	23,482,763
	$ 154,714,494	$ 22,733,729	$ 177,448,223

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, 2010 and 2009, the reserve balance was $4,684,863 and 4,664,331, respectively. There were no claims charged to the reserve for self-insurance for the years ended December 31, 2010 and 2009.

J. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

PVSC had an actuarial valuation done for the year ended December 31, 2009 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.

J. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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, 2010.
- The biannual actuarial valuation date was December 31, 2010.

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.
- These actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.
- These calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation.
- The actuarial cost method used was the projected unit credit method.
- The unfunded actuarial accrued liability was amortized as a level dollar amount using an open period of 30 years.

PVSC's contribution to the plan for the years ended December 31, 2010, 2009 and 2008 was $3,114,025, $2,148,324 and $2,138,671, respectively which equaled the required contribution for the year. There were approximately 178, 145 and 149 retired participants eligible for the years ended December 31, 2010, 2009 and 2008, respectively.

K. FORWARD FLOAT AGREEMENT

In order to maximize interest earnings in the bond reserve fund, the PVSC has entered into a forward float agreement with a bank. This agreement has been amended a third time, most recently in December 2010. The bank has funded the bond reserve fund and, in exchange, the bank receives substantially all of the bond reserve fund's investment interest earnings until the year 2032. Under the terms of the agreement, the PVSC is precluded from prematurely redeeming, defeasing, or refunding the Series G, F and E outstanding bonds unless it has sufficient funds to repurchase the bank's interest in the forward float agreement at the appraised market value of the agreement at that date, which has not been determined.

L. FUTURES CONTRACTS

The PVSC has entered into two futures contracts for electricity and natural gas in order to hedge energy costs. The electricity contract is for a term of thirty-two months, beginning May 2009 and will expire January 2012. The natural gas contract is for a term of twenty-six months, beginning October 2009 and will expire December 2011. During the year ended December 31, 2010 and 2009, PVSC experienced a loss by entering into these contracts of approximately ($4,566,000) and ($7,500,000), respectively, due to competitive market prices trending below the contracted price.

M. COLLECTIVE BARGAINING AGREEMENTS

The PVSC is a party in a collective bargaining agreement covering various employees at the PVSC. The agreement between the PVSC and Local 1158 - I.B.E.W. is for the period from January 1, 2010 through December 31, 2013.

N. 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.

O. SUBSEQUENT EVENTS

On January 25, 2011, the Governor of the State of New Jersey signed Executive Order 55 (the "EO"), which declared the existence of a state of emergency within the Passaic Valley Sewerage District due to the suspension and subsequent resignation of six members of the Board of Commissioners, resulting in the inability to constitute a quorum of the governing body. The EO vests all necessary authority, formerly vested in the Board of Commissioners, to the current Executive Director, in order to maintain the continued, uninterrupted operation of the PVSC.

SUPPLEMENTARY INFORMATION

PASSAIC VALLEY SEWERAGE COMMISSIONERS

Schedule of Federal Financial Assistance

Year Ended December 31, 2010

Federal Funding Department Program Title	Federal CFDA Number	Pass-Through Grant Number	Grant Period	Original Grant Award Amount	Current Year's Expenditures
U.S. Environmental Protection Agency					
Combined Sewer Overflow Project	66.202	N/A	03/01/2009 - 12/31/2013	$ 477,000	$ -
Combined Sewer Overflow Project	66.202	N/A	9/1/2010 - 12/31/2013	291,000	-
Combined Sewer Overflow Project	66.202	N/A	9/1/2010 - 12/31/2014	800,482	-
1996 Wastewater Fund Loan	66.458	S340 689-02	11/01/1996- 08/01/2016	15,150,000	65,807
2006 Wastewater Fund Loan	66.458	S340 689-01/03/10	11/09/2006- 08/01/2026	28,109,492	-
*2007 Wastewater Fund Loan	66.458	S340-869-11/14	11/08/2007- 08/01/2027	18,141,867	1,135,507
2010A Wastewater Fund Loan	66.458	S340-689-15B	3/10/2010- 8/1/2029	23,776,707	496,368
*2010A Wastewater Fund Loan ARRA	66.458	S340-689-15A	3/10/2010- 8/1/2029	13,037,621	5,375,968
2010B Wastewater Fund Loan	66.458	S340-689-18	12/2/2010 - 8/31/2030	14,037,500	-
Total Federal Assistance				$ 113,821,669	$ 7,073,650

* Denotes major program.

See note to the schedules of expenditures of federal and state financial assistance.

PASSAIC VALLEY SEWERAGE COMMISSIONERS
Schedule of State Financial Assistance
Year Ended December 31, 2010

State Funding Department Program Title	Grant Number	Grant Period	Award Amount	Current Year's Expenditures	Cumulative Expenditures
NJ Department of Environmental Protection/ Division of Water Quality					
1996 Wastewater Trust Loan	S340 689-02	11/1/1996-8/1/2016	$ 15,150,000	$ 55,654	$ 14,884,209
2006 Wastewater Trust Loan	S340 689-01/03/10	11/920/06-8/1/2026	9,369,830	-	1,232,921
*2007 Wastewater Trust Loan	S340-869-11/14	11/8/2007-8/1/2027	6,047,289	378,503	378,503
2010A Wastewater Trust Loan	S340-689-15B	3/10/2010-8/1/2029	8,205,000	165,456	165,456
*2010 Wastewater Trust Loan ARRA	S340-689-15A	3/10/2010-8/1/2029	4,505,000	521,111	521,111
2010B Wastewater Trust Loan	S340 689-18	12/2/2010-8/1/2030	8,125,000	-	-
Combined Sewer Overflow Project	CSO-94-033	6/20/1996-until complete	219,280	-	-
Combined Sewer Overflow Project	CSO-91-018	1/28/1997-until complete	987,410	-	-
Combined Sewer Overflow Project	CSO-93-031	3/18/1997-until complete	112,050	-	-
Combined Sewer Overflow Project	CSO-98-041A	10/26/1998 - until complete	2,432,010	-	1,703,365
Combined Sewer Overflow Project	CSO-93-026	12/9/1999-until complete	3,181,500	-	-
Combined Sewer Overflow Project	CSO-93-029	1/5/2000-until complete	113,494	-	-
Combined Sewer Overflow Project	CSO-91-020	6/16/2000-until complete	233,194	-	-
Combined Sewer Overflow Project	CSO-98-047	12/19/2000-until complete	347,440	-	-
Combined Sewer Overflow Project	CSO-98-046	7/12/2001-until complete	3,057,181	-	-
Combined Sewer Overflow Project	CSO-91-022	8/21/2001-until complete	39,164	-	-
Combined Sewer Overflow Project	CSO-99-049	8/17/2004-until complete	479,175	-	-
Combined Sewer Overflow Project	CSO-04-001	6/6/2005-until complete	1,071,481	-	-
Combined Sewer Overflow Project	CSO-98-041G	4/1/2005 - until complete	942,796	-	929,942
Combined Sewer Overflow Project	CSO-02-001	11/18/2005-until complete	163,612	-	-
*Combined Sewer Overflow Project	CSO-98-041F	6/15/2007 - until complete	1,407,277	1,238,139	1,238,139
*Combined Sewer Overflow Project	CSO-98-041H	6/15/2008 - until complete	3,370,504	1,560,445	1,560,445
Toxic Reduction Program	N/A	3/18/1999 - until complete	415,000	-	413,247
Toxic Reduction Program Study 1-G	N/A	10/25/1999 - until complete	960,960	-	934,312
Sewerage Infrastructure Improvement Act	CW06-057	8/1/2004 - 2/28/2011	152,054	-	-
New Jersey Department of Transportation/ Bureau of Local Aid-Newark	09 70138	9/10/2008-9/10/2011	838,029	-	838,029
Total State Assistance			$ 71,925,730	$ 3,919,308	$ 24,799,679

*Denotes major program

See note to the schedules of expenditures of federal and state financial assistance.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

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

Year Ended December 31, 2010

Note 1. Basis of Presentation

The accompanying schedules 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 financial statements.

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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 Executive Director of 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, 2010, and have issued our report thereon dated December 15, 2011. 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. Accordingly, we do not express an opinion on the effectiveness of 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.

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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, significant 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

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

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

December 15, 2011

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 Executive Director of 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 federal or state programs for the year ended December 31, 2010. PVSC's major federal and 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 federal and 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 federal and 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.

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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 federal and state programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed an instance 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 and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

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 federal and 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 federal or 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 federal or 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 federal or 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 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 (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

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

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

December 15, 2011

PASSAIC VALLEY SEWERAGE COMMISSIONERS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2010

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? __X__ yes ______ no

Identification of major programs:

Federal and State Grant/Loan Number	*Name of Federal and State Program or Loan*
66.458	Wastewater Fund Loan 2007
S340 689-11/14	Wastewater Trust Loan 2007
66.458	Wastewater Fund Loan 2010A ARRA
S340-689-15A	Wastewater Trust Loan 2010A ARRA
CSO-98-041F	Combined Sewer Overflow Project
CSO-98-041H	Combined Sewer Overflow Project

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 - Federal and State Award Findings

2010-1

Criteria

Form SF-SAC, Data Collection Form for reporting on audits of states, local governments and nonprofit organizations, is required to be submitted along with the financial reporting package within the earlier of 30 days after receipt of the auditors' report, or nine months after the end of the audit period.

Condition

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

Effect

PVSC was not in compliance with the terms of the OMB Circular A-133 compliance reporting requirement.

Cause

PVSC's December 31, 2010 financial statements were not ready for audit until September 2011.

Recommendation

The financial statements should be completed timely to meet the data collection form filing guideline. We recommend that management develop a formal year-end closing process with a timetable for each step of the closing process.

Corrective Action Plan

Management believes the delay in the year-end closing process was due to the unexpected resignation of the former Chief Financial Officer. Procedures have been placed in operation to ensure a timely closing process effective with the 2011 fiscal year.

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, 2010:

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
Wayne J. Forrest	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, 2010
(With Comparative Totals for Year Ended December 31, 2009)

						Total	
	Administration	Plant and Line Engineering	Plant Maintenance	Pollution and Treatment Control	Plant Operations	2010	2009
Salaries	$ 8,838,759	$ 1,853,772	$ 14,155,433	$ 8,662,639	$ 18,167,789	$ 51,678,392	$ 49,411,860
Payroll taxes	595,807	108,973	970,584	574,472	1,236,845	3,486,681	3,135,091
Health plan	6,614,945	297,687	3,472,486	1,830,749	4,862,454	17,078,321	15,131,931
Pension	4,736,079	-	-	-	-	4,736,079	4,200,382
Supplies and postage	282,526	8,206	160,237	125,995	226,205	803,169	922,412
Replacement parts	543,713	81	101,462	120,883	3,092,511	3,858,650	3,385,278
Materials	102,894	3,387	72,945	144,374	4,585,167	4,908,767	4,503,838
Utilities	319,674	7,419	182,701	109,150	23,908,057	24,527,001	30,486,788
Rentals	86,428	8,798	4,768	9,345	6,202	115,541	126,717
Insurance	2,241,117	-	-	-	-	2,241,117	1,776,956
Equipment	351,810	-	117,022	31,129	496,971	996,932	1,074,906
Outside services	1,308,034	-	241,570	206,735	1,515,155	3,271,494	3,333,783
Professional fees	1,878,197	-	-	-	-	1,878,197	1,062,473
Sundry	541,868	2,571	18,736	24,449	6,080,049	6,667,673	8,038,842
Advertising	63,689	-	-	8,692	2,844	75,225	96,897
Real estate taxes	700,050	-	-	-	-	700,050	700,049
Bad debt expense	650,000	-	-	-	-	650,000	-
Contingency	-	-	-	-	-	-	6,551,433
Subtotals	29,855,590	2,290,894	19,497,944	11,848,612	64,180,249	127,673,289	133,939,636
Bond principal	14,485,799	-	-	-	-	14,485,799	8,772,981
Bond interest	11,104,429	-	-	-	-	11,104,429	12,566,304
NJEDA loan repayments	1,305,556	-	-	-	-	1,305,556	1,305,560
Totals	$ 56,751,374	$ 2,290,894	$ 19,497,944	$ 11,848,612	$ 64,180,249	$ 154,569,073	$ 156,584,481