PASSAIC VALLEY SEWERAGE COMMISSION

Financial Statements
and
Supplementary Information

December 31, 2011

PASSAIC VALLEY SEWERAGE COMMISSION

Table of Contents

December 31, 2011

	Page Number
INDEPENDENT AUDITORS' REPORT	1-2
STATEMENT OF ASSETS, LIABILITIES AND RESERVES	3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES	4
NOTES TO FINANCIAL STATEMENTS	5-19
SUPPLEMENTARY INFORMATION	
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	20
SCHEDULE OF STATE FINANCIAL ASSISTANCE	21
NOTE TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE FINANCIAL ASSISTANCE	22
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*	23-24
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	25-26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	27-30
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS-FEDERAL AWARDS	31
COMMENTS	32
SCHEDULE OF GENERAL FUND EXPENDITURES BY DEPARTMENT	33

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Executive Director of the
Passaic Valley Sewerage Commission

We have audited the accompanying financial statements of the Passaic Valley Sewerage Commission (the "PVSC") as of and for the year ended December 31, 2011. 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 2010 financial statements and, in our report dated December 15, 2011, we expressed an opinion that such financial statements presented fairly, in all material respects, the financial position of PVSC as of December 31, 2010, 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.

In our opinion, because of PVSC's 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 PVSC as of December 31, 2011, or the results of its operations for the year then ended.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PVSC as of December 31, 2011, 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 14, 2012, on our consideration of PVSC's 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 schedules of federal and state financial assistance are presented for purposes of additional analysis as 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 are not a required part of the financial statements. The schedule of general fund expenditures by department is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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.

Eugene J. Elias

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

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

December 14, 2012

PASSAIC VALLEY SEWERAGE COMMISSIONERS

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

December 31, 2011
(With Comparative Totals for 2010)

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Third Additional Project Fund	Wastewater Treatment Fund	Fifth Additional Project Fund	Doremus Site Remediation Escrow Fund	Totals 2011	Totals 2010
Cash and investments	$ 73,140,993	$ 23,269,529	$ 4,697,277	$ 15,531,704	$ 391,533	$ -	$ -	$ 1,222,710	$ 118,253,746	$ 109,189,168
Receivables										
Municipalities	42,170	-	-	-	-	-	-	-	42,170	64,753
Interfund receivables	-			2,565,871		931,171			3,497,042	7,694,759
Other receivables, net of allowance $925,920	3,452,758	-	-	-	-	-	-	-	3,452,758	3,337,990
State/Federal grants and loans	-	-	-	4,835,807	-	95,785,653	-	-	100,621,460	123,192,554
Inventory	8,472,624	-	-	-	-	-	-	-	8,472,624	8,118,460
Prepaid expenses	22,141	-	-	-	-	-	-	-	22,141	-
Property, plant and equipment										
Construction and acquisition cost	-	-	-	48,278,043	-	-	-	-	48,278,043	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	-	-	-	141,699,996				188,729,054	185,953,163
Projects authorized and in process	-	-	-	5,159,489	-	89,758,990	21,634,795	-	116,553,274	114,324,255
Other assets										
Amounts to be provided for bond and loan retirement	-	-	-	-	36,725,000	142,610,698	155,460,000	-	334,795,698	355,234,494
Total Assets	$ 482,106,298	$ 23,269,529	$ 4,697,277	$ 76,370,914	$ 178,816,529	$ 329,086,512	$ 177,094,795	$ 1,222,710	$ 1,272,664,564	$ 1,284,055,315
Bonds payable- current	$ -	$ -	$ -	$ -	$ 595,000	$ -	$ 8,170,000	$ -	$ 8,765,000	$ 8,335,000
Loans payable- current	-	-	-	-	-	9,514,821	-	-	9,514,821	7,293,008
Contracts payable	-	-	-	5,867,619	5,322	24,264,703	-	507,235	30,644,879	29,523,243
Accounts payable	7,173,279	-	-	889,263	-	937,627	-	-	9,000,169	5,482,865
Accrued expenses	9,691,002	-	-	-	-	-	-	-	9,691,002	8,298,627
Payroll deductions	553,921	-	-	-	-	-	-	-	553,921	716,530
Escrow deposits	-	-	-	-	-	-	-	712,350	712,350	-
Interfund payable	179,393	-	-	931,171	-	2,386,478	-	-	3,497,042	7,694,759
Total current liabilities	17,597,595	-	-	7,688,053	600,322	37,103,629	8,170,000	1,219,585	72,379,184	67,344,032
Loans payable- noncurrent	-	-	-	-	-	133,095,877	-	-	133,095,877	147,421,486
Bonds payable- noncurrent	-	-	-	-	36,130,000	-	147,290,000	-	183,420,000	192,185,000
Total noncurrent liabilities	-	-	-	-	36,130,000	133,095,877	147,290,000	-	316,515,877	339,606,486
Total liabilities	17,597,595	-	-	7,688,053	36,730,322	170,199,506	155,460,000	1,219,585	388,895,061	406,950,518
Reserves										
Insurance trust	-	-	4,697,277	-	-	-	-	-	4,697,277	4,684,863
Investment in inventory	8,472,624	-	-	-	-	-	-	-	8,472,624	8,118,460
Investment in fixed assets	396,975,612	-	-	-	-	-	-	-	396,975,612	396,975,612
Construction and acquisition	-	-	-	48,278,043	141,699,996	-	-	-	189,978,039	165,923,270
Projects authorized	-	-	-	5,159,489	-	89,758,990	21,634,795	-	116,553,274	114,324,255
Debt service	-	23,269,529	-	-	-	-	-	-	23,269,529	23,015,044
Appropriated projects	-	-	-	15,245,329	386,211	69,128,016	-	3,125	84,762,681	107,099,474
Rate stabilization	59,060,467	-	-	-	-	-	-	-	59,060,467	56,963,819
Total reserves	464,508,703	23,269,529	4,697,277	68,682,861	142,086,207	158,887,006	21,634,795	3,125	883,769,503	877,104,797
Total liabilities and reserves	$ 482,106,298	$ 23,269,529	$ 4,697,277	$ 76,370,914	$ 178,816,529	$ 329,086,512	$ 177,094,795	$ 1,222,710	$ 1,272,664,564	$ 1,284,055,315

See Notes to Financial Statements.

PASSAIC VALLEY SEWERAGE COMMISSIONERS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES

Year Ended December 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Third Additional Project Fund	Wastewater Treatment Fund	Fifth Additional Project Fund	Doremus Site Remediation Escrow Fund	2011	2010
Revenues										
User charges billed	$ 130,761,099	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 130,761,099	$ 129,349,433
Other income	28,584,940	-	-	194,679	-	-	1,215,620	787,650	30,782,889	30,191,607
Investment gains, net	-	254,485	12,414	31,258	1,034		1,907	3,125	304,223	144,704
State/Federal grants and loans/(cancellation)	-	-	-	1,801,961	-	(4,810,791)	-	-	(3,008,830)	97,703,728
Total	159,346,039	254,485	12,414	2,027,898	1,034	(4,810,791)	1,217,527	790,775	158,839,381	257,389,472
Expenditures										
Salaries	41,122,800	-	-	-	-	-	-	-	41,122,800	51,678,392
Payroll taxes	3,890,313	-	-	-	-	-	-	-	3,890,313	3,486,681
Employee benefits	17,420,935	-	-	-	-	-	-	-	17,420,935	17,078,321
Pension contribution	5,821,681	-	-	-	-	-	-	-	5,821,681	4,736,079
Supplies and postage	843,277	-	-	-	-	-	-	-	843,277	803,169
Replacement parts	4,004,447	-	-	-	-	-	-	-	4,004,447	3,858,650
Materials	4,861,677	-	-	2,280,636	-	-	-	-	7,142,313	4,908,767
Utilities	28,145,687	-	-	-	-	-	-	-	28,145,687	24,527,001
Rentals	106,415	-	-	-	-	-	-	-	106,415	115,541
Insurance	1,332,510	-	-	-	-	-	-	-	1,332,510	2,241,117
Equipment	1,152,485	-	-	-	-	-	-	-	1,152,485	996,932
Outside services	3,912,353	-	-	-	-	-	-	-	3,912,353	3,271,494
Professional fees	925,463	-	-	-	-	-	-	787,650	1,713,113	1,878,197
Permitting	883,445	-	-	-	-	-	-	-	883,445	853,319
Sludge disposal	5,383,674	-	-	-	-	-	-	-	5,383,674	5,194,605
Sundry	987,319	-	-	-	-	-	-	-	987,319	619,749
Advertising	33,716	-	-	-	-	-	-	-	33,716	75,225
Real estate taxes (in lieu)	836,949	-	-	-	-	-	-	-	836,949	700,050
Bad debt expense	925,920	-	-	-	-	-	-	-	925,920	650,000
Contingency	393,198	-	-	-	-	-	-	-	393,198	-
Subtotal	122,984,264	-	-	2,280,636	-	-	-	787,650	126,052,550	127,673,289
Bond debt service										
Principal	15,354,126	-	-	-	-	-	-	-	15,354,126	14,485,799
Interest	10,722,163	-	-	-	-	-	-	-	10,722,163	11,104,429
Principal on NJEDA loan	-	-	-	-	-	-	-	-	-	1,305,556
Total expenditures	149,060,553	-	-	2,280,636	-	-	-	787,650	152,128,839	154,569,073
Excess of revenues over (under) expenditures before interfund transfers	10,285,486	254,485	12,414	(252,738)	1,034	(4,810,791)	1,217,527	3,125	6,710,542	102,820,399
Interfund transfers	(8,188,838)	-	-	7,676,744	-	172,549	(60,455)	-	(400,000)	-
Bond reserve	-	-	-	-	-	-	-	-	-	(254,012)
Excess of revenues over (under) expenditures	2,096,648	254,485	12,414	7,424,006	1,034	(4,638,242)	1,157,072	3,125	6,310,542	102,566,387
Reserves, beginning 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	369,444,338
Reserves, end of year	59,060,467	$ 23,269,529	$ 4,697,277	$ 68,682,861	$ 142,086,207	$ 158,887,006	$ 21,634,795	$ 3,125	478,321,267	472,010,725
Investment in inventory	8,472,624								8,472,624	8,118,460
Investment in fixed assets	396,975,612								396,975,612	396,975,612
Total investments	$ 464,508,703								$ 883,769,503	$ 877,104,797

See 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 Commission (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 ("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 States 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, which have been refunded by the Series F 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.

Doremus Site Remediation Escrow Fund

The Doremus Site Remediation Escrow Fund was established to set aside funds for future environmental remediation.

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 Cash Equivalents

The PVSC considers all highly liquid investments, with maturities of three months or less from the date of purchase, to be cash equivalents.

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 $8,472,624 and $8,118,460 at December 31, 2011 and 2010, 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.

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 I 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, 2010, from which the summarized information was derived.

B. CASH AND CASH EQUIVALENTS

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

All deposits in the TD and JP Morgan bank accounts at December 31, 2011 were covered by Federal Deposit Insurance Company (the"FDIC"). The Bank of New York money market funds are invested in the Goldman Sachs Financial Square Treasury Obligation Fund, which is comprised of U.S. Government and Treasury Securities.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counter party, PVSC will not be able to recover the value of its cash and cash equivalents that are in the possession of an outside party. Cash and cash equivalents are substantially restricted under the terms of PVSC's bond resolutions for the payment of bond principal and interest expense and the extension of project loans. The bond resolutions limit investments to direct obligations of the United States of America or other obligations in which payments of principal and interest are unconditionally guaranteed by the United States of America.

The amounts deposited in these accounts at December 31, 2011, are as follows:

	Book Balance	Bank Balance
TD Bank	$ 41,385,636	$ 41,534,950
JP Morgan Bank	53,598,581	53,933,946
Bank of NY	23,269,529	23,269,529
	$ 118,253,746	$ 118,738,425

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Because PVSC maintains only cash and cash equivalents, it is not subject to interest rate risk if interest rates fluctuate.

C. CONCENTRATION OF RISK AND UNCERTAINTIES

For the years ended December 31, 2011 and 2010, the PVSC received approximately 55% and 57%, respectively, of its total user charges from three customers. For the year ended December 31, 2011, approximately 32% of its total user charges were from Newark, 15% from Jersey City, and and 8% from Paterson. For the year ended December 31, 2010, approximately 34% 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 6.5% 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, 2011, 2010 and 2009, were $5,821,681, $4,736,079, and $4,200,382 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.

F. 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, 2011, the following bond series were outstanding:

F. 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, 2011 and 2010, the outstanding principal balance was $155,460,000 and $163,215,000, 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
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	9,625,000	5,491,313	15,116,313
2016	10,160,000	5,010,063	15,170,063
2017-2021	52,765,000	16,832,063	69,597,063
2022-2026	24,840,000	6,768,250	31,608,250
2027-2031	26,460,000	2,728,250	29,188,250
2032	5,690,000	142,250	5,832,250
	$ 155,460,000	$ 56,085,378	$ 211,545,378

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. On January 10, 2011 the defeasance was completed.

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

	Principal	Interest	Total
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	775,000	217,688	992,688
2017	3,095,000	174,094	3,269,094
	$ 6,775,000	$ 1,681,281	$ 8,456,281

F. BONDS PAYABLE (CONTINUED)

Series G Bonds
In December 2011, 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 2011.

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

	Principal	Interest	Total
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	-	1,718,112	1,718,112
2017-2021	21,025,000	7,297,925	28,322,925
2022	8,925,000	513,188	9,438,188
	$29,950,000	$16,401,673	$46,351,673

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

	Principal	Interest	Total
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	10,415,000	7,471,353	17,886,353
2016	10,935,000	6,945,863	17,880,863
2017-2021	76,885,000	24,304,082	101,189,082
2022-2026	33,765,000	7,281,438	41,046,438
2027-2031	26,460,000	2,728,250	29,188,250
2032	5,690,000	142,250	5,832,250
	$ 192,185,000	$ 74,168,332	$ 266,353,332

G. 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.

G. 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
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
	$10,925,424	$ 1,053,938	$11,979,362

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
2012	$ 353,968	$ 99,000	$ 452,968
2013	285,000	86,626	371,626
2014	300,000	73,800	373,800
2015	315,000	60,300	375,300
2016	330,000	46,125	376,125
2017-2018	695,000	47,250	742,250
	$ 2,278,968	$ 413,101	$ 2,692,069

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.

G. 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
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	1,638,449	232,060	1,870,509
2017-2019	5,230,138	367,635	5,597,773
	$12,937,278	$ 1,999,560	$14,936,838

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
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	2,228,208	336,350	2,564,558
2017-2021	11,548,750	1,286,000	12,834,750
2022-2026	9,713,784	544,081	10,257,865
	$32,129,959	$ 3,772,081	$35,902,040

G. 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
2012	$ 1,288,333	$ 277,833	$ 1,566,166
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	1,331,580	231,863	1,563,443
2017-2021	6,909,979	910,463	7,820,442
2022-2026	7,392,887	439,838	7,832,725
2027	1,543,162	22,737	1,565,899
	$22,391,556	$ 2,656,573	$25,048,129

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
2012	$ 611,534	$ 192,000	$ 803,534
2013	621,534	183,750	805,284
2014	631,534	175,000	806,534
2015	636,534	165,750	802,284
2016	646,534	156,250	802,784
2017-2021	3,397,672	625,200	4,022,872
2022-2026	3,662,672	367,250	4,029,922
2027-2029	2,334,604	80,600	2,415,204
	$12,542,618	$ 1,945,800	$14,488,418

G. 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
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	1,690,928	284,550	1,975,478
2017-2021	8,724,641	1,136,500	9,861,141
2022-2026	9,204,641	668,000	9,872,641
2027-2029	5,772,785	146,600	5,919,385
	$31,981,707	$ 3,541,100	$35,522,807

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
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	975,972	360,500	1,336,472
2017-2021	5,139,861	1,534,500	6,674,361
2022-2026	5,684,861	999,000	6,683,861
2027-2030	2,784,578	315,000	3,099,578
	$17,423,188	$ 4,789,750	$22,212,938

G. LOANS PAYABLE (CONTINUED)

Summary of Future Maturities

Future maturities of loans payable are as follows:

	Principal	Interest	Total
2012	$ 9,514,821	$ 2,518,418	$ 12,033,239
2013	10,528,769	2,346,012	12,874,781
2014	10,729,633	2,150,173	12,879,806
2015	10,934,534	1,943,873	12,878,407
2016	11,162,926	1,722,773	12,885,699
2017-2021	41,646,041	5,907,548	47,553,589
2022-2026	35,658,845	3,018,169	38,677,014
2027-2030	12,435,129	564,937	13,000,066
	$ 142,610,698	$ 20,171,903	$ 162,782,601

H. 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, 2011 the reserve balance was $4,697,277. There were no claims charged to the reserve for self-insurance for the year ended December 31, 2011.

I. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

PVSC had an actuarial valuation performed for the year ended December 31, 2011, 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, 2011, biannual actuarial valuation is as follows:

Plan Description

- PVSC currently maintains an unfunded single-employer post employment benefits plan (the "Plan") other than pensions, named the Passaic Valley Sewerage Commission Retiree Welfare Plan.
- The Plan provides eligible retirees with medical, 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.

I. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Other Required Disclosures

- The annual required contribution for the year ended December 31, 2011, was $17,478,000, assuming a 30-year amortization using the level dollar method, of the actuarial accrued liability.
- The annual OPEB cost for the year ended December 31, 2011, was $16,586,000. There were no OPEB contributions made in 2011.
- The unfunded actuarial accrued liability, which includes retirees and active employees, totaled $192,659,000 as of December 31, 2011.
- The biannual actuarial valuation date was December 31, 2011.

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 2012 to 5% in year 2021 and later.
  - Dental, vision and chiropractic rate is 5% in 2012 through 2021 and later.
  - Medicare Part B is 5% in 2012 through 2021 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, 2011, 2010 and 2009 was $4,402,061, $3,114,025 and $2,148,324, respectively which equaled the required contribution for the year. There were approximately 201, 178 and 145 retired participants eligible for the years ended December 31, 2011, 2010 and 2009, respectively.

J. FORWARD DELIVERY AGREEMENT

On September 11, 1996 PVSC entered into a Forward Delivery Agreement (the 'Agreement") with First Union Bank, now Wells Fargo Bank (the "Bank) related to the Series D Bonds refunded by Series E Bonds. The Agreement stipulated that certain proceeds from the bond issuance would be deposited with the Bank in a debt service reserve fund (the "Fund"). PVSC was paid an upfront fee in exchange for interest earnings on the Fund until the year 2032. Under the terms of the Agreement PVSC is precluded from prematurely redeeming, defeasing, or refunding the Series G, F, or E Bonds unless it has sufficient funds to repurchase the Banks interest in the Agreement at the fair value at the date of termination. As of December 31, 2011 the fair value of the Agreement if terminated by PVSC was $(4,644,350).

K. 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-six months, beginning December 2011 and will expire December 2014. The natural gas contract is for a term of thirty-six months, beginning January 2012 and will expire March 2014.

L. 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.

The PVSC is also in the process of negotiating with three (3) new bargaining units which were certified by the New Jersey Public Employment Relations Commission ("PERC") in January, 2011. The bargaining units are the PVSC Professional Unit, the PVSC Supervisors Group and the United Public Service Employers Union ("UPSEU"). Each of these groups is bargaining for the period beginning January 1, 2011.

M. 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.

N. SUBSEQUENT EVENTS

Management has evaluated events that occurred after December 31, 2011, but before December 14, 2012, the date the financial statements were available to be issued.

The PVSC treatment plant and other operational equipment sustained significant damage during the Hurricane Sandy event which occurred in October, 2012. At the present time, damage estimates are being compiled. PVSC is involved with discussions with insurance companies and Federal Emergency Management Agency ("FEMA"). PVSC believes FEMA will cover at least 75% of the eligible recovery costs that are not covered by insurance. All costs not covered by insurance or FEMA will be self-funded. PVSC has had to discontinue the Liquid Waste Acceptance ("LWA") program for approximately one month. At this time the loss in revenue cannot be determined.

SUPPLEMENTARY INFORMATION

PASSAIC VALLEY SEWERAGE COMMISSION
Schedule of Federal Financial Assistance
Year Ended December 31, 2011

Federal Funding Department Program Title	Federal CFDA Number	Pass-Through Grant Number	Grant Period	Original Grant Award Amount	Current Year's Expenditures	Cumulative Pass-through Expenditures
U.S. Environmental Protection Agency Direct Programs:						
Combined Sewer Overflow Project	66.202	N/A	3/01/2009 -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	-	-
Subtotal U.S. Environmental Protection				1,568,482	-	-
Pass-through programs from New Jersey Department of Environmental Protection/ Division of Water Quality:						
1996 Wastewater Fund Loan	66.458	S340 689-02	11/01/1996-08/01/2016	15,150,000	-	468,443
2006 Wastewater Fund Loan	66.458	S340 689-01/03/10	11/09/2006-08/01/2026	25,538,007	-	-
2007 Wastewater Fund Loan	66.458	S340-869-11/14	11/08/2007-08/01/2027	18,141,867	4,207,517	4,207,517
*2010A Wastewater Fund Loan	66.458	S340-689-15B	3/10/2010-8/1/2029	23,776,707	6,005,029	6,005,029
*2010A Wastewater Fund Loan ARRA	66.458	S340-689-15A	3/10/2010-8/1/2029	13,037,621	3,426,873	3,426,873
2010B Wastewater Fund Loan	66.458	S340-689-18	12/2/2010 - 8/31/2030	11,798,194	-	-
Subtotal New Jersey Department of Environmental Protection/ Division of Water Quality:				107,442,396	13,639,419	14,107,862
Total U.S. Environmental Protection Agency Programs				109,010,878	13,639,419	14,107,862
U.S. Department of Transportation Programs:						
Pass- through programs from New Jersey Department of Environmental Protection/ Green Acres Program:						
Recreation Trails Grant	20.219			10,261	10,201	10,201
Recreation Trails Grant	20.219			12,000	-	-
Recreation Trails Grant	20.219			24,700	-	-
Subtotal ew Jersey Department of Environmental Protection/ Green Acres Program:				46,961	10,201	10,201
Pass-through programs from New Jersey Department of Transportation:						
*Local Aid Program	20.205	2009-DT-BLA-224		719,921	401,501	401,501
*Local Aid Program	20.205	2009-DT-BLA-224		359,960	322,001	322,001
Subtotal pass-through New Jersey Department of Transportation:				1,079,881	723,502	723,502
Total U.S. Department of Transportation Programs				1,126,842	733,703	733,703
Total Federal Assistance				$ 110,137,720	$ 14,373,122	$ 14,841,565

* Denotes major program.

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

PASSAIC VALLEY SEWERAGE COMMISSION
Schedule of State Financial Assistance
Year Ended December 31, 2011

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	$ -	$ 14,828,555
2006 Wastewater Trust Loan	S340 689-01/03/10	11/920/06-8/1/2026	8,512,668	-	1,232,921
2007 Wastewater Trust Loan	S340-869-11/14	11/8/2007-8/1/2027	6,047,289	1,730,575	1,730,575
*2010A Wastewater Trust Loan	S340-689-15B	3/10/2010-8/1/2029	8,205,000	2,001,676	2,001,676
*2010 Wastewater Trust Loan-NJEIT Match	S340-689-15A	3/10/2010-8/1/2029	4,505,000	1,533,705	1,533,705
2010B Wastewater Trust Loan	S340 689-18	12/2/2010-8/1/2030	7,266,064	-	-
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	2,432,910	-	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
Combined Sewer Overflow Project	CSO-98-041H	6/15/2008 - until complete	3,370,504	-	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	152,051	-	-
New Jersey Department of Environmental Protection	RP09-036		260,000	14,385	14,385
Total State Assistance			$ 69,632,500	$ 5,280,341	$ 28,121,267

*Denotes major program

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

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

Year Ended December 31, 2011

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 Commission and are presented on 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. 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.

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 Commission

We have audited the financial statements of Passaic Valley Sewerage Commission (the "PVSC") as of and for the year ended December 31, 2011, and have issued our report thereon dated December 14, 2012. 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

Management of PVSC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered PVSC's 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 PVSC's 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 management of PVSC, the PVSC Commissioner, 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 14, 2012

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 Commission

Compliance

We have audited Passaic Valley Sewerage Commission ("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, 2011. PVSC's major federal and state programs are identified in the summary of auditors' 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 PVSC's 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 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.

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, 2011. 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, which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

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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

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 Letter 04-04, 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.

This report is intended for the information and use of the management of PVSC, the PVSC Commissioner, 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 14, 2012

PASSAIC VALLEY SEWERAGE COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

Schedule I - Summary of Auditors' Results - Federal

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 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 CFDA Number	*Name of Federal Program or Loan*
66.458	2010A Wastewater Fund Loan ARRA
66.458	2010A Wastewater Fund Loan
20.205	Local Aid Program

Dollar threshold used to distinguish between type A and type B programs: Federal $ 431,194

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

PASSAIC VALLEY SEWERAGE COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

Schedule I - Summary of Auditors' Results - State

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

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:

State Grant/Loan Number	*Name of State Program or Loan*
S340-689-15A	2010A Wastewater Trust Loan-NJEIT Match
S340-689-15B	2010A Wastewater Trust Loan

Dollar threshold used to distinguish between type A and type B programs: State $ 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

PASSAIC VALLEY SEWERAGE COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

Schedule III - Findings and Questioned Costs for Federal Awards

2011-1

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, 2011, financial statements were not subject to audit until August 2012, due to delays with regard to the auditor selection process through the State of New Jersey.

Recommendation
We recommend commencing the auditor selection process earlier in the year.

Corrective Action Plan
The PVSC believes the delay in auditor selection was due to the lack of a quorum of the Board of Commissioners. Once the Board is reconstituted, the audit committee will be in a position to recommend the appointment of an independent auditor in a timely manner.

PASSAIC VALLEY SEWERAGE COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2011

Schedule III - Findings and Questioned Costs for State Awards

None noted.

PASSAIC VALLEY SEWERAGE COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS-FEDERAL AWARDS

Year Ended December 31, 2011

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 COMMISSION

COMMENTS

The Passaic Valley Sewerage Commission (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 normally administered by nine commissioners who are appointed by the Governor of New Jersey and who serve for a period of five years.

The following were commissioners and key personnel as of December 31, 2011:

Kenneth J. Lucianin	Commissioner
Wayne Forest	Executive Director
Gregory A. Tramontozzi	General Counsel
Thomas Flanagan	Acting 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 COMMISSION

SCHEDULE OF GENERAL FUND EXPENDITURES BY DEPARTMENT

Year Ended December 31, 2011
(With Comparative Totals for Year Ended December 31, 2010)

	Administration	Plant and Line Engineering	Plant Maintenance	Pollution and Treatment Control	Plant Operations	Total 2011	Total 2010
Salaries	$ 9,408,740	$ 1,194,990	$ 10,755,865	$ 5,556,679	$ 14,206,526	$ 41,122,800	$ 51,678,392
Payroll taxes	1,923,441	75,205	666,627	343,202	881,838	3,890,313	3,486,681
Health plan	7,100,541	294,761	3,427,161	1,810,293	4,788,179	17,420,935	17,078,321
Pension	5,821,681	-	-	-	-	5,821,681	4,736,079
Supplies and postage	260,221	13,095	164,013	197,168	208,780	843,277	803,169
Replacement parts	602,601	83	131,527	218,639	3,051,597	4,004,447	3,858,650
Materials	152,748	3,740	83,203	140,660	4,481,326	4,861,677	4,908,767
Utilities	418,785	6,726	281,458	124,615	27,314,103	28,145,687	24,527,001
Rentals	78,774	12,429	4,077	7,742	3,393	106,415	115,541
Insurance	1,332,510	-	-	-	-	1,332,510	2,241,117
Equipment	475,952	-	41,089	134,966	500,478	1,152,485	996,932
Outside services	1,398,228	-	214,424	227,445	2,072,256	3,912,353	3,271,494
Professional fees	924,954	-	-	509	-	925,463	1,878,197
Permitting	883,445	-	-	-	-	883,445	853,319
Sludge disposal	-	-	-	-	5,383,674	5,383,674	5,194,605
Sundry	904,775	6,926	16,099	14,266	45,253	987,319	619,749
Advertising	28,227	-	-	5,211	278	33,716	75,225
Real estate taxes	836,949	-	-	-	-	836,949	700,050
Bad debt expense	925,920	-	-	-	-	925,920	650,000
Contingency	393,198	-	-	-	-	393,198	-
Subtotals	33,871,690	1,607,955	15,785,543	8,781,395	62,937,681	122,984,264	127,673,289
Bond principal	15,354,126	-	-	-	-	15,354,126	14,485,799
Bond interest	10,722,163	-	-	-	-	10,722,163	11,104,429
NJEDA loan repayments	-	-	-	-	-	-	1,305,556
Totals	$ 59,947,979	$ 1,607,955	$ 15,785,543	$ 8,781,395	$ 62,937,681	$ 149,060,553	$ 154,569,073