

PASSAIC VALLEY SEWERAGE COMMISSION

FINANCIAL STATEMENTS

December 31, 2014

PASSAIC VALLEY SEWERAGE COMMISSION

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INDEPENDENT AUDITORS' REPORT

To the Commissioners of
Passaic Valley Sewerage Commission

Report on the Financial Statements

We have audited the accompanying basic financial statements – regulatory basis of Passaic Valley Sewerage Commission (the "Commission"), as of and for the year ended December 31, 2014, and the related notes to financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions as described in Note A. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Non-Profit Organizations* and State of New Jersey Circular Letter 04-04-OMB. Those standards, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described on Note A, these financial statements are prepared on the modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Commission as of December 31, 2014, or the results of its operations for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission as of December 31, 2014, and the results of its operations for the year then ended in accordance with the financial reporting provisions set forth by the Commission described in Note A.

Report on Supplementary Information and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole that collectively comprise the Commission's basic financial statements. The comments and summary schedule of prior year auditing findings are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

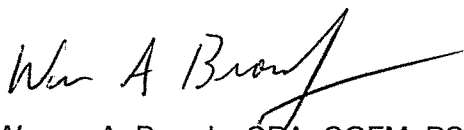
Our audit was also conducted for the purpose of forming an opinion on the financial statements taken as a whole that collectively comprise the Commission's financial statements. The schedules of expenditures of federal awards and state financial assistance and related note, as well as the schedule of general fund expenditures by department (the "schedules") as listed in the table of contents under supplementary information for the year ended December 31, 2014, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, on the basis of accounting described in Note A.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

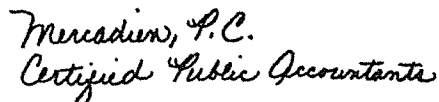
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2015 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



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

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



December 2, 2015

PASSAIC VALLEY SEWERAGE COMMISSION
STATEMENT OF ASSETS, LIABILITIES AND RESERVES
December 31, 2014

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Third Additional Project Fund	Wastewater Treatment Trust Fund	Fifth Additional Project Fund	Doremus Site Remediation Escrow Fund	Total
Cash and cash equivalents	\$ 74,851,276	\$ 23,270,859	\$ 4,422,277	\$ 8,182,310	\$ 478,053	\$ 391,591	\$ -	\$ -	\$ 746,291	\$ 112,344,657
Receivables	-	-	-	-	-	-	-	-	-	-
Interfund receivables	-	-	-	1,054,723	6,087,634	-	-	-	-	7,142,357
Accounts receivable, net of allowance \$475,624	3,593,817	-	-	-	-	-	-	-	-	3,593,817
Federal/state grants and loans	-	-	-	305,537,137	-	-	61,903,490	-	-	367,440,627
Inventory	8,905,416	-	-	-	-	-	-	-	-	8,905,416
Property, plant and equipment	-	-	-	-	-	-	-	-	-	-
Construction and acquisition cost	-	-	-	59,429,351	-	-	-	-	-	59,429,351
Buildings	252,159,560	-	-	-	-	-	-	-	-	252,159,560
Machinery and equipment	97,766,994	-	-	-	-	-	-	-	-	97,766,994
Improvements other than building	47,029,058	-	-	-	-	141,699,996	100,554,846	-	-	289,283,900
Projects authorized and in process	-	-	-	1,451,279	3,656,903	-	14,417,030	21,634,795	-	41,160,007
Other assets	-	-	-	-	-	-	-	-	-	-
Amounts to be provided for bond and loan retirement	-	-	-	-	-	34,610,000	124,588,473	129,540,000	-	288,738,473
Total Assets	\$ 484,326,121	\$ 23,270,859	\$ 4,422,277	\$ 375,654,800	\$ 10,222,590	\$ 176,701,587	\$ 301,463,839	\$ 151,174,795	\$ 746,291	\$ 1,527,985,159
Loans payable-current	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,128,836	\$ -	\$ -	\$ 12,128,836
Bonds payable-current	-	-	-	-	-	790,000	-	9,625,000	-	10,415,000
Contracts payable	-	-	-	-	-	-	-	-	-	-
Accounts payable	4,133,676	-	-	483,675	214,590	-	1,339,787	-	-	6,171,728
Accrued expenses	8,076,817	-	-	-	-	-	-	-	-	8,076,817
Payroll deductions	844,854	-	-	-	-	-	-	-	-	844,854
Escrow deposits	334,191	-	-	-	-	-	-	-	745,166	1,079,357
Interfund payable	769,878	-	-	5,605,462	-	-	767,017	-	-	7,142,357
Total Current Liabilities	14,159,416	-	-	6,089,137	214,590	790,000	14,235,640	9,625,000	745,166	45,858,949
Loans payable-noncurrent	-	-	-	-	-	-	112,459,637	-	-	112,459,637
Bonds payable-noncurrent	-	-	-	-	-	33,820,000	-	119,915,000	-	153,735,000
Total noncurrent liabilities	-	-	-	-	-	33,820,000	112,459,637	119,915,000	-	266,194,637
Total Liabilities	14,159,416	-	-	6,089,137	214,590	34,610,000	126,695,277	129,540,000	745,166	312,053,586
Reserves	-	-	4,422,277	-	-	-	-	-	-	4,422,277
Insurance trust	-	-	4,422,277	-	-	-	-	-	-	4,422,277
Investment in inventory	8,905,416	-	-	-	-	-	-	-	-	8,905,416
Investment in fixed assets	396,975,612	-	-	-	-	-	-	-	-	396,975,612
Construction and acquisition	-	-	-	59,429,351	-	141,699,996	100,554,846	-	-	301,684,193
Projects authorized	-	-	-	1,451,279	3,656,903	-	14,417,030	21,634,795	-	41,160,007
Debt service	-	23,270,859	-	-	-	-	-	-	-	23,270,859
Appropriated projects	-	-	-	308,685,033	6,351,087	391,591	59,796,686	-	3,125	375,227,532
Rate stabilization	64,285,677	-	-	-	-	-	-	-	-	64,285,677
Total Reserves	470,166,705	23,270,859	4,422,277	369,565,663	10,008,000	142,091,587	174,768,562	21,634,795	3,125	1,215,931,573
Total Liabilities and Reserves	\$ 484,326,121	\$ 23,270,859	\$ 4,422,277	\$ 375,654,800	\$ 10,222,590	\$ 176,701,587	\$ 301,463,839	\$ 151,174,795	\$ 746,291	\$ 1,527,985,159

See notes to financial statements.

PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES Year Ended December 31, 2014

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Third Additional Project Fund	Wastewater Treatment Trust Fund	Fifth Additional Project Fund	Doremus Site Remediation Escrow Fund	Total
Revenues										
User charges billed	\$ 128,407,242	-	-	-	-	-	-	\$ -	-	\$ 128,407,242
Sludge fees	22,125,156	-	-	-	-	-	-	-	-	22,125,156
Investment gain (loss), net	79,485	461	-	-	-	-	23	-	-	79,669
Miscellaneous	13,019,659	-	-	2,485,754	-	5,322	-	-	-	15,510,735
Federal/state grants and loans	-	-	-	297,985,422	-	-	15,881,556	-	-	313,866,978
Total	163,631,542	461	-	300,471,176	-	5,345	15,881,556	-	-	479,980,080
Expenditures										
Salaries	41,004,153	-	-	-	-	-	-	-	-	41,004,153
Payroll taxes	3,066,121	-	-	-	-	-	-	-	-	3,066,121
Employee benefits	13,424,739	-	-	-	-	-	-	-	-	13,424,739
Pension contribution, net	4,370,362	-	-	-	-	-	-	-	-	4,370,362
Supplies and postage	1,216,129	-	-	-	-	-	-	-	-	1,216,129
Replacement parts	5,013,064	-	-	-	-	-	-	-	-	5,013,064
Materials	4,978,725	-	-	2,984	-	-	-	-	-	4,981,709
Utilities	22,959,800	-	-	-	-	-	-	-	-	22,959,800
Rentals	217,065	-	-	-	-	-	-	-	-	217,065
Insurance	1,459,430	-	95,000	-	-	-	-	-	-	1,554,430
Equipment	3,078,243	-	-	-	-	-	-	-	-	3,078,243
Outside services	6,307,052	-	-	30,168,098	-	-	-	-	-	36,475,150
Professional fees	1,090,696	-	-	498,163	-	-	-	-	-	1,588,859
Permitting	889,223	-	-	-	-	-	-	-	-	889,223
Sludge disposal	4,800,564	-	-	-	-	-	-	-	-	4,800,564
Sundry	1,988,349	-	-	-	-	-	-	-	-	1,988,349
Advertising	34,105	-	-	-	-	-	-	-	-	34,105
Real estate taxes (in lieu)	919,642	-	-	-	-	-	-	-	-	919,642
Bad debt expense	289,236	-	-	-	-	-	-	-	-	289,236
Contingency	421,482	-	-	-	-	-	-	-	-	421,482
Subtotal	117,510,180	-	95,000	30,669,245	-	-	-	-	-	148,274,425
Bond debt service										
Principal	21,980,078	-	-	-	-	-	-	-	-	21,980,078
Interest	9,941,368	-	-	-	-	-	-	-	-	9,941,368
Total expenditures	149,431,626	-	95,000	30,669,245	-	-	-	-	-	180,195,871
Excess of revenues over (under) expenditures before interfund transfers	14,199,916	461	(95,000)	269,801,931	-	5,345	15,881,556	-	-	289,794,209
Interfund transfers	(22,400,000)	-	-	22,400,000	-	-	-	-	-	-
Excess of revenues over (under) expenditures	(8,200,084)	461	(95,000)	292,201,931	-	5,345	15,881,556	-	-	289,794,209
Reserves, beginning of year, unadjusted	67,765,509	23,270,398	4,517,277	72,546,121	10,008,000	142,086,242	158,887,006	21,634,795	3,125	500,718,473
Change in Accounting Principle	4,720,252	-	-	4,817,611	-	-	-	-	-	9,537,863
Reserves, beginning of year, adjusted	72,485,761	23,270,398	4,517,277	77,363,732	10,008,000	142,086,242	158,887,006	21,634,795	3,125	510,256,336
Reserves, end of year	64,285,677	23,270,859	4,422,277	369,585,663	10,008,000	142,091,587	174,768,562	21,634,795	3,125	810,050,545
Investment in inventory	8,905,416	-	-	-	-	-	-	-	-	8,905,416
Investment in fixed assets	396,975,612	-	-	-	-	-	-	-	-	396,975,612
Total reserves, inventory and fixed assets	\$ 470,166,705	-	-	-	-	-	-	-	-	\$ 1,215,931,573

See notes to financial statements.

PASSAIC VALLEY SEWERAGE COMMISSION

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 "Commission") was formed as an Agency of the State of New Jersey to reduce pollution of the Passaic River and its tributaries. The Commission is one of the oldest and largest, in terms of operational capability, regional sewerage commissions in the United States and is directed by a Board of Commissioners ("Commissioners") appointed by the Governor and confirmed by the State of New Jersey Senate.

In order to protect and preserve local streams and rivers from water pollution, the Commission operates one of the United States largest treatment plants for the wastewaters of northern New Jersey. With many expansions and upgrading to secondary treatment, the facility has been striving since the beginning of its operations in 1924 to improve local water quality in accordance with federal and state water quality legislation.

Reporting Entity

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

Fund Accounting

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

General Fund

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

Bond Reserve Fund

In addition to the annual debt service payments made by the General Fund, the Commission has further secured the payment of its serial and term bonds by covenanting and establishing a Bond Reserve Fund. The amount maintained in this fund is equal to the maximum annual interest and principal payments required in any future year through the year 2032, the maturity date of the Series F Bonds.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Insurance Trust Fund

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

Repair, Replacement and Improvement Fund

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

Capital Fund

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

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 Commission. 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 Commission'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 of property adjacent to a site acquired by the Commission.

Basis of Accounting

The accounting policies of the Commission conform to a modified cash basis, which constitute a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. These principles and practices are designed primarily for determining compliance with legal and budgetary restrictions as a means of reporting on the stewardship of public officials with respect to public funds.

Had the Commission's financial statements been prepared under generally accepted accounting principles ("GAAP"),

- federal and state grants would have been recognized when earned, not when awarded,
- fixed asset 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 and
- principal payments on debt would not be recorded as an expenditure.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Revenue Recognition

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

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

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

Use of Estimates

The financial statements are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than 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 reserves is charged with an allowance for estimated uncollectible amounts based on past experience and an analysis of accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible.

Inventory

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

Fixed Assets

The Commission records capital additions in the year of acquisition. The balance of fixed assets recorded in the general fund reflects the original construction costs of the system, no depreciation expense is recorded.

Compensated Absences

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

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

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 fund represents amounts set aside for possible damages resulting from liability claims.

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

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

As required by the Governmental Accounting Standards Board's ("GASB"), the Commission implemented accounting and financial reporting requirements for government employers with post employment benefit expenses and obligations other than pensions. Since the Commission's basis of accounting is similar in nature to a New Jersey Municipality or County, the Commission 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 H of these audited financial statements.

Subsequent Event

Management has evaluated events for potential recognition and disclosure that occurred after December 31, 2014 but before December 2, 2015, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

B. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents are substantially restricted under the terms of the Commission's bond resolutions for the payment of bond principal and interest expense and 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 and interest are unconditionally guaranteed by the United States of America.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission will not be able to recover the value of its deposits that are in the possession of an outside party. The deposits in the JP Morgan bank accounts were covered by the Federal Deposit Insurance Company (the "FDIC"), as well as a collateral pledge from JP Morgan, which was greater than the deposit balance at December 31, 2014. The Bank of New York money market funds are invested in the Goldman Sachs Financial Square Treasury Obligation Fund, which is comprised of Treasury Securities backed by the U.S. Government and a Federal Home Loan Bank Discount Note.

The amounts deposited in these accounts at December 31, 2014, are as follows:

	Book Balance	Bank Balance
JP Morgan Bank	\$ 88,682,206	\$ 88,750,195
Bank of New York	23,662,451	23,653,419
	<u>\$ 112,344,657</u>	<u>\$ 112,403,614</u>

C. FORWARD DELIVERY AGREEMENT

On September 11, 1996, the Commission entered into a Forward Delivery Agreement (the "Agreement") with First Union Bank, now Wells Fargo Bank (the "Bank") related to the Series D Bonds, subsequently 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"). The Commission was paid an upfront fee in exchange for interest earnings on the Fund until the year 2022. Under the terms of the Agreement the Commission 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, 2014, the fair value of the Commission's liability under the Agreement if terminated by the Commission was \$3,045,905.

D. AMOUNTS TO BE PROVIDED FOR LOAN AND BOND RETIREMENT

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

E. BONDS PAYABLE AND LOANS PAYABLE (LONG-TERM LIABILITIES)

Pursuant to an amendment to Title 58, Chapter 14 of the Revised Statutes of the State of New Jersey, the Commission was granted the authority to issue bonds. The Authority also has various loans through the New Jersey Environmental Infrastructure Trust financing program. Both the bonds and loans are issued to fund various capital improvements.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

E. BONDS PAYABLE AND LOANS PAYABLE (LONG-TERM LIABILITIES) (CONTINUED)

Year, Series/Title	Original Issue Amount	Interest Rate Range	Maturity Dates	Outstanding 12/31/13	Additions	Reductions	Outstanding 12/31/14	Due within One Year
Bonds								
1999, Series E	43,000,000	4.50%-5.75%	2017	\$ 5,480,000	\$ -	\$ 820,000	\$ 4,660,000	\$ 790,000
2003, Series F	205,205,000	2.50%-5.00%	2032	138,655,000	-	9,115,000	129,540,000	9,625,000
2010, Series G	29,950,000	5.62%-5.75%	2022	29,950,000	-	-	29,950,000	-
Total bonds payable				174,085,000	-	9,935,000	164,150,000	10,415,000
Loans								
1996 Trust and Fund Loan	31,880,000	5.00%-5.25%	2016	6,754,076	-	2,667,280	4,086,796	2,152,695
1998 Trust and Fund Loan	8,865,000	4.00%-4.50%	2018	1,640,000	-	347,766	1,292,234	315,000
1999 Trust and Fund Loan	128,925,000	4.75%-5.70%	2019	9,993,397	-	1,654,665	8,338,732	1,571,525
2006 Trust and Fund Loan	38,894,500	4.00%-5.00%	2026	27,853,997	-	2,869,289	24,984,708	2,193,220
2007 Trust and Fund Loan	24,926,867	3.40%-5.00%	2022	19,804,023	-	12,971,941	6,832,082	1,317,484
2010 Trust and Fund Loan	12,542,621	3.00%-5.00%	2029	11,309,549	-	631,531	10,678,018	636,534
2010 Trust and Fund Loan	31,981,707	3.00%-5.00%	2029	28,719,850	-	1,655,928	27,063,922	1,670,928
2010 Trust and Fund Loan	19,662,500	5.00%	2030	16,492,224	-	945,975	15,546,249	960,972
2014 Trust and Fund Loan	26,791,177	3.00%-5.00%	2032	-	26,791,175	1,025,443	25,765,732	1,310,478
Total loans payable				122,567,116	26,791,175	24,769,818	124,588,473	12,128,836
Total bonds and loans payable				\$ 296,652,116	\$ 26,791,175	\$ 34,704,818	\$ 288,738,473	\$ 22,543,836

Summary of Future Maturities

Future maturities of bonds and loans payable are as follows:

	Principal	Interest	Total
2015	\$ 22,543,836	\$ 9,366,137	\$ 31,909,973
2016	22,988,063	8,625,188	31,613,251
2017	24,098,898	7,886,486	31,985,384
2018	24,944,362	7,008,207	31,952,569
2019	25,047,667	6,084,113	31,131,780
2020-2024	92,572,009	16,282,565	108,854,574
2025-2029	54,540,076	5,890,560	60,430,636
2030-2032	22,003,562	992,038	22,995,600
	<u>\$ 288,738,473</u>	<u>\$ 62,135,294</u>	<u>\$ 350,873,767</u>

F. SELF-INSURANCE

The Commission has established a reserve for self-insurance for general liability coverage to pay for claims up to their retention amount of \$500,000. At December 31, 2014, the reserve balance was \$4,422,277. There was \$95,000 in claims charged to the reserve for self-insurance for the year ended December 31, 2014.

G. PENSION PLAN DESCRIPTION

The Commission 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 and is also available on the State of New Jersey website.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN DESCRIPTION (CONTINUED)

Plan members are currently required to contribute 6.92% of their annual covered salaries, and the Commission is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Commission are established and may be amended by the PERS board of trustees. The Commission's contributions to PERS for the years ended December 31, 2014, 2013 and 2012, were \$4,326,850, \$4,477,064 and \$5,487,242, respectively, equal to the required contributions for the year.

H. OTHER POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Commission participates in a cost sharing multiple-employer defined post-retirement benefit plan (the "Plan"), which is administered by the State of New Jersey. The Plan provides continued health care benefits to employees retiring after twenty-five years of service. Benefits, contributions, funding and the manner of administration are determined by the State of New Jersey Legislature. The Division of Pensions and Benefits charges the Commission for its contributions. The total number of retired participants eligible for benefits was 218, 210 and 199 at December 31, 2014, 2013 and 2012, respectively.

The Commission's contribution to the Plan for the years ended December 31, 2014, 2013 and 2012 was \$3,513,470, \$3,446,078 and \$2,950,332, respectively.

Please refer to the State website, www.state.nj.us for more information regarding the Plan. The Plan's financial report may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

I. CONCENTRATION OF RISK AND UNCERTAINTIES

For the year ended December 31, 2014, the Commission received approximately 55% of its total user charges from three customers, City of Newark 31%, Jersey City 16% and City of Paterson 8%.

J. UTILITY PURCHASE COMMITMENT

The Commission has entered into two futures contracts for electricity and natural gas in order to hedge energy costs. The contracts are for a term of thirty-six months, beginning January 2015 and will expire January 2018.

K. COLLECTIVE BARGAINING AGREEMENTS

The Commission is a party in collective bargaining agreements ("agreement") covering various employees at the Commission. The agreement between the Commission and Local 1158 - I.B.E.W. is for the period from January 1, 2010 through December 31, 2013. A new agreement is currently being negotiated. The agreement between the Commission and the PVSC Supervisor Group is for the period January 1, 2011 through December 31, 2015.

The Commission is also in the process of negotiating agreements with two (2) 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 and the PVSC White Collar Group. Each of these groups is bargaining for the period beginning January 1, 2011 through December 31, 2015. These agreements are still under negotiations.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

L. LITIGATION

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

M. FEMA FUNDING

The Commission is involved in discussions with insurance companies and FEMA to determine eligible recovery costs for substantial damage incurred by the Commission during the Superstorm Sandy event in October of 2012. During 2014 the Commission received \$32,744,907 in reimbursements from the State of New Jersey for recovery costs under FEMA. All costs not covered by insurance or FEMA will be self-funded.

N. CHANGE IN ACCOUNTING PRINCIPLE

As of January 1, 2014, the Commission implemented an accrual based accounting system for expenditure recognition. Previously, expenditures and related liabilities were recognized upon the issuance of a purchase order. Under an accrual based accounting system, expenditures and the related liabilities are recognized when the goods are received or the services are rendered. Due to this change, amounts that were previously recognized as expenditures and liabilities in the financial statements for the year ended December 31, 2013, were reclassified as of January 1, 2014, to reduce liabilities and increase reserves as follows: General Fund - \$4,720,252; Reserve for Repair and Improvement Fund - \$4,817,611. This resulted in an increase in reserves at January 1, 2014 of \$9,537,863.

SUPPLEMENTARY INFORMATION

PASSAIC VALLEY SEWERAGE COMMISSION

COMMENTS

The Passaic Valley Sewerage Commission (the "Commission") is a body politic and corporation 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, 2014:

Kenneth J. Lucianin	Commissioner
Thomas Tucci, Jr.	Commissioner
Michael DeFrancisci	Executive Director
Gregory A. Tramontozzi	General Counsel/Acting Clerk

Since August 1924, the Commission 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 Commission 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 Commission 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 Commission 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 Commission 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 Commission carries insurance for possible loss or damage that, in its opinion, is sufficient. The Commission retains the risk of losses up to \$100,000 for employment related matters and \$500,000 for all other matters in order to reduce premium expenses. A reserve for self-insurance was established for this purpose.

Advertisement of Bids

The Commission'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, 2014

	Administration	Plant and Line Engineering	Plant Maintenance	Pollution and Treatment Control	Plant Operations	Total
Salaries	\$ 8,056,231	\$ 1,707,019	\$ 11,775,936	\$ 4,350,151	\$ 15,114,816	\$ 41,004,153
Payroll taxes	605,078	118,648	884,614	323,978	1,133,803	3,066,121
Employee benefits	6,103,808	161,707	2,614,439	936,425	3,608,360	13,424,739
Pension contribution	4,370,362	-	-	-	-	4,370,362
Supplies and postage	365,330	16,594	245,068	225,963	365,174	1,218,129
Replacement parts	457,746	66	194,446	21,537	4,339,269	5,013,064
Materials	191,760	8,792	81,560	189,720	4,506,893	4,978,725
Utilities	335,910	5,062	225,486	129,676	22,263,666	22,959,800
Rentals	69,439	11,147	5,098	9,943	121,438	217,065
Insurance	1,459,430	-	-	-	-	1,459,430
Equipment	684,407	32,725	259,641	65,588	2,035,882	3,078,243
Outside services	2,160,305	-	725,253	161,415	3,260,079	6,307,052
Professional fees	1,090,696	-	-	-	-	1,090,696
Permitting	-	-	-	1,002	888,221	889,223
Sludge disposal	-	-	-	-	4,800,564	4,800,564
Sundry	1,760,743	10,164	15,731	19,905	181,806	1,988,349
Advertising	24,093	-	-	10,012	-	34,105
Real estate taxes (in lieu)	919,642	-	-	-	-	919,642
Bad debt expense	269,236	-	-	-	-	269,236
Contingency	421,482	-	-	-	-	421,482
Subtotals	29,345,698	2,071,924	17,027,272	6,445,315	62,619,971	117,510,180
Bond principal	21,980,078	-	-	-	-	21,980,078
Bond interest	9,941,368	-	-	-	-	9,941,368
Totals	\$ 61,267,144	\$ 2,071,924	\$ 17,027,272	\$ 6,445,315	\$ 62,619,971	\$ 149,431,626

PASSAIC VALLEY SEWERAGE COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

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				<u>1,568,482</u>	<u>-</u>	<u>-</u>
Pass-through programs from New Jersey Department of Environmental Protection/ Division of Water Quality:						
2006 Wastewater Fund Loan	66.458	S340-689-01/03/10	11/09/2006-08/01/2026	25,538,007	4,586,482	6,005,040
2007 Wastewater Fund Loan	66.458	S340-689-11/14	11/08/2007-08/01/2027	18,141,867	-	8,763,331
2010A Wastewater Fund Loan	66.458	S340-689-15B	3/10/2010-8/1/2029	23,776,707	1,889,434	20,596,708
2010A Wastewater Fund Loan ARRA	66.458	S340-689-15A	3/10/2010-8/1/2029	13,037,621	714,712	6,577,254
2010B Wastewater Fund Loan	66.458	S340-689-18	12/2/2010 - 8/31/2030	11,798,194	2,244,217	5,603,905
2014A Wastewater Fund Loan	66.458	S340-689-3-1/10-1/20	5/1/2014-12/1/2032	7,282,943	573,484	573,484
2014A Wastewater Fund Loan	66.458	S340-689-21	5/1/2014-12/1/2032	882,000	882,000	882,000
Subtotal New Jersey Department of Environmental Protection/ Division of Water Quality:				<u>100,457,339</u>	<u>10,890,329</u>	<u>49,001,722</u>
Total U.S. Environmental Protection Agency Programs				<u>102,025,821</u>	<u>10,890,329</u>	<u>49,001,722</u>
U.S. Department of Transportation Programs:						
Pass-through programs from New Jersey Department of Environmental Protection/ Green Acres Program:						
Recreation Trails Grant 2007	20.219		N/A	10,261	-	10,201
Recreation Trails Grant 2009	20.219		N/A	12,000	-	-
Recreation Trails Grant 2011	20.219		N/A	24,700	-	-
Subtotal New Jersey Department of Environmental Protection/ Green Acres Program:				<u>46,961</u>	<u>-</u>	<u>10,201</u>
Pass-through programs from New Jersey Department of Transportation:						
Local Aid Program	20.205	2009-DT-BLA-224	7/17/2009-7/17/2011	719,921	-	621,921
Local Aid Program	20.205	2009-DT-BLA-224	11/5/2009-11/5/2011	359,960	-	359,960
Subtotal New Jersey Department of Transportation:				<u>1,079,881</u>	<u>-</u>	<u>981,881</u>
Total U.S. Department of Transportation Programs				<u>1,126,842</u>	<u>-</u>	<u>992,082</u>
U.S. Department of Homeland Security						
Pass-through programs from New Jersey Department of Law and Public Safety						
FEMA Disaster- Public Assistance	97.088		Project length	51,709,088	21,854,629	73,563,717
Urban Area Security Initiative Grant (UASI)	97.067	2011-SS-00120-S01	N/A	382,687	241,097	382,687
Buffer Zone Protection Program	97.078	2008-BZ-T8-0009	9/3/2008-2/29/2012	150,612	-	148,860
Subtotal New Jersey Department of Law and Public Safety				<u>52,242,387</u>	<u>22,095,726</u>	<u>74,095,264</u>
Total Federal Assistance				<u>\$ 155,395,050</u>	<u>\$ 32,986,055</u>	<u>\$ 124,089,068</u>

See note to the Schedules of Expenditures of Federal Awards and State Financial Assistance.

PASSAIC VALLEY SEWERAGE COMMISSION

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED DECEMBER 31, 2014

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:					
2006 Wastewater Trust Loan	S340-689-01/03/10	11/9/2006-8/1/2026	\$ 8,512,668	\$ 1,528,827	\$ 3,234,601
2007 Wastewater Trust Loan	S340-689-11/14	11/8/2007-8/1/2027	6,047,289	-	2,921,111
2010A Wastewater Trust Loan	S340-689-15B	3/10/2010-8/1/2029	8,205,000	629,242	6,864,998
2010A Wastewater Trust Loan-NJEIT Match	S340-689-15A	3/10/2010-8/1/2029	4,505,000	514,365	3,416,088
2010B Wastewater Trust Loan	S340-689-18	12/2/2010-8/1/2030	7,266,064	1,160,782	2,410,838
2014A Wastewater Fund Loan	S340-689-3-1/10-1/20	5/1/2014-12/1/2032	2,427,647	191,161	191,161
2014A Wastewater Fund Loan	S340-689-21	5/1/2014-12/1/2032	294,000	294,000	294,000
Combined Sewer Overflow Project	CSO-98-041A	10/26/1998 - until complete	2,432,910	-	1,703,365
Combined Sewer Overflow Project	CSO-98-041G	4/1/2005 - until complete	942,796	-	929,942
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
New Jersey Department of Environmental Protection	RP09-036	4/2/2009-1/1/2017	260,000	5,182	53,113
Total State Assistance			\$ 47,047,115	\$ 4,323,559	\$ 26,165,360

PASSAIC VALLEY SEWERAGE COMMISSION

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

Year Ended December 31, 2014

Note 1. Basis of Presentation

- The accompanying schedules of expenditures of federal awards and state financial assistance includes the federal and state grant activity of Passaic Valley Sewerage Commission and is presented on a reimbursement basis 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 State of 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.
- FEMA expenditures incurred during 2013 but not approved by FEMA until 2014 were \$822,352 and are included as current year's expenditures on the schedule of expenditures of federal awards for 2014, as required by the programs compliance requirements.

PASSAIC VALLEY SEWERAGE COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

Schedule I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal and State Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: *Unmodified*

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

Identification of major programs:

<u>Federal CFDA Number</u>	<u>Name of Federal Program or Loan</u>
66.458	Wastewater Fund Loans 2006, 2010A ARRA, 2010A, 2010B, 2014A
97.088	FEMA Disaster Public Assistance.

<u>State Grant/Loan Number</u>	<u>Name of State Program or Loan</u>
S340-689-01/03/10, S340-689-15B/15A/18, S340-689-3-1/10-1/20, S340-689-21	New Jersey Environmental Infrastructure Financing Program Wastewater Trust Loans 2006, 2010A NJEIT Match, 2010A, 2010B, 2014A

Federal Awards

Dollar threshold used to distinguish between type A and type B programs: \$ 989,582
Auditee qualified as low-risk auditee? yes no

State Awards

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000
Auditee qualified as low-risk auditee? yes no

Schedule II - Financial Statement Findings – None

Schedule III – Findings and Questioned Costs for Federal Awards and State Financial Assistance - None

PASSAIC VALLEY SEWERAGE COMMISSION

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – FEDERAL AWARDS

Year Ended December 31, 2014

Finding No. 2013-001

Audit Finding

The Commission did not file the Data Collection Form by the required due date.

Corrective Action Taken

The Commission implemented a new software system and the finding has been resolved.

**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 Commissioners of
Passaic Valley Sewerage Commission

We have audited, in accordance with the 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, the financial statements of Passaic Valley Sewerage Commission (the "Commission"), as of and for the year ended December 31, 2014, and the related notes to financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 2, 2015, in which we expressed an adverse opinion on the conformity of the financial statements with accounting principles generally accepted in the United States of America due to differences between those principles and accounting practices of the Commission.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

- AN INDEPENDENTLY OWNED MEMBER,
MCGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- REGISTERED WITH THE PCAOB

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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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*.

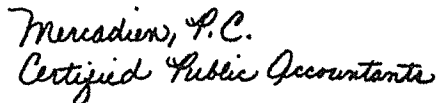
Purpose of this Report

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



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

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



December 2, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB CIRCULAR A-133 AND NEW JERSEY CIRCULAR LETTER 04-04-OMB

To the Commissioners of
Passaic Valley Sewerage Commission

Report on Compliance for Each Major Federal and State Program

We have audited Passaic Valley Sewerage Commission's (the "Commission") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and State of New Jersey Circular Letter 04-04-OMB, as applicable, that could have a direct and material effect on each of the Commission's major federal and state programs for the year ended December 31, 2014. The Commission's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and State of New Jersey Circular Letter 04-04-OMB. Those standards, OMB Circular A-133, and 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 each major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on each Major Federal and State Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal and state programs for the year ended December 31, 2014.

- AN INDEPENDENTLY OWNED MEMBER,
MCGLADREY ALLIANCE
- AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- REGISTERED WITH THE PCAOB

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB CIRCULAR A-133 AND NEW JERSEY CIRCULAR LETTER 04-04-OMB (CONTINUED)

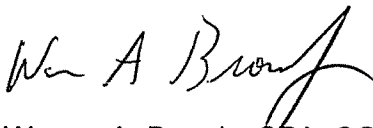
Report on Internal Control Over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and State of New Jersey Circular Letter 04-04-OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal 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 will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness. However, a material weakness may exist that has not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and State of New Jersey Circular Letter 04-04-OMB. Accordingly, this report is not suitable for any other purpose.



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

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

*Mercadien, P.C.
Certified Public Accountants*
December 2, 2015