PASSAIC VALLEY SEWERAGE COMMISSION

FINANCIAL STATEMENTS

December 31, 2015

PASSAIC VALLEY SEWERAGE COMMISSION

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MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Commissioners of
Passaic Valley Sewerage Commission

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Passaic Valley Sewerage Commission (the "Commission"), as of and for the year ended December 31, 2015, 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 the modified cash basis of accounting described in Note A, this includes determining that the modified cash basis of accounting is an acceptable basis for presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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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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 modified cash 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, 2015, or the results of its operations for the year then ended.

Opinion on Modified Cash Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2015, and the changes in financial position for the year then ended in accordance with the modified cash basis of accounting.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The schedule of general fund expenditures by department is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of general fund expenditures by department is the responsibility of management and was 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 audits 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, the schedule of general fund expenditures by department is fairly stated, in all material respects, in relation to the basic financial statements as a whole, on the basis of accounting as described in Note A.

The comments page 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.

Wm A Broudy

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Registered Municipal Accountant License No. 554

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Mercadien, P.C.
Certified Public Accountants

September 15, 2016

PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF ASSETS, LIABILITIES AND RESERVES
December 31, 2015

Assets	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	$ 93,977,997	$ 23,271,279	$ 4,022,277	$ 213,557	$ 4,755,900	$ 391,617	$ -	$ -	$ 665,812	$ 127,298,439
Receivables										
Interfund receivables	1,157,789	-	-	7,317,460	-	-	1,690,669	-	-	10,165,918
Accounts receivable, net of allowance $458,538	4,449,753	-	-	-	-	-	-	-	-	4,449,753
Federal/state grants and loans	-	-	-	378,366,115	-	-	53,461,509	-	-	431,827,624
Inventory	8,649,709	-	-	-	-	-	-	-	-	8,649,709
Property, plant and equipment										
Construction and acquisition cost	-	-	-	60,880,630	-	-	-	-	-	60,880,630
Buildings	252,159,560	-	-	-	-	-	-	-	-	252,159,560
Machinery and equipment	97,786,994	-	-	-	-	-	-	-	-	97,786,994
Improvements other than building	47,029,058	-	-	-	3,656,903	141,699,996	114,971,875	-	-	307,357,832
Projects authorized and in process	-	-	-	-	1,959,337	-	13,315,449	21,634,795	-	36,909,581
Other assets										
Amounts to be provided for bond and loan retirement	-	-	-	-	-	33,820,000	111,809,637	119,915,000	-	265,544,637
Total Assets	$ 505,210,860	$ 23,271,279	$ 4,022,277	$ 446,777,762	$ 10,372,140	$ 175,911,613	$ 295,249,139	$ 141,549,795	$ 665,812	$ 1,603,030,677
Liabilities										
Loans payable-current	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,053,063	$ -	$ -	$ 12,053,063
Bonds payable-current	-	-	-	-	-	775,000	-	10,160,000	-	10,935,000
Accounts payable	6,486,510	-	-	2,440	-	-	-	-	-	6,488,950
Accrued expenses	11,084,886	-	-	2,475,196	357,851	-	1,353,480	-	-	15,271,413
Payroll deductions	751,200	-	-	-	-	-	-	-	-	751,200
Escrow deposits	334,191	-	-	-	-	-	-	-	663,687	997,878
Interfund payable	-	-	-	2,842,169	6,289	-	7,317,460	-	-	10,165,918
Total Current Liabilities	18,656,787	-	-	5,319,805	364,140	775,000	20,724,003	10,160,000	663,687	56,663,422
Loans payable-noncurrent	-	-	-	-	-	-	99,756,574	-	-	99,756,574
Bonds payable-noncurrent	-	-	-	-	-	33,045,000	-	109,755,000	-	142,800,000
Total noncurrent liabilities	-	-	-	-	-	33,045,000	99,756,574	109,755,000	-	242,556,574
Total Liabilities	18,656,787	-	-	5,319,805	364,140	33,820,000	120,480,577	119,915,000	663,687	299,219,996
Reserves										
Insurance trust	-	-	4,022,277	-	-	-	-	-	-	4,022,277
Investment in inventory	8,649,709	-	-	-	-	-	-	-	-	8,649,709
Investment in fixed assets	396,975,612	-	-	-	-	-	-	-	-	396,975,612
Construction and acquisition	-	-	-	60,880,630	3,656,903	141,699,996	114,971,875	21,634,795	-	342,844,199
Projects authorized	-	-	-	-	1,959,337	-	13,315,449	-	-	15,274,786
Debt service	-	23,271,279	-	-	-	-	-	-	-	23,271,279
Appropriated projects	-	-	-	380,577,327	4,391,760	391,617	46,481,238	-	2,125	431,844,067
Rate stabilization	80,928,752	-	-	-	-	-	-	-	-	80,928,752
Total Reserves	486,554,073	23,271,279	4,022,277	441,457,957	10,008,000	142,091,613	174,768,562	21,634,795	2,125	1,303,810,681
Total Liabilities and Reserves	$ 505,210,860	$ 23,271,279	$ 4,022,277	$ 446,777,762	$ 10,372,140	$ 175,911,613	$ 295,249,139	$ 141,549,795	$ 665,812	$ 1,603,030,677

See notes to financial statements.

PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES
Year Ended December 31, 2015

	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	$ 126,688,997	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 126,688,997
Sludge fees	27,328,563	-	-	-	-	-	-	-	-	27,328,563
Investment gain (loss), net	64,863	420	-	-	-	26	-	-	-	65,309
Miscellaneous	14,521,842	-	-	178,799	-	-	-	-	-	14,700,641
Federal/state grants and loans	-	-	-	96,123,912	-	-	-	-	-	96,123,912
Total	168,604,265	420	-	96,302,711	-	26	-	-	-	264,907,422
Expenditures										
Salaries	45,345,721	-	-	-	-	-	-	-	-	45,345,721
Payroll taxes	3,514,833	-	-	-	-	-	-	-	-	3,514,833
Employee benefits	13,902,443	-	-	-	-	-	-	-	-	13,902,443
Pension contribution	4,638,298	-	-	-	-	-	-	-	-	4,638,298
Supplies and postage	1,350,912	-	-	-	-	-	-	-	-	1,350,912
Replacement parts	5,791,999	-	-	-	-	-	-	-	-	5,791,999
Materials	4,640,624	-	-	-	-	-	-	-	-	4,640,624
Utilities	20,073,587	-	-	-	-	-	-	-	-	20,073,587
Rentals	202,512	-	-	-	-	-	-	-	-	202,512
Insurance	1,254,800	-	400,000	-	-	-	-	-	-	1,654,800
Equipment	3,884,629	-	-	-	-	-	-	-	-	3,884,629
Outside services	6,527,985	-	-	22,254,527	-	-	-	-	-	28,782,512
Professional fees	595,090	-	-	2,147,864	-	-	-	-	-	2,742,954
Permitting	839,056	-	-	8,026	-	-	-	-	1,000	848,082
Sludge disposal	5,167,759	-	-	-	-	-	-	-	-	5,167,759
Sundry	819,648	-	-	-	-	-	-	-	-	819,648
Advertising	44,426	-	-	-	-	-	-	-	-	44,426
Real estate taxes (in lieu)	1,009,391	-	-	-	-	-	-	-	-	1,009,391
Bad debt expense	9,592	-	-	-	-	-	-	-	-	9,592
Contingency	521,845	-	-	-	-	-	-	-	-	521,845
Subtotal	120,135,150	-	400,000	24,410,417	-	-	-	-	1,000	144,946,567
Bond debt service										
Principal	22,543,836	-	-	-	-	-	-	-	-	22,543,836
Interest	9,282,204	-	-	-	-	-	-	-	-	9,282,204
Total expenditures	151,961,190	-	400,000	24,410,417	-	-	-	-	1,000	176,772,607
Excess of revenues over (under) expenditures	16,643,075	420	(400,000)	71,892,294	-	26	-	-	(1,000)	88,134,815
Reserves, beginning of year	64,285,677	23,270,859	4,422,277	369,565,663	10,008,000	142,091,587	174,768,562	21,634,795	3,125	810,050,545
Reserves, end of year	80,928,752	$ 23,271,279	$ 4,022,277	$ 441,457,957	$ 10,008,000	$ 142,091,613	$ 174,768,562	$ 21,634,795	$ 2,125	898,185,360
Investment in inventory	8,649,709									8,649,709
Investment in fixed assets	396,975,612									396,975,612
Total reserves, inventory and fixed assets	$ 486,554,073									$ 1,303,810,681

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 "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.

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 grant revenues would have been recognized when expended,
- fixed asset expenditures made during the current year would be capitalized and depreciation expense recorded,
- pension plan benefit expense and resultant net pension liability would be recognized on the accrual basis,
- principal payments on debt would not be recorded as an expenditure and
- the recording of certain reserves and related assets would not be necessary.

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

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

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

Use of Estimates

The financial statements are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than 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 reserves are charged to 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.

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.

Subsequent Event

On July 13, 2016 the Commission conducted a competitive sale of bonds and awarded Sewer System Bonds, Series H in the principal amount of $74,795,000, issued to refund all or a portion of the Commission’s Sewer System Bonds Series E and Series F and awarded Sewer System Bonds, Series I in the principal amount of $30,540,000, issued to finance the new capital improvements of the Commission. The aggregate principal amount of bonds to be issued is $105,335,000. The Series H bonds will mature in installments in the years 2016-2025 and the Series I bonds will mature in installments in the years 2017-2036. The closing date was on July 27, 2016.

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.

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, 2015. 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.

B. CASH AND CASH EQUIVALENTS (CONTINUED)

The amounts deposited in these accounts at December 31, 2015, are as follows:

	Book Balance	Bank Balance
JP Morgan Bank	$ 23,662,896	$ 23,662,915
Bank of New York	103,635,543	104,362,570
	$ 127,298,439	$ 128,025,485

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 F 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 Bank's interest in the Agreement at the fair value at the date of termination. As of December 31, 2015, the termination value of the Agreement was $2,637,256.

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

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.

Year, Series/Title	Original Issue Amount	Interest Rate Range	Maturity Dates	Outstanding 12/31/14	Additions	Reductions	Outstanding 12/31/15	Due within One Year
Bonds								
1999, Series E	$ 43,000,000	4.50%-5.75%	2017	$ 4,660,000	$ -	$ 790,000	$ 3,870,000	$ 775,000
2003, Series F	205,205,000	2.50%-5.00%	2032	129,540,000	-	9,625,000	119,915,000	10,160,000
2010, Series G	29,950,000	5.62%-5.75%	2022	29,950,000	-	-	29,950,000	-
Total bonds payable				164,150,000	-	10,415,000	153,735,000	10,935,000
Loans								
1996 Trust and Fund Loan	31,880,000	5.00%-5.25%	2016	4,086,796	-	2,152,695	1,934,101	1,934,101
1998 Trust and Fund Loan	8,865,000	4.00%-4.50%	2018	1,292,234	-	315,000	977,234	330,000
1999 Trust and Fund Loan	128,925,000	4.75%-5.70%	2019	8,338,732	-	1,571,525	6,767,207	1,617,506
2006 Trust and Fund Loan	38,894,500	4.00%-5.00%	2026	24,984,708	-	2,193,220	22,791,488	2,210,963
2007 Trust and Fund Loan	24,926,867	3.40%-5.00%	2022	6,832,082	-	1,317,484	5,514,598	1,331,580
2010 ARRA Trust and Fund Loan	12,542,621	3.00%-5.00%	2029	10,678,018	-	636,534	10,041,484	646,534
2010 A Trust and Fund Loan	31,981,707	3.00%-5.00%	2029	27,063,922	-	1,670,928	25,392,994	1,690,928
2010 B Trust and Fund Loan	19,662,500	5.00%	2030	15,546,249	-	1,610,972	13,935,277	975,972
2014 Trust and Fund Loan	26,791,177	3.00%-5.00%	2032	25,765,732	-	1,310,478	24,455,254	1,315,479
Total loans payable				124,588,473	-	12,778,836	111,809,637	12,053,063
Total bonds and loans payable				$ 288,738,473	$ -	$ 23,193,836	$ 265,544,637	$22,988,063

E. BONDS PAYABLE AND LOANS PAYABLE (CONTINUED)

Summary of Future Maturities

Future maturities of bonds and loans payable are as follows:

	Principal	Interest	Total
2016	$ 22,988,063	$ 8,745,145	$ 31,733,208
2017	24,098,899	8,006,442	32,105,341
2018	24,944,363	7,058,717	32,003,080
2019	25,047,666	6,134,623	31,182,289
2020	25,905,970	5,165,754	31,071,724
2021-2025	79,991,290	13,187,932	93,179,222
2026-2030	48,160,302	4,837,320	52,997,622
2031-2032	14,408,084	542,900	14,950,984
	$ 265,544,637	$ 53,678,833	$ 319,223,470

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, 2015, the reserve balance was $4,022,277. There was $400,000 in claims charged to the reserve for self-insurance for the year ended December 31, 2015.

G. PENSION PLAN

Description and Benefits

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.

Funding Policy

Plan members are currently required to contribute 7.06% 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 actuarially determined contributions to PERS for the years ended December 31, 2015, 2014 and 2013, were $4,636,047, $4,326,850 and $4,477,064, respectively, equal to the required contributions for the year.

G. PENSION PLAN (CONTINUED)

Commission Contributions

	2015
Contractually required contribution	$ 4,631,152
Contribution in relation to the contractually required contribution	4,631,152
	$ -
Commission covered payroll	$ 43,074,009
Contributions as a % of covered payroll	11%

Pension Liabilities and Expense

At December 31, 2015, the Commission had a liability of $119,965,884, for its proportionate share of the net pension liability in PERS. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. This liability is not required to be recorded based on the Commission's basis of accounting. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of the plan, actuarial determined. At December 31, 2015, the Commission's proportion was .05344168936%.

Proportionate Share of Net Pension Liability

	2015
Proportionate of net pension liability	0.05344168936%
Proportionate share of net pension liability	$ 119,965,884
Covered-employee payroll	$ 43,074,009
Proportionate share of net pension liability as a percentage of payroll	279%
Plan fiduciary net position as a percentage of the total pension liability	47.93%

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.04%
Salary Increases: 2012-2021	2.15 - 4.40%
Salary Increases: Thereafter	3.15 - 5.40%
Investment rate of return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables, with adjustments for mortality improvements from the base year 2012 based on Projection Scale AA.

G. PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

In accordance with State statute, the long term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return of each major asset class included in PERS's target asset allocation as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad U.S. Equities	27.25%	8.52%
Developed Foreign Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt Ex US	3.50%	-0.40%
REIT	4.25%	5.12%

Discount Rate

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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 221, 218 and 210 at December 31, 2015, 2014 and 2013, respectively.

The Commission's contribution to the Plan for the years ended December 31, 2015, 2014 and 2013 was $3,637,107, $3,513,470 and $3,446,078, 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, 2015, the Commission received approximately 44% of its total user charges from two customers, City of Newark 28% and City of Jersey City 16%.

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, a new agreement is being negotiated.

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.

A liability of $3,580,370 as of December 31, 2015, was recorded for retrospective salary payments earned as accrued expenses in the statement of assets, liabilities and reserves.

L. LITIGATION

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

M. FEMA FUNDING

The Commission is involved in discussions with FEMA to determine eligible recovery costs for substantial damage incurred by the Commission during the Superstorm Sandy event in October of 2012. During 2015, the Commission received $23,285,784 in reimbursements from the State of New Jersey for recovery costs under FEMA, which were included in federal/state grants and loans receivable in the repair, replacement and improvement fund. All costs not covered by insurance or FEMA will be self-funded.

SUPPLEMENTARY INFORMATION

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, 2015:

Thomas Tucci, Jr.	Chairman
Kenneth J. Lucianin	Vice Chairman
Mildred C. Crump	Secretary
Elizabeth Calabrese	Commissioner
David S. Catuogno	Commissioner
Scott M. Heck	Commissioner
Luis A. Quintana	Commissioner
Gregory A. Tramontozzi	Executive Director/General Counsel
Joseph F. Kelly	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, 2015

	Administration	Plant and Line Engineering	Plant Maintenance	Pollution and Treatment Control	Plant Operations	Total
Salaries	$ 8,878,487	$ 1,856,976	$ 13,650,544	$ 4,607,446	$ 16,352,268	$ 45,345,721
Payroll taxes	769,695	137,820	1,046,734	342,387	1,218,197	3,514,833
Employee benefits	6,332,814	180,854	2,660,817	986,875	3,741,083	13,902,443
Pension contribution	4,638,298	-	-	-	-	4,638,298
Supplies and postage	432,936	20,539	273,740	198,080	425,617	1,350,912
Replacement parts	475,830	294	305,287	85,107	4,925,481	5,791,999
Materials	133,966	5,184	68,917	173,930	4,258,627	4,640,624
Utilities	329,930	5,547	272,394	104,889	19,360,827	20,073,587
Rentals	56,607	12,747	3,119	8,452	121,587	202,512
Insurance	1,254,800	-	-	-	-	1,254,800
Equipment	1,072,531	72,341	292,045	69,719	2,377,993	3,884,629
Outside services	2,297,993	1,233	589,703	184,257	3,454,799	6,527,985
Professional fees	595,090	-	-	-	-	595,090
Permitting	-	-	-	-	839,056	839,056
Sludge disposal	-	-	-	-	5,167,759	5,167,759
Sundry	510,789	44,158	10,871	72,507	181,323	819,648
Advertising	24,009	-	-	20,417	-	44,426
Real estate taxes (in lieu)	1,009,391	-	-	-	-	1,009,391
Bad debt expense	9,592	-	-	-	-	9,592
Contingency	521,845	-	-	-	-	521,845
Subtotals	29,344,603	2,337,693	19,174,171	6,854,066	62,424,617	120,135,150
Bond principal	22,543,836	-	-	-	-	22,543,836
Bond interest	9,282,204	-	-	-	-	9,282,204
Totals	$ 61,170,643	$ 2,337,693	$ 19,174,171	$ 6,854,066	$ 62,424,617	$ 151,961,190