

PASSAIC VALLEY SEWERAGE COMMISSION

FINANCIAL STATEMENTS

December 31, 2025

PASSAIC VALLEY SEWERAGE COMMISSION

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Commissioners of
Passaic Valley Sewerage Commission

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements – modified cash basis of the various funds of the Passaic Valley Sewerage Commission (the “Commission”), as of and for the year ended December 31, 2025, and the related notes to financial statements, which collectively comprise the Commission’s basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of each fund of the Commission as of December 31, 2025, and the respective modified cash basis changes in financial position for the year then ended, in accordance with the financial reporting provisions of the modified cash basis of accounting as described in Note A to the financial statements.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (“GAAS”). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter – Other Post-Employment Benefits Other Than Pensions (“OPEB”)

We draw attention to Note H of the financial statements, which describes the OPEB plan the Commission participates in. The Commission participates in the cost sharing multiple-employer defined benefit post-retirement plan, administered by the State of New Jersey. The GASB Statement No. 74 and 75 reports of the state OPEB plan for the plan year ended June 30, 2025 and Commission year ended December 31, 2025, were not completed timely and were not made available to the Commission, resulting in inadequate financial statement disclosure. This does not have any financial impact on the Commission’s reserve balances. Our opinions are not modified with respect to this matter. See Note H to the financial statements for the most recent OPEB plan information available.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note A, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Warren A. Broudy, CPA, RMA
Registered Municipal Accountant License No. 554

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 17, 2026

FINANCIAL STATEMENTS

PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF ASSETS, LIABILITIES AND RESERVES

December 31, 2025

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Bond Financed Projects Fund	Wastewater Treatment Trust Fund	Doremus Site Remediation Escrow Fund	Total
Assets									
Cash and cash equivalents	\$ 159,146,010	\$ 17,320,544	\$ 5,595,417	\$ 5,742,881	\$ 10,969,487	\$ 37,865,662	\$ -	\$ 81,797	\$ 236,721,798
Investments	21,387,269	-	-	-	-	-	-	-	21,387,269
Receivables									
Interfund receivables	268,732	-	334,807	36,304,101	19,828,751	141,553	-	-	56,877,944
Accounts receivable, net of allowance \$971,972	8,410,472	-	-	-	-	-	-	-	8,410,472
Federal/state grants and loans	-	-	-	49,004,571	-	-	315,849,370	-	364,853,941
Prepaid expenditures	350,409	-	351,417	-	-	-	-	-	701,826
Inventory	12,380,319	-	-	-	-	-	-	-	12,380,319
Property, plant and equipment									
Construction and acquisition cost	-	-	-	568,816,308	-	-	-	-	568,816,308
Buildings	252,159,560	-	-	-	-	-	-	-	252,159,560
Machinery and equipment	97,786,994	-	-	-	-	-	-	-	97,786,994
Improvements other than building	47,029,058	-	-	-	30,656,162	228,519,689	433,479,886	-	739,684,796
Projects authorized and in process	-	-	-	48,349,807	1,061,560	67,157,878	103,308,889	-	219,878,134
Other assets									
Amounts to be provided for bond, loan and note retirement	-	-	-	-	-	169,370,000	686,611,533	-	855,981,533
Total Assets	\$ 598,918,823	\$ 17,320,544	\$ 6,281,641	\$ 708,217,668	\$ 62,515,960	\$ 503,054,783	\$ 1,539,249,679	\$ 81,797	\$ 3,435,640,896

PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF ASSETS, LIABILITIES AND RESERVES (CONTINUED)

December 31, 2025

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Bond Financed Projects Fund	Wastewater Treatment Trust Fund	Doremus Site Remediation Escrow Fund	Total
Liabilities									
Current liabilities									
Loans payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,093,050	\$ -	\$ 8,093,050
Bonds payable	-	-	-	-	-	10,130,000	-	-	10,130,000
Notes payable	-	-	-	-	-	-	622,271,564	-	622,271,564
Accounts payable	6,569,247	-	-	2,208,220	67,844	838,808	7,880,550	9,818	17,574,487
Accrued expenses	8,059,085	-	-	500,990	-	-	-	-	8,560,074
Payroll deductions	405,631	-	-	-	-	-	-	-	405,631
Escrow deposits	334,191	-	-	-	-	-	-	69,855	404,045
Interfund payable	52,171,195	-	-	1,117,258	-	208,150	3,381,342	-	56,877,944
Total current liabilities	67,539,348	-	-	3,826,468	67,844	11,176,958	641,626,507	79,672	724,316,796
Noncurrent liabilities									
Loans payable	-	-	-	-	-	-	56,246,919	-	56,246,919
Bonds payable	-	-	-	-	-	159,240,000	-	-	159,240,000
Total noncurrent liabilities	-	-	-	-	-	159,240,000	56,246,919	-	215,486,919
Total Liabilities	67,539,348	-	-	3,826,468	67,844	170,416,958	697,873,426	79,672	939,803,715
Reserves									
Insurance trust	-	-	6,281,641	-	-	-	-	-	6,281,641
Investment in inventory	12,380,319	-	-	-	-	-	-	-	12,380,319
Investment in fixed assets	396,975,612	-	-	-	-	-	-	-	396,975,612
Construction and acquisition	-	-	-	568,816,308	30,656,162	228,519,689	433,479,886	-	1,261,472,046
Projects authorized	-	-	-	48,349,807	1,061,560	67,157,878	103,308,889	-	219,878,134
Debt service	-	17,320,544	-	-	-	-	-	-	17,320,544
Appropriated projects	-	-	-	87,225,086	30,730,394	36,960,257	304,587,477	2,125	459,505,340
Rate stabilization	122,023,544	-	-	-	-	-	-	-	122,023,544
Total Reserves	531,379,476	17,320,544	6,281,641	704,391,201	62,448,116	332,637,825	841,376,253	2,125	2,495,837,181
Total Liabilities and Reserves	\$ 598,918,824	\$ 17,320,544	\$ 6,281,641	\$ 708,217,668	\$ 62,515,960	\$ 503,054,783	\$ 1,539,249,679	\$ 81,797	\$ 3,435,640,896

See notes to financial statements.

PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES

Year Ended December 31, 2025

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Bond Financed Projects Fund	Wastewater Treatment Trust Fund	Doremus Site Remediation Escrow Fund	Total
Revenues									
User charges billed	\$ 185,447,873	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 185,447,873
Sludge fees	49,841,785	-	-	-	-	-	-	-	49,841,785
Investment gain (loss), net	6,997,277	614,566	149,647	-	-	1,163,903	-	-	8,925,393
Miscellaneous	16,497,875	-	65,343	-	-	-	-	-	16,563,218
Federal/state grants and loans	-	-	-	2,094,231	-	-	194,948,643	-	197,042,874
Total	258,784,810	614,566	214,990	2,094,231	-	1,163,903	194,948,643	-	457,821,144
Expenditures									
Salaries	61,929,400	-	-	-	-	-	-	-	61,929,400
Payroll taxes	4,438,460	-	-	-	-	-	-	-	4,438,460
Employee benefits	18,180,369	-	-	-	-	-	-	-	18,180,369
Pension contribution	9,184,082	-	-	-	-	-	-	-	9,184,082
Supplies and postage	1,353,147	-	-	-	-	-	-	-	1,353,147
Replacement parts	12,810,610	-	-	200,914	-	-	-	-	13,011,524
Materials	11,118,484	-	-	-	-	-	-	-	11,118,484
Utilities	27,920,996	-	-	-	-	-	-	-	27,920,996
Rentals	1,462,724	-	-	-	-	-	-	-	1,462,724
Insurance	2,115,618	-	-	-	-	-	-	-	2,115,618
Equipment	4,330,763	-	-	-	-	-	-	-	4,330,763
Outside services	7,636,307	-	-	267,521	-	-	-	-	7,903,828
Professional fees	1,536,232	-	-	-	-	-	-	-	1,536,232
Permitting	968,330	-	-	-	-	-	-	-	968,330
Sludge disposal	9,322,703	-	-	-	-	-	-	-	9,322,703
Sundry	419,061	-	-	-	-	-	-	-	419,061
Advertising	22,898	-	-	-	-	-	-	-	22,898
Real estate taxes (in lieu)	1,041,758	-	-	-	-	-	-	-	1,041,758
Project expenditures	-	-	-	48,349,807	1,061,560	67,157,878	103,308,889	-	219,878,134
Bond issuance costs	-	-	-	-	-	356,072	1,979,277	-	2,335,349
Contingency	492,524	-	-	-	-	-	-	-	492,524
Subtotal	176,284,465	-	-	48,818,242	1,061,560	67,513,950	105,288,166	-	398,966,383

PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES (CONTINUED)

Year Ended December 31, 2025

	General Fund	Bond Reserve Fund	Insurance Trust Fund	Repair, Replacement & Improvement Fund	Capital Fund	Bond Financed Projects Fund	Wastewater Treatment Trust Fund	Doremus Site Remediation Escrow Fund	Total
Bond debt service									
Principal	18,122,380	-	-	-	-	-	-	-	18,122,380
Interest	7,292,253	-	-	-	-	-	-	-	7,292,253
Total expenditures	201,699,098	-	-	48,818,242	1,061,560	67,513,950	105,288,166	-	424,381,016
Excess of revenues over (under) expenditures	57,085,712	614,566	214,990	(46,724,011)	(1,061,560)	(66,350,047)	89,660,477	-	33,440,128
Other financing sources/(uses)									
Bond proceeds	-	-	-	-	-	79,450,000	-	-	79,450,000
Premium on bonds	-	-	-	-	-	10,207,456	50,628	-	10,258,084
Payment to refunding escrow agent	-	-	-	-	-	-	1,497	-	1,497
Interfund transfers	(31,934,657)	4,277,075	(65,343)	22,000,000	10,000,000	(4,277,075)	-	-	-
Excess of revenues over/(under) expenditures and other financing sources/(uses)	25,151,056	4,891,641	149,647	(24,724,011)	8,938,440	19,030,334	89,712,602	-	123,149,709
Reserves, beginning of year	96,872,489	12,428,903	6,131,994	111,949,096	21,791,954	17,929,923	214,874,876	2,125	481,981,360
Reserves, end of year	122,023,544	17,320,544	6,281,641	87,225,086	30,730,394	36,960,257	304,587,477	2,125	605,131,069
Investment in inventory	12,380,319	-	-	-	-	-	-	-	12,380,319
Investment in construction and acquisition	-	-	-	568,816,308	30,656,162	228,519,689	433,479,886	-	1,261,472,046
Investment in projects authorized	-	-	-	48,349,807	1,061,560	67,157,878	103,308,889	-	219,878,134
Investment in fixed assets	396,975,612	-	-	-	-	-	-	-	396,975,612
Total reserves	<u>\$ 531,379,476</u>	<u>\$ 17,320,544</u>	<u>\$ 6,281,641</u>	<u>\$ 704,391,201</u>	<u>\$ 62,448,116</u>	<u>\$ 332,637,825</u>	<u>\$ 841,376,253</u>	<u>\$ 2,125</u>	<u>\$ 2,495,837,181</u>

See notes to financial statements.

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 58:14-2, 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. The Commission's customers include various municipalities, tax-exempt, industrial and non-industrial entities in the northern New Jersey region.

The Commission conducts its operations in compliance with environmental rules and regulations established by the United States Environmental Protection Agency ("USEPA") and New Jersey Department of Environmental Protection ("NJDEP") as well as administrative requirements established by the New Jersey Department of Community Affairs ("NJDCA"). The administrative requirements encompass operational areas such as procurement, banking and investments and rate setting. These requirements are established through New Jersey Administrative Code Title 58 statutes and certain elements of New Jersey Title 40A issued by NJDCA that the Commission implements as a best practice for procurement.

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. 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 2045, the maturity date of the Series J and K 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.

Bond Financed Projects Fund

The Bond Financed Projects Fund was established to account for the construction and/or acquisition of certain capital assets, principally financed by the proceeds of Revenue Bonds issued by the Commission. As of December 31, 2025, the Series I, J and K bonds remain outstanding in the aggregate principal amount of \$169,370,000, the liability of which is presented in the Bond Financed Projects Fund.

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 Infrastructure Bank ("NJIB").

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 ("U.S. GAAP"). 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 U.S. GAAP,

- federal and state grant revenues would be recognized when expended,
- fixed asset expenditures would be capitalized and depreciation expense recorded,
- pension and OPEB expense and resultant net pension and OPEB liabilities would be recognized on the accrual basis,
- principal payments on debt would not be recorded as an expenditure,
- the recording of certain reserves and related assets would not be recorded,
- investments would be stated at fair value,
- there would be no investment in inventory reserve account balance,
- leases would be recorded as a liability and amortized over the life of the lease term, and
- deferred gain or loss from bond refunding would be recorded and amortized on the accrual basis.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Investments

Investments, including certificates of deposits not issued and held by a bank, are stated at cost in the statement of assets, liabilities and reserves. All interest income is reported in the statement of revenues, expenditures and changes in reserves as an increase in reserves.

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 and loan 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 U.S. GAAP 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

Accounts receivable consists primarily of uncollected user charges and sludge fees. The Commission charges 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 building, machinery and equipment balances of fixed assets recorded in the general fund reflect the original construction costs of the system and any improvements; 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 Bond Financed Projects 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. Authorized project reserves represent fund equity that has been pledged to future project costs. Reserve for the Insurance Trust Fund represents amounts set aside for possible damages resulting from liability claims.

The Reserve for Rate Stabilization, which is included in the General Fund, 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.

Rounding

Some amounts in the financial statements may have dollar differences due to rounding.

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 applicable project loans.

Deposits

Custodial Credit Risk – This 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 Corporation ("FDIC"), as well as a collateral pledge from JP Morgan, which was greater than the deposit balance at December 31, 2025. 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. As of December 31, 2025, the Commission's bank balances were exposed to custodial credit risk as follows:

Insured (FDIC)	\$ 1,622,058
Collateralized (JP Morgan & Bank of NY)	54,936,206
Uninsured and Collateralized (GUDPA)	180,892,647
	<u>\$ 237,450,911</u>

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits (Continued)

Additional coverage in excess of FDIC insured amounts is provided by the New Jersey Governmental Unit Deposit Protection Act ("NJGUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with NJGUDPA. NJGUDPA institutions include the following elements:

Public depositories include state or federally chartered banks, savings banks, savings and loan associations and credit unions located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. Each depository participating in the NJGUDPA system must pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million. The minimum 5% pledge applies to institutions that are categorized as "well capitalized" by federal banking standards. The percentage of the required pledge will increase for institutions that are less than "well capitalized."

No collateral is required for amounts covered by FDIC or National Credit Union Share Insurance Fund ("NCUSIF") insurance. The collateral which may be pledged to support these deposits includes obligations of the State and federal governments, insured securities and other collateral approved by the Department of Banking and Insurance ("DOBI"). When the capital position of the depository deteriorates or the depository takes an unusually large amount of public deposits, the DOBI requires additional collateral to be pledged.

If a governmental depository fails and the FDIC or NCUSIF insurance does not insure or pay out the full amount of public deposits, the collateral pledged to protect these funds would first be liquidated and paid out. If this amount is insufficient, other institutions holding public funds would be assessed pro rata up to 4% of their uninsured public funds. Although these protections do not constitute a 100% guarantee of the safety of all funds, no governmental unit under NJGUDPA has ever lost protected deposits.

The amounts deposited in these accounts at December 31, 2025, are as follows:

	Book Balance	Bank Balance
JP Morgan Bank	\$ 43,211,678	\$ 43,940,792
ConnectOne Bank	122,058	122,058
TD Bank	1,405,629	1,405,629
Unity Bank	22,516,797	22,516,797
Popular Bank	63,028,589	63,028,589
Spencer Savings Bank	51,250,839	51,250,839
Bank of New York	55,186,206	55,186,206
	<u>\$236,721,798</u>	<u>\$237,450,911</u>

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. INVESTMENTS

The bond resolutions for the outstanding Series I, J and K bonds payable limit investments of the bond reserve and bond financed funds to direct obligations in which payments and interest are unconditionally guaranteed by the United States of America, approved federal agencies, public housing authorities or any state or political subdivision with credit ratings in the two highest rating categories. In 2025, all bond reserve and other bond related funds were deposited in cash and cash equivalent accounts with no funds allocated to investments. As a result, the Commission followed its approved investment policy which allows for investment in U.S. Treasury and government guaranteed debt, federal agency and government sponsored enterprises, agency mortgage-backed securities, municipal bonds, corporate and other debt obligations, commercial paper, negotiable bank deposit obligations, repurchase agreements, money market funds, bank and time deposits and local government investment pools with specific diversification parameters.

Concentration of Credit Risk – This is the risk associated with the amount of investments the Commission has with any one issuer that exceeds five percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement. The Commission investment policy sets diversification strategies that limit the class, sector, issuer and maturity of securities to reduce this risk.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission investment policy sets issuer maximums not exceeding 5% of the portfolio as well as maximum maturities to reduce this risk.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations. Additionally, its practice is to hold investments to maturity.

All Commission investments are maintained in the General Fund. The total of the investments maintained in the General Fund at December 31, 2025, is as follows:

	Cost
Government Bonds/Notes	\$ 12,461,909
Corporate Bonds	8,925,360
	<u>\$ 21,387,269</u>

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

E. BONDS PAYABLE, LOANS PAYABLE AND NOTES PAYABLE

Pursuant to an amendment to Title 58, Chapter 14 of the New Jersey Revised Statutes, the Commission was granted the authority to issue bonds. See additional information regarding the Commission's ability to issue debt in the comments on page 37. The Commission also has various loans through the NJIB financing program. Both the bonds and loans are issued to fund various capital improvements.

Year, Series/Title	Original Issue Amount	Interest Rate Range	Maturity Date	Outstanding December 31, 2024	Additions	Reductions	Outstanding December 31, 2025	Due Within One Year
Bonds								
2016, Series H	\$74,795,000	3.00%-5.00%	2025	\$ 4,675,000	\$ -	\$ 4,675,000	\$ -	\$ -
2016, Series I	30,540,000	2.25%-5.00%	2036	21,230,000	-	1,440,000	19,790,000	1,510,000
2020, Series J	77,795,000	3.00%	2045	74,210,000	-	1,825,000	72,385,000	6,285,000
2025, Series K	79,450,000	5.00%	2045	-	79,450,000	2,255,000	77,195,000	2,335,000
Total bonds payable				100,115,000	79,450,000	10,195,000	169,370,000	10,130,000
Loans								
2006 Trust & Fund Loan	38,894,500	4.00%-5.00%	2026	1,623,676	-	796,170	827,506	827,506
2010AARRA Trust & Fund Loan	12,542,621	3.00%-5.00%	2029	3,751,673	-	725,534	3,026,138	740,534
2010 A Trust & Fund Loan	31,981,707	3.00%-5.00%	2029	8,423,876	-	1,808,928	6,614,948	1,826,928
2010 B Trust & Fund Loan	19,662,500	3.00%-5.00%	2030	4,214,527	-	1,113,972	3,100,555	1,136,972
2014 Trust & Fund Loan	26,791,177	3.00%-5.00%	2032	13,334,579	-	1,440,478	11,894,101	1,450,478
2016 Trust & Fund Loan	2,975,000	3.00%-5.00%	2036	1,897,881	-	149,407	1,748,475	149,407
2018 Trust & Fund Loan	907,481	4.00%-5.00%	2038	660,834	-	44,702	616,132	44,702
2020 Trust & Fund Loan	8,341,087	2.625%-5.00%	2039	5,262,690	-	321,846	4,940,844	326,846
2021 Trust & Fund Loan	24,737,205	2.00%-5.00%	2040	17,900,992	-	1,062,046	16,838,946	1,077,046
2023 Trust & Fund Loan	7,757,144	2.00%-5.00%	2040	7,677,218	-	214,890	7,462,328	214,890
2024 Trust & Fund Loan	5,670,148	2.00%-5.00%	2043	5,569,804	-	240,516	5,329,288	245,516
2025 Trust & Fund Loan	3,949,599	2.00%-5.00%	2054	-	3,949,599	2,008,890	1,940,709	52,224
Total loans payable				70,317,750	3,949,599	9,927,380	64,339,969	8,093,050
Total bonds and loans payable				\$ 170,432,750	\$ 83,399,599	\$ 20,122,380	\$ 233,709,969	\$ 18,223,050

Summary of Future Maturities

Future maturities of bonds and loans payable at December 31, 2025, are as follows:

Year End	Principal	Interest	Total
2026	\$ 18,223,050	\$ 7,597,007	\$ 25,820,057
2027	17,423,155	7,101,207	24,524,362
2028	17,489,572	6,627,112	24,116,684
2029	17,048,808	6,136,957	23,185,764
2030	15,005,110	5,631,007	20,636,116
2031-2035	61,194,869	21,952,628	83,147,496
2036-2040	43,779,901	13,647,164	57,427,065
2041-2045	40,524,687	5,688,624	46,213,311
2046-2050	1,770,107	276,150	2,046,257
2051-2054	1,250,711	65,380	1,316,091
	<u>\$ 233,709,969</u>	<u>\$ 74,723,235</u>	<u>\$ 308,433,204</u>

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

E. BONDS PAYABLE, LOANS PAYABLE AND NOTES PAYABLE (CONTINUED)

In 2020, the Commission adopted Resolution 29-20 authorizing the issuance of sewer system bonds not to exceed the principal amount of \$87,000,000. The final bond issuance during 2020 was for \$77,795,000. The bond issue resulted in \$46,000,000 in new money proceeds deposited into the project fund account and a current refunding of the remaining 2003 Sewer System Bonds, Series F principal totaling \$37,060,000. Payments totaling \$37,274,825 were deposited into the escrow fund to defease the Series F bonds which were redeemed on August 26, 2020. The current refunding resulted in a difference between the par amount of the refunding bonds and the par amount of the refunded bonds of \$823,712. Although the refunding resulted in an accounting gain, it was performed to reduce debt service by approximately \$5,265,000. The accounting gain, or deferred gain on the refunding, is not reported as a deferred inflow of resources on the Commission financials in line with the basis of accounting utilized.

On September 19, 2024, the Commission adopted the bond resolution authorizing the issuance of sewer system bonds not to exceed \$90,000,000. On February 4, 2025, the Commission issued \$79,450,000 Series K sewer system bonds against that authorized amount. The bonds will be payable from sewer system revenues and were issued to fund the costs of planning, design, acquisition, improvement, renovation, replacement, construction and installation of various capital projects for the sewer system.

In 2025, the Commission issued permanent NJIB Trust and Fund loans Series 2025 totaling \$3,949,599 for project number 53 for the phase 1 plantwide SCADA improvements. This loan was issued with a \$2,000,000 fund loan principal forgiveness resulting in a net payable of \$1,949,599. The Commission also has temporary notes payable through the NJIB Infrastructure Financing Program for various ongoing construction projects. The notes will be repaid upon the issuance of future permanent bonds. Under the NJIB program the borrowers benefit from a loan formula under which participants borrow a percentage of cost from the State Revolving Fund maintained by the New Jersey Department of Environmental Protection at zero interest and the remaining percentage from the Trust at the same interest rate the Trust pays on its bonds. Under the State's Smart Growth Initiative, the interest rate is equivalent to 50 percent of the lowest available rate. Each NJIB loan carries a 20, 25, or 30-year life. All current Commission loans are 20 or 30-year maturities. In 2025, the Commission issued \$195,100,000 of temporary construction and SAIL loan notes out of the authorized principal amount for projects number 23 and 57 for standby power generating facility and phase V line improvements. These transactions, net of the \$4,100,254 of project 53 that were converted into permanent loans, resulted in an increase of \$190,979,746 in total temporary notes payable to a total amount of \$622,271,564 on December 31, 2025.

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. As of December 31, 2025, the reserve balance was \$6,281,641. There were no deposits or claims paid in the current year. In 2023, the Commission exited from the cost sharing multi-employer state health benefit plan and implemented a single entity defined benefit plan. The Commission returned to the cost sharing multi-employer state health benefit plan after one year in May 2024 and remained in this plan through the year ended December 31, 2025. The contributions to the plan net of interest earned on plan funds held in cash accounts and interfund transfers resulted in the change of the reserve for self-insurance for the year ended December 31, 2025. See Note H for additional information on the state health benefit plan as of the year ended December 31, 2025.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN

Description and Benefits

The Commission contributes to the Public Employees' Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). 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 (<https://www.nj.gov/treasury/pensions/financial-reports.shtml>). The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007, and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008, and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010, and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit are available to Tiers 1 and 2 members upon reaching age 60, and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit are available to Tier 4 members upon reaching age 62 and Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, Tiers 3 and 4 members with 25 or more years of service credit before age 62, and Tier 5 members with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for their respective tier.

The Commission also participates in the Defined Contribution Retirement Program ("DCRP"). The DCRP is a multiple-employer defined contribution pension fund established on July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et. seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code ("IRC") 401(a) et seq., and is a governmental plan within the meaning of IRC 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in PERS on or after July 1, 2007, who earn a salary in excess of established "maximum compensation" limits; employees enrolled in PERS after May 21, 2010, who earn a salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PERS on or after November 2, 2008, who do not earn the minimum annual salary for Tier 3 enrollment but who earn a salary of at least \$5,000 annually; and employees otherwise eligible to enroll in PERS after May 21, 2010, who do not work the minimum number of hours per week required for Tiers 4 or 5 enrollment, but who earn a salary of at least \$5,000 annually.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

Contributions

The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012, and will be adjusted by the rate of return on the actuarial value of assets. The Commission did not elect to defer any payments pursuant to Chapter 19, P.L. 2009.

Covered employees are required by PERS to contribute 7.5% of their annual compensation. The Commission is required by State statute to contribute the remaining amounts necessary to pay benefits when due. Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarially determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and non-employer allocations are applied to amounts presented in the schedule of pension amounts by employer and non-employer. The allocation percentages for each group as of the plan year ended June 30, 2025, are based on the ratio of each employer's contributions to total employer contributions of the group for the plan year ended June 30, 2025.

The Commission's required contribution to PERS for the plan year ended June 30, 2025, was \$9,011,179 per PERS plan year ended June 30, 2025, audit report. The amount billed to the Commission for the same period end through an invoice dated December 26, 2025, and due by April 1, 2026, was \$9,082,046. The Commission's actual contribution to PERS made during the year ended December 31, 2025, was \$9,169,743, equal to the contributions billed by the State and due in April of the current year. The Commission's covered payroll was \$55,367,232 for PERS.

For DCRP the contribution policy is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the Commission contributes 3% of the employees' base salary, for each pay period, to Empower Financial Services not later than the fifth business day after the date on which the employee is paid for that pay period. For the current year ended, employee contributions totaled \$21,375 and the Commission's contributions were \$11,660. There were no forfeitures during the year.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

Contributions (Continued)

A special funding situation exists for the local employers of the Public Employees' Retirement System of New Jersey. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by local employers under Chapter 133, P.L. 2001. The special funding situation for Chapter 133, P.L. 2001 is due to the State paying the additional normal cost related to benefit improvements from Chapter 133. Previously, this additional normal cost was paid from the Benefit Enhancement Fund (BEF). As of June 30, 2025, there is no net pension liability associated with this special funding situation and there was no accumulated difference between the annual additional normal cost under the special funding situation and the actual State contribution through the valuation date. The state special funding situation pension expense of \$278,623, for the fiscal year ended June 30, 2025, is the actuarially determined contribution amount that the State owes for the fiscal year ended June 30, 2025. The pension expense is deemed to be a state administrative expense due to the special funding situation. The portion of the non-employer contributing entities' total proportionate share of the collective net pension liability that is associated with the Commission is 0.6629820118% and the total proportionate share of the employer pension benefit is \$0 for the June 30, 2025, measurement date.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2025, the Commission reported a liability of \$81,091,315 for its proportionate share of the net pension liability in PERS. 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 governmental units, actuarially determined. At plan year ended June 30, 2025, the Commission's proportion was 0.6593513419%, which was a decrease of 0.0145302668% from its proportion measured as of plan year ended June 30, 2024. For the year ended December 31, 2025, the Commission recognized full accrual pension expense of \$9,184,082 in the financial statements. At December 31, 2025, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	2025	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,312,065	\$ 86,657
Net difference between projected and actual investment earnings on pension plan investments	-	6,761,946
Changes in assumptions	12,805	934,244
Changes in proportion	188,477	4,388,690
Commission's contributions subsequent to the measurement date	4,505,590	-
	<u>\$ 7,018,937</u>	<u>\$ 12,171,537</u>

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31,	PERS Amount
2026	\$ 1,501,903
2027	(3,134,808)
2028	(2,419,007)
2029	(1,415,997)
2030	9,933
	<u>\$ (5,457,976)</u>

The previous amounts do not include employer-specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.15, 5.08, 5.08, 5.04, 5.13 and 5.16 years for 2025, 2024, 2023, 2022, 2021 and 2020, respectively.

Actuarial Assumptions

The total pension liability for the plan year ended June 30, 2025, measurement date was determined by an actuarial valuation as of July 1, 2024, which was rolled forward to the June 30, 2025, measurement date. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: Price	2.75%
Inflation: Wage	3.25%
Salary Increases based on years of service	3.25-7.75%
Investment rate of return	7.00%

The actuarial assumptions used in the July 1, 2024, valuation were based on the results of an actuarial experience study for the period July 1, 2021 to June 30, 2024.

Mortality Rates

Pre-retirement mortality rates were based on the Pub-2016 General Below-Median Income Employee mortality table with an 86.3% adjustment for males and 97.6% adjustment for females, and with future improvement from the base year of 2016 on a generational basis. Post-retirement mortality rates were based on the Pub-2016 General Below-Median Income Healthy Retiree mortality table with a 93.3% adjustment for males and 99.5% adjustment for females, and with future improvement from the base year of 2016 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2016 Non-Safety Disabled Retiree mortality table with a 156.9% adjustment for males and 139.0% adjustment for females, and with future improvement from the base year of 2016 on a generational basis. Mortality improvement is based on Scale MP-2021.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7% at the plan year ended June 30, 2025), is determined by the State Treasurer, after consultation with the directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees, and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of the plan year ended June 30, 2025, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	28.00%	8.55%
Non-U.S. developed markets equity	12.75%	8.77%
International Small Cap Equity	1.25%	8.77%
Emerging markets equity	5.50%	10.30%
Private equity	13.00%	12.00%
Real assets	3.00%	7.90%
Real estate	8.00%	10.78%
High yield	4.50%	6.63%
Private credit	8.00%	9.00%
Investment grade credit	7.00%	5.47%
Cash equivalents	2.00%	3.61%
U.S. Treasuries	4.00%	3.61%
Risk mitigation strategies	3.00%	7.26%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of the plan year ended June 30, 2025. 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 employers and the non-employer contributing entity will be based on 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. 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. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

Sensitivity of the Commission's Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following presents the Commission's proportionate share of the net pension liability as of the plan year ended June 30, 2025, calculated using the discount rate as disclosed above as well as what the Commission's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
Commission's proportionate share of net pension liability	<u>\$111,966,857</u>	<u>\$ 81,091,315</u>	<u>\$ 56,072,949</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report for the State of New Jersey PERS.

H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

During 2023, the Commission switched from the State Health Benefits Local Government Retired Employees Plan (the "OPEB Plan"), a cost sharing multiple-employer defined benefit post-retirement plan administered by the State of New Jersey, to a single employer local plan (the "Local OPEB Plan"). The Commission remained in the Local Plan for one year until returning to the OPEB Plan in May 2024. Monthly premium and annual contributions to both plans were completed as required throughout the transition years and in the current year.

GASB Statement No. 75

The GASB Statement No. 75 audit report of the OPEB Plan for the plan year ended June 30, 2025 and the Commission year ended December 31, 2025, was not available from the State as of the date of this report. As a result, the Commission included the most recent audited GASB 75 information available in the note disclosures below which reflect the prior year OPEB Plan information.

GASB Statement No. 75 requires participating employers in the cost sharing multiple-employer state plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense (benefit). The special funding situation's and nonspecial funding situation's OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit) are based on separately calculated total OPEB liabilities. The nonspecial funding situation's OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit) are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the OPEB Plan's nonspecial funding situation during the measurement period. The OPEB Plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75. The Commission's basis of accounting does not require recording a liability on the statement of assets, liabilities and reserves and has only a disclosure requirement in the notes to financial statements.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

General Information About the OPEB Plan

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the OPEB Plan. The Division issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

The OPEB Plan covers employees, retirees and their dependents of local government employers that have adopted a resolution to participate in the OPEB Plan. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The OPEB Plan provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents. The Commission offers the OPEB Plan to active employees and retired employees who are eligible. The total number of participants eligible for benefits was 813 at December 31, 2024.

The OPEB Plan provides medical and prescription drug coverage to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide post-retirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer-paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of post-retirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer-paid obligations for retiree coverage may be determined by means of a collective negotiation agreement. Further, the law provides that the employer-paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for post-retirement medical coverage who have less than 20 years of creditable service on June 28, 2011, will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Contributions

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. Contributions to pay for the health premiums of participating retirees in the OPEB Plan are billed to the Commission on a monthly basis. As a participating employer the Commission will pay and remit contributions to the State treasury to cover the full cost of premiums for eligible participants on a basis comparable to the reimbursement made by the State to its eligible pensioners and their spouses in accordance with provisions of Chapter 75, Public Law of 1972.

The Commission's total contributions to the OPEB Plan for the year ended December 31, 2025, was \$20,147,306 including employee contributions of \$4,571,982. The retiree portion of the total Commission contributions was \$5,738,802.

Actuarial Assumptions

The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. The components of the Commission's OPEB Plan net OPEB liability as of December 31, 2024, are as follows:

	December 31, 2024
Total OPEB liability	\$ 151,848,767
Plan Fiduciary Net Position	(1,344,853)
Net OPEB Liability	<u>\$ 153,193,620</u>
Plan Fiduciary Net Position as a % of total OPEB liability	-0.89%

The Commission's OPEB Plan net OPEB liability of \$153,193,620 was measured as of plan year ended June 30, 2024 was determined by an actuarial valuation as of July 1, 2023, which was rolled forward to June 30, 2024. This actuarial valuation used the following actuarial assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Salary increases	
Rate for all future years (based on years of service within the plan)	2.75% to 6.55%
Discount Rate	3.93%

H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Assumptions (Continued)

Pre-retirement mortality rates for PERS were based on the PUB-2010 General classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Preretirement mortality rates for PFRS were based on the PUB-2010 Safety classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Post-retirement mortality rates for Chapter 330 retirees were based on the PUB-2010 Safety classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Post-retirement mortality rates for other retirees is based on the PUB-2010 General classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Disabled retiree mortality rates for PERS future disabled retirees were based on the PUB-2010 General classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Disabled retiree mortality rates for PFRS future disabled retirees were based on the PUB-2010 Safety classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Disabled retiree mortality rates for Chapter 330 current retirees were based on the PUB-2010 Safety classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Disabled retiree mortality rates for other current retirees were based on the PUB-2010 General classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

For pre-Medicare medical benefits, the trend is initially 7.50% and decreases to a 4.50% long-term trend rate after nine years. For post-65 PPO, the trend is increasing to 22.62% in fiscal year 2027 and decreases to 4.50% in fiscal year 2034. For HMO, the trend is increasing to 23.58% in fiscal year 2027 and decreases to 4.50% in fiscal year 2034. For prescription drug benefits, the initial trend rate is 12.75% and decreases to a 4.50% long-term trend rate after seven years. For the Medicare Part B reimbursement, the trend rate is 5.00%.

The discount rate for plan year ended June 30, 2024, was 3.93%. This represents the municipal bond return rate as chosen by the State. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability as of OPEB Plan year ended June 30, 2024, calculated using the discount rate as disclosed above as well as what the collective OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

At Plan Year Ended June 30, 2024		
At 1% Decrease (2.93%)	At Current Discount Rate (3.93%)	At 1% Increase (4.93%)
\$ 178,454,057	\$ 153,193,620	\$ 132,962,255

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the net OPEB liability as of OPEB Plan year ended June 30, 2024, calculated using the healthcare trend rate as disclosed above as well as what the OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

At Plan Year Ended June 30, 2024		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 129,570,534	\$ 153,193,620	\$ 183,566,271

OPEB Plan Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2024, the Commission would have recognized an OPEB benefit of \$1,340,902 related to the proportionate share of allocable OPEB plan benefits and net amortization of deferred amounts from changes in proportion, as detailed in the OPEB Plan GASB 68 audit report. Under the basis of accounting followed by the Commission this benefit value is not recognized and only the net contributions of \$15,575,324, as noted above, are reflected as OPEB expense. This value is included in the fringe benefits value in the statement of revenues, expenditures and changes in reserves.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2024, the Commission would have reported net deferred outflows of resources of \$194,457,219 and deferred inflows of resources related to OPEB of \$182,363,633. Under the basis of accounting followed by the Commission these values are not recorded on the basic financial schedules.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,758,174	\$ 25,956,268
Changes in assumptions	25,611,073	25,429,174
Net difference between projected and actual investment earnings on OPEB plan investments	-	69,346
Changes in proportion	161,087,972	130,908,845
	<u>\$ 194,457,219</u>	<u>\$ 182,363,633</u>

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

H. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB would be recognized in OPEB expense as follows for plan year ended December 31, 2024:

<u>Year Ended December 31,</u>	<u>OPEB</u>
2025	\$ (9,616,400)
2026	(4,140,134)
2027	(711,461)
2028	(3,793,041)
2029	(2,416,539)
Thereafter	2,592,034
	<u>\$ (18,085,541)</u>

The previous amounts do not include employer-specific deferred outflows of resources and deferred inflows of resources related to the changes in proportion. These amounts should be recognized (amortized) by each employer over the average remaining service lives of all plan members, which are 7.89, 7.89, 7.82, 7.82, 7.87, 8.05, 8.14 and 8.04 years for the 2024, 2023, 2022, 2021, 2020, 2019, 2018 and 2017 amounts, respectively.

I. CONCENTRATION OF RISK AND UNCERTAINTIES

For the year ended December 31, 2025, the Commission received approximately 43% of its total user charges from two customers, City of Newark 29% and City of Jersey City 14%. For the year ended December 31, 2025, the Commission received 99% of its total federal and state grant and loan revenue from the NJIB. For the year ended December 31, 2025, the Commission received approximately 48% of its total sludge revenue from two customers, New York City DEP 32% and Bergen County Utilities Authority 16%.

J. UTILITY PURCHASE COMMITMENT

The Commission entered into two futures contracts for electricity and natural gas in order to hedge energy costs. The electricity contract was for a term of 18 months, beginning January 1, 2023 to June 2024 that was extended without material modifications to December 31, 2024. A new 12-month electricity contract was approved starting January 1, 2025. The original natural gas contract was for a term of 12 months, expiring on December 31, 2024. The Commission renewed its natural gas contract through December 31, 2025. The terms and conditions of the contracts were renewed without material modifications subsequent to year end.

K. COLLECTIVE BARGAINING AGREEMENTS

During 2025, the Commission is a party in four separate collective bargaining agreements covering various employees at the Commission. The terms and conditions of the contracts were renewed subsequent to year end as detailed in Note O. They are as follows:

- Local 1158 I.B.E.W.- Blue Collar covering January 1, 2022 – December 31, 2025
- Local 1158 I.B.E.W.- White Collar covering January 1, 2022 – December 31, 2025
- Local 1158 I.B.E.W.- Supervisors Group covering January 1, 2022 – December 31, 2025
- Local 1158 I.B.E.W.- Professional Group covering January 1, 2022 – December 31, 2025

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. FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) FUNDING

The Commission receives from FEMA eligible recovery costs for substantial damage incurred by the Commission during the Superstorm Sandy event in October 2012. During 2025, the Commission received \$42,622,059 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 through internal Commission funds or NJIB loans. The remaining receivable after closeouts and receipts is \$47,521,571 as of December 31, 2025.

N. LEASES AND SUBSCRIPTION BASED IT AGREEMENTS

No material lease agreements or lease agreements meeting the criteria of GASB statement No. 87 were noted as active in the current year. Subscription based IT agreements are summarized as follows:

IT Contract	Date	Payment Terms	Payment Amount	Interest Rate	Lease Asset Balance December 31, 2025	Lease Liability Balance December 31, 2025
Mythics Oracle Cloud Subscriptions	11/21/2023	3 years	\$ 67,807	8.500%	\$ 220,725	\$ 186,800
UKG Dimensions Software	3/20/2022	5 years	144,920	3.500%	175,764	165,206
			<u>\$ 212,727</u>		<u>\$ 396,490</u>	<u>\$ 352,006</u>

The Commission renewed their cloud-based subscription service for Oracle planning and budgeting cloud service, workforce planning and project financial planning software with Mythics for the period of November 2023 through November 2026 with option to renew annually through November 2029. The annual lease payment totaled \$67,806.90 for the initial years of 2023 through 2026 and \$72,553.38 for the renewal years of 2027 through 2029. The Commission also renewed their annual lease for payroll services and software with UKG for the UKG Dimensions Software for a term of 60 months from the contract effective date of March 2022. The contract required annual and monthly payments of \$16,100 and \$10,860, respectively. Additional one-time start up fees totaling \$40,902.50 were incurred in the prior year. These agreements are not renewable. The Commission will not acquire the software or any related equipment at the end of the contract. Annual requirements to amortize long-term obligations and related interest are as follows:

	Principal	Interest	Total
2026	\$ 200,189	\$ 18,784	\$ 218,973
2027	83,370	10,904	94,273
2028	67,133	5,420	72,553
	<u>\$ 350,692</u>	<u>\$ 35,108</u>	<u>\$ 385,800</u>
Less (PV discount)			(33,794)
Lease Liability			<u>\$ 352,006</u>

PASSAIC VALLEY SEWERAGE COMMISSION

NOTES TO FINANCIAL STATEMENTS

O. SUBSEQUENT EVENTS

The Commission entered into new electricity and natural gas contracts that commenced in January 2026. The electricity contract is for a 22-month fixed-price term ending in November 2027, and the natural gas contract is for a 24-month term ending in December 2027. For natural gas, the Commission hedged commodity pricing for the first 6 months of the new contract before agreeing to a fixed price for the remaining 18 months of the contract. This process helped the Commission to obtain the most financially advantageous pricing, based on market conditions at the time, for the duration of the contract.

The Commission issued a long-term loan of \$97,890,875 for projects 37 and 01 in May 2026 and issued short-term loans of \$31,813,253, \$6,034,292, and \$10,070,439 to fund projects 37R, 52, and 61, respectively.

The Commission and Local 1158 issued a memorandum of agreement concerning a successor agreement to the collective bargaining agreement that ended on December 31, 2025 as detailed in Note K. The new contract commenced on January 1, 2026, and ends on December 31, 2029.