

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF
THE TOWN OF KEARNY)
REPORT OF AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2011

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

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(A Component Unit of the Town of Kearny)

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Kearny Municipal Utilities Authority
39 Central Avenue
Kearny, NJ 07032

Ladies and Gentlemen:

We have audited the accompanying statement of net assets of the Kearny Municipal Utilities Authority, (a component unit of the Town of Kearny) as of and for the year ended December 31, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in accordance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kearny Municipal Utilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kearny Municipal Utilities Authority, as of December 31, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

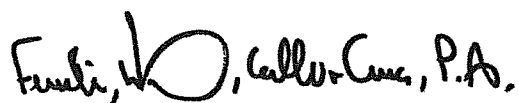


In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2012 on our consideration of the Kearny Municipal Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Kearny Municipal Utilities Authority's basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The accompanying schedules of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Very truly yours,



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

March 22, 2012



Required Supplementary Information

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

As management of the Kearny Municipal Utilities Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2011. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$11,453,950 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$10,731,805.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt of \$7,192,344 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt and unexpended funds related to the purchase or construction of capital assets.
 - (2) Restricted net assets of \$2,707,717 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$1,553,889 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,356,784 to \$17,965,786 during the fiscal year.

Overview of the Financial Statements

This annual report includes this management discussion, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the entity using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *Statement of Net Assets* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement measures the results of the Authority's operations over the past year and can be used to determine whether the Authority has recovered all its costs through user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as what operational sources provided cash, what was the cash used for, and what was the change in cash balance during the reporting period.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This supplementary information follows the notes to the financial statements.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this years activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Authority's activities in a way that will help answer this question. These two statements report net assets of the Authority and the changes in those assets. The reader can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

Net Assets

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Authority as a whole.

The Authority's net assets at fiscal year-end are \$11,453,950. This is a \$722,145 increase over last year's net assets of \$10,731,805. A summary of the Authority's statement of net assets is presented in the following table:

Condensed Statement of Net Assets

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Non-current				
Assets	4,680,817	5,379,464	(698,647)	(12.99)%
Capital Assets	24,385,824	24,300,157	85,667	0.35%
Other Assets	<u>353,095</u>	<u>374,754</u>	<u>(21,659)</u>	<u>(5.78)%</u>
Total Assets	<u>29,419,736</u>	<u>30,054,375</u>	<u>(634,639)</u>	<u>(2.11)%</u>
Current Liabilities	1,415,424	1,541,827	(126,403)	(8.20)%
Non-current Liabilities	<u>16,550,362</u>	<u>17,780,743</u>	<u>(1,230,381)</u>	<u>(6.92)%</u>
Total Liabilities	<u>17,965,786</u>	<u>19,322,570</u>	<u>(1,356,784)</u>	<u>(7.02)%</u>
Invested in Capital Assets, net of Related Debt	7,192,344	7,032,740	159,604	2.27%
Restricted	2,707,717	2,018,331	689,386	34.16%
Unrestricted	<u>1,553,889</u>	<u>1,680,734</u>	<u>(126,845)</u>	<u>(7.55)%</u>
Total Net Assets	<u>11,453,950</u>	<u>10,731,805</u>	<u>722,145</u>	6.73%

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

Net Assets (Continued)

A summary of the Authority's prior year statement of net assets is presented with comparative FY 2009 balances in the following table:

Condensed Statement of Net Assets

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Non-current				
Assets	5,379,464	8,162,167	(2,782,703)	(34.09)%
Capital Assets	24,300,157	21,209,133	3,091,024	14.57%
Other Assets	<u>374,754</u>	<u>396,412</u>	<u>(21,658)</u>	(5.46)%
Total Assets	<u>30,054,375</u>	<u>29,767,712</u>	<u>286,663</u>	0.96%
Current Liabilities	1,541,827	1,614,232	(72,405)	(4.49)%
Non-current Liabilities	<u>17,780,743</u>	<u>19,027,766</u>	<u>(1,247,023)</u>	(6.55)%
Total Liabilities	<u>19,322,570</u>	<u>20,641,998</u>	<u>(1,319,428)</u>	(6.39)%
Invested in Capital Assets, net of Related Debt	7,032,740	5,188,461	1,844,279	35.55%
Restricted	2,018,331	2,198,727	(180,396)	(8.20)%
Unrestricted	<u>1,680,734</u>	<u>1,738,526</u>	<u>(57,792)</u>	(3.32)%
Total Net Assets	<u>10,731,805</u>	<u>9,125,714</u>	<u>1,606,091</u>	17.60%

While the *Statement of Net Assets* shows the change in financial position of net assets, the *Statement of Revenues, Expenses and Changes in Net Assets* provides answers as to the nature and source of these changes. As can be seen in the following table, net assets increased by \$722,145 and \$1,606,091 during the 2011 and 2010 fiscal years, respectively.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

Net Assets (Continued)

Condensed Statement of Revenues, Expenses And Changes in Net Assets				
	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	3,901,448	4,233,916	(332,468)	(7.85)%
Non-operating Revenues	<u>347,783</u>	<u>56,053</u>	<u>291,730</u>	520.45%
Total Revenues	<u>4,249,231</u>	<u>4,289,969</u>	<u>(40,738)</u>	(0.95)%
Depreciation	685,469	681,845	3,624	0.53%
Other Operating Expenses	1,700,777	1,653,047	47,730	2.89%
Other Non-operating Expense	<u>1,407,516</u>	<u>678,098</u>	<u>729,418</u>	107.57%
Total Expenses	<u>3,793,762</u>	<u>3,012,990</u>	<u>780,772</u>	25.91%
Change in Net Assets	455,469	1,276,979	(821,510)	(64.33)%
Beginning Net Assets	10,731,805	9,125,714	1,606,091	17.60%
Contributed Capital	<u>266,676</u>	<u>329,112</u>	<u>(62,436)</u>	(18.97)%
Ending Net Assets	<u>11,453,950</u>	<u>10,731,805</u>	<u>722,145</u>	6.73%

A summary of the Authority's prior year statement of revenues, expenses and change in net assets is presented with comparative FY 2009 figures in the following table:

Condensed Statement of Revenues, Expenses And Changes in Net Assets				
	<u>FY 2010</u>	<u>FY 2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,233,916	3,970,318	263,598	6.64%
Non-operating Revenues	<u>56,053</u>	<u>45,808</u>	<u>10,245</u>	22.37%
Total Revenues	<u>4,289,969</u>	<u>4,016,126</u>	<u>273,843</u>	6.82%
Depreciation	681,845	681,845	0	0.00%
Other Operating Expenses	1,653,047	1,661,955	(8,908)	(0.54)%
Other Non-operating Expense	<u>678,098</u>	<u>700,997</u>	<u>(22,899)</u>	(3.27)%
Total Expenses	<u>3,012,990</u>	<u>3,044,797</u>	<u>(31,807)</u>	(1.04)%
Change in Net Assets	1,276,979	971,329	305,650	31.47%
Beginning Net Assets	9,125,714	5,902,365	3,223,349	54.61%
Contributed Capital	329,112	2,270,099	(1,940,987)	(85.50)%
Prior Period Adjustments	<u> </u>	<u>(18,079)</u>	<u>18,079</u>	(100.00)%
Ending Net Assets	<u>10,731,805</u>	<u>9,125,714</u>	<u>1,606,091</u>	17.60%

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

Net Assets (Continued)

The Authority's operating revenues decreased by \$332,468 to \$3,901,448 in fiscal year 2011 from \$4,233,916 in 2010. This decrease is primarily due to the results and recommendations of an April 2011 sewer user charge study performed by the Authority's engineer. Non-operating revenues increased by \$291,730 to \$347,783 from \$56,053 due to a \$200,000 settlement and the cancellation of \$95,185 in old accounts payable.

Budgetary Highlights

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

The following tables provides a FY 2011 and FY 2010 budget comparison:

	Budget vs. Actual FY 2011		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,569,353	3,901,448	332,095
Non-Operating	<u>50,000</u>	<u>52,598</u>	<u>2,598</u>
	<u>3,619,353</u>	<u>3,954,046</u>	<u>334,693</u>
Expenses:			
Operating	1,738,146	1,700,777	37,369
Non-Operating	<u>1,881,207</u>	<u>1,830,779</u>	<u>50,428</u>
	<u>3,619,353</u>	<u>3,531,556</u>	<u>87,797</u>
Income before Depreciation	<u>0</u>	<u>422,490</u>	<u>422,490</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

Budgetary Highlights (Continued)

	Budget vs. Actual FY 2010		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,569,353	4,233,916	664,563
Non-Operating	<u>50,000</u>	<u>56,053</u>	<u>6,053</u>
	<u>3,619,353</u>	<u>4,289,969</u>	<u>670,616</u>
Expenses:			
Operating	1,738,146	1,653,047	85,099
Non-Operating	<u>1,881,207</u>	<u>1,855,773</u>	<u>25,434</u>
	<u>3,619,353</u>	<u>3,508,820</u>	<u>110,533</u>
Income before Depreciation	<u>0</u>	<u>781,149</u>	<u>781,149</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During fiscal year 2011, the Authority had an increase of \$85,667 in capital assets. The Authority's net property, plant and equipment at fiscal year end was \$24,385,824. This is a \$85,667 increase over last year's net property, plant and equipment of \$24,300,157. A summary of the Authority's capital assets is presented in the following table:

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>
Equipment	345,033	345,033	0
Major Structures and Improvements	7,144,519	7,144,519	0
Structural Equipment and Improvements	13,680,917	13,680,917	0
Less: Accumulated Depreciation	(10,214,391)	(9,528,922)	(685,469)
Work In-Progress	<u>13,429,747</u>	<u>12,658,611</u>	<u>771,136</u>
	<u>24,385,825</u>	<u>24,300,158</u>	<u>85,667</u>

**KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

Capital Assets (Continued)

The Authority's on going capital plan is reviewed each year by the Authority's consulting engineer. There are no notable future capital improvements planned in the 2012 fiscal year.

Debt Administration

At December 31, 2011, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the accreted amount of \$17,632,427. The debt service schedule goes out to 2027. Full details of the specific bond issues outstanding are found in Note 6 to the financial statements and the supplementary schedules.

Economic Factors, Future Years' Budgets and Rates

The Authority's management of the Authority consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments.

Contacting the Authority

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Kearny Municipal Utilities Authority, 39 Central Avenue, Kearny, NJ 07032.

Financial Statements

**KEARNY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31,**

EXHIBIT A

Page 1 of 3

	<u>2011</u>	<u>2010</u>
<u>ASSETS:</u>		
Current Assets:		
Unrestricted:		
Cash and Cash equivalents	\$ 1,706,968	\$ 254,789
User Charges Receivable	<u>66,940</u>	<u>1,861,751</u>
	<u>1,773,908</u>	<u>2,116,540</u>
Restricted:		
Construction Fund:		
Cash and Cash equivalents	1,132,887	436,100
Due From Other Government Agencies	-	419
Due From NJEIT	<u>120,371</u>	<u>1,178,694</u>
	<u>1,253,258</u>	<u>1,615,213</u>
Bond Service Fund:		
Cash and Cash equivalents	<u>154,511</u>	<u>158,332</u>
Bond Reserve Fund:		
Cash and Cash equivalents	355,525	386,845
Investments	829,660	804,255
Accrued Interest Receivable	<u>24,658</u>	<u>24,378</u>
	<u>1,209,843</u>	<u>1,215,478</u>
Renewal and Replacement Fund:		
Cash and Cash equivalents	<u>250,000</u>	<u>250,000</u>
Refund Fund:		
Cash and Cash equivalents	<u>10,815</u>	<u>10,815</u>
Developer's Escrow:		
Cash and Cash equivalents	<u>28,482</u>	<u>13,086</u>
Total Restricted Assets	<u>2,906,909</u>	<u>3,262,924</u>
Non-Current Assets:		
Capital Assets:		
Structures, Improvements and Equipment	21,170,468	21,170,468
Less: Accumulated Depreciation	(10,214,391)	(9,528,922)
Work In Progress	<u>13,429,747</u>	<u>12,658,611</u>
Total Capital Assets	<u>24,385,824</u>	<u>24,300,157</u>
Other Assets:		
Deferred Costs	<u>353,095</u>	<u>374,754</u>
TOTAL ASSETS	<u><u>\$ 29,419,736</u></u>	<u><u>\$ 30,054,375</u></u>

The accompanying "Independent Auditor's Report" and the
"Notes to the Financial Statements" are an integral part of this report.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31,**

EXHIBIT A

Page 2 of 3

	<u>2011</u>	<u>2010</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable - Operations	\$ 94,579	\$ 103,768
Accrued Interest Payable - Revenue Bonds	62,907	66,547
Legal Settlement	-	100,000
Other Liabilities	-	52,362
	<u>157,486</u>	<u>322,677</u>
Payable from Restricted Assets:		
Accounts Payable - Construction	-	4,586
Accrued Interest Payable - NJEIT Bonds	39,524	41,579
Developer's Escrow Payable	28,482	13,086
Bonds Payable - Current Portion	1,189,932	1,159,899
	<u>1,257,938</u>	<u>1,219,150</u>
Total Current Liabilities	<u>1,415,424</u>	<u>1,541,827</u>
Non-Current Liabilities:		
Bonds Payable - Long-Term Portion	16,442,495	17,619,671
Arbitrage Rebate Payable	10,815	10,815
Compensated Absences Payable	62,533	113,129
Unamortized Bond Premiums	34,519	37,128
	<u>16,550,362</u>	<u>17,780,743</u>
Total Non-Current Liabilities	<u>16,550,362</u>	<u>17,780,743</u>
TOTAL LIABILITIES	<u>17,965,786</u>	<u>19,322,570</u>

The accompanying "Independent Auditor's Report" and the
"Notes to the Financial Statements" are an integral part of this report.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31,**

EXHIBIT A

Page 3 of 3

	<u>2011</u>	<u>2010</u>
<u>NET ASSETS:</u>		
Invested in Capital Assets, net of Related Debt	7,192,344	7,032,740
Restricted:		
Construction	1,132,887	436,100
Current Debt Service	114,987	116,753
Future Debt Service	1,209,843	1,215,478
Renewal and Replacement	250,000	250,000
Unrestricted:		
Undesignated	<u>1,553,889</u>	<u>1,680,734</u>
TOTAL NET ASSETS	\$ <u>11,453,950</u>	\$ <u>10,731,805</u>

The accompanying "Independent Auditor's Report" and the
"Notes to the Financial Statements" are an integral part of this report.

KEARNY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
DECEMBER 31,

EXHIBIT B

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
User Charges	\$ 3,884,482	\$ 4,128,127
Interest and Penalties	13,913	80,975
Other Income	<u>3,053</u>	<u>24,814</u>
Total Operating Revenue	<u>3,901,448</u>	<u>4,233,916</u>
Operating Expenses:		
Administrative and General	276,273	334,475
Cost of Providing Services	1,424,504	1,318,572
Depreciation Expense	<u>685,469</u>	<u>681,845</u>
Total Operating Expenses	<u>2,386,246</u>	<u>2,334,892</u>
Operating Income	<u>1,515,202</u>	<u>1,899,024</u>
Non-Operating Revenue (Expenses):		
Interest on Investments	52,598	56,053
Cancellation of Accounts Payable	95,185	-
Bergen Avenue Settlement	200,000	-
Cancellation of Accounts Receivable	(804,830)	-
Interest Expense	(570,880)	(646,292)
Amortization Expense	<u>(31,806)</u>	<u>(31,806)</u>
Non-Operating Income (Loss)	<u>(1,059,733)</u>	<u>(622,045)</u>
Change In Net Assets	455,469	1,276,979
Net Assets - January 1	10,731,805	9,125,714
Contributed Capital:		
NJDEP Grant Contribution	<u>266,676</u>	<u>329,112</u>
Net Assets - December 31	<u>\$ 11,453,950</u>	<u>\$ 10,731,805</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY

COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 4,891,429	\$ 4,026,033
Cash Paid to Vendors and Employees	(1,717,739)	(1,639,757)
Bergen Avenue Settlement	200,000	
Legal Settlement	(100,000)	(100,000)
Net Cash Provided by Operating Activities	<u>3,273,690</u>	<u>2,286,276</u>
Cash Flow from Investing Activities:		
Capital Expenditures	(775,722)	(3,900,468)
Interest Earned on Investments	26,913	39,644
(Increase) Decrease in NJEIT Receivable	1,058,323	1,848,617
Net Cash Provided by (used in) Investing Activities	<u>309,514</u>	<u>(2,012,207)</u>
Cash Flow from Financing Activities:		
Capital Contributions	267,095	932,516
Principal Payment on Bonds and Notes	(1,147,143)	(1,096,726)
Interest Paid on Bonds and Notes	(576,575)	(652,076)
Increase (Decrease) in Deferred Costs	(10,147)	(10,148)
Increase (Decrease) in Developers Escrow	15,396	
Increase (Decrease) in Unamortized Items	(2,609)	(2,609)
Net Cash Used in Financing Activities	<u>(1,453,983)</u>	<u>(829,043)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	2,129,221	(554,974)
Cash and Cash Equivalents at Beginning of Year	<u>1,509,967</u>	<u>2,064,941</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,639,188</u>	<u>\$ 1,509,967</u>
Analysis of Balance:		
Unrestricted	1,706,968	254,789
Restricted	<u>1,932,220</u>	<u>1,255,178</u>
	<u>\$ 3,639,188</u>	<u>\$ 1,509,967</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY

COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
CHANGE IN NET ASSETS	\$ <u>1,515,202</u>	\$ <u>1,899,024</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	685,469	681,845
Cancellation of Accounts Payable	95,185	
Bergen Avenue Settlement	200,000	
Cancellation of Accounts Receivable	(804,830)	
Legal Settlement	(100,000)	(100,000)
Decrease (Increase) in Accounts Receivable	1,794,811	(207,883)
Increase (Decrease) in Accounts Payable	(61,551)	10,560
Increase (Decrease) in Compensated Absences Payable	<u>(50,596)</u>	<u>2,730</u>
Total Adjustments	<u>1,758,488</u>	<u>387,252</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>3,273,690</u></u>	\$ <u><u>2,286,276</u></u>

Notes to Financial Statements

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

1. GENERAL

The Kearny Municipal Utilities Authority (the "Authority") was created by virtue of an ordinance adopted May 25, 1988 by the Town Council of the Town of Kearny (the "Town"). It is a public body, corporate and politic, organized under the laws of the State of New Jersey.

The Authority has the right, power and authority to acquire, use and hold all real and personal property and make and perform all contracts and do all acts and things proper or necessary to design, finance, construct, acquire and operate its system of sewers, and other plants and structures.

The Authority's governing body consists of five members and two alternates appointed by the Mayor of the Town of Kearny.

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

General Bond Resolution

The Board of Commissioners of the Authority adopted the "1988 General Bond Resolution" on November 10, 1988, and adopted Supplemental Resolutions on September 26, 1991, November 20, 1992, November 7, 1996, October 24, 2002 and June 23, 2005 (taken together, the "1988 General Bond Resolution"). These resolutions gave the Authority the ability to issue Bonds.

The Authority has no stockholders or equity holders, and all bond proceeds, revenues or other cash received must be applied for specific purposes, in accordance with the provisions of the statute and related bond resolutions, for the security of the bondholders.

2. SIGNIFICANT ACCOUNTING POLICIES

The Authority's financial transactions are recorded in accounts that are created by various resolutions adopted by the Authority to meet bond covenant requirements (more fully defined in Note 15).

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

The following is a summary of the more significant accounting policies:

A. Basis of Presentation

The financial statements of the Authority have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governmental units. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, accountability or other purposes. The Governmental Accounting Standards Board GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

B. Basis of Accounting

The Authority prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

C. Grant and Contributions

Contributions received are recorded in the period received as contributed capital. Grant and Developer financed construction is recorded in the period in which applicable costs are incurred.

D. Cash Equivalents

Cash and cash equivalents include money market funds and short-term investments including certificates of deposit, with a maturity of three months or less carried at cost, which approximates market.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

D. Cash Equivalents, (continued)

The Authority's investment practices are governed by New Jersey State Statute 40A:5-15. Statutes authorize the Authority to invest in certificates of deposit, repurchase agreements, passbooks, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds and a maturity date not greater than 12 months from the date of purchase. In addition, the Authority can invest in direct debt securities of the United States or obligations guaranteed by the United States, bonds and other obligations of the local municipality or bonds or obligations of school districts of which the Authority is a part or within which the Authority is located unless such investments are expressly prohibited by law.

E. Investments

Investments are stated at fair value.

F. Capital Assets

In order to comply with the requirements of the "New Jersey Local Authorities Accounting Principles and Auditing Standards Manual," the Authority has valued capital assets at historical cost and has recorded depreciation thereon (see Note 5).

Assets capitalized, not including infrastructure assets, have an original cost of \$10,000 or more and over 5 years of useful life. Infrastructure assets capitalized have an original cost of \$50,000 or more. Depreciation is calculated on a straight-line basis for each of the capital asset categories:

Structures and improvements	50 years
Major structural equipment and improvements	20 years
Land and building improvements	10 years
Heavy duty trucks	10 years
Furniture and equipment	5 years

G. Long-Term Debt

All long-term debt is reported as liabilities in the statement of net assets. The long-term debt consists of loans payable and bonds payable.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. Compensated Absences

The Authority's policy regarding sick time permits employees to accumulate earned but unused sick and vacation time, with certain limitations. The liability for these compensated absences is recorded as long-term debt in the statement of net assets.

I. Allowance for Doubtful Account

The Authority does not provide a provision for doubtful accounts since it has the ability to put a lien on any delinquent account over six months.

J. Operating Fund Budget

The budget amounts included in the statement of budget revenues and statement of budget expenditures were approved in accordance with the requirements of the "Local Finance Board" of the State of New Jersey, and were adopted by the Commissioners after legal advertisement and public hearing.

K. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 60, *Accounting and Financial Reporting for Services Concession Arrangements*. This Statement improves financial reporting by addressing issues relating to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The provisions of this Statement generally are required to be applied retroactively for all periods presented. As of December 31, 2011, the Authority had no such service concession agreements.

The Government Accounting Standards Board issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. The objective of this statement is to modify certain requirements for inclusion of component units in the financial reporting entity. Since the Authority has no component units, the provisions of this Statement do not apply to the reporting period ending December 31, 2011.

The Government Accounting Standards Board issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins or the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

The Authority acknowledges this codification and has determined that it will have no effect on the financial presentation as of December 31, 2011.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources, inflows of resources, and net position as defined under the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Since the Authority reports only business-type activities as a program-specific entity, the provisions of this Statement are not applicable.

The Government Accounting Standards Board issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty of swap counterparty's credit support provider. The Authority has determined that this Statement is not applicable for the reporting period ending December 31, 2011.

3. FINANCIAL REPORTING ENTITY

The Governmental Accounting Standards Board Statement 14 requires that disclosure be made in the financial statements regarding the financial reporting entity of governmental units.

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and either the primary government is able to impose its will on the organization; or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

The Authority is a component unit of the primary government of the Town of Kearny. The Board of the Authority is appointed by the Mayor of the Town of Kearny and under the agreement entered into by the Authority and Town of Kearny, the Town is obligated to guarantee the Authority's Debt Service, to the extent not met by other sources.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

4. CASH AND CASH EQUIVALENTS

The Authority's deposit and investment practices are governed by New Jersey State Statute 40A:5-15. GASB Statement No. 3, amended by GASB Statement No. 40, requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits. The Authority does not have a policy for custodial credit risk; however, the State of New Jersey imposes certain collateral requirements for governmental units. These requirements are disclosed in detail in Note 1D.

Deposits

The Authority's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). GUDPA requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. Operating cash, in the form of various checking, and savings accounts, are held in the Authority's name by commercial banking institutions. At December 31, 2011, the carrying amount of the Authority's deposits was \$3,639,188 and the bank balance was \$3,605,737. Of the bank balance, \$500,000 was insured with Federal Deposit Insurance and \$3,105,737 was covered by GUDPA.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's bank accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are uncollateralized (securities not pledged by the depositor), collateralized with securities held by the pledging institution or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2011, all of the Authority's deposits were insured with Federal Deposit Insurance or under the provisions of the Governmental Unit Deposit Protection Act (GUDPA) and not exposed to custodial credit risk. The Authority does not have a policy for custodial credit risk.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

4. CASH AND CASH EQUIVALENTS, (continued)

As of December 31, 2011, cash and cash equivalents of the Authority consisted of the following:

	<u>Cash and Cash Equivalents</u>	<u>Total</u>
Checking Accounts	\$2,644,211	\$2,644,211
Short Term Money Market Accounts	<u>994,977</u>	<u>994,977</u>
	<u>\$3,639,188</u>	<u>\$3,639,188</u>
	<u>Analysis</u>	
Restricted Accounts		\$1,932,220
Unrestricted Accounts		<u>1,706,968</u>
		<u>\$3,639,188</u>

5. INVESTMENTS

At December 31, 2011, the Authority had an investment of \$829,660 in federal notes that mature on May 15, 2012.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment maturities are limited by its bond indenture as a means of managing its exposure to interest rate risk. Additionally, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Monies in the funds established under the Resolutions may be invested at the Authority's direction in Investment Obligations, which are defined by the Resolutions.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

5. INVESTMENTS, (continued)

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The types of allowable investments are bonds or other obligations of the United States or obligations guaranteed by the United States; obligations of federal agencies not exceeding 397 days; bonds or other obligations of the local unit or school districts of which the local unit is a part; government money market mutual funds; local government investment pools; the State of New Jersey Cash Management Fund or agreements to repurchase fully collateralized securities as described in the Statutes.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

6. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

The Authority issued bonds in 2005 and 2007 through the Trust to finance the rehabilitation of the Kearny Pumping Station and the reconstruction and drainage improvements on Jacobus Avenue between Pennsylvania and Second Street in the Town of Kearny. The proceeds of these bonds are held by the Trust until the Authority expends funds on the project. The Authority then submits for reimbursement of these expenditures from the Trust. The following is the remaining amount of funds to be received by the Trust:

	<u>Restated Balance 12/31/2010</u>	<u>Less: Project Credit</u>	<u>Less: Funds Received</u>	<u>Balance 12/31/2011</u>
2005 Project:				
Trust Portion	\$57,508	\$57,508		\$0
2007 Project:				
Trust Portion	280,296		\$250,203	30,093
Fund Portion	<u>840,890</u>	<u> </u>	<u>750,612</u>	<u>90,278</u>
	<u>\$1,178,694</u>	<u>\$57,508</u>	<u>\$1,000,815</u>	<u>\$120,371</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

7. CAPITAL ASSETS

Capital assets are stated at cost, which includes the cost of construction and acquisition of projects, engineering, administrative and financial expenses, interest on bonds during construction, and organization expenses, less income earned on unexpended construction funds. In accordance with GASB Statement No. 34, the Authority has recorded infrastructure assets, consisting mostly of sewer lines and improvements to sewer lines.

Capital assets activity for the years ended December 31, 2011 and 2010 were as follows:

	<u>2009</u>	<u>Additions</u>	<u>2010</u>	<u>Additions</u>	<u>2011</u>
Structures and Improvements	\$7,144,518		\$7,144,518	\$	\$7,144,518
Major Structural Equipment and Improvements	13,680,916		13,680,916		13,680,916
Furniture and Equipment	<u>319,664</u>	<u>25,370</u>	<u>25,370</u>		<u>25,370</u>
Total	21,145,098	25,370	21,170,468	0	21,170,468
Less Accumulated Depreciation	<u>(8,847,077)</u>	<u>\$(681,845)</u>	<u>(9,528,922)</u>	<u>(685,469)</u>	<u>(10,214,391)</u>
	12,298,021	(656,475)	11,641,546	(685,469)	10,956,077
Add Work in Progress	<u>8,911,112</u>	<u>3,747,499</u>	<u>12,658,611</u>	<u>771,136</u>	<u>13,429,747</u>
	<u>\$21,209,133</u>	<u>\$3,091,024</u>	<u>\$24,300,157</u>	<u>\$85,667</u>	<u>\$24,385,824</u>

8. LONG-TERM OBLIGATIONS

The Authority has issued and has outstanding the following bonds at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Series 1991 Sewer Revenue Bonds	\$895,000	\$990,000
Series 1996 Sewer Revenue Bonds	680,000	710,000
Series 2003A Revenue Bonds	5,400,000	5,550,000
Series 2003B Revenue Bonds	3,345,000	3,760,000
Series 2005A NJ Environmental Infrastructure Trust Bonds	2,688,673	2,890,599
Series 2007A NJ Environmental Infrastructure Trust Bonds	<u>4,713,046</u>	<u>4,981,019</u>
	17,721,719	18,881,618
Less:		
Unamortized Loss on Refunding (Series 2003B)	<u>(89,292)</u>	<u>(102,048)</u>
Net Carrying Amount of Debt	<u>\$17,632,427</u>	<u>\$18,779,570</u>
Current Portion	1,189,932	1,159,899
Long-Term Portion	<u>16,442,495</u>	<u>17,619,671</u>
	<u>\$17,632,427</u>	<u>\$18,779,570</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

8. LONG-TERM OBLIGATIONS, (continued)

Presented below is a summary of debt service requirements to maturity:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$1,189,932	\$588,450	\$1,778,382
2013	1,226,201	553,560	1,779,761
2014	1,257,750	516,180	1,773,930
2015	1,302,567	475,465	1,778,032
2016	1,356,769	432,615	1,789,384
2017-2021	5,206,249	1,525,303	6,731,552
2022-2026	3,750,641	930,119	4,680,760
2027-2031	2,036,610	350,713	2,387,323
2032	<u>395,000</u>	<u>18,763</u>	<u>413,763</u>
	<u>\$17,721,719</u>	<u>\$5,391,168</u>	<u>\$23,112,887</u>

A. The Sewer Revenue Bonds, Series 1991

On October 15, 1991, the Authority issued \$1,995,000 of Sewer Revenue Bonds, Series 1991. The Bonds were issued: (a) to pay certain costs of projects related to the existing South Kearny Secondary Sewage Treatment Project and completion costs thereof; (b) to fund the Debt Service Reserve Fund in an amount necessary to satisfy the Debt Service Reserve Requirement under the resolution; and (c) to pay certain costs of issuance of the Bonds.

The maturities of the Sewer Revenue Bonds, Series 1991 are as follows:

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>			<u>Balance Dec.31, 2010</u>	<u>Paid in 2011</u>	<u>Balance Dec.31, 2011</u>
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>			
Series 1991 - Term Bonds	11/15/91	\$1,995,000	7.30%	11/15/19	\$1,080,000			
Series 1991 - Term Bonds - Sinking Fund Obligations				11/15/12	105,000			
				11/15/13	110,000			
				11/15/14	120,000			
				11/15/15	125,000			
				11/15/16	135,000			
				11/15/17	145,000			
				11/15/18	155,000	<u>990,000</u>	<u>95,000</u>	<u>895,000</u>
						<u>\$990,000</u>	<u>\$95,000</u>	<u>\$895,000</u>
Recapitulation of Balance:								
Current Portion of Bonds Payable						<u>\$95,000</u>		<u>\$105,000</u>
Long-term Portion of Bonds Payable						<u>895,000</u>		<u>790,000</u>
						<u>\$990,000</u>		<u>\$895,000</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

8. LONG-TERM OBLIGATIONS, (continued)

B. The Sewer Revenue Bonds, Series 1996

On December 1, 1996, the Authority issued \$1,000,000 of Sewer Revenue Bonds, Series 1996. The Bonds were issued (a) to pay certain costs of the South Kearny Secondary Sewage Treatment Project which remain to be paid in connection with the completion of the Project; (b) to fund the Debt Service Reserve Fund in an amount necessary to satisfy the Debt Service Reserve Requirement under the resolution; and (c) to pay certain costs of issuance of the bonds.

The maturities of the Revenue Bonds, Series 1996 are as follows:

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>			<u>Balance Dec.31, 2010</u>	<u>Paid in 2011</u>	<u>Balance Dec.31, 2011</u>
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>			
Series 1996 - Serial Bonds	12/01/96	\$350,000	5.35%	11/15/12	\$30,000	\$60,000	\$30,000	\$30,000
Series 1996 - Term Bonds		650,000	5.50	11/15/18	220,000			
			5.50	11/15/26	430,000	<u>650,000</u>		<u>650,000</u>
						<u>\$710,000</u>		
Recapitulation of Balance:							<u>\$30,000</u>	<u>\$680,000</u>
Current Portion of Bonds Payable						<u>\$30,000</u>		<u>\$30,000</u>
Long-term Portion of Bonds Payable						<u>680,000</u>		<u>650,000</u>
						<u>\$710,000</u>		<u>\$680,000</u>

C. Revenue Bonds, Series 2003A

On February 26, 2003, the Authority issued \$6,500,000 of Revenue Bonds, Series 2003A. The Bonds were issued (a) to currently refund \$2,560,000 in aggregate principal amount of the Project Notes, Series 1999; (b) to permanently finance the costs of various improvements including, but not limited to, the construction of gravity sewer, sewer pump station, force main and a water collection system; (c) to fund the Debt Service Reserve Fund in an amount necessary to satisfy the Debt Service Reserve Requirement under the resolution; and (d) to pay the costs and expenses associated with the issuance of these bonds.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

8. LONG-TERM OBLIGATIONS, (continued)

C. Revenue Bonds, Series 2003A, (continued)

The maturities of the Revenue Bonds, Series 2003A are as follows:

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>			<u>Balance Dec.31, 2010</u>	<u>Paid in 2011</u>	<u>Balance Dec.31, 2011</u>
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>			
Series 2003A - Serial Bonds	2/26/03	\$6,500,000	3.750%	11/15/12	\$160,000			
			4.000	11/15/13	165,000			
			4.100	11/15/14	170,000			
			4.200	11/15/15	175,000			
			4.300	11/15/16	185,000	\$1,005,000	\$150,000	\$855,000
Series 2003A - Term Bonds			5.000	11/15/23	1,580,000			
			4.750	11/15/32	2,965,000	<u>4,545,000</u>		<u>4,545,000</u>
						<u>\$5,550,000</u>	<u>\$150,000</u>	<u>\$5,400,000</u>
Recapitulation of Balance:								
Current Portion of Bonds Payable						\$150,000		\$160,000
Long-term Portion of Bonds Payable						<u>5,400,000</u>		<u>5,240,000</u>
						<u>\$5,550,000</u>		<u>\$5,400,000</u>

D. Revenue Bonds, Series 2003B

On February 26, 2003, the Authority issued \$6,100,000 of Revenue Bonds, Series 2003B. The Bonds were issued (a) to currently refund \$5,660,000 in aggregate principal amount of the Revenue Refunding Bonds, Series 1992; to fund the Debt Service Reserve Fund in an amount necessary to satisfy the Debt Service Reserve Requirement under the resolution; and (c) to pay the costs and expenses associated with the issuance of these bonds. The cash flow requirement of the Series 2003B Bonds is \$721,927 less than the Series 1992 Bonds for which they were issued to defease, and results in a present value savings of \$627,941.

KEARNY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

8. LONG-TERM OBLIGATIONS, (continued)

D. Revenue Bonds, Series 2003B, (continued)

The maturities of the Revenue Bonds, Series 2003B are as follows:

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>			<u>Balance Dec.31, 2010</u>	<u>Paid in 2011</u>	<u>Balance Dec.31, 2011</u>
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>			
Series 2003B - Serial Bonds	2/26/03	\$6,100,000	3.650%	11/15/12	\$420,000			
			3.750	11/15/13	440,000			
			4.000	11/15/14	460,000			
			4.000	11/15/15	475,000			
			4.125	11/15/16	500,000			
			4.250	11/15/17	515,000			
			4.250	11/15/18	535,000	<u>\$3,760,000</u>	<u>\$415,000</u>	<u>\$3,345,000</u>
Recapitulation of Balance:								
Bonds Payable						\$3,760,000		\$3,345,000
Less: Deferred Charge on Refunding, Net						<u>(102,048)</u>		<u>(89,292)</u>
						<u>\$3,657,952</u>		<u>3,255,708</u>
Current Portion of Bonds Payable						415,000		420,000
Long-term Portion of Bonds Payable						<u>3,242,952</u>		<u>2,835,708</u>
						<u>\$3,657,952</u>		<u>\$3,255,708</u>

E. New Jersey Environmental Infrastructure Trust Loans - 2005A

On November 10, 2005, the Authority received a \$2,899,500 non-interest bearing Fund Loan and a \$1,075,000 interest-bearing Trust Loan from the New Jersey Environmental Infrastructure Trust. This Fund Loan was adjusted \$356,594 by the NJ Bureau of Administration and Management for the fund unspent portion of the Project (adjusted from the back-end of the Loan).

KEARNY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

8. LONG-TERM OBLIGATIONS, (continued)

E. New Jersey Environmental Infrastructure Trust Loans - 2005A, (continued)

The maturities of the New Jersey Environmental Infrastructure Trust Loans are as follows:

<u>Date</u>	<u>Fund Loan</u> <u>Maturities</u>	<u>Trust Loan</u>		<u>Balance</u> <u>Dec. 31,</u> <u>2010</u>	<u>Paid</u> <u>in</u> <u>2011</u>	<u>Balance</u> <u>Dec. 31,</u> <u>2011</u>
		<u>Maturities</u>	<u>Rate</u>			
2/2/2012	\$35,216					
8/1/2012	117,591	45,000	5.000			
2/1/2013	33,156					
8/1/2013	124,685	50,000	5.000			
2/1/2014	30,868					
8/1/2014	122,397	50,000	5.000			
2/1/2015	28,580					
8/1/2015	129,261	55,000	4.000			
2/1/2016	26,566					
8/1/2016	127,248	55,000	4.000			
2/1/2017	24,553					
8/1/2017	134,387	60,000	4.000			
2/1/2018	22,356					
8/1/2018	132,190	60,000	4.250			
2/1/2019	20,022					
8/1/2019	139,009	65,000	4.250			
2/1/2020	17,493					
8/1/2020	136,481	65,000	4.500			
2/1/2021	14,816					
8/1/2021	142,956	70,000	4.375			
2/1/2022	12,013					
8/1/2022	140,153	70,000	4.375			
2/1/2023	9,210					
8/1/2023	92,468	75,000	4.375			
2/1/2024						
8/1/2024		75,000	4.375			
2/1/2025						
8/1/2025		80,000	4.375			
				<u>\$2,890,599</u>	<u>\$201,926</u>	<u>\$2,688,673</u>
Recapitulation of balance:						
Current Portion of Loans Payable				\$201,926		\$197,807
Long-term Portion of Loans Payable				<u>2,688,673</u>		<u>2,490,866</u>
				<u>\$2,890,599</u>		<u>\$2,688,673</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

8. LONG-TERM OBLIGATIONS, (continued)

E. New Jersey Environmental Infrastructure Trust Loans - 2005A, (continued)

This loan was obtained to provide financing for improvements to, and construction of, certain combined sewer outflows. Under the terms of the loans, the Authority pays its contractors for work performed and then submits for reimbursement to the Environmental Infrastructure Trust. The balance of loan proceeds due from the Environmental Infrastructure Trust Fund is detailed in Note 6.

F. New Jersey Environmental Infrastructure Trust Loans - 2007A

On November 8, 2007, the Authority received a \$4,057,500 non-interest bearing Fund Loan and a \$1,460,000 interest-bearing Trust Loan from the New Jersey Environmental Infrastructure Trust.

The maturities of the New Jersey Environmental Infrastructure Trust Loans are as follows:

<u>Date</u>	<u>Fund Loan</u> <u>Maturities</u>	<u>Trust Loan</u> <u>Maturities</u>	<u>Rate</u>	<u>Balance</u> <u>Dec. 31,</u> <u>2010</u>	<u>Paid</u> <u>in</u> <u>2011</u>	<u>Balance</u> <u>Dec. 31,</u> <u>2011</u>
2/2/2012	\$53,203					
8/1/2012	163,922	60,000	3.400			
2/1/2013	51,321					
8/1/2013	162,040	60,000	3.500			
2/1/2014	49,383					
8/1/2014	160,102	60,000	3.600			
2/1/2015	47,390					
8/1/2015	167,336	65,000	5.000			
2/1/2016	44,391					
8/1/2016	173,564	70,000	5.000			
2/1/2017	41,162					
8/1/2017	170,334	70,000	5.000			
2/1/2018	37,933					
8/1/2018	176,332	75,000	5.000			
2/1/2019	34,473					
8/1/2019	182,098	80,000	4.000			
2/1/2020	31,520					
8/1/2020	179,146	80,000	4.000			
2/1/2021	28,568					
8/1/2021	185,420	85,000	5.000			
2/1/2022	24,646					
8/1/2022	190,725	90,000	5.000			

KEARNY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

8. LONG-TERM OBLIGATIONS, (continued)

F. New Jersey Environmental Infrastructure Trust Loans - 2007A, (continued)

<u>Date</u>	<u>Fund Loan</u> <u>Maturities</u>	<u>Trust Loan</u> <u>Maturities</u>	<u>Rate</u>	<u>Balance</u> <u>Dec. 31,</u> <u>2010</u>	<u>Paid</u> <u>in</u> <u>2011</u>	<u>Balance</u> <u>Dec. 31</u> <u>2011</u>
2/1/2023	\$20,495					
8/1/2023	195,800	\$95,000	4.250			
2/1/2024	16,769					
8/1/2024	192,075	95,000	4.500			
2/1/2025	12,825					
8/1/2025	197,357	100,000	4.500			
2/1/2026	8,673					
8/1/2026	202,431	105,000	4.500			
2/1/2027	4,313					
8/1/20257	207,299	110,000	4.250			
				<u>\$4,981.019</u>	<u>\$267.973</u>	<u>\$4,713.046</u>
Recapitulation of balance:						
Current Portion of Loans Payable				\$267,973		\$277,125
Long-term Portion of Loans Payable				<u>4,713.046</u>		<u>4,435.921</u>
				<u>\$4,981.019</u>		<u>\$4,713.046</u>

The loans were obtained to provide financing for improvements to, and construction of, certain combined sewer outflows. Under the terms of the loans, the Authority pays its contracts for work performed and then submits for reimbursement to the Environmental Infrastructure Trust. The balance of loan proceeds due from the Environmental Infrastructure Trust Fund is detailed in Note 6.

9. COMPENSATED ABSENCES AND OTHER LIABILITIES

All Authority employees accrue sick time effective immediately from date of hire, and are capped at a maximum of 120 days. Authority employees cannot accrue vacation time. Accrued sick time owed to employees amounted to \$62,533 at December 31, 2011 and are reflected in the financial statements as compensated absences payable.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

10. PENSION PLAN

Description of System

All of the Authority's employees participate in the Public Employees' Retirement System (PERS), a defined benefit public employee retirement system which has been established by State statute. This system is sponsored and administered by the State of New Jersey. The Public Employees' Retirement System is considered a cost sharing multiple-employer plan. According to the State of New Jersey Administrative Code, all obligations of the system will be assumed by the State of New Jersey should the system terminate.

Public Employees' Retirement System (PERS)

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to certain qualified members. Membership is mandatory for substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State-administered retirement system. Vesting occurs after 8-10 years of service and 25 years for health care coverage. Members are eligible for retirement at age 60 with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service. Early retirement is available to those under age 60 with 25 or more years of credited service. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on contributions. In case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 60, plus 3% for every year under age 55.

Chapter 89, P.L. 2008 increased the PERS eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008; increased the minimum annual compensation required for membership eligibility for new members. Also, it amended the early retirement reduction formula for members hired on or after November 1, 2008 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 62, plus 3% for every year under age 55.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

10. PENSION PLAN, (continued)

Public Employees' Retirement System (PERS), (continued)

Chapter 1, P.L. 2010, effective May 21, 2010, changed the membership eligibility criteria for new members of PERS from the amount of compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60 from 1/55, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 78, P.L. 2011, provides that new members of PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65. Tier 5 members will be eligible for a service retirement benefit at age 65.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Divisions of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS. This amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning 2012 and 8.5% for PFRS, which increased to 10% in October 2011, of the employee's annual compensation, as defined by law. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS and PFRS. In the PERS and PFRS, the employer contribution includes funding for post-retirement medical premiums.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

10. PENSION PLAN, (continued)

Contribution Requirements, (continued)

The Authority's contributions for the past three years were as follows:

<u>Year</u> <u>Ending</u>	<u>PERS</u>
Dec. 31, 2011	\$27,227
Dec. 31, 2010	24,285
Dec. 31, 2009	21,488

Defined Contribution Retirement Program

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a minimum base salary of \$1,500.00 or more, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

If the eligible elected or appointed official will earn less than \$5,000.00 annually, the official may choose to waive participation in the DCRP for that office or position. The waiver is irrevocable.

This retirement program is a new pension system where the value of the pension is based on the amount of the contribution made by the employee, employer and through investment earnings. It is similar to a Deferred Compensation Program where the employee has a portion of tax deferred salary placed into an account that the employee manages through investment option provided by the employer.

The law requires that three classes of employees enroll in the DCRP detailed as follows:

All elected officials taking office on or after July 1, 2007, except that a person who is reelected to an elected office held prior to that date without a break in service may retain in the PERS.

A Governor appointee with advice and consent of the Legislature or who serves at the pleasure of the Governor only during that Governor's term of office.

KEARNY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

10. PENSION PLAN, (continued)

Defined Contribution Retirement Program, (continued)

Other employees commencing service after July 1, 2007, pursuant to an appointment by an elected official or elected governing body which include the statutory untenured Chief Administrative Officer such as the Business Administrator, County Administrator, or Municipal or County Manager, Department Heads, Legal Counsel, Municipal or County Engineer, Municipal Prosecutor and the Municipal Court Judge.

Notwithstanding the foregoing requirements, other employees who hold a professional license or certificate or meet other exceptions are permitted to remain to join or remain in PERS.

Contributions made by employees for DCRP are currently at 5.5% of the base wages. Member contributions are matched by a 3.0% employer contribution.

11. OTHER POSTEMPLOYMENT BENEFITS

The Authority contributes to the State Health Benefits Program ("SHBP"), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pension and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 1991, the Authority authorized participation in the SHBP's post-retirement benefit program through resolution number 91-06-1.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. 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 www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf.

KEARNY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

11. OTHER POSTEMPLOYMENT BENEFITS, (continued)

Funding Policy

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.

At December 31, 2011 and 2010, the Authority had no retired participants eligible for the SHBP.

12. LEGAL SETTLEMENT AGREEMENT

On March 3, 2006, a Court judgment found that the user rates for Education and Health Centers of America ("EHCA") in 2002, 2003 and 2004 were arbitrary and capricious because the majority of the area they were being charged for belonged to the Hudson County Correction ("HCC"). On August 24, 2006, the Authority agreed to a settlement with EHCA of \$500,000 for back charges that will be credited to their account over 3 years and any excess over current charges will be refunded. To balance the overcharges to EHCA, the HCC is being charged for its under charges over the 3 years.

On October 3, 2007, the Authority agreed to an additional settlement with EHCA of \$400,000 for additional back charges that will be credited to their account over 4 years and any excess over current charges will be refunded. The liability for the legal settlement agreements with EHCA was paid in full as of December 31, 2011.

13. ARBITRAGE REBATE PAYABLE

In past years, the Authority has contracted with its Bond Counsel to prepare an Arbitrage Rebate calculation for the Authority. The applicable arbitrage yield requirement is derived from Internal Revenue Service Form 8038-G. Prior Arbitrage Rebate calculations have resulted in the Authority recording a long-term liability payable for Arbitrage Rebate on the Statement of Net Activities and setting aside funds to pay the liability when due, in the Rebate Fund, as Restricted Assets on the Statement of Net Activities. The Authority has not had a current Arbitrage Rebate calculation performed.

KEARNY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

14. SERVICE AGREEMENT WITH THE TOWN OF KEARNY

Pursuant to an Ordinance adopted October 26, 1988, the Authority entered into a Service Contract dated November 15, 1988 with the Town of Kearny.

The Town Service Contract provides that if, in any calendar year, the revenues of the Authority derived from User-Charges shall not be sufficient to pay or provide for (a) operating expenses as defined in the Resolution, (b) the setting aside of any amounts required by the Resolution to be set aside for the payment of the principal of and interest on the Bonds, and on any and all Bonds and Notes of the Authority issued for the Project, or for other purposes of the Authority, and (c) amounts required by the Resolution to be included in Net Revenues, when the Town shall include in its budget and shall pay to the Authority within 60 days or within 15 days of the commencement of the Fiscal Year to which the deficiency relates, an amount equal to the deficiency.

The Town Service Contract provides that debt service be used in lieu of depreciation to compute the deficiency. Under the terms of the Service Contract, there was no deficiency required to be raised by the Town.

15. AMOUNTS REQUIRED BY BOND RESOLUTIONS

The following cash and investment accounts are required by the Authority's bond resolutions:

Construction Reserve

The 1988 Bond Resolution states that a Construction Reserve Fund should be established and maintained for any moneys used to fund the costs of projects or expenses associated with the issuance of bonds. At December 31, 2011 and 2010, the Authority's Construction accounts had balances totaling \$1,132,887 and \$436,100, respectively.

Current Debt Service Reserve

The 1988 Bond Resolution require the Authority to maintain separate Interest and Principal accounts for the purpose of funding debt service during the month in which payments become due. This Resolution was later amended by the 2005 Supplemental Resolution, which established a Current Debt Service Reserve Requirement. The Current Debt Service Requirement states that as of any particular date of computation in a particular fiscal year, an amount of money equal to the unpaid interest and

KEARNY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

15. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)

Current Debt Service Reserve, (continued)

principal then due. This requirement was later adopted in the Authority's 2007 Supplemental Resolution and applies to both the 2005 and 2007 bond issues. At December 31, 2011, the Current Debt Service Reserve was as follows:

Cash and Cash Equivalents		\$154,511
Accrued Interest on NJEIT Bonds	\$39,524	
Current Debt Service Reserve Requirement	<u>114,987</u>	
		<u>154,511</u>
Excess (Deficit)		\$ <u>-0-</u>

Future Debt Service Reserve

The 1988 General Bond Resolution states that as of any particular date, the Debt Service Reserve Fund should have an amount of money equal to the aggregate of principal and interest due with respect to the fiscal year for which the computation is made or in any succeeding fiscal year, whichever is greater. At December 31, 2011, the balance of this account was as follows:

Cash, Investments and Interest Receivable	\$1,209,843
Future Debt Service Reserve Requirement	<u>1,209,843</u>
Excess (Deficit)	\$ <u>-0-</u>

Renewal and Replacement Reserve

The 1988 General Bond Resolution established a separate account to be used for extraordinary renewals, repairs and replacements. At December 31, 2011, the balance of this account was as follows:

Cash and Cash Equivalents	\$250,000
Renewal and Replacement Requirement	<u>250,000</u>
Excess (Deficit)	\$ <u>-0-</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

16. LEASE COMMITMENTS

Land and Building

Pursuant to an operating agreement between the Town and the Authority, the Authority leases land and its principal building from the Town.

The lease term is until December 31, 2018 and the rental rate in effect for the following portions of the lease term is an amount that the Town determines each year by Resolution adopted not less than ninety (90) days prior to the commencement of such year and be governed by the following limitations:

<u>Period (Dates Inclusive)</u>	<u>Maximum Rent Per Annum</u>
January 1, 1999 - December 31, 2018	Not to Exceed 100% of FMV

As used herein, the term "FMV" means the fair market value as agreed to between the parties, or as determined by an MAI appraiser acceptable to both the Authority and the Town, and paid for by the Town, for rental purposes, of the property, taking into consideration its use as a sewerage treatment facility or pumping station, including the land and the existing facility, and omitting from consideration any improvements thereon which have been financed by the Authority.

Rent expense for 2011 and 2010 was never determined by the Town and, therefore, the Authority incurred no expense for either year.

Pump Station and Sewerage Pipelines

The Authority entered into a 50 year lease agreement on March 2, 1997 with Joseph Supor who was the owner of the pump station and sewerage pipelines located on 1802 Harrison Avenue. In 2006, ownership of the lease and property were transferred to J-5 Realty. Under the terms of the lease, the Authority has agreed to operate, maintain and service the pump station and sewerage pipelines, and pay rent at a rate of \$5,000 per year. The lease expires March 2, 2047. The rent expense for the years ended December 31, 2011 and 2010 was \$5,000 and \$5,000, respectively.

17. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

17. RISK MANAGEMENT, (continued)

The Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund (the "JIF"). The JIF is a self-administered group of authorities established for the purpose of providing its members the following low cost coverage:

Workers' Compensation/Employer's Liability
General Liability
Automobile Liability
Property Liability/Boiler and Machinery Liability
Excess Public Employees' Bond/Public Officials' Bond

Members are insured up to \$150,000 for Workers' Compensation, employer's liability, and general and automobile liability. Members are also insured for the following: property to \$25,000; boilers and machinery to \$5,000; excess public employees' bond to \$50,000; and excess public officials' bond to \$25,000. In addition to these coverages provided directly by the JIF, the JIF also purchases the following additional insurance policies from independent third party insurers: general liability and automobile liability to \$10,000,000; public officials and employment practices liability to \$3,000,000; property liability to \$150,000,000; and boiler and machinery liability to \$100,000,000.

The Authority pays actuarial assessments to the JIF annually. If these assessments prove deficient, additional assessments may be levied. The JIF can declare and return excess surplus to members upon approval of the State of New Jersey Department of Insurance. These distributions would be divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body. In accordance with Statement No. 10 of the Governmental Accounting Standards Board, these distributions may be used to reduce the amount recorded for membership expense in the year in which the distribution was declared.

The Authority is also a member of the Municipal Excess Liability Joint Insurance Fund (the "MEL"). The MEL provides additional coverage above the levels provided by the JIF (and before third party insurance) for the following: employer's liability to \$5,850,000; general liability to \$850,000; automobile liability to \$1,000,000; public officials and employment practice liability to \$2,000,000; excess public employees' bond to \$950,000; and excess public officials' bond to \$1,000,000.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2011 AND 2010

18. INTER-ACCOUNT ADVANCES

At December 31, 2011, the following inter-account advances were outstanding between restricted and unrestricted accounts:

	<u>Due From Other Accounts</u>	<u>Due to Other Accounts</u>
Unrestricted Accounts:		
Revenue Account:		
Due to Bond Service Accounts		\$64,649
Due from Bond Reserve Accounts	\$208,941	
Restricted Accounts:		
Bond Service Accounts:		
Due from Revenue Accounts	64,649	
Bond Reserve Accounts:		
Due to Revenue Accounts		<u>208,941</u>
	<u>\$273,590</u>	<u>\$273,590</u>

19. COMMITMENTS AND CONTINGENCIES

The Authority's management and attorney have informed us that there are no material commitments or contingencies as of the date of this report.

20. SUBSEQUENT EVENTS

The Authority has authorized the issuance of \$2,500,000 Series 2011 Subordinate Bonds through the New Jersey Environmental Infrastructure Program. These bonds are being used for the construction of drainage improvements on North Hackensack Avenue in the Town of Kearny, including installation of sewers, drainage inlet structures, manholes and associated appurtenances.

Supplementary Schedules

KEARNY MUNICIPAL UTILITIES AUTHORITY
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Invested in Capital Assets	Restricted			Unrestricted		Total
		Construction Reserve	Current Debt Service Reserve	Future Debt Service Reserve	Renewal and Replacement Reserve	Undesignated	
Operating Revenue:							
User Charges						3,884,482	3,884,482
Interest and Penalties						13,913	13,913
Other Income						3,053	3,053
Total Operating Revenue	-	-	-	-	-	3,901,448	3,901,448
Operating Expense:							
Administrative and General						276,273	276,273
Cost of Providing Services						1,424,504	1,424,504
Depreciation	685,469						685,469
Total Operating Expense	685,469	-	-	-	-	1,700,777	2,386,246
Operating Income	(685,469)	-	-	-	-	2,200,671	1,515,202
Non-Operating Revenue (Expense):							
Interest on Investments						52,598	52,598
Cancellation of Accounts Payable						95,185	95,185
Bergen Avenue Settlement						200,000	200,000
Cancellation of Accounts Receivable						(804,830)	(804,830)
Interest Expense						(570,880)	(570,880)
Amortization	(31,806)						(31,806)
	(31,806)	-	-	-	-	(1,027,927)	(1,059,733)
Net Income (Loss) Before Transfers	(717,275)	-	-	-	-	1,172,744	455,469
Capital Contributions:							
NJDEP Grant Contribution	266,676	-	-	-	-	-	266,676
Transfers:							
Other Transfers	610,203	696,787	(1,766)	(5,635)		(1,299,589)	-
Increase/(Decrease) in Net Assets	159,604	696,787	(1,766)	(5,635)	-	(126,845)	722,145
Net Assets - January 1, 2011	7,032,740	436,100	116,753	1,215,478	250,000	1,680,734	10,731,805
Net Assets - December 31, 2011	7,192,344	1,132,887	114,987	1,209,843	250,000	1,553,889	11,453,950

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Operating Accounts	Construction Accounts	Bond Service Accounts	Bond Reserve Account
Cash, Cash Equivalents and Investments - January 1, 2011	401,610	436,100	89,848	1,369,355
Cash Receipts:				
Interest on Investments	2,114	14	14	24,771
User Charges / Interest and Penalties	4,888,376			
Miscellaneous	3,053	200,000		
NJEIT / NJDEP Receipts	57,509	1,267,909		
Developer Trust				
Transfers	3,223	-	1,210,800	
Total Cash Receipts	4,954,275	1,467,923	1,210,814	24,771
Cash and Investments Available	5,355,885	1,904,023	1,300,662	1,394,126
Cash Disbursements:				
Principal Payments	457,143		690,000	
Interest Payments	55,775		520,800	
Operations	1,809,676			
Capital and Other Expenses		771,136		
Developer Trust				
Transfers	1,470,615	-		
Total Cash Disbursements	3,793,209	771,136	1,210,800	-
Cash, Cash Equivalents and Investments - December 31, 2011	1,562,676	1,132,887	89,862	1,394,126
Analysis of Balance:				
Cash and Cash Equivalents	1,562,676	1,132,887	89,862	564,466
Investments	-	-	-	829,660
	1,562,676	1,132,887	89,862	1,394,126
Unrestricted	1,562,676	-	(64,649)	208,941
Restricted	-	1,132,887	154,511	1,185,185
	1,562,676	1,132,887	89,862	1,394,126

KEARNY MUNICIPAL UTILITIES AUTHORITY

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Renewal and Replacement Account	Rebate Account	Developer's Trust Account	Total
Cash, Cash Equivalents and Investments - January 1, 2011	1,000	-	16,309	2,314,222
Cash Receipts:				
Interest on Investments				26,913
User Charges / Interest and Penalties				4,888,376
Miscellaneous				203,053
NJEIT / NJDEP Receipts				1,325,418
Developer Trust			23,000	23,000
Transfers	249,000	10,815		1,473,838
Total Cash Receipts	249,000	10,815	23,000	7,940,598
Cash and Investments Available	250,000	10,815	39,309	10,254,820
Cash Disbursements:				
Bond Principal Payments				1,147,143
Interest Payments				576,575
Operations				1,809,676
Capital and Other Expenses				771,136
Developer Trust			7,604	7,604
Transfers			3,223	1,473,838
Total Cash Disbursements	-	-	10,827	5,785,972
Cash, Cash Equivalents and Investments - December 31, 2011	250,000	10,815	28,482	4,468,848
Analysis of Balance:				
Cash and Cash Equivalents	250,000	10,815	28,482	3,639,188
Investments	-	-	-	829,660
	250,000	10,815	28,482	4,468,848
Unrestricted	-	-	-	1,706,968
Restricted	250,000	10,815	28,482	2,761,880
	250,000	10,815	28,482	4,468,848

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011

	FY 2011 Adopted Budget	FY 2011 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Revenues:					
Sewer User Charges	3,565,531	3,565,531	3,884,482	318,951	4,128,127
Interest and Penalties	-	-	13,913	13,913	80,975
Miscellaneous	3,822	3,822	3,053	(769)	24,814
Non-operating Investments	50,000	50,000	52,598	2,598	56,053
Total Operating Revenues	3,619,353	3,619,353	3,954,046	334,693	4,289,969
Expenses:					
Administrative Expenses:					
Salaries and Wages	158,700	158,700	108,748	49,952	154,992
Employee Benefits:					
PERS	10,810	10,810	16,384	(5,574)	13,685
Payroll Taxes	14,581	14,581	11,158	3,423	11,116
Medical Insurance	36,941	36,941	36,289	652	68,544
Legal	70,000	70,000	35,066	34,934	11,650
Accounting	30,000	30,000	27,000	3,000	27,000
Insurance	30,000	30,000	14,110	15,890	30,506
Postage and Miscellaneous	18,000	18,000	27,518	(9,518)	16,982
Sub-total Administrative	369,032	369,032	276,273	92,759	334,475
Cost of Providing Services:					
Salaries and Wages	110,500	110,500	105,000	5,500	102,266
Employee Benefits:					
PERS	7,206	7,206	10,843	(3,637)	10,600
Payroll Taxes	9,781	9,781	7,890	1,891	7,823
Medical Insurance	24,627	24,627	44,381	(19,754)	45,696
Solids Removal	18,000	18,000	10,898	7,102	3,368
Equipment Repairs and Supplies	35,000	35,000	119,201	(84,201)	46,778
Utilities	170,000	170,000	169,911	89	139,651
Fees and Permits	500	500	2,798	(2,298)	150
Consulting Fees	70,000	70,000	73,114	(3,114)	92,523
Harrison Avenue Flow Study	35,000	35,000	-	35,000	-
Lab Fees	4,000	4,000	168	3,832	1,717
Education Expenses	4,000	4,000	-	4,000	-
Passaic Valley Sewerage Commission	860,000	860,000	860,000	-	860,000
Property Lease	5,000	5,000	5,000	-	5,000
Trustee Fees	15,500	15,500	15,300	200	3,000
Sub-total Cost of Providing Services	1,369,114	1,369,114	1,424,504	(55,390)	1,318,572
Sub-total Operating	1,738,146	1,738,146	1,700,777	37,369	1,653,047
Other Costs Funded by Operating Revenues:					
Debt Service:					
Talbot Hall Settlement	100,000	100,000	100,000	-	100,000
Interest Expense	621,938	621,938	570,880	51,058	646,292
Bond Principal	1,159,269	1,159,269	1,159,899	(630)	1,109,481
Sub-total Other Costs	1,881,207	1,881,207	1,830,779	50,428	1,855,773
Total Costs Funded by Operating Revenues	3,619,353	3,619,353	3,531,556	87,797	3,508,820
Add: Excess / (Deficit)	-	-	422,490	422,490	781,149
	3,619,353	3,619,353	3,954,046	(334,693)	4,289,969

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>FY 2011 Adopted Budget</u>	<u>FY 2011 Budget as Amended</u>	<u>Paid or Charged</u>	<u>Excess / (Deficit)</u>	<u>Prior Year Actual</u>
Excess of Revenues Over Expenses:			422,490		781,149
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(685,469)		(681,845)
Amortization Expense			(31,806)		(31,806)
Talbot Hall Settlement			100,000		100,000
Cancellation of Accounts Payable			95,185		-
Bergen Avenue Settlement			200,000		-
Cancellation of Accounts Receivable			(804,830)		-
Bond Principal			<u>1,159,899</u>		<u>1,109,481</u>
Total Adjustments			<u>32,979</u>		<u>495,830</u>
Change in Net Assets			<u><u>455,469</u></u>		<u><u>1,276,979</u></u>

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE 4

Page 1 of 1

**SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>FY 2011 Adopted Budget</u>	<u>FY 2011 Budget as Amended</u>	<u>Paid or Charged</u>	<u>Excess / (Deficit)</u>
Financing Sources:				
Debt Authorization	<u>-</u>	<u>-</u>	<u>711,136</u>	<u>711,136</u>
	<u>-</u>	<u>-</u>	<u>711,136</u>	<u>711,136</u>
Capital Outlays:				
Bergen Avenue Pump State Force Main	<u>-</u>	<u>-</u>	<u>13,241</u>	<u>(13,241)</u>
MSLA Landfill	<u>-</u>	<u>-</u>	<u>109,911</u>	<u>(109,911)</u>
Jacobus Avenue Storm Water Drainage	<u>-</u>	<u>-</u>	<u>587,984</u>	<u>(587,984)</u>
Total Capital Outlays	<u>-</u>	<u>-</u>	<u>711,136</u>	<u>(711,136)</u>
Total Costs Funded by Capital Revenue	<u>-</u>	<u>-</u>	<u>711,136</u>	<u>(711,136)</u>
Add: Excess	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>711,136</u>	<u>(711,136)</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2011		Balance Jan. 1, 2011	2011 Issued	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Revenue Bonds (Series 1991)	11/15/1991	7.30%	2012	105,000.00				
		7.30%	2013	110,000.00				
		7.30%	2014	120,000.00				
		7.30%	2015	125,000.00				
		7.30%	2016	135,000.00				
		7.30%	2017	145,000.00				
		7.30%	2018	155,000.00				
					990,000		95,000	895,000
Revenue Bonds (Series 1996)	12/1/1996	5.35%	2012	30,000.00				
		5.50%	2013	30,000.00				
		5.50%	2014	35,000.00				
		5.50%	2015	35,000.00				
		5.50%	2016	40,000.00				
		5.50%	2017	40,000.00				
		5.50%	2018	40,000.00				
		5.60%	2019	45,000.00				
		5.60%	2020	45,000.00				
		5.60%	2021	50,000.00				
		5.60%	2022	50,000.00				
		5.60%	2023	55,000.00				
		5.60%	2024	60,000.00				
		5.60%	2025	60,000.00				
		5.60%	2026	65,000.00				
					710,000		30,000	680,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2011		Balance Jan. 1, 2011	2011 Issued	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
Revenue Bonds (Series 2003A)	2/26/2003	3.75%	2012	160,000.00				
		4.00%	2013	165,000.00				
		4.10%	2014	170,000.00				
		4.20%	2015	175,000.00				
		4.30%	2016	185,000.00				
		5.00%	2017	195,000.00				
		5.00%	2018	205,000.00				
		5.00%	2019	215,000.00				
		5.00%	2020	225,000.00				
		5.00%	2021	235,000.00				
		5.00%	2022	245,000.00				
		5.00%	2023	260,000.00				
		4.75%	2024	270,000.00				
		4.75%	2025	285,000.00				
		4.75%	2026	300,000.00				
		4.75%	2027	310,000.00				
		4.75%	2028	325,000.00				
		4.75%	2029	345,000.00				
		4.75%	2030	360,000.00				
		4.75%	2031	375,000.00				
		4.75%	2032	395,000.00				
					5,550,000		150,000	5,400,000
Revenue Refunding Bonds (Series 2003B)	2/26/2003	3.65%	2012	420,000.00				
		3.75%	2013	440,000.00				
		4.00%	2014	460,000.00				
		4.00%	2015	475,000.00				
		4.13%	2016	500,000.00				
		4.25%	2017	515,000.00				
		4.25%	2018	535,000.00				
					3,760,000		415,000	3,345,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	2011 Issued	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJFIT Bonds (Series 2005A&B) Fund Portion	11/10/2005	n/a	2012	152,807.00				
		n/a	2013	157,841.00				
		n/a	2014	153,265.00				
		n/a	2015	157,841.00				
		n/a	2016	153,814.00				
		n/a	2017	158,940.00				
		n/a	2018	154,546.00				
		n/a	2019	159,031.00				
		n/a	2020	153,974.00				
		n/a	2021	157,772.00				
		n/a	2022	152,166.00				
		n/a	2023	101,676.00				
					1,970,599		156,926	1,813,673

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2011		Balance Jan. 1, 2011	2011 Issued	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJFIT Bonds (Series 2005A&B) Trust Portion	11/10/2005	5.00%	2012	45,000.00				
		5.00%	2013	50,000.00				
		5.00%	2014	50,000.00				
		4.00%	2015	55,000.00				
		4.00%	2016	55,000.00				
		4.00%	2017	60,000.00				
		4.25%	2018	60,000.00				
		4.25%	2019	65,000.00				
		4.50%	2020	65,000.00				
		4.38%	2021	70,000.00				
		4.38%	2022	70,000.00				
		4.38%	2023	75,000.00				
		4.38%	2024	75,000.00				
		4.38%	2025	80,000.00				
					920,000		45,000	875,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2011	2011 Issued	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJFIT Bonds (Series 2007A&B) Fund Portion	11/8/2007	n/a	2012	217,125.00				
		n/a	2013	213,361.00				
		n/a	2014	209,485.00				
		n/a	2015	214,726.00				
		n/a	2016	217,955.00				
		n/a	2017	211,496.00				
		n/a	2018	214,265.00				
		n/a	2019	216,571.00				
		n/a	2020	210,666.00				
		n/a	2021	213,988.00				
		n/a	2022	215,371.00				
		n/a	2023	216,295.00				
		n/a	2024	208,844.00				
		n/a	2025	210,182.00				
		n/a	2026	211,104.00				
		n/a	2027	211,612.00				
					3,626,019		212,973	3,413,046

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2011		Balance Jan. 1, 2011	2011 Issued	2011 Redeemed	Balance Dec. 31, 2011
			Date	Amount				
NJEIT Bonds (Series 2007A&B) Trust Portion	11/8/2007	3.40%	2012	60,000.00				
		3.50%	2013	60,000.00				
		3.60%	2014	60,000.00				
		5.00%	2015	65,000.00				
		5.00%	2016	70,000.00				
		5.00%	2017	70,000.00				
		5.00%	2018	75,000.00				
		4.00%	2019	80,000.00				
		4.00%	2020	80,000.00				
		5.00%	2021	85,000.00				
		5.00%	2022	90,000.00				
		4.25%	2023	95,000.00				
		4.50%	2024	95,000.00				
		4.50%	2025	100,000.00				
		4.50%	2026	105,000.00				
		4.25%	2027	110,000.00				
					1,355,000		55,000	1,300,000
Total Bonds Payable					18,881,618		1,159,899	17,721,719
Less: Unamortized Charge on Refunding					(102,048)		12,756	(89,292)
Bonds Payable (Net)					18,779,570			17,632,427
Current Portion					1,159,899			1,189,932
Noncurrent Portion					17,619,671			16,442,495
					18,779,570			17,632,427

SCHEDULE 6

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2011:

<u>Name</u>	<u>Office</u>
Richard Ferraioli	President
Mary Torres	Vice President
Alberto G. Santos	Treasurer
Carol Jean Doyle	Secretary
Augie Vagueiro	Commissioner
Sean McDonald	Commissioner
Stephanie Ribeiro	Commissioner
Shuaib Firozvi	Executive Director
Hatch Mott McDonald	Engineer
Ferraioli, Wielktoz, Cerullo & Cuva, P.A.	Auditor
Gregg Paster, Esq.	General Counsel
McManimon & Scotland, LLC	Bond Counsel

Single Audit Section

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Members of the
Kearny Municipal Utilities Authority
39 Central Avenue
Kearny, NJ 07032

We have audited the financial statements of the Kearny Municipal Utilities Authority (a component unit of the Town of Kearny) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kearny Municipal Utilities Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kearny Municipal Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effective of the Kearny Municipal Utilities Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (see Finding 2011-1). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kearny Municipal Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as *Finding 2011-2* through *Finding 2011-5*. We noted certain other matters that we reported to management of the Authority in the Comments and Recommendations section of this report (Findings 2011-2 through 2011-5).

The Authority's response to the findings identified in our audit is described in accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of governing body, management, the Division of Local Government Services, Department of Community Affairs, State of New Jersey, Federal Awarding Agencies and Pass Through Entities and is not intended to be and should not be used by anyone other than these specified parties.



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

March 22, 2012

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH NJ OMB CIRCULAR 04-04 AS AMENDED

Honorable Chairman and Members of the
Kearny Municipal Utilities Authority
39 Central Avenue
Kearny, NJ 07032

Compliance

We have audited the compliance of the Kearny Municipal Utilities Authority (a component unit of the Town of Kearny) with the types of compliance requirements described in the *New Jersey Office of Management and Budget State Aid/Grant Compliance Supplement* that are applicable to each of its major state programs for the fiscal year ended December 31, 2011. The Kearny Municipal Utilities Authority's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs are the responsibility of the Kearny Municipal Utilities Authority's management. Our responsibility is to express an opinion on the Kearny Municipal Utilities Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and New Jersey State Treasury Circular Letter 04-04. Those standards and OMB Circular A-133 and NJ OMB Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Kearny Municipal Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Kearny Municipal Utilities Authority's compliance with those requirements.

In our opinion, the Kearny Municipal Utilities Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the fiscal year ended December 31, 2011.

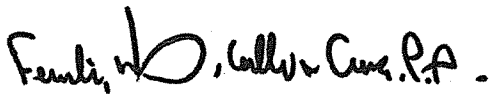
Internal Control Over Compliance

The management of the Kearny Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Kearny Municipal Utilities Authority's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal controls over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the management and the New Jersey State Department of Community Affairs, other state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

March 22, 2012

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

DECEMBER 31, 2011

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity ID Number	Program Amount	Grant Period		Cash Received			Program Expenditures		
				From	To	Prior Years	Current Year	Total	Prior Years	Current Year	Total
U.S. Department of Environmental Protection:											
Pass Through New Jersey Department of Environmental Protection											
Capitalization Grants for Clean Water Revolving Funds:											
Wastewater Treatment Fund	66.458	4860-510-013-702105	\$ 4,057,500	01/01/11	12/31/11	3,216,610	750,612	3,967,222	3,614,601	352,621	3,967,222
Total Federal Financial Assistance						3,216,610	750,612	3,967,222	3,614,601	352,621	3,967,222

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

DECEMBER 31, 2011

State Grantor/Pass-Through Grantor/Program	Pass Through Entity ID No.	State Account Number	Program Amount	Grant Period		Cash Received			Program Expenditures		
				From	To	Prior Years	Current Year	Total	Prior Years	Current Year	Total
<u>New Jersey Department of Environmental Protection:</u>											
NJ Environmental Infrastructure Trust Loan	n/a	100-042-4800-008	\$ 1,352,500	01/01/11	12/31/11	1,072,204	250,203	1,322,407	1,072,204	250,203	1,322,407
Harzardous Substance Remediation - 1D Landfill	n/a	100-042-4815-435	\$ 2,114,000	01/01/11	12/31/11	1,208,649	267,095	1,475,744	1,209,068	266,676	1,475,744
Total State Financial Assistance						2,280,853	517,298	2,798,151	2,281,272	516,879	2,798,151

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

**NOTES TO THE SCHEDULES OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2011**

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal and State Awards present the activity of all federal and state award programs of the Kearny Municipal Utilities Authority. The Authority is defined in Note 1 to the Authority's basic financial statements. All state awards received directly from state agencies, as well as state financial assistance passed through other government agencies is included on the Schedule of Expenditures of State Financial Assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Awards and Financial Assistance are presented on the accrual basis of accounting. These bases of accounting are described in Notes 2(A) to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 and NJ OMB Circular 04-04, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Awards and financial assistance are reported in the Authority's basic financial statements on a GAAP basis as follows:

	Grants Receivable <u>Dec.31, 2010</u>	Grants Awarded	Funds Received	Project Credit	Grants Receivable <u>Dec.31, 2011</u>
Federal Programs:					
U.S. Department of Environmental Protection:					
Capitalization Grants for Clean Water					
Revolving Funds	840,890		750,612		90,278
State Programs:					
N.J. Department of Environmental Protection:					
NJ Environmental Infrastructure Trust Loan (2005)	57,508			57,508	0
NJ Environmental Infrastructure Trust Loan (2007)	280,296		250,203		30,093
Hazardous Substance Remediation	<u>419</u>	<u>266,676</u>	<u>267,095</u>	<u> </u>	<u>0</u>
	<u>1,179,113</u>	<u>266,676</u>	<u>1,267,910</u>	<u>57,508</u>	<u>120,371</u>

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- | | | |
|--|------------------|---------------------------------|
| 1. Reportable condition(s) identified that are not considered to be material weaknesses? | <u> X </u> yes | <u> </u> none reported |
| 2. Material weakness(es) identified? | <u> X </u> yes | <u> </u> no |

Noncompliance material to basic financial statements noted?	<u> </u> yes	<u> X </u> no
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KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

Section I - Summary of Auditor's Results, (continued)

State Awards

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

Type of auditor's report issued on compliance for major programs: unqualified

Internal control over financial reporting:

1. Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

2. Material weakness(es) identified? _____ yes X no

Any audit findings disclosed that are required to be reported in accordance with NJ OMB Circular Letter 04-04?

_____ yes X no

Identification of major programs:

GMIS Number(s)

Name of State Program

N/A

NJ Environmental Infrastructure Trust Fund

N/A

Hazardous Substance Remediation

**KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)**

Schedule II – Financial Statement Findings

FINDING: 2011-1*

STATEMENT OF CONDITION

Inadequate overall internal control design. Additionally, there is an absence of appropriate segregation of duties consistent with appropriate control objectives.

CRITERIA

Statements of Auditing Standards No. 55, Consideration of Internal Control in a Financial Statement Audit, as amended, suggests that a properly designed control environment consist of risk assessment by management, information and communication, monitoring and policies/procedures that help ensure that management directives are carried out and that necessary steps to address risk are taken. Duties should be segregated such that the work of one individual provides a cross-check on the work of another individual. Generally, assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of related assets reduces the opportunities for an individual to both perpetrate and conceal errors or fraud in the normal course of duties.

EFFECT

An inadequate design of internal controls increase risks relating to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Opportunities for an individual to perpetrate and conceal errors or fraud exists. The duties of accounts receivable maintenance, billing and receiving of cash payments and recordkeeping functions are often performed by the same individual.

CAUSE

The Authority's small size has made it difficult to design or implement an overall internal control design and properly segregate duties.

RECOMMENDATION

The Authority should consider the cost / benefit of designing an effective system of internal controls and properly segregating duties.

MANAGEMENT RESPONSE

Management recognizes the importance of internal controls in a governmental setting and is currently considering the cost/benefit of designing and effective system and adding additional personnel to properly segregate duties.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

Schedule II – Financial Statement Findings, (continued)

FINDING: 2011-2*

STATEMENT OF CONDITION

Evidence of failure to properly maintain an itemized fixed assets schedule.

CRITERIA

Governmental entities should maintain a fixed asset list providing the cost and depreciation of property and equipment, as well as any depreciation previously expensed against such listed assets. This list should be updated regularly to include purchases of new capital items and exclude capital assets that have been disposed of or replaced.

EFFECT

Absent or inadequate controls over the safeguarding of assets.

CAUSE

Unknown.

RECOMMENDATION

The Authority should maintain a fixed asset list providing the cost and description of its property and equipment, as well as any depreciation previously expensed against such listed assets.

MANAGEMENT RESPONSE

Management recognizes the importance of maintaining an itemized fixed asset schedule and is investigating possible solutions to resolve this problem.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

Schedule II – Financial Statement Findings, (continued)

FINDING: 2011-3*

STATEMENT OF CONDITION

Arbitrage rebate liability is not being calculated annually.

CRITERIA

Arbitrage rebate excess earnings should be recognized currently. Although the excess earnings are not due to the federal government until the end of each five year period, the liability should be recognized when incurred and measurable.

EFFECT

The arbitrage rebate liability may be material and not properly reported.

CAUSE

The Authority has not contracted a professional service firm to calculate the arbitrage rebate liability.

RECOMMENDATION

The arbitrage rebate liability should be calculated annually to determine if the amount is material and therefore required to be reported.

MANAGEMENT RESPONSE

The Authority will contract a professional service firm to calculate the arbitrage liability.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

Schedule II – Financial Statement Findings, (continued)

FINDING: 2011-4*

STATEMENT OF CONDITION

Vouchers or purchase orders are not being prepared for all disbursements made by the Authority.

CRITERIA

The New Jersey Division of Local Government Services requires that the Authority utilize a formal voucher or purchase order form in its purchasing process.

EFFECT

The Authority is not in compliance with the requirements of the Division of Local Government Services.

CAUSE

Disbursements were made without a proper voucher or purchase order being completed and attached to the supporting documentation.

RECOMMENDATION

A voucher or purchase order should be prepared for every disbursement made by the Authority.

MANAGEMENT RESPONSE

The Authority is in process of upgrading its accounting software which will include a purchase order system.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)

Schedule II – Financial Statement Findings, (continued)

FINDING: 2011-5*

STATEMENT OF CONDITION

Capital expenditures were made without a budgetary capital line item.

CRITERIA

N.J.A.C. 5-31-2.2 states that no Authority shall make appropriations, authorize expenditures or adopt a security agreement for a capital project unless its provisions are in agreement with a previously adopted capital budget, temporary capital budget or amended capital budget.

EFFECT

The Authority is not in compliance with N.J.A.C. 5-31-2.2.

CAUSE

Unknown.

RECOMMENDATION

A resolution amending the capital budget should be made prior to capital expenditure.

MANAGEMENT RESPONSE

Management recognizes the importance of N.J.A.C. 5-31-2.2 and will monitor budget procedures for all future capital expenditures.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011
(continued)**

Section III - State Financial Assistance Findings and Questioned Costs

No matters were reported.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

A review was performed on all prior year recommendations and corrective action was taken on all items, except those noted with an asterisk "*".

General Comments

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

GENERAL COMMENTS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-3

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors, formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the sum of \$36,000 (prior to July 1, 2010, the amount was \$29,000), the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months.

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the opinion of the Authority's attorney should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. No violations were discovered.

Our examination of expenditures revealed no individual payment, contract or agreement "for the performance of any work or the furnishing or hiring of any materials or supplies" in excess of the statutory thresholds where bids had not been previously sought by public advertisement or where a resolution had previously been adopted under the provisions of N.J.S.A. 40A:11-6.

Our review of the Authority's minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

GENERAL COMMENTS, CONTINUED

Problems and weaknesses noted in our review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Should any questions arise as to our comments or recommendations, or should you desire assistance in implementing our recommendations, do not hesitate to call us.

We wish to thank Kearny Municipal Utilities Authority for their cooperation during the performance of our audit.

Respectfully submitted,



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants