KEARNY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF
THE TOWN OF KEARNY)
REPORT OF AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2012

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

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Kearny Municipal Utilities Authority as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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, 2012, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 19 to the financial statements, in 2012 the Authority adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 who considers it to be an essential part of the 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.

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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Kearny Municipal Utilities Authority's financial statements. The schedule of revenues, expenses and changes in net position - restricted and unrestricted; schedule of cash receipts, cash disbursements and changes in cash and investments - unrestricted and restricted; schedule of operating revenue and costs funded by operating revenue compared to budget; schedule of capital budget program funded by financing services; schedule of revenue and revenue refunding bonds; and roster of officials (collectively referred to as the "Supplementary Schedules") are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is also presented for purposes of additional analysis and is also not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2013 on our consideration of the Kearny Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kearny Municipal Utilities Authority's internal control over financial reporting and compliance.

Very truly yours,

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

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

May 1, 2013

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Required Supplementary Information

Management Discussion and Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

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, 2012. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $12,031,429 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $11,100,855, as restated.

- Total net position is comprised of the following:

  (1) Net investment in capital assets of $7,571,030 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 of $2,570,802 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.

  (3) Unrestricted of $1,889,597 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.

- Total liabilities of the Authority increased by $1,120,438 to $19,140,997 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 Authority 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 Position* includes all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets), the consumption of net assets that is applicable to a future period (deferred outflows of resources), the acquisition of net assets that is applicable to a future reporting period (deferred inflows of resources) 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.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position.* 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 Authorities 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 Position* and the *Statement of Revenues, Expenses and Changes in Net Position* report information about the Authority's activities in a way that will help answer this question. These two statements report net position of the Authority and the changes in the position. The reader can think of the Authority's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position 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.

Net Position

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

The Authority's net position at fiscal year-end was $12,031,429. This is a $930,574 increase over last year's restated net position of $11,100,855. A summary of the Authority's statements of net position is presented in the following table:

Condensed Statement of Net Position

	FY 2012	Restated FY 2011	Dollar Change	Percent Change
Current Assets	6,436,988	4,680,817	1,756,171	37.52%
Capital Assets	24,368,128	24,385,824	(17,696)	(0.07)%
Total Assets	30,805,116	29,066,641	1,738,475	5.98%
Deferred Outflows of Resources	455,670	89,292	366,378	410.31%
Current Liabilities	1,519,548	1,415,424	104,124	7.36%
Non-current Liabilities	17,621,449	16,605,135	1,016,314	6.12%
Total Liabilities	19,140,997	18,020,559	1,120,438	6.22%
Deferred Inflows of Resources	88,360	34,519	53,841	155.98%
Net Investment in Capital Assets	7,571,030	6,839,249	731,781	10.70%
Restricted	2,570,802	2,707,717	(136,915)	(5.06)%
Unrestricted	1,889,597	1,553,889	335,708	21.60%
Total Net Position	12,031,429	11,100,855	930,574	8.38%

Net Position (Continued)

A summary of the Authority's prior year statement of net assets is presented with comparative FY 2010 balances in the following table. This comparison has not been restated to reflect the financial reporting requirements of GASB No. 63 and the change in the classification of bond issuance costs required by GASB No. 65.

Condensed Statement of Net Assets

	FY 2011	FY 2010	Dollar Change	Percent Change
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	353,095	374,754	(21,659)	(5.78)%
Total Assets	29,419,736	30,054,375	(634,639)	(2.11)%
Current Liabilities	1,415,424	1,541,827	(126,403)	(8.20)%
Non-current Liabilities	16,550,362	17,780,743	(1,230,381)	(6.92)%
Total Liabilities	17,965,786	19,322,570	(1,356,784)	(7.02)%
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	1,553,889	1,680,734	(126,845)	(7.55)%
Total Net Assets	11,453,950	10,731,805	722,145	6.73%

Net Position (Continued)

Condensed Statement of Revenues, Expenses And Changes in Net Position

	FY 2012	Restated FY 2011	Dollar Change	Percent Change
Operating Revenues	4,041,217	3,901,448	139,769	3.58%
Non-operating Revenues	49,020	347,783	(298,763)	(85.91)%
Total Revenues	4,090,237	4,249,231	(158,994)	(3.74)%
Depreciation	699,754	685,469	14,285	2.08%
Other Operating Expenses	1,766,220	1,700,777	65,443	3.85%
Other Non-operating Expense	693,689	1,385,857	(692,168)	(49.95)%
Total Expenses	3,159,663	3,772,103	(612,440)	(16.24)%
Change in Net Assets	930,574	477,128	453,446	95.04%
Beginning Net Assets	11,100,855	10,731,805	369,050	3.44%
Capital Contributions		266,676	(266,676)	(100.00)%
Prior Period Adjustment		(374,754)	374,754	(100.00)%
Ending Net Assets	12,031,429	11,100,855	930,574	8.38%

The Authority's non-operating revenues in 2011 were greater than non-operating revenue in 2012 as the result of the cancellation of $95,185 in old accounts payable and the receipt of a $200,000 Bergen Avenue Settlement. Non-operating expenses in 2011 were greater than non-operating expenses in 2012 as a result of the cancellation of $804,830 in old accounts receivable.

Net Position (Continued)

A summary of the Authority's prior year statement of revenues, expenses and change in net assets is presented with comparative FY 2010 figures in the following table. This comparison has not been restated to reflect the financial reporting requirements of GASB No. 63 and the change in classification of bond issuance costs required by GASB No. 65.

Condensed Statement of Revenues, Expenses And Changes in Net Assets

	FY 2011	FY 2010	Dollar Change	Percent Change
Operating Revenues	3,901,448	4,233,916	(332,468)	(7.85)%
Non-operating Revenues	347,783	56,053	291,730	520.45%
Total Revenues	4,249,231	4,289,969	(40,738)	(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	1,407,516	678,098	729,418	107.57%
Total Expenses	3,793,762	3,012,990	780,772	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	266,676	329,112	(62,436)	(18.97)%
Ending Net Assets	11,453,950	10,731,805	722,145	6.73%

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 2012 and FY 2011 budget comparison:

Budget vs. Actual
FY 2012

	Budget	Actual	Variance
Revenues:			
Operating	3,697,964	4,041,217	343,253
Non-Operating		49,020	49,020
	3,697,964	4,090,237	392,273
Expenses:			
Operating	1,794,582	1,766,220	28,362
Non-Operating	1,903,382	1,862,967	40,415
	3,697,964	3,629,187	68,777
Income before Depreciation	0	461,050	461,050

Budgetary Highlights (Continued)

Budget vs. Actual
FY 2011

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During fiscal year 2012, the Authority had an increase of $99,995 in capital assets. The Authority's net property, plant and equipment at fiscal year end was $24,368,128. This is a $17,696 decrease over last year's net property, plant and equipment of $24,385,824. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	FY 2012	FY 2011	Dollar Change
Equipment	445,029	345,034	99,995
Major Structures and Improvements	7,144,518	7,144,518	
Structural Equipment and Improvements	13,680,916	13,680,916	
Less: Accumulated Depreciation	(10,914,144)	(10,214,391)	(699,753)
Work In-Progress	14,011,809	13,429,747	582,062
	24,368,128	24,385,824	(17,696)

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, 2012, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of $18,881,740. The debt service schedule goes out to 2032. 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 Authorityers and 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 POSITION
DECEMBER 31,

		2012		Restated 2011
ASSETS:				
Current Assets:				
Unrestricted:				
Cash and Cash equivalents	$	1,951,503	$	1,706,968
User Charges Receivable		120,236		66,940
Total Unrestricted		2,071,739		1,773,908
Restricted:				
Construction Fund:				
Cash and Cash equivalents		972,043		1,132,887
Due From NJEIT		1,717,332		120,371
		2,689,375		1,253,258
Bond Service Fund:				
Cash and Cash equivalents		191,039		154,511
Bond Reserve Fund:				
Cash and Cash equivalents		300,244		355,525
Investments		878,438		829,660
Accrued Interest Receivable		24,443		24,658
		1,203,125		1,209,843
Renewal and Replacement Fund:				
Cash and Cash equivalents		250,000		250,000
Refund Fund:				
Cash and Cash equivalents		10,815		10,815
Developer's Escrow:				
Cash and Cash equivalents		20,895		28,482
Total Restricted Assets		4,365,249		2,906,909
Capital Assets:				
Structures, Improvements and Equipment		21,270,463		21,170,468
Less: Accumulated Depreciation		(10,914,144)		(10,214,391)
Construction In Progress		14,011,809		13,429,747
Total Capital Assets		24,368,128		24,385,824
TOTAL ASSETS	$	30,805,116	$	29,066,641

The accompanying "Notes to the Financial Statements" are an integral part of this report.

KEARNY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31,

		2012		Restated 2011
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Debits:				
Bond Discount - Net		109,507		89,292
Costs in Excess of Advanced Refunding - Net		346,163		-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	455,670	$	89,292
LIABILITIES				
Current Liabilities:				
Payable from Unrestricted Assets:				
Accounts Payable - Operations	$	64,683	$	94,579
Accrued Interest Payable		52,186		62,907
Total Payable from Unrestricted Assets		116,869		157,486
Payable from Restricted Assets:				
Accrued Interest Payable		45,405		39,524
Developer's Escrow Payable		20,895		28,482
Bonds Payable - Current Portion		1,336,379		1,189,932
Total Payable from Restricted Assets		1,402,679		1,257,938
Total Current Liabilities		1,519,548		1,415,424
Non-Current Liabilities:				
Bonds Payable - Long-Term Portion		17,545,361		16,531,787
Arbitrage Rebate Payable		10,815		10,815
Compensated Absenses Payable		65,273		62,533
Total Non-Current Liabilities		17,621,449		16,605,135
TOTAL LIABILITIES		19,140,997		18,020,559
DEFERRED INFLOWS OF RESOURCES				
Deferred Credits:				
Unamortized Bond Premiums		88,360		34,519
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	88,360	$	34,519

The accompanying "Notes to the Financial Statements" are an integral part of this report.

KEARNY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31,

	2012	Restated 2011
NET POSITION		
Net Investment in Capital Assets	7,571,030	6,839,249
Restricted:		
Construction	972,043	1,132,887
Current Debt Service	145,634	114,987
Future Debt Service	1,203,125	1,209,843
Renewal and Replacement	250,000	250,000
Unrestricted:		
Undesignated	1,889,597	1,553,889
TOTAL NET POSITION	$ 12,031,429	$ 11,100,855

The accompanying "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 POSITION
DECEMBER 31,

EXHIBIT B

	2012	Restated 2011
Operating Revenue:		
User Charges	$ 3,882,864	$ 3,884,482
Interest and Penalties	3,490	13,913
Connection Fees	141,653	-
Other Income	13,210	3,053
Total Operating Revenue	4,041,217	3,901,448
Operating Expenses:		
Administrative and General	256,321	276,273
Cost of Providing Services	1,509,899	1,424,504
Depreciation Expense	699,754	685,469
Total Operating Expenses	2,465,974	2,386,246
Operating Income	1,575,243	1,515,202
Non-Operating Revenue (Expenses):		
Interest on Investments	49,020	52,598
Cancellation of Accounts Payable	-	95,185
Bergen Avenue Settlement	-	200,000
Cancellation of Accounts Receivable	-	(804,830)
Bond Issuance Costs	(188,478)	-
Interest Expense	(493,035)	(570,880)
Amortization Expense	(12,176)	(10,147)
Non-Operating Income (Loss)	(644,669)	(1,038,074)
Change In Net Position	930,574	477,128
Net Position - January 1	11,100,855	10,731,805
Prior Period Adjustment:		
Cumulative Effect of Change in Accounting Principle (Implementation of GASB No. 65)	-	(374,754)
Contributed Capital:		
NJDEP Grant Contribution	-	266,676
Net Position - December 31	$ 12,031,429	$ 11,100,855

The accompanying "Notes to the Financial Statements" are an integral part of this report.

KEARNY MUNICIPAL UTILITIES AUTHORITY

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

	2012	Restated 2011
Cash Flows from Operating Activities:		
Cash Received from Customers	$ 3,987,921	$ 4,891,429
Cash Paid to Vendors and Employees	(1,793,377)	(1,717,739)
Bergen Avenue Settlement		200,000
Legal Settlement		(100,000)
Net Cash Provided by Operating Activities	2,194,544	3,273,690
Cash Flow from Investing Activities:		
Capital Expenditures	(682,057)	(775,722)
Interest Earned on Investments	457	26,913
(Increase) Decrease in NJEIT Receivable	(1,596,961)	1,058,323
Net Cash Provided by (used in) Investing Activities	(2,278,561)	309,514
Cash Flow from Financing Activities:		
Capital Contributions		267,095
Bonds Issued	7,479,953	
Bonds Refunded	(5,075,000)	
Principal Payment on Bonds and Notes	(1,244,932)	(1,147,143)
Interest Paid on Bonds and Notes	(497,875)	(576,575)
Bond Issuance Costs	(188,478)	
Increase (Decrease) in Deferred Costs	(12,176)	(10,147)
Increase (Decrease) in Developers Escrow	(7,587)	15,396
Increase (Decrease) in Unamortized Items	(312,537)	(2,609)
Net Cash Used in Financing Activities	141,368	(1,453,983)
Net Increase/(Decrease) in Cash and Cash Equivalents	57,351	2,129,221
Cash and Cash Equivalents at Beginning of Year	3,639,188	1,509,967
Cash and Cash Equivalents at End of Year	$ 3,696,539	$ 3,639,188
Analysis of Balance:		
Unrestricted	1,951,503	1,706,968
Restricted	1,745,036	1,932,220
	$ 3,696,539	$ 3,639,188

The accompanying "Notes to the Financial Statements" are an integral part of this report.

KEARNY MUNICIPAL UTILITIES AUTHORITY

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

	2012	Restated 2011
CHANGE IN OPERATING NET POSITION	$ 1,575,243	$ 1,515,202
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	699,754	685,469
Cancellation of Accounts Payable		95,185
Bergen Avenue Settlement		200,000
Cancellation of Accounts Receivable		(804,830)
Legal Settlement		(100,000)
Decrease (Increase) in Accounts Receivable	(53,296)	1,794,811
Increase (Decrease) in Accounts Payable	(29,897)	(61,551)
Increase (Decrease) in Compensated Absenses Payable	2,740	(50,596)
Total Adjustments	619,301	1,758,488
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,194,544	$ 3,273,690

Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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 14).

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.

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net asset reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The classifications of net position are defined as follows:

- *Net investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather that portion of the debt is included in the same net position component as the unspent proceeds.

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

A. Basis of Presentation, (continued)

- *Restricted* - This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt convents), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted* - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

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 7).

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 position. The long-term debt consists of loans payable and bonds payable.

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.

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

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 Position

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position 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 position is 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.

M. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority has applied GASB No. 65 for the year ending December 31, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a government financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting Guidance Contained in Pre-November 20, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The Authority does not believe this Statement will materially affects its current practice.

The Government Accounting Standards Board issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision - useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve financial reporting by state and local government for pensions. It also improves information provided by state and local governmental employees about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating transparency. This Statement is effective for financial statements for fiscals years beginning after June 15, 2014. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term "government combinations" includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements beginning after December 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

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.

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 Unity 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, 2012, the carrying amount of the Authority's deposits was $3,696,539 and the bank balance was $3,013,129. Of the bank balance, $500,000 was insured with Federal Deposit Insurance and $2,513,129 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 it's 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, 2012, 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.

4. CASH AND CASH EQUIVALENTS, (continued)

As of December 31, 2012, cash and cash equivalents of the Authority consisted of the following:

	Cash and Cash Equivalents	Total
Checking Accounts	$2,726,113	$2,726,113
Short Term Money Market Accounts	970,426	970,426
	$3,696,539	$3,696,539

	Analysis
Restricted Accounts	$1,745,036
Unrestricted Accounts	1,951,503
	$3,696,539

5. INVESTMENTS

At December 31, 2012, the Authority had an investment of $878,438 in federal notes that mature on May 15, 2013.

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.

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 2007 and 2012 through the Trust to finance the reconstruction and drainage improvements on Jacobus Avenue between Pennsylvania and Second Street in the Town of Kearny and the extension of existing stormwater sewer mains. 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:

	Restated Balance 12/31/2011	Additional Loan Awards	Less: Funds Received/ Credited	Balance 12/31/2012
2007 Project:				
Trust Portion	$30,093	$	$	$30,093
Fund Portion	90,278			90,278
2012 Project:				
Trust Portion		468,317	71,402	396,915
Capital Interest		15,393	6,095	9,298
Fund Portion		1,404,953	214,205	1,190,748
	$120,371	$1,888,663	$291,702	$1,717,332

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, 2012 and 2011 were as follows:

	2010	Additions	2011	Additions	2012
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	345,034		345,034	99,995	445,029
Total	21,170,468	0	21,170,468	99,995	21,270,463
Less Accumulated Depreciation	(9,528,922)	(685,469)	(10,214,391)	(699,753)	(10,914,144)
	11,641,546	(685,469)	10,956,077	(599,758)	10,356,319
Add Construction in Progress	12,658,611	771,136	13,429,747	582,062	14,011,809
	$24,300,157	$85,667	$24,385,824	($17,696)	$24,368,128

8. LONG-TERM OBLIGATIONS

The Authority has issued and has outstanding the following bonds at December 31, 2012 and 2011:

	2012	2011
Series 1991 Sewer Revenue Bonds	$790,000	$895,000
Series 1996 Sewer Revenue Bonds	650,000	680,000
Series 2003A Revenue Bonds	165,000	5,400,000
Series 2003B Revenue Bonds	2,925,000	3,345,000
Series 2005A NJ Environmental Infrastructure Trust Bonds	2,490,866	2,688,673
Series 2007A NJ Environmental Infrastructure Trust Bonds	4,435,921	4,713,046
Series 2012ABC NJ Environmental Infrastructure Trust Bonds	1,854,953	
Series 2012 Revenue Refunding Bonds	5,570,000	
Net Carrying Amount of Debt	$18,881,740	$17,721,719
Current Portion	1,336,379	1,189,932
Long-Term Portion	17,545,361	16,531,787
	$18,881,740	$17,721,719

8. LONG-TERM OBLIGATIONS, (continued)

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

Year	Principal	Interest	Total
2013	$1,336,378	$512,249	$1,848,627
2014	1,398,015	473,669	1,871,684
2015	1,442,832	432,874	1,875,706
2016	1,492,035	390,024	1,882,059
2017	1,535,701	343,994	1,879,695
2018-2022	5,294,678	1,195,088	6,489,766
2023-2027	4,156,039	698,950	4,854,989
2028-2032	2,226,062	217,500	2,443,562
	$18,881,740	$4,264,348	$23,146,088

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:

	Original		Maturities and Obligations			Balance	Paid	Balance
Description	Date	Amount	Rate	Date	Amount	Dec.31, 2011	in 2012	Dec.31, 2012
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				11/15/13	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			
						895,000	105,000	790,000
						$895,000	$105,000	$790,000
Recapitulation of Balance:								
Current Portion of Bonds Payable						$105,000		$110,000
Long-term Portion of Bonds Payable						790,000		680,000
						$895,000		$790,000

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:

	Original		Maturities and Obligations			Balance	Paid	Balance
Description	Date	Amount	Rate	Date	Amount	Dec.31, 2011	in 2012	Dec.31, 2012
Series 1996 - Serial Bonds	12/01/96	$350,000	5.35%			$30,000	$30,000	$0
Series 1996 - Term Bonds		650,000	5.50	11/15/18	220,000			
			5.50	11/15/26	430,000	650,000		650,000
						$680,000	$30,000	$650,000
Recapitulation of Balance:								
Current Portion of Bonds Payable						$30,000		$30,000
Long-term Portion of Bonds Payable						650,000		620,000
						$680,000		$650,000

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. On November 15, 2012, $5,075,000 of the Revenue Bonds, Series 2003A were refunded with Revenue Refunding Bonds, Series 2012.

8. LONG-TERM OBLIGATIONS, (continued)

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

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

	Original		Maturities and Obligations			Balance Dec.31,	Paid in	Balance Dec.31,
Description	Date	Amount	Rate	Date	Amount	2011	2012	2012
Series 2003A - Serial Bonds	2/26/03	$6,500,000	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	$855,000	$690,000	$165,000
Series 2003A - Term Bonds			5.000	11/15/23	1,580,000			
			4.750	11/15/32	2,965,000	4,545,000	4,545,000	
						$5,400,000	$5,235,000	$165,000
Recapitulation of Balance:								
Current Portion of Bonds Payable						$160,000		$165,000
Long-term Portion of Bonds Payable						5,240,000		
						$5,400,000		$165,000

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.

8. LONG-TERM OBLIGATIONS, (continued)

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

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

	Original		Maturities and Obligations			Balance Dec.31,	Paid in	Balance Dec.31,
Description	Date	Amount	Rate	Date	Amount	2011	2012	2012
Series 2003B - Serial Bonds	2/26/03	$6,100,000	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	$3,345,000	$420,000	2,925,000
Recapitulation of Balance:								
Current Portion of Bonds Payable						420,000		440,000
Long-term Portion of Bonds Payable						2,925,000		2,485,000
						$3,345,000		$2,925,000

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).

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:

Date	Fund Loan Maturities	Trust Loan Maturities	Trust Loan Rate	Balance Dec. 31, 2011	Paid in 2012	Balance Dec. 31, 2012
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			
				$2,688,673	$197,807	$2,490,866

	Dec. 31, 2011	Dec. 31, 2012
Recapitulation of balance:		
Current Portion of Loans Payable	$197,807	$207,841
Long-term Portion of Loans Payable	2,490,866	2,283,025
	$2,688,673	$2,490,866

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 was received in full.

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:

Date	Fund Loan Maturities	Trust Loan Maturities	Trust Loan Rate	Balance Dec. 31, 2011	Paid in 2012	Balance Dec. 31, 2012
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			

8. LONG-TERM OBLIGATIONS, (continued)

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

Date	Fund Loan Maturities	Trust Loan Maturities	Trust Loan Rate	Balance Dec. 31, 2011	Paid in 2012	Balance Dec. 31 2012
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					
8/1/2027	207,299	110,000	4.250			
				$4,713,046	$277,125	$4,435,921
Recapitulation of balance:						
Current Portion of Loans Payable				$277,125		$273,361
Long-term Portion of Loans Payable				4,435,921		4,162,560
				$4,713,046		$4,435,921

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.

8. LONG-TERM OBLIGATIONS, (continued)

G. New Jersey Environmental Infrastructure Trust Loans - 2012ABC

On May 3, 2012, the Authority received a $1,404,953 non-interest bearing Fund Loans and a $450,000 interest-bearing Trust Loan from the New Jersey Environmental Infrastructure Trust.

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

	Fund Loan	Trust Loan		Issued	Paid	Balance
Date	Maturities	Maturities	Rate	in 2012	in 2012	Dec. 31, 2012
2/1/2013	$					
8/1/2013	50,177	15,000	2.000			
2/1/2014	25,088					
8/1/2014	50,177	15,000	3.000			
2/1/2015	25,089					
8/1/2015	50,177	15,000	4.000			
2/1/2016	25,088					
8/1/2016	50,177	15,000	5.000			
2/1/2017	25,089					
8/1/2017	50,177	20,000	5.000			
2/1/2018	25,088					
8/1/2018	50,177	20,000	5.000			
2/1/2019	25,089					
8/1/2019	50,177	20,000	5.000			
2/1/2020	25,088					
8/1/2020	50,177	20,000	5.000			
2/1/2021	25,089					
8/1/2021	50,177	20,000	5.000			
2/1/2022	25,088					
8/1/2022	50,177	25,000	5.000			
2/1/2023	25,089					
8/1/2023	50,177	25,000	5.000			
2/1/2024	25,088					
8/1/2024	50,177	25,000	5.000			
2/1/2025	25,089					
8/1/2025	50,177	25,000	5.000			
2/1/2026	25,088					
8/1/2026	50,177	30,000	5.000			
2/1/2027	25,088					
8/1/2027	50,177	30,000	3.000			
2/1/2028	25,088					
8/1/2028	50,177	30,000	3.000			
2/1/2029	25,088					
8/1/2029	50,177	30,000	3.125			
2/1/2030	25,088					
8/1/2030	50,177	35,000	3.200			
2/1/2031	25,088					
8/1/2031	50,177	35,000	3.250			
	$1,404,953	$450,000		$1,854,953	$ -0-	$1,854,953

8. LONG-TERM OBLIGATIONS, (continued)

G. New Jersey Environmental Infrastructure Trust Loans - 2012ABC, (continued)

Date	Fund Loan Maturities	Trust Loan Maturities	Trust Loan Rate	Issued in 2012	Paid in 2012	Balance Dec. 31, 2012
Recapitulation of balance:						
Current Portion of Loans Payable						$65,177
Long-term Portion of Loans Payable						1,789,776
						$1,854,953

The loans were obtained to provide financing for construction of drainage improvements on North Hackensack Avenue in the Town of Kearny, including installation of sewers, drainage inlet structures, manholes and associated appurtenances.

H. Revenue Refunding Bonds, Series 2012

On July 17, 2012, the Authority issued $5,625,000 of Revenue Refunding Bonds, Series 2012. The Bonds were issued to provided funds to advance refund $5,075,000 aggregate principal amount of Revenue Bonds, Series 2003, originally issued in the aggregate principal amount of $6,500,000.

The maturities of the Revenue Refunding Bonds, Series 2012 are as follows:

Description	Original Date	Original Amount	Maturities and Obligations Rate	Maturities and Obligations Date	Maturities and Obligations Amount	Issued in 2012	Paid in 2012	Balance Dec.31, 2012
Series 2012 - Serial Bonds	7/17/2012	$5,625,000	2.000%	11/15/13	$45,000			
			3.000	11/15/14	220,000			
			3.000	11/15/15	225,000			
			3.000	11/15/16	230,000			
			3.000	11/15/17	240,000			
			2.000	11/15/18	250,000			
			3.000	11/15/19	255,000			
			3.000	11/15/20	260,000			
			3.000	11/15/21	265,000			
			3.000	11/15/22	275,000			
			3.000	11/15/23	285,000			
			3.375	11/15/24	290,000			
			3.375	11/15/25	300,000			
			3.375	11/15/26	315,000			
			3.375	11/15/27	320,000			
			3.750	11/15/28	330,000			
			3.750	11/15/29	350,000			
			3.750	11/15/30	360,000			
			3.750	11/15/31	370,000			
			3.750	11/15/32	385,000	$5,625,000	$55,000	5,570,000
Recapitulation of Balance:								
Current Portion of Loans Payable								45,000
Long-term Portion of Bonds Payable								5,525,000
								$5,570,000

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 $65,273 at December 31, 2012 and are reflected in the financial statements as compensated absences payable.

10. PENSION PLAN

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained in writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS operate and to the benefit provisions of those systems.

This new legislation's provisions impacting employee pension and health benefits include:

- 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 early retirement benefit without a reduction of 1/4 to 1 percent for each month that the member is under age 65.

- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.

10. PENSION PLAN, (continued)

- The annual benefit under special retirement for new PERS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.

- Active member contribution rates have increased. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For Fiscal Year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.

- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Funding Status and Funding Progress

The funded status and funding progress of the retirement system is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate or return for the retirement systems and (2) 5.45 percent for projected salary increased for the PERS.

10. PENSION PLAN, (continued)

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey legislation with the amount of contributions by the State of New Jersey contingent upon the Annual Appropriations Act. As defined, the retirement systems require employee contributions based on 6.5% for PERS and 5.50% for DCRP of the employee's annual compensation.

Annual Pension Costs (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2012 for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. PERS employer contributions are made annually by the Authority to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

Three Year Trend Information for PERS

Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/12	$39,127	100%	$ 0
12/31/11	27,227	100%	0
12/31/10	24,285	100%	0

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 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 annually, the official may choose to waiver participation in the DCRP for that office or position. The waiver is irrevocable.

10. PENSION PLAN, (continued)

Defined Contribution Retirement Program, (continued)

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.

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.

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.

11. OTHER POSTEMPLOYMENT BENEFITS, (continued)

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.

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, 2012 and 2011, the Authority had no retired participants eligible for the SHBP.

12. 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 Position and setting aside funds to pay the liability when due, in the Rebate Fund, as Restricted Assets on the Statement of Net Position. The Authority has not had a current Arbitrage Rebate calculation performed.

13. 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.

13. SERVICE AGREEMENT WITH THE TOWN OF KEARNY, (continued)

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.

14. 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, 2012 and 2011, the Authority's Construction accounts had balances totaling $972,043 and $1,132,887, 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 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, 2012, the Current Debt Service Reserve was as follows:

Cash and Cash Equivalents		$191,039
Accrued Interest on NJEIT Bonds	$45,405	
Current Debt Service Reserve Requirement	145,634	
		191,039
Excess (Deficit)		$ -0-

14. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)

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, 2012, the balance of this account was as follows:

Cash, Investments and Interest Receivable	$1,203,125
Future Debt Service Reserve Requirement	1,203,125
Excess (Deficit)	$ -0-

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, 2012, the balance of this account was as follows:

Cash and Cash Equivalents	$250,000
Renewal and Replacement Requirement	250,000
Excess (Deficit)	$ -0-

15. 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:

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

15. LEASE COMMITMENTS, (continued)

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 2012 and 2011 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, 2012 and 2011 was $5,000 and $5,000, respectively.

16. 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.

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

16. RISK MANAGEMENT, (continued)

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.

17. INTER-ACCOUNT ADVANCES

At December 31, 2012, the following inter-account advances were outstanding between restricted and unrestricted accounts:

	Due From Other Accounts	Due to Other Accounts
Unrestricted Accounts:		
Revenue Account:		
Due to Construction Accounts		$125,000
Due to Bond Service Accounts		96,855
Due from Bond Reserve Accounts	$265,402	
Restricted Accounts:		
Construction Accounts:		
Due from Revenue Accounts	125,000	
Bond Service Accounts:		
Due from Revenue Accounts	96,855	
Bond Reserve Accounts:		
Due to Revenue Accounts		265,402
	$487,257	$487,257

18. 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.

19. PRIOR PERIOD ADJUSTMENTS

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement requires, among other things, debt issuance costs, except any portion related to prepaid issuance costs, to be recognized as an expense in the period incurred. As a result, all previously unamortized bond issuance costs have been adjusted retroactively and are shown as a prior period adjustment on the 2011 financial statements.

20. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through May 1, 2013, the date which the financial statements were available to be issued and no additional items were noted for disclosure or adjustment.

Supplementary Schedules

KEARNY MUNICIPAL UTILITIES AUTHORITY

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2012

		Restricted				Unrestricted	
	Net Investment in Capital Assets	Construction Reserve	Current Debt Service Reserve	Future Debt Service Reserve	Renewal and Replacement Reserve	Undesignated	Total
Operating Revenue:							
User Charges						3,882,864	3,882,864
Interest and Penalties						3,490	3,490
Connection Fees						141,653	141,653
Other Income						13,210	13,210
Total Operating Revenue	-	-	-	-	-	4,041,217	4,041,217
Operating Expense:							
Administrative and General						256,321	256,321
Cost of Providing Services						1,509,899	1,509,899
Depreciation	699,754						699,754
Total Operating Expense	699,754	-	-	-	-	1,766,220	2,465,974
Operating Income	(699,754)	-	-	-	-	2,274,997	1,575,243
Non-Operating Revenue (Expense):							
Interest on Investments						49,020	49,020
Bond Issuance Costs	(188,478)						(188,478)
Interest Expense						(493,035)	(493,035)
Amortization	(12,176)						(12,176)
	(200,654)	-	-	-	-	(444,015)	(644,669)
Net Income (Loss) Before Transfers	(900,408)	-	-	-	-	1,830,982	930,574
Transfers:							
Other Transfers	1,632,189	(160,844)	30,647	(6,718)		(1,495,274)	-
Increase/(Decrease) in Net Position	731,781	(160,844)	30,647	(6,718)	-	335,708	930,574
Restated Net Position - January 1, 2012	6,839,249	1,132,887	114,987	1,209,843	250,000	1,553,889	11,100,855
Net Position - December 31, 2012	7,571,030	972,043	145,634	1,203,125	250,000	1,889,597	12,031,429

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, 2012

	General Operating Accounts	Construction Accounts	Bond Service Accounts	Bond Reserve Account
Cash, Cash Equivalents and Investments - January 1, 2012	1,562,676	1,132,887	89,862	1,394,126
Cash Receipts:				
Interest on Investments	2,860	1,183	11	45,181
User Charges / Interest and Penalties	3,859,478			
Miscellaneous / Connection Fees	131,542	-		
NJEIT / NJDEP Receipts		285,607		
Developer Trust				
Transfers	4,312		1,213,197	4,777
Total Cash Receipts	3,998,192	286,790	1,213,208	49,958
Cash and Investments Available	5,560,868	1,419,677	1,303,070	1,444,084
Cash Disbursements:				
Principal Payments	504,932		740,000	
Interest Payments	36,634		468,886	
Operations	1,793,377			
Capital and Other Expenses	99,995	568,322		
Developer Trust				
Transfers	1,217,974	4,312		
Total Cash Disbursements	3,652,912	572,634	1,208,886	-
Cash, Cash Equivalents and Investments - December 31, 2012	1,907,956	847,043	94,184	1,444,084
Analysis of Balance:				
Cash and Cash Equivalents	1,907,956	847,043	94,184	565,646
Investments	-	-	-	878,438
	1,907,956	847,043	94,184	1,444,084
Unrestricted	1,907,956	(125,000)	(96,855)	265,402
Restricted	-	972,043	191,039	1,178,682
	1,907,956	847,043	94,184	1,444,084

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, 2012

	Renewal and Replacement Account	Rebate Account	Developer's Trust Account	Total
Cash, Cash Equivalents and Investments - January 1, 2012	250,000	10,815	28,482	4,468,848
Cash Receipts:				
Interest on Investments				49,235
User Charges / Interest and Penalties				3,859,478
Miscellaneous				131,542
NJEIT / NJDEP Receipts				285,607
Developer Trust			49,500	49,500
Transfers				1,222,286
Total Cash Receipts	-	-	49,500	5,597,648
Cash and Investments Available	250,000	10,815	77,982	10,066,496
Cash Disbursements:				
Bond Principal Payments				1,244,932
Interest Payments				505,520
Operations				1,793,377
Capital and Other Expenses				668,317
Developer Trust			57,087	57,087
Transfers				1,222,286
Total Cash Disbursements	-	-	57,087	5,491,519
Cash, Cash Equivalents and Investments - December 31, 2012	250,000	10,815	20,895	4,574,977
Analysis of Balance:				
Cash and Cash Equivalents	250,000	10,815	20,895	3,696,539
Investments	-	-	-	878,438
	250,000	10,815	20,895	4,574,977
Unrestricted	-	-	-	1,951,503
Restricted	250,000	10,815	20,895	2,623,474
	250,000	10,815	20,895	4,574,977

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012

	FY 2012 Adopted Budget	FY 2012 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Revenues:					
Sewer User Charges	3,695,733	3,695,733	3,882,864	187,131	3,884,482
Interest and Penalties	-	-	3,490	3,490	13,913
Connection Fees	-	-	141,653	141,653	-
Miscellaneous	2,231	2,231	13,210	10,979	3,053
Non-operating Investments	-	-	49,020	49,020	52,598
Total Operating Revenues	3,697,964	3,697,964	4,090,237	392,273	3,954,046
Expenses:					
Administrative Expenses:					
Salaries and Wages	72,095	97,095	96,910	185	108,748
Employee Benefits:					
PERS	10,695	10,695	15,651	(4,956)	16,384
Payroll Taxes	6,015	8,015	7,550	465	11,158
Medical Insurance	37,792	37,792	32,604	5,188	36,289
Legal	60,000	24,500	22,432	2,068	35,066
Accounting	30,000	30,000	27,000	3,000	27,000
Insurance	25,000	23,500	23,469	31	14,110
Postage and Miscellaneous	35,000	26,500	30,705	(4,205)	27,518
Sub-total Administrative	276,597	258,097	256,321	1,776	276,273
Cost of Providing Services:					
Salaries and Wages	110,430	104,930	107,548	(2,618)	105,000
Employee Benefits:					
PERS	16,043	25,043	23,476	1,567	10,843
Payroll Taxes	8,948	8,948	8,111	837	7,890
Medical Insurance	42,564	42,564	42,895	(331)	44,381
Solids Removal	-	14,000	13,267	733	10,898
Equipment Repairs and Supplies	150,000	150,000	164,262	(14,262)	119,201
Utilities	175,000	175,000	107,237	67,763	169,911
Fees and Permits	-	-	913	(913)	2,798
Consulting Fees	75,000	125,000	144,079	(19,079)	73,114
Sewer Cleaning / TV	-	-	3,000	(3,000)	-
Lab Fees	-	-	1,681	(1,681)	168
Education Expenses	-	-	1,908	(1,908)	-
Passaic Valley Sewerage Commission	860,000	860,000	860,000	-	860,000
Property Lease	5,000	5,000	5,000	-	5,000
NJEIT Loan Administration Fee	-	10,000	10,622	(622)	-
Trustee Fees	-	16,000	15,900	100	15,300
Sub-total Cost of Providing Services	1,442,985	1,536,485	1,509,899	26,586	1,424,504
Sub-total Operating	1,719,582	1,794,582	1,766,220	28,362	1,700,777

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012

	FY 2012 Adopted Budget	FY 2012 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Other Costs Funded by Operating Revenues:					
Debt Service:					
Talbot Hall Settlement	-	-	-	-	100,000
Interest Expense	588,450	533,450	493,035	40,415	570,880
Bond Principal	1,189,932	1,244,932	1,244,932	-	1,159,899
Reserves:					
Construction Reserve	200,000	125,000	125,000	-	-
Sub-total Other Costs	1,978,382	1,903,382	1,862,967	40,415	1,830,779
Total Costs Funded by Operating Rev	3,697,964	3,697,964	3,629,187	68,777	3,531,556
Add: Excess / (Deficit)	-	-	461,050	461,050	422,490
	3,697,964	3,697,964	4,090,237	(392,273)	3,954,046
Excess of Revenues Over Expenses:			461,050		422,490
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(699,754)		(685,469)
Amortization Expense			(12,176)		(10,147)
Talbot Hall Settlement			-		100,000
Cancellation of Accounts Payable			-		95,185
Bergen Avenue Settlement			-		200,000
Cancellation of Accounts Receivable			-		(804,830)
Bond Issuance Costs			(188,478)		-
Bond Principal			1,244,932		1,159,899
Constuction Reserve			125,000		-
Total Adjustments			469,524		54,638
Change in Net Position			930,574		477,128

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	FY 2012 Adopted Budget	FY 2012 Budget as Amended	Paid or Charged	Excess / (Deficit)
Financing Sources:				
Retained Earnings Appropriated	-	-	99,995	99,995
Debt Authorization	-	-	582,062	582,062
	-	-	682,057	682,057
Capital Outlays:				
2012 Freighliner Truck	-	-	99,995	(99,995)
Extension of Existing Stormwater Sewer Main	-	-	582,062	(582,062)
Total Capital Outlays	-	-	682,057	(682,057)
Total Costs Funded by Capital Revenue	-	-	682,057	(682,057)
Add: Excess	-	-	-	-
	-	-	682,057	(682,057)

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012 Date	Outstanding Maturities December 31, 2012 Amount	Restated Balance Jan. 1, 2012	2012 Issued	2012 Redeemed	Balance Dec. 31, 2012
Revenue Bonds (Series 1991)	11/15/1991	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				
					895,000		105,000	790,000
Revenue Bonds (Series 1996)	12/1/1996	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				
					680,000		30,000	650,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012		Balance Jan. 1, 2012	2012 Issued	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
Revenue Bonds (Series 2003A)	2/26/2003	4.00%	2013	165,000.00				
					5,400,000		5,235,000	165,000
Revenue Refunding Bonds (Series 2003B)	2/26/2003	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				
					3,345,000		420,000	2,925,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012 Date	Outstanding Maturities December 31, 2012 Amount	Balance Jan. 1, 2012	2012 Issued	2012 Redeemed	Balance Dec. 31, 2012
NJEIT Bonds (Series 2005A&B)	11/10/2005	n/a	2013	157,841.00				
Fund Portion		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				
					1,813,673		152,807	1,660,866
NJEIT Bonds (Series 2005A&B)	11/10/2005	5.00%	2013	50,000.00				
Trust Portion		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				
					875,000		45,000	830,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012 Date	Outstanding Maturities December 31, 2012 Amount	Balance Jan. 1, 2012	2012 Issued	2012 Redeemed	Balance Dec. 31, 2012
NJEIT Bonds (Series 2007A&B)	11/8/2007	n/a	2013	213,361.00				
Fund Portion		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				
					3,413,046		217,125	3,195,921

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012 Date	Outstanding Maturities December 31, 2012 Amount	Balance Jan. 1, 2012	2012 Issued	2012 Redeemed	Balance Dec. 31, 2012
NJEIT Bonds (Series 2007A&B)	11/8/2007	3.50%	2013	60,000.00				
Trust Portion		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				
					1,300,000		60,000	1,240,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012 Date	Amount	Balance Jan. 1, 2012	2012 Issued	2012 Redeemed	Balance Dec. 31, 2012
NJEIT Bonds (Series 2012 ABC)	5/3/2012	n/a	2013	50,176.89				
Fund Portion		n/a	2014	75,265.33				
		n/a	2015	75,265.33				
		n/a	2016	75,265.33				
		n/a	2017	75,265.33				
		n/a	2018	75,265.33				
		n/a	2019	75,265.33				
		n/a	2020	75,265.33				
		n/a	2021	75,265.33				
		n/a	2022	75,265.33				
		n/a	2023	75,265.33				
		n/a	2024	75,265.33				
		n/a	2025	75,265.33				
		n/a	2026	75,265.33				
		n/a	2027	75,265.33				
		n/a	2028	75,265.33				
		n/a	2029	75,265.33				
		n/a	2030	75,265.33				
		n/a	2031	75,265.50		1,404,953		1,404,953

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012 Date	Amount	Balance Jan. 1, 2012	2012 Issued	2012 Redeemed	Balance Dec. 31, 2012
NJEIT Bonds (Series 2012A)	5/3/2012	2.00%	2013	15,000.00				
Trust Portion		3.00%	2014	15,000.00				
		4.00%	2015	15,000.00				
		5.00%	2016	15,000.00				
		5.00%	2017	20,000.00				
		5.00%	2018	20,000.00				
		5.00%	2019	20,000.00				
		5.00%	2020	20,000.00				
		5.00%	2021	20,000.00				
		5.00%	2022	25,000.00				
		5.00%	2023	25,000.00				
		5.00%	2024	25,000.00				
		5.00%	2025	25,000.00				
		5.00%	2026	30,000.00				
		3.00%	2027	30,000.00				
		3.00%	2028	30,000.00				
		3.13%	2029	30,000.00				
		3.20%	2030	35,000.00				
		3.25%	2031	35,000.00				
						450,000		450,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2012		Balance Jan. 1, 2012	2012 Issued	2012 Redeemed	Balance Dec. 31, 2012
			Date	Amount				
Revenue Refunding								
Bonds (Series 2012)	6/21/2012	2.00%	2013	45,000.00				
		3.00%	2014	220,000.00				
		3.00%	2015	225,000.00				
		3.00%	2016	230,000.00				
		3.00%	2017	240,000.00				
		2.00%	2018	250,000.00				
		3.00%	2019	255,000.00				
		3.00%	2020	260,000.00				
		3.00%	2021	265,000.00				
		3.00%	2022	275,000.00				
		3.00%	2023	285,000.00				
		3.38%	2024	290,000.00				
		3.38%	2025	300,000.00				
		3.38%	2026	315,000.00				
		3.38%	2027	320,000.00				
		3.75%	2028	330,000.00				
		3.75%	2029	350,000.00				
		3.75%	2030	360,000.00				
		3.75%	2031	370,000.00				
		3.75%	2032	385,000.00				
						5,625,000	55,000	5,570,000
Total Bonds Payable					17,721,719	7,479,953	6,319,932	18,881,740
						Bonds Redeemed	1,244,932	
						Bonds Refunded	5,075,000	
							6,319,932	
Current Portion					1,189,932			1,336,379
Noncurrent Portion					16,531,787			17,545,361
					17,721,719			18,881,740

SCHEDULE 6

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2012:

Name	Office
Stephanie Santos	Chairwoman
Mary Torres	Vice Chairwoman
Alberto G. Santos	Treasurer
Carol Jean Doyle	Commissioner
Augie Vagueiro	Commissioner
Alex Valdez	Alternate Commissioner
Kevin O'Sullivan	Executive Director
Shuaib Firozvi	Chief Financial Officer
Paul Pidgeon	Secretary, Asst. Executive Director
Hatch Mott McDonald	Engineer
Ferraioli, Wielktoz, Cerullo & Cuva, P.A.	Auditor
Gregg Paster, Esq.	General Counsel
McManimon & Scotland, LLC	Bond Counsel

SCHEDULE 7

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

DECEMBER 31, 2012

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	01/01/12	12/31/12	3,967,222	-	3,967,222	3,967,222	-	3,967,222
Capitalization Grants for Clean Water Revolving Funds: Wastewater Treatment Fund	66.458	4860-510-013-702105	$ 1,404,953	01/01/12	12/31/12	-	214,205	214,205	214,205	426,242	640,447
Total Federal Financial Assistance						3,967,222	214,205	4,181,427	4,181,427	426,242	4,607,669

This schedule has been presented for discussion purposes only and was not subject to a Single Audit under OMB Circular A-133.

SCHEDULE 8

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

DECEMBER 31, 2012

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
New Jersey Department of Environmental Protection:											
NJ Environmental Infrastructure Trust Loan	n/a	100-042-4800-008	$ 1,352,500	01/01/12	12/31/12	1,322,407	-	1,322,407	1,322,407	-	1,322,407
NJ Environmental Infrastructure Trust Loan	n/a	100-042-4800-008	$ 468,317	01/01/12	12/31/12	-	71,402	71,402	71,402	142,081	213,483
Interest Portion	n/a	100-042-4800-008	$ 15,393	01/01/12	12/31/12	-	6,095	6,095	-	13,740	13,740
Total State Financial Assistance						1,322,407	77,497	1,399,904	1,393,809	155,821	1,549,630

This schedule has been presented for discussion purposes only and was not subject to a Single Audit under NJ OMB Circular 04-04.

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
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INDEPENDENT AUDITOR'S 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, 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, the financial statements of the Kearny Municipal Utilities Authority, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated May 1, 2013.

Internal Control Over Financial Reporting

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

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies (Finding 2012-1, 2012-2 and 2012-3).

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 are described in the accompanying schedule of findings and questioned costs as Finding 2012-4 through Finding 2012-5. We noted certain other matters that we reported to management of the Authority in the comments and recommendations section of this report.

This report is intended solely for the information of the 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.

Kearny Municipal Utilities Authority's Response to Findings

The Kearny Municipal Utilities Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subject to the auditing procedures applied in the audit of the financials statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

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

May 1, 2013

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012
(continued)

FINDING: 2012-1*

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, 2012
(continued)

FINDING: 2012-2*

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.

FINDING: 2012-3*

STATEMENT OF CONDITION

There were material misstatements of the financial statements for the period under audit that were not initially identified by management.

CRITERIA

Statements of Auditing Standards No. 115 suggest that such misstatements, although subsequently corrected by management, are indicators of a weakness in an entity's internal controls.

EFFECT

Depreciation expense of $699,754 was not initially recognized by management. Bond principal payments of $1,244,932 were originally classified as an expense rather than a reduction of bonds payable. New bond issuances totaling $7,479,953 were not initially recognized by management.

CAUSE

Management postponed the calculation of depreciation until several months after year end. Bond principal was classified as an expense for internal budgetary reporting purposes. Management did not have the final bond closing documents necessary to set up the new issuances until several months after year end.

RECOMMENDATION

Depreciation should have been calculated and posted in a timely manner. Bond principal payments should be classified as a reduction of bonds payable. New bonds should be recorded at the time of issuance.

MANAGEMENT RESPONSE

Bond principal was classified as an expense for internal budgetary reporting purposes. Management plans to review their internal accounting policies and will work to rectify these findings for the 2013 fiscal year.

FINDING: 2012-4*

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.

FINDING: 2012-5*

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, 2012
(continued)

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 "*".

Comments and Recommendations

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.

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