

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF
THE TOWN OF KEARNY)
REPORT OF AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2014

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Kearny Municipal Utilities Authority as of December 31, 2014 and 2013, 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.



Honorable Chairperson and Members of the
Kearny Municipal Utilities Authority
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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, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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.

Honorable Chairperson and Members of the
Kearny Municipal Utilities Authority
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Other Information

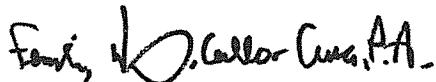
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Kearny Municipal Utilities Authority's financial statements. The schedule of revenues, expenses and changes in net position - restricted and unrestricted; schedule of cash receipts, 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 supplemental schedules 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 April 7, 2015 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.
Certified Public Accountants
Pompton Lakes, New Jersey

April 7, 2015



Required Supplementary Information

Management Discussion and Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014. 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 \$27,828,806 (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 \$26,616,859, as restated.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$23,421,108 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 \$2,406,221 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted of \$2,001,477 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,381,769 to \$16,269,951 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this year's 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 \$27,828,806. This is a \$1,211,947 increase over last year's restated net position of \$26,616,859. A summary of the Authority's statements of net position is presented in the following table:

Condensed Statement of Net Position

	<u>FY 2014</u>	<u>Restated FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	5,639,920	6,240,754	(600,834)	(9.63)%
Capital Assets	<u>38,144,292</u>	<u>37,686,422</u>	<u>457,870</u>	1.21%
Total Assets	<u>43,784,212</u>	<u>43,927,176</u>	<u>(142,964)</u>	(0.33)%
Deferred Outflows of Resources	<u>392,007</u>	<u>423,958</u>	<u>(31,951)</u>	(7.54)%
Current Liabilities	1,587,373	1,528,630	58,743	3.84%
Non-current Liabilities	<u>14,682,578</u>	<u>16,123,090</u>	<u>(1,440,512)</u>	(8.93)%
Total Liabilities	<u>16,269,951</u>	<u>17,651,720</u>	<u>(1,381,769)</u>	(7.83)%
Deferred Inflows of Resources	<u>77,462</u>	<u>82,555</u>	<u>(5,093)</u>	(6.17)%
Net Investment in Capital Assets	23,421,108	21,592,081	1,829,027	8.47%
Restricted	2,406,221	2,851,830	(445,609)	(15.63)%
Unrestricted	<u>2,001,477</u>	<u>2,172,948</u>	<u>(171,471)</u>	(7.89)%
Total Net Position	<u>27,828,806</u>	<u>26,616,859</u>	<u>1,211,947</u>	4.55%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

A summary of the Authority's prior year statement of net assets is presented with comparative FY 2012 balances in the following table. The FY 2012 balances have 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; however do not include the retroactive adjustment to capital assets and net investment in capital assets as a result of a 2013 inventory performed by the Authority consulting engineer.

Condensed Statement of Net Position

	<u>Restated FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	6,240,754	6,436,988	(196,234)	(3.05)%
Capital Assets	<u>37,686,422</u>	<u>26,640,867</u>	<u>11,045,555</u>	41.46%
Total Assets	<u>43,927,176</u>	<u>33,077,855</u>	<u>10,849,321</u>	32.80%
Deferred Outflows of Resources	<u>423,958</u>	<u>455,670</u>	<u>(31,712)</u>	(6.96)%
Current Liabilities	1,528,630	1,519,548	9,082	0.60%
Non-current Liabilities	<u>16,123,090</u>	<u>17,621,449</u>	<u>(1,498,359)</u>	(8.50)%
Total Liabilities	<u>17,651,720</u>	<u>19,140,997</u>	<u>(1,489,277)</u>	(7.78)%
Deferred Inflows of Resources	<u>82,555</u>	<u>88,360</u>	<u>(5,805)</u>	(6.57)%
Net Investment in Capital Assets	21,592,081	9,843,769	11,748,312	119.35%
Restricted	<u>2,851,830</u>	<u>2,570,802</u>	<u>281,028</u>	10.93%
Unrestricted	<u>2,172,948</u>	<u>1,889,597</u>	<u>283,351</u>	15.00%
Total Net Position	<u>26,616,859</u>	<u>14,304,168</u>	<u>12,312,691</u>	86.08%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

**Condensed Statement of Revenues, Expenses
And Changes in Net Position**

	<u>FY 2014</u>	<u>Restated FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,429,108	4,032,792	396,316	9.83%
Non-operating Revenues	<u>29,045</u>	<u>107,288</u>	<u>(78,243)</u>	(72.93)%
Total Revenues	<u>4,458,153</u>	<u>4,140,080</u>	<u>318,073</u>	7.68%
Depreciation	632,937	734,042	(101,105)	(13.77)%
Other Operating Expenses	2,124,014	1,712,016	411,998	24.07%
Other Non-operating Expense	<u>489,255</u>	<u>506,661</u>	<u>(17,406)</u>	(3.44)%
Total Expenses	<u>3,246,206</u>	<u>2,952,719</u>	<u>293,487</u>	9.94%
Change in Net Position	1,211,947	1,187,361	24,586	2.07%
Beginning Net Position	26,616,859	14,304,168	12,312,691	86.08%
Prior Period Adjustment	<u> </u>	<u>11,125,330</u>	<u>(11,125,330)</u>	(100.00)%
Ending Net Position	<u>27,828,806</u>	<u>26,616,859</u>	<u>1,211,947</u>	4.55%

The Authority's non-operating revenues in 2013 were greater than non-operating revenue in 2014 as the result of a FEMA grant to reimburse certain Hurricane Sandy-related expenses.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 2012 figures in the following table. This comparison has 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; however does not include the retroactive adjustment to net investment in capital assets as a result of a 2013 inventory performed by the Authority's consulting engineer.

**Condensed Statement of Revenues, Expenses
And Changes in Net Position**

	<u>Restated FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,032,792	4,041,217	(8,425)	(0.21)%
Non-operating Revenues	<u>107,288</u>	<u>49,020</u>	<u>58,268</u>	118.87%
Total Revenues	<u>4,140,080</u>	<u>4,090,237</u>	<u>49,843</u>	1.22%
Depreciation	734,042	699,754	34,288	4.90%
Other Operating Expenses	1,712,016	1,766,220	(54,204)	(3.07)%
Other Non-operating Expense	<u>506,661</u>	<u>693,689</u>	<u>(187,028)</u>	(26.96)%
Total Expenses	<u>2,952,719</u>	<u>3,159,663</u>	<u>(206,944)</u>	(6.55)%
Change in Net Position	1,187,361	930,574	256,787	27.59%
Beginning Net Position	14,304,168	11,100,855	3,203,313	28.86%
Prior Period Adjustment	<u>11,125,330</u>	<u>2,272,739</u>	<u>8,852,591</u>	389.51%
Ending Net Position	<u>26,616,859</u>	<u>14,304,168</u>	<u>12,312,691</u>	86.08%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 2014 and FY 2013 budget comparison:

**Budget vs. Actual
FY 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,850,891	4,429,108	578,217
Non-Operating	<u> </u>	<u>29,045</u>	<u>29,045</u>
	<u>3,850,891</u>	<u>4,458,153</u>	<u>607,262</u>
Expenses:			
Operating	1,979,206	2,124,014	144,808
Non-Operating	<u>1,871,685</u>	<u>1,860,412</u>	<u>(11,273)</u>
	<u>3,850,891</u>	<u>3,984,426</u>	<u>133,535</u>
Income before Depreciation	<u> </u> <u>0</u>	<u>473,727</u>	<u>473,727</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Budgetary Highlights (Continued)

**Budget vs. Actual
FY 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,703,296	4,032,792	329,496
Non-Operating	<u> </u>	<u>33,761</u>	<u>33,761</u>
	<u>3,703,296</u>	<u>4,066,553</u>	<u>363,257</u>
Expenses:			
Operating	1,854,669	1,712,016	142,653
Non-Operating	<u>1,848,627</u>	<u>1,789,039</u>	<u>59,588</u>
	<u>3,703,296</u>	<u>3,501,055</u>	<u>202,241</u>
Income before Depreciation	<u> </u> <u>0</u>	<u> </u> <u>565,498</u>	<u> </u> <u>565,498</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's net property, plant and equipment at fiscal year end was \$38,144,292. This is a \$457,870 increase over last year's net property, plant and equipment of \$37,686,422, as restated. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>
Equipment	445,029	445,029	\$0
Major Structures and Improvements	7,144,518	7,144,518	\$0
Structural Equipment and Improvements	25,431,141	25,431,141	\$0
Less: Accumulated Depreciation	(10,633,279)	(10,000,342)	(632,937)
Work In-Progress	<u>15,756,883</u>	<u>14,666,076</u>	<u>1,090,807</u>
	<u> </u> <u>38,144,292</u>	<u> </u> <u>37,686,422</u>	<u> </u> <u>457,870</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 2014 fiscal year.

Debt Administration

At December 31, 2014, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$16,057,069. 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 Authority 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
(A Component Unit of the Town of Kearny)
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31,

EXHIBIT A

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	Restated	
	2014	2013
ASSETS:		
Current Assets:		
Unrestricted:		
Cash and Cash equivalents	\$ 1,935,917	\$ 1,487,115
User Charges Receivable	<u>214,180</u>	<u>815,077</u>
Total Unrestricted	<u>2,150,097</u>	<u>2,302,192</u>
Restricted:		
Construction Fund:		
Cash and Cash equivalents	790,921	1,234,671
Due From NJEIT	<u>1,019,340</u>	<u>1,019,340</u>
	<u>1,810,261</u>	<u>2,254,011</u>
Bond Service Fund:		
Cash and Cash equivalents	<u>205,948</u>	<u>207,424</u>
Bond Reserve Fund:		
Cash and Cash equivalents	372,922	375,340
Investments	803,284	803,284
Accrued Interest Receivable	<u>24,435</u>	<u>24,501</u>
	<u>1,200,641</u>	<u>1,203,125</u>
Renewal and Replacement Fund:		
Cash and Cash equivalents	<u>250,000</u>	<u>250,000</u>
Refund Fund:		
Cash and Cash equivalents	<u>10,815</u>	<u>10,815</u>
Developer's Escrow:		
Cash and Cash equivalents	<u>12,158</u>	<u>13,187</u>
Total Restricted Assets	<u>3,489,823</u>	<u>3,938,562</u>
Capital Assets:		
Structures, Improvements and Equipment	33,020,688	33,020,688
Less: Accumulated Depreciation	(10,633,279)	(10,000,342)
Construction In Progress	<u>15,756,883</u>	<u>14,666,076</u>
Total Capital Assets	<u>38,144,292</u>	<u>37,686,422</u>
TOTAL ASSETS	\$ 43,784,212	\$ 43,927,176

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

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31,

EXHIBIT A

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	<u>2014</u>	<u>2013</u>	<u>Restated</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Debits:			
Bond Discount - Net	80,678	95,103	
Costs in Excess of Advanced Refunding - Net	311,329	328,855	
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 \$ 392,007	 \$ 423,958	
 <u>LIABILITIES</u>			
Current Liabilities:			
Payable from Unrestricted Assets:			
Accounts Payable - Operations	\$ 48,615	\$ 27,000	
Accrued Interest Payable	42,479	47,038	
Total Payable from Unrestricted Assets	<u>91,094</u>	<u>74,038</u>	
Payable from Restricted Assets:			
Accrued Interest Payable	41,289	43,390	
Developer's Escrow Payable	12,158	13,187	
Bonds Payable - Current Portion	<u>1,442,832</u>	<u>1,398,015</u>	
Total Payable from Restricted Assets	<u>1,496,279</u>	<u>1,454,592</u>	
Total Current Liabilities	<u>1,587,373</u>	<u>1,528,630</u>	
Non-Current Liabilities:			
Bonds Payable - Long-Term Portion	14,614,237	16,057,069	
Arbitrage Rebate Payable	10,815	10,815	
Compensated Absenses Payable	<u>57,526</u>	<u>55,206</u>	
Total Non-Current Liabilities	<u>14,682,578</u>	<u>16,123,090</u>	
 TOTAL LIABILITIES	 <u>16,269,951</u>	 <u>17,651,720</u>	

DEFERRED INFLOWS OF RESOURCES

Deferred Credits:			
Unamortized Bond Premiums	77,462	82,555	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 77,462</u>	<u>\$ 82,555</u>	

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

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31,

EXHIBIT A

Page 3 of 3

	Restated	
	2014	2013
<u>NET POSITION</u>		
Net Investment in Capital Assets	23,421,108	21,592,081
Restricted:		
Construction	790,921	1,234,671
Current Debt Service	164,659	164,034
Future Debt Service	1,200,641	1,203,125
Renewal and Replacement	250,000	250,000
Unrestricted:		
Undesignated	2,001,477	2,172,948
TOTAL NET POSITION	\$ 27,828,806	\$ 26,616,859

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

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
DECEMBER 31,

EXHIBIT B

	2014	Restated 2013
Operating Revenue:		
User Charges	\$ 4,425,471	\$ 3,901,937
Interest and Penalties	259	1,574
Connection Fees	-	111,578
Other Income	3,378	17,703
Total Operating Revenue	<u>4,429,108</u>	<u>4,032,792</u>
Operating Expenses:		
Administrative and General	383,032	355,961
Cost of Providing Services	1,740,982	1,356,055
Depreciation Expense	632,937	734,042
Total Operating Expenses	<u>2,756,951</u>	<u>2,446,058</u>
Operating Income	<u>1,672,157</u>	<u>1,586,734</u>
Non-Operating Revenue (Expenses):		
Interest on Investments	29,045	33,761
FEMA Grant - Hurricane Sandy	-	73,527
Interest Expense	(462,397)	(482,754)
Amortization Expense	(26,858)	(23,907)
Non-Operating Income (Loss)	<u>(460,210)</u>	<u>(399,373)</u>
Change In Net Position	<u>1,211,947</u>	<u>1,187,361</u>
Net Position - January 1	<u>26,616,859</u>	<u>14,304,168</u>
Prior Period Adjustment:		
Adjustment to Fixed Assets and Accum. Depreciation	<u>-</u>	<u>11,125,330</u>
Net Position - December 31	<u>\$ 27,828,806</u>	<u>\$ 26,616,859</u>

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

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

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 5,030,005	\$ 3,411,478
Cash Paid to Vendors and Employees	<u>(2,100,079)</u>	<u>(1,686,259)</u>
 Net Cash Provided by Operating Activities	 <u>2,929,926</u>	 <u>1,725,219</u>
Cash Flow from Investing Activities:		
Capital Expenditures	(1,090,807)	(654,267)
Interest Earned on Investments	29,111	35,350
(Increase) Decrease in NJEIT Receivable	<u></u>	<u>697,992</u>
 Net Cash Provided by (used in) Investing Activities	 <u>(1,061,696)</u>	 <u>79,075</u>
Cash Flow from Financing Activities:		
Principal Payment on Bonds and Notes	(1,398,015)	(1,426,656)
Interest Paid on Bonds and Notes	(469,057)	(489,917)
Increase (Decrease) in Deferred Costs	(26,858)	(23,907)
Increase (Decrease) in Developers Escrow	(1,029)	(7,708)
Increase (Decrease) in Unamortized Items	<u>26,858</u>	<u>25,907</u>
 Net Cash Used in Financing Activities	 <u>(1,868,101)</u>	 <u>(1,922,281)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	129	(117,987)
Cash and Cash Equivalents at Beginning of Year	<u>3,578,552</u>	<u>3,696,539</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,578,681</u>	<u>\$ 3,578,552</u>
 Analysis of Balance:		
Unrestricted	1,935,917	1,487,115
Restricted	<u>1,642,764</u>	<u>2,091,437</u>
 \$ 3,578,681	 <u>\$ 3,578,552</u>	

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

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

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

	2014	2013
CHANGE IN OPERATING NET POSITION	\$ 1,672,157	\$ 1,586,734
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	632,937	734,042
FEMA Grant - Hurricane Sandy	73,527	
Decrease (Increase) in Accounts Receivable	600,897	(694,841)
Increase (Decrease) in Accounts Payable	21,615	35,824
Increase (Decrease) in Compensated Absenses Payable	2,320	(10,067)
Total Adjustments	1,257,769	138,485
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,929,926	\$ 1,725,219

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

Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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 13).

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

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 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.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

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 covenants), 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 “net investment in capital assets.”

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.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

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

In 2013, the Authority hired a consulting engineer to perform an inventory of capital assets and recalculate accumulated depreciation on a straight-line basis. The results of this inventory concluded that several items of major structural equipment and improvements were previously classified as a non-capital asset and therefore not depreciated over the useful life of the asset. The Authority’s management and consulting engineer reclassified these capital assets at the historical cost, whenever reasonably attainable, and recalculated the accumulated depreciation up to the current period (see Note 18 for details).

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

F. Capital Assets, (continued)

Capital assets activity for the years ended December 31, 2014 and 2013 were as follows:

	FY 2013 As Previously Reported	Additions	Restated FY 2013	Additions	2014
Major Structures and Improvements	\$7,144,518	\$	\$7,144,518	\$	\$7,144,518
Structural Equipment and Improvements	25,431,141		25,431,141		25,431,141
Furniture and Equipment	445,029		445,029		445,029
	33,020,688		33,020,688		33,020,688
Less Accumulated Depreciation	(21,125,672)	11,125,330	(10,000,342)	(632,937)	(10,633,279)
Add Construction in Progress	14,666,076		14,666,076	1,090,807	15,756,883
	<u>\$26,561,092</u>	<u>\$11,125,330</u>	<u>\$37,686,422</u>	<u>\$457,870</u>	<u>\$38,144,292</u>

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 and vacation 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 position.

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.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

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. Estimates include the useful life of fixed assets which affects the amount reported as depreciation and accumulated depreciation.

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, laws or regulations of other governments.

M. Recent Accounting Pronouncements

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Recent Accounting Pronouncements, (continued)

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.

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.

In April of 2013, the Government Accounting Standards Board issued GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for reporting periods beginning after June 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. This Statement requires a state or local government employer to recognize a net pension liability measured as of a date no earlier than the end of its prior fiscal year. This Statement is effective for financial statements with fiscal years beginning after June 15, 2014. 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. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

N. Reclassifications

Certain reclassifications have been made to the 2013 amounts to conform to the 2014 financial statement presentation. With the exception to the adjustments mentioned in Note 18, these reclassifications had no effect on the previously reported results of operations for 2013.

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.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

3. FINANCIAL REPORTING ENTITY, (continued)

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 2D.

Deposits

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

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. Operating cash, in the form of various checking, and savings accounts, are held in the Authority's name by commercial banking institutions. At December 31, 2014, the carrying amount of the Authority's deposits was \$3,578,681 and the bank balance was \$3,635,437. Of the bank balance, \$500,000 was insured with Federal Deposit Insurance and \$3,135,437 was covered by GUDPA.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

4. CASH AND CASH EQUIVALENTS, (continued)

Pursuant to GASB Statement No. 40, “Deposit and Investment Risk Disclosures” (“GASB 40”), the Authority’s bank accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are uncollateralized (securities not pledged by the depositor), collateralized with securities held by the pledging institution or collateralized with securities held by the financial institution’s trust department or agent but not in the government’s name. At December 31, 2014, 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.

As of December 31, 2014, cash and cash equivalents of the Authority consisted of the following:

	<u>Cash and Cash Equivalents</u>	<u>Total</u>
Checking Accounts	\$2,689,149	\$2,689,149
Short Term Money Market Accounts	<u>889,532</u>	<u>889,532</u>
	<u>\$3,578,681</u>	<u>\$3,578,681</u>
		<u>Analysis</u>
Restricted Accounts	\$1,642,764	
Unrestricted Accounts	<u>1,935,917</u>	
	<u>\$3,578,681</u>	

5. INVESTMENTS

Investments are stated at fair value, which is determined using selected basis. The Authority classifies federal notes that have original maturity dates of more than three months but less than twelve months from the date of purchase as investments.

At December 31, 2014, the Authority had an investment of \$803,284 in federal notes that mature on May 15, 2015.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

5. INVESTMENTS, (continued)

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.

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 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:

	Balance 12/31/2013	Balance 12/31/2014
2012 Project:		
Trust Portion	\$254,834	254,834
Fund Portion	<u>764,506</u>	<u>764,506</u>
	<u>\$1,019,340</u>	<u>\$1,019,340</u>

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS

The Authority has issued and has outstanding the following bonds at December 31, 2014 and 2013:

	<u>2013</u>	<u>Redeemed</u>	<u>2014</u>
Series 1991 Sewer Revenue Bonds	\$680,000	\$120,000	\$560,000
Series 1996 Sewer Revenue Bonds	620,000	35,000	585,000
Series 2003B Revenue Bonds	2,485,000	460,000	2,025,000
Series 2005A NJ Environmental Infrastructure Trust Bonds	2,283,025	203,265	2,079,760
Series 2007A NJ Environmental Infrastructure Trust Bonds	4,072,282	269,484	3,802,798
Series 2012ABC NJ Environmental Infrastructure Trust Bonds	1,789,777	90,266	1,699,511
Series 2012 Revenue Refunding Bonds	<u>5,525,000</u>	<u>220,000</u>	<u>5,305,000</u>
Net Carrying Amount of Debt	<u>\$17,455,084</u>	<u>\$1,398,015</u>	<u>\$16,057,069</u>
Current Portion	1,398,015		1,442,832
Long-Term Portion	<u>16,057,069</u>		<u>14,614,237</u>
	<u><u>\$17,455,084</u></u>		<u><u>\$16,057,069</u></u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,579,076	296,322	1,875,398
2019	915,868	248,869	1,164,737
2020-2024	4,557,079	994,091	5,551,170
2025-2029	3,198,947	484,298	3,683,245
2030-2032	<u>1,335,531</u>	<u>87,959</u>	<u>1,423,490</u>
	<u><u>\$16,057,069</u></u>	<u><u>\$3,278,431</u></u>	<u><u>\$19,335,500</u></u>

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS, (continued)

A. The Sewer Revenue Bonds, Series 1991

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 1991 - Term Bonds	11/15/91	\$1,995,000	7.30%	11/15/19	\$1,080,000
Series 1991 - Term Bonds - Sinking Fund Obligations				11/15/15 11/15/16 11/15/17 11/15/18	125,000 135,000 145,000 155,000
					<u><u>\$560,000</u></u>

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.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS, (continued)

B. The Sewer Revenue Bonds, Series 1996, (continued)

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 1996 -					
Term Bonds		\$650,000	5.50%	11/15/18	\$220,000
			5.50	11/15/26	430,000
Series 1996 -					
Term Bonds -				11/15/15	35,000
Sinking Fund Obligations				11/15/16	40,000
				11/15/17	40,000
				11/15/18	40,000
				11/15/19	45,000
				11/15/20	45,000
				11/15/21	50,000
				11/15/22	50,000
				11/15/23	55,000
				11/15/24	60,000
				11/15/25	60,000
				11/15/26	65,000
					<u>\$585,000</u>

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS, (continued)

C. 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.

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 2003B - Serial Bonds					
Term Bonds	2/26/03	\$6,100,000	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	<u>535,000</u>
					<u>\$2,025,000</u>

D. New Jersey Environmental Infrastructure Trust Loans - 2005A

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS, (continued)

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

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

<u>Date</u>	<u>Fund Loan</u>	<u>Trust Loan</u>	
	<u>Maturities</u>	<u>Maturities</u>	<u>Rate</u>
2/1/2015	\$28,580		
8/1/2015	129,261	\$55,000	4.000%
2/1/2016	26,566		
8/1/2016	127,248	55,000	4.000
2/1/2017	24,553		
8/1/2017	134,387	60,000	4.000
2/1/2018	22,356		
8/1/2018	132,190	60,000	4.250
2/1/2019	20,022		
8/1/2019	139,009	65,000	4.250
2/1/2020	17,493		
8/1/2020	136,481	65,000	4.500
2/1/2021	14,816		
8/1/2021	142,956	70,000	4.375
2/1/2022	12,013		
8/1/2022	140,153	70,000	4.375
2/1/2023	9,210		
8/1/2023	92,468	75,000	4.375
2/1/2024			
8/1/2024		75,000	4.375
2/1/2025			
8/1/2025		80,000	4.375
	<u>\$1,349,762</u>	<u>\$730,000</u>	

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.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS, (continued)

E. New Jersey Environmental Infrastructure Trust Loans - 2007A

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

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

<u>Date</u>	<u>Fund Loan</u>	<u>Trust Loan</u>	
	<u>Maturities</u>	<u>Maturities</u>	<u>Rate</u>
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
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	117,021	110,000	4.250
	<u>\$2,682,797</u>	<u>\$1,120,000</u>	

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS, (continued)

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

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 was deobligated in 2013 and used to defease a portion of the remaining debt.

F. 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:

<u>Date</u>	<u>Fund Loan</u>	<u>Trust Loan</u>	
	<u>Maturities</u>	<u>Maturities</u>	<u>Rate</u>
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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS, (continued)

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

<u>Date</u>	<u>Fund Loan Maturities</u>	<u>Trust Loan Maturities</u>	<u>Rate</u>
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	<u>50,177</u>	<u>35,000</u>	3.250
	<u>\$1,279,511</u>	<u>\$420,000</u>	

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.

G. 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.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

7. LONG-TERM OBLIGATIONS, (continued)

G. Revenue Refunding Bonds, Series 2012, (continued)

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 2012 - Serial Bonds	7/17/2012	\$5,625,000	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	<u>385,000</u>
					<u>\$5,305,000</u>

8. 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 \$57,526 at December 31, 2014 and are reflected in the financial statements as compensated absences payable.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

9. PENSION PLAN

Description of Plans - Substantially all employees of the District are covered by either the Public Employees' Retirement System (PERS) or the Defined Contribution Retirement Program (DCRP), which have been established by state statute. PERS is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or reports can be accessed on the internet at: http://www.state.nj.us/treasury/pensions/annrpts_archive.htm. Prudential Financial jointly administers the DCRP investments with the New Jersey Division of Pensions and Benefits. As a general rule, all full-time employees are eligible to join the PERS. However, if an employee is ineligible to enroll in the PERS, the employee may be eligible to enroll in DCRP.

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Defined Contribution Retirement Program (DCRP) - The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2008 under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008 (NJS A 43:15C-1 et seq). The DCRP is a cost-sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by NJS A 43:15C-1 et seq.

Contribution Requirements - The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS of the employee's annual compensation. Pursuant to the provisions of Chapter 78, P.L. 2011, this amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning in the first year. For fiscal year 2012, the

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

9. PENSION PLAN, (continued)

member rate will increase in October 2011. The phase in will take place on July 1 of each subsequent fiscal year. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums. Employee contributions for DCRP are based on 5.50% of employee's annual compensation and are matched by a 3% employer contribution.

For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997. PERS employer contributions are made annually by the Board to the pension system in accordance with Chapter 114, P.L. 1997.

The Authority's contribution to PERS, equal to the required contributions for each year, were as follows:

<u>Year</u>	
<u>Ending</u>	
12/31/14	\$16,269
12/31/13	16,696
12/31/12	39,127

10. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

10. OTHER POSTEMPLOYMENT BENEFITS, (continued)

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, 2014 and 2013, the Authority had no retired participants eligible for the SHBP.

11. 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.

12. SERVICE AGREEMENT WITH THE TOWN OF KEARNY

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

The Town Service Contract provides that if, in any calendar year, the revenues of the Authority derived from User-Charges shall not be sufficient to pay or provide for (a) operating expenses as defined in the Resolution, (b) the setting aside of any amounts required by the Resolution to be set aside for the

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

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

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.

13. 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, 2014 and 2013, the Authority's Construction accounts had balances totaling \$790,921 and \$1,243,671, 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, 2014, the Current Debt Service Reserve was as follows:

Cash and Cash Equivalents		\$205,948
Accrued Interest on NJEIT Bonds	\$41,289	
Current Debt Service Reserve Requirement	<u>164,659</u>	
		<u>205,948</u>
Excess (Deficit)		\$ <u>-0-</u>

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

DECEMBER 31, 2014 AND 2013

13. 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, 2014, the balance of this account was as follows:

Cash, Investments and Interest Receivable	\$ 1,200,641
Future Debt Service Reserve Requirement	<u>1,200,641</u>
Excess (Deficit)	<u>\$ -0-</u>

Renewal and Replacement Reserve

The 1988 General Bond Resolution established a separate account to be used for extraordinary renewals, repairs and replacements. At December 31, 2014, the balance of this account was as follows:

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

14. LEASE COMMITMENTS

Land and Building

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

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

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

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

DECEMBER 31, 2014 AND 2013

14. 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.

The Authority entered into a 10 year facility lease starting July 1, 2014 with the Town of Kearny. Under the terms, the property will be used for sewer system primary treatment and pump station, administrative offices and general utility authority purposes as necessary and permitted by law. The Authority agrees to pay \$16,000 per month for the first year. Afterwards the rent will increase in each successive year in an amount that is greater of 2%, or the increase in the CPI over the prior year. The lease expires June 30, 2024 and has two 10 year renewal options exercisable by the Authority. The rent expense for the year ended December 31, 2014 was \$96,000.

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.

15. 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

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

DECEMBER 31, 2014 AND 2013

15. 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 \$150,000,000.

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 \$1,700,000; 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.

16. INTER-ACCOUNT ADVANCES

At December 31, 2014, the following inter-account advances were outstanding between restricted and unrestricted accounts:

	<u>Due From Other Accounts</u>	<u>Due to Other Accounts</u>
Unrestricted Accounts:		
Revenue Account:		
Due to Bond Service Accounts		\$111,755
Due from Bond Reserve Accounts	\$318,792	
Restricted Accounts:		
Bond Service Accounts:		
Due from Revenue Accounts	111,755	
Bond Reserve Accounts:		
Due to Revenue Accounts		318,792
	<u>\$430,547</u>	<u>\$430,547</u>

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2014 AND 2013

17. COMMITMENTS AND CONTINGENCIES

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

18. PRIOR PERIOD ADJUSTMENTS

In 2013, the Authority hired a consulting engineer to perform a complete inventory of their capital assets for the period ending December 31, 2013 and to recalculate depreciation on any items not previously included on their original fixed asset list. The following summarized the required retroactive adjustments to accumulated depreciation on the 2013 financial statements as a result of this recalculation:

	Balance 12/31/2013 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 12/31/2013 as Restated
Assets:			
Capital Assets			
Unrestricted:			
Accumulated Depreciation	\$ (21,125,672)	\$ 11,125,330	(\$10,000,342)
Net Position:			
Net Investment in Capital Assets	10,466,751	11,125,330	\$ 21,592,081

19. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through April 7, 2015, the date which the financial statements were available to be issued and no additional items were noted for disclosure or adjustment.

Supplementary Schedules

SCHEDULE 1

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

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2014

	Net Investment in Capital Assets	Construction Reserve	Restricted			Unrestricted		Total
			Current Debt Service Reserve	Future Debt Service Reserve	Renewal and Replacement Reserve	Undesignated		
Operating Revenue:								
User Charges						4,425,730	3,378	4,425,730
Other Income							3,378	
Total Operating Revenue						4,429,108		4,429,108
Operating Expense:								
Administrative and General						383,032	383,032	
Cost of Providing Services	632,937					1,740,982	1,740,982	
Depreciation							632,937	
Total Operating Expense	632,937							
Operating Income	(632,937)							
Non-Operating Revenue (Expense):								
Interest on Investments	1,568			24,655	508	2,314	29,045	
Interest Expense						(462,397)	(462,397)	
Amortization	(26,838)						(26,838)	
	(26,838)							
Net Income (Loss) Before Transfers	(659,795)	1,568	-	24,655	508	(460,083)	(460,210)	
Transfers:								
Other Transfers	2,488,822	(445,318)	625	(27,139)	(508)	(2,016,482)		
Increase/(Decrease) in Net Position	1,829,027	(443,750)	625	(2,484)	-	(171,471)	1,211,947	
Net Position - January 1, 2014	21,592,081	1,234,671	164,034	1,203,125	250,000	2,172,948	26,616,859	
Net Position - December 31, 2014	23,421,108	790,921	164,659	1,200,641	250,000	2,001,477	27,828,806	

Schedule 2

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

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General Operating Accounts	Construction Accounts	Bond Service Accounts	Bond Reserve Account
Cash, Cash Equivalents and Investments -				
January 1, 2014	1,487,115	1,234,671	207,424	1,178,624
Cash Receipts:				
Interest on Investments	2,256	1,568		24,655
User Charges / Interest and Penalties	5,026,627			
Miscellaneous / Connection Fees	3,378			66
Developer Trust				
Transfers	30,749			
Total Cash Receipts	5,063,010	1,568	-	24,721
Cash and Investments Available	6,550,125	1,236,239	207,424	1,203,345
Cash Disbursements:				
Principal Payments	1,398,016			
Interest Payments	463,872			
Operations	2,105,263			
Capital and Other Expenses	647,057	443,750		
Developer Trust				
Transfers		1,568	1,476	27,139
Total Cash Disbursements	4,614,208	445,318	1,476	27,139
Cash, Cash Equivalents and Investments -				
December 31, 2014	1,935,917	790,921	205,948	1,176,206
Analysis of Balance:				
Cash and Cash Equivalents	1,935,917	790,921	205,948	372,922
Investments	-	-	-	803,284
	1,935,917	790,921	205,948	1,176,206
Unrestricted	1,935,917	-	-	-
Restricted	-	790,921	205,948	1,176,206
	1,935,917	790,921	205,948	1,176,206

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

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Renewal and Replacement Account	Rebate Account	Developer's Trust Account	Total
Cash, Cash Equivalents and Investments -				
January 1, 2014	250,000	10,815	13,187	4,381,836
Cash Receipts:				
Interest on Investments	508	22	36	29,045
User Charges / Interest and Penalties				5,026,627
Miscellaneous				3,444
Developer Trust			17,739	17,739
Transfers				30,749
Total Cash Receipts	508	22	17,775	5,107,604
Cash and Investments Available	250,508	10,837	30,962	9,489,440
Cash Disbursements:				
Bond Principal Payments				1,398,016
Interest Payments				463,872
Operations				2,105,263
Capital and Other Expenses				1,090,807
Developer Trust			18,768	18,768
Transfers	508	22	36	30,749
Total Cash Disbursements	508	22	18,804	5,107,475
Cash, Cash Equivalents and Investments -				
December 31, 2014	<u>250,000</u>	<u>10,815</u>	<u>12,158</u>	<u>4,381,965</u>
Analysis of Balance:				
Cash and Cash Equivalents	250,000	10,815	12,158	3,578,681
Investments	-	-	-	803,284
	<u>250,000</u>	<u>10,815</u>	<u>12,158</u>	<u>4,381,965</u>
Unrestricted	-	-	-	1,935,917
Restricted	250,000	10,815	12,158	2,446,048
	<u>250,000</u>	<u>10,815</u>	<u>12,158</u>	<u>4,381,965</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014

	FY 2014 Adopted Budget	FY 2014 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Revenues:					
Sewer User Charges	3,848,891	3,848,891	4,425,471	576,580	3,901,937
Interest and Penalties	2,000	2,000	259	(1,741)	1,574
Connection Fees	-	-	-	-	111,578
Miscellaneous	-	-	3,378	3,378	17,703
Non-operating Investments	-	-	29,045	29,045	33,761
Total Operating Revenues	3,850,891	3,850,891	4,458,153	607,262	4,066,553
Expenses:					
Administrative Expenses:					
Salaries and Wages	177,717	177,717	176,217	1,500	163,779
Employee Benefits:					
PERS	9,058	9,058	8,135	923	8,348
Payroll Taxes	14,096	14,096	11,975	2,121	13,209
Medical Insurance	51,306	51,306	51,586	(280)	51,298
Legal	30,000	30,000	22,944	7,056	23,955
Bond Counsel	5,000	5,000	1,526	3,474	
Accounting	27,000	27,000	27,750	(750)	27,000
Insurance	25,000	25,000	22,833	2,167	21,916
Trustee Fees	18,000	18,000	20,900	(2,900)	20,900
Postage and Miscellaneous	33,000	33,000	39,166	(6,166)	46,456
Sub-total Administrative	390,177	390,177	383,032	7,145	355,961
Cost of Providing Services:					
Salaries and Wages	107,301	107,301	119,243	(11,942)	96,847
Employee Benefits:					
PERS	9,058	9,058	8,134	924	8,348
Payroll Taxes	8,709	8,709	10,128	(1,419)	7,757
Medical Insurance	18,961	18,961	23,630	(4,669)	39,454
Solids Removal	10,000	10,000	10,645	(645)	5,554
Equipment Repairs and Supplies	120,000	120,000	63,246	56,754	64,882
Utilities	120,000	120,000	141,897	(21,897)	101,292
Fees and Permits	5,000	5,000	1,911	3,089	3,800
Consulting Fees	100,000	100,000	388,270	(288,270)	123,120
Flow Study	10,000	10,000	-	10,000	-
Sewer Cleaning / TV	10,000	10,000	-	10,000	-
Lab Fees	2,000	2,000	-	2,000	1,860
Education Expenses	3,000	3,000	4,240	(1,240)	3,603
Passaic Valley Sewerage Commission	860,000	860,000	860,000	-	860,000
Property / Facility Lease	190,000	190,000	96,000	94,000	5,000
NJEIT Loan Administration Fee	15,000	15,000	13,638	1,362	13,638
Sub-total Cost of Providing Services	1,589,029	1,589,029	1,740,982	(151,953)	1,356,055
Sub-total Operating	1,979,206	1,979,206	2,124,014	(144,808)	1,712,016

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014

	FY 2014 Adopted Budget	FY 2014 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	473,670	473,670	462,397	11,273	482,754
Bond Principal	<u>1,398,015</u>	<u>1,398,015</u>	<u>1,398,015</u>	-	1,306,285
Sub-total Other Costs	<u>1,871,685</u>	<u>1,871,685</u>	<u>1,860,412</u>	11,273	1,789,039
Total Costs Funded by Operating Revenues:	3,850,891	3,850,891	3,984,426	(133,535)	3,501,055
Add: Excess / (Deficit)	-	-	473,727	473,727	565,498
	<u>3,850,891</u>	<u>3,850,891</u>	<u>4,458,153</u>	<u>(607,262)</u>	<u>4,066,553</u>
Excess of Revenues Over Expenses:					
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(632,937)		(734,042)
Amortization Expense			(26,858)		(23,907)
FEMA Grant - Hurricane Sandy					73,527
Bond Principal			<u>1,398,015</u>		<u>1,306,285</u>
Total Adjustments			<u>738,220</u>		<u>621,863</u>
Change in Net Position			<u>1,211,947</u>		<u>1,187,361</u>

SCHEDULE 4

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

SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	FY 2014 Adopted Budget	FY 2014 Budget as Amended	Paid or Charged	Excess / (Deficit)
Financing Sources:				
Unrestricted Net Position	300,000	300,000	1,090,807	(790,807)
	300,000	300,000	1,090,807	(790,807)
Capital Outlays:				
Building Renovation	-	-	647,057	(647,057)
Facility and Equipment				
Upgrades / Maintenance	300,000	300,000	443,750	(143,750)
Total Capital Outlays	300,000	300,000	1,090,807	(790,807)
Total Costs Funded by Capital Revenue	300,000	300,000	1,090,807	(790,807)
Add: Excess	-	-	-	-
	300,000	300,000	1,090,807	(790,807)

SCHEDULE 5
Page 1 of 8

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Jan. 1, 2014	2014 Released	2014 Redeemed	Balance Dec. 31, 2014
			December 31, 2014	Amount				
Revenue Bonds (Series 1991)	11/15/1991	7.30%	2015	125,000.00				
		7.30%	2016	135,000.00				
		7.30%	2017	145,000.00				
		7.30%	2018	155,000.00				
				680,000				
					120,000			560,000
Revenue Bonds (Series 1996)	12/1/1996	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				
				620,000				
					35,000			585,000

SCHEDULE 5
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KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	2014 Defeased	2014 Redeemed	Balance Dec. 31, 2014
			Date	Amount				
Revenue Refunding Bonds (Series 2003B)	2/26/2003	4.00%	2015	475,000.00				
		4.13%	2016	500,000.00				
		4.23%	2017	515,000.00				
		4.25%	2018	535,000.00				
				2,485,000				
					460,000			2,025,000
NJETT Bonds (Series 2005A&B) Fund Portion	11/10/2005	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	152,167.00				
		n/a	2023	101,676.00				
				1,503,025				
					153,265			1,349,760

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

<u>Description</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Outstanding Maturities</u>		<u>2014 Balance Jan. 1, 2014</u>	<u>2014 Defeased</u>	<u>2014 Redeemed</u>	<u>Balance Dec. 31, 2014</u>
			<u>Date</u>	<u>Amount</u>				
NJEIT Bonds (Series 2005A&B) Trust Portion	11/10/2005	4.00%	2015 2016 2017 2018 2019 2020	55,000.00 55,000.00 60,000.00 60,000.00 65,000.00 65,000.00	55,000.00			
		4.00%	2021 2022 2023 2024 2025	70,000.00 70,000.00 75,000.00 75,000.00 80,000.00	780,000	780,000	50,000	730,000
NJEIT Bonds (Series 2007A&B) Fund Portion	11/8/2007	n/a	2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027	214,726.00 217,955.00 211,496.00 214,265.00 216,571.00 210,666.00 213,988.00 215,371.00 216,295.00 208,844.00 210,182.00 211,104.00 121,334.00	214,726.00			2,892,282
							209,485	2,682,797

SCHEDULE 5
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KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturity		Jan. 1, 2014	2014 Defeased	2014 Redeemed	Balance Dec. 31, 2014
			Date	Amount				
NJEIT Bonds (Series 2007A&B) Trust Portion	11/8/2007	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				
					1,180,000			
						60,000		1,120,000

SCHEDULE 5
Page 5 of 8

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities			2014 Defeased	2014 Redeemed	Balance Dec. 31, 2014
			Date	Amount	Balance Jun. 1, 2014			
NJET Bonds (Series 2012 ABC) Fund Portion	5/3/2012	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				
				1,354,777				
					75,265			
								1,279,512

SCHEDULE 5
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KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	2014 Defeased	2014 Redeemed	Balance Dec. 31, 2014
			Date	Amount				
NJET Bonds (Series 2012A) Trust Portion	5/3/2012	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				
					435,000			420,000
						15,000		

SCHEDULE 5
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KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

SCHEDULE 6

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2014:

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

SCHEDULE 7

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

DECEMBER 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	CFDA Number	State Agency Account Number	Grant Period		Cumulative			
			Grant Award	From	To	Grant Expenditures		
U.S. Department of Environmental Protection:								
<i>Pass Through New Jersey Department of Environmental Protection</i>								
Capitalization Grants for Clean Water Revolving Funds:	66.458	4860-510-009-13	\$ 1,404,953	01/01/14	12/31/14	332,813		
Wastewater Treatment Fund						973,260		
Total Federal Financial Assistance						332,813		
						973,260		

SCHEDULE 8

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

DECEMBER 31, 2014

State Funding Department	State Account Number	Grant Award	Grant Period		Grant Expenditures	Cumulative Grant Expenditures
			From	To		
<u>New Jersey Department of Environmental Protection:</u>						
NJ Environmental Infrastructure Trust Loan	4860-510-009-13	\$ 468,317	01/01/14	12/31/14	110,938	324,421
Interest Portion	4860-510-009-13	\$ 15,393	01/01/14	12/31/14		13,740
Total State Financial Assistance					<u>110,938</u>	<u>338,161</u>

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

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

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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, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2015.

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.



Honorable Chairman and Members of the
Kearny Municipal Utilities Authority
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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 2014-1 and 2014-2).

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 2014-3. We noted certain other matters that we reported to management of the Authority in the comments and recommendations section of this report.

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 financial 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
Pompton Lakes, New Jersey

April 7, 2015

Comments and Recommendations

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014**
(continued)

FINDING: 2014-1*

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, 2014
(continued)

FINDING: 2014-2*

STATEMENT OF CONDITION

There were 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 \$632,937 was not initially recognized by management. Bond principal payments of \$1,398,015 were originally classified as an expense rather than a reduction of bonds payable.

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.

RECOMMENDATION

Depreciation should have been calculated and posted in a timely manner. Bond principal payments should be classified as a reduction of bonds payable.

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 2014 fiscal year.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014
(continued)

FINDING: 2014-3*

STATEMENT OF CONDITION

Arbitrage rebate liability is not being calculated annually.

CRITERIA

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

EFFECT

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

CAUSE

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

The Authority has contracted a professional service firm to calculate the arbitrage liability in 2014.

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

Pompton Lakes, New Jersey