

KEARNY MUNICIPAL UTILITIES AUTHORITY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2009 AND 2008
WITH
INDEPENDENT AUDITOR'S REPORT

**KEARNY MUNICIPAL UTILITIES AUTHORITY
TABLE OF CONTENTS**

DECEMBER 31, 2009 AND 2008

Page

PART I - INTRODUCTORY SECTION

Letter of Transmittal	1 - 4
Roster of Officials	5
Consultants, Independent Auditors and Advisors	6

PART II - FINANCIAL SECTION

Independent Auditor's Report	7 - 8
Management's Discussion and Analysis	9 - 14
Statements of Net Assets	15 - 16
Statements of Revenues, Expenses and Changes in Net Assets	17
Statements of Cash Flows	18 - 19
Notes to Financial Statements	20 - 47
Supplementary Information	
Schedule of Revenues, Expenses and Changes in Net Assets - Restricted and Unrestricted	48
Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Unrestricted Funds	49
Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Restricted Funds	50
Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget	51
Analysis of User Charges Receivable	52

PART III - STATISTICAL SECTION

Expenditures by Function	53
Revenues by Source	54
User Rates	55
Ratio of Annual Debt Service Expenditures to Total Expenditures	56
Revenue Bond Coverage	57
Miscellaneous Statistics	58

**KEARNY MUNICIPAL UTILITIES AUTHORITY
TABLE OF CONTENTS**

DECEMBER 31, 2009 AND 2008

	<u>Page</u>
 PART IV - SINGLE AUDIT SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59 - 60
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04	61 - 62
Schedule of Expenditures of Federal Awards	63
Schedule of Expenditures of State Financial Assistance	64
Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance	65
Schedule of Findings and Questioned Costs	
Section 1 - Summary of Auditor's Results	66 - 67
Section 2 - Financial Statement Findings	68 - 74
Section 3 - Federal Awards and State Financial Assistance Findings and Questioned Costs	75
Summary Schedule of Prior-Year Audit Findings and Questioned Costs	76
 PART V - COMMENTS AND RECOMMENDATIONS	
General Comments and Recommendations	77
Comments and Recommendations	78 - 79

PART I - INTRODUCTORY SECTION



JOSEPH P. SKELLY
Executive Director

39 CENTRAL AVENUE • KEARNY, NEW JERSEY • 07032 • 465-5367
FAX 465-5293

February 28, 2011

The Honorable Chairman and Commissioners
Kearny Municipal Utilities Authority
Kearny, New Jersey

State law requires that all local authorities publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America, ("GAAP"), and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report, ("CAFR"), of the Kearny Municipal Utilities Authority, (the "Authority"), for the year ended December 31, 2009.

This report consists of management's representations concerning the finances of the Authority. We believe it is accurate in all material respects, that is presented in a manner designed to set forth fairly the financial position and results of operations of the Authority as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain maximum understanding of the Authority's financial affairs have been included. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Authority and ultimately with the Board of Commissioners. By utilizing the CAFR format, it is the Authority's intent to facilitate an understanding by the non-financially oriented system user as well as provide all necessary information for the most sophisticated financial observer.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of Management's Discussion and Analysis, ("MD&A"). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the report of the independent auditor.

Organization of Report

The CAFR is presented in several sections: Introductory, Financial, Statistical and Single Audit. The Introductory section includes this transmittal letter and a list of principal officials. The Financial section includes the independent auditor's report, management's discussion and analysis, the financial statements, including the notes to financial statements and required supplementary schedules. The Statistical section includes selected financial, economic and demographic information, generally presented on a multi-year basis. The Single Audit section includes the auditor's reports covering compliance and internal control and financial reporting, schedules of federal awards and state financial assistance, as well as a schedule of related findings and questioned costs.

Government Structure and Services

The Authority's governing body consists of five members and two alternates appointed by the Mayor of the Town of Kearny, with the advice and consent of the Town Council. Members are appointed for terms of five years.

The Authority was created for the purpose of, among other things, acquiring, constructing, maintaining and operating facilities for the treatment, purification and disposal of sewage and other wastes originating in the South Kearny Industrial Area.

Internal Accounting Controls

Management of the Authority is responsible for establishing and maintaining an adequate internal control structure. In developing and evaluating the Authority's accounting system, consideration is given to the adequacy of the internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefits expected to be derived. All internal control evaluations occur within the above framework. We believe the Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance for the proper recording of financial transactions.

Basis of Accounting

The Authority's accounting records are maintained on an accrual basis and in accordance with GAAP, as promulgated by the Governmental Accounting Standards Board. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Annual Budget

The annual budget serves as the foundation for the Authority's financial planning and control. Management prepares a proposed budget, which is presented to the Authority's Board of Commissioners for review and approval. Prior to adoption by the Board of Commissioners, these budgets are reviewed and approved by the State of New Jersey Division of Local Government Services.

Debt Administration

At December 31, 2009, the Authority's outstanding debt issues included \$11,540,196 of sewer revenue and refunding bonds and a \$8,692,695 New Jersey Environmental Infrastructure Trust Loan.

Cash Management

The Authority strives to keep abreast of current developments and procedures in cash management to insure efficient and profitable use of available cash resources. The investment policy of the Authority is guided in large part by New Jersey Statutes. Cash is deposited in institutions located in New Jersey which are protected from loss under the provisions of the Governmental Unit Deposit Protection Act, ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. Funds not needed immediately are invested in certificates of deposit or other allowable investments.

Risk Management

The Authority carries various forms of insurance through the New Jersey Utility Authorities Joint Insurance Fund and the Municipal Excess Liability Joint Insurance Fund. Coverage includes, but is not limited to: workers' compensation, general liability, automobile liability, property liability and excess public employee/public officials' bonds.

Pension Benefits

Substantially all Authority employees participate in the New Jersey Public Employees Retirement System, ("PERS"). The PERS is a cost-sharing multiple-employer defined pension plan and is administered by the State of New Jersey Division of Pensions. Participants are required to contribute a statutory amount to the PERS. The Authority contributes to the PERS at an actuarially determined rate.

Annual Independent Audit

The Authority's financial statements have been audited by Donohue, Gironda & Doria, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the year ended December 31, 2009 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the year ended December 31, 2009, are fairly presented in conformity with GAAP. The Independent Auditor's Report is included in the financial section of this report.

Acknowledgments

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff and the Commissioners of the Authority. We would like to express our appreciation to all those who assisted and contributed to the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'J. Skelly', with a stylized, flowing script.

Joseph P. Skelly
Executive Director

**KEARNY MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS**

DECEMBER 31, 2009

<u>Authority Members</u>	<u>Position</u>	<u>Expiration of Term</u>
<u>Commissioners</u>		
Richard Ferraioli	Chairperson	January 31, 2010
Mary Torres	Vice Chairperson	January 31, 2011
Alberto G. Santos	Treasurer	January 31, 2013
Carol Jean Doyle	Commissioner	January 31, 2014
Augie Vagueiro	Commissioner	January 31, 2015
Sean McDonald	Alternate	January 31, 2012
Stephanie Ribeiro	Alternate	January 31, 2010
 <u>Other Officials</u>		
Joseph P. Skelly	Executive Director	

**KEARNY MUNICIPAL UTILITIES AUTHORITY
CONSULTANTS, INDEPENDENT AUDITORS AND ADVISORS**

DECEMBER 31, 2009

Engineer

John Scheri, Hatch Mott, MacDonald
545 Washington Blvd, Suite 602
Jersey City, NJ 07310

Audit Firm

DONOHUE, GIRONDA & DORIA
Certified Public Accountants
310 Broadway
Bayonne, NJ 07002

Attorney

Gregg Paster, Esq.
58 Main Street
Hackensack, NJ 07601

Bond Counsel

McManimon & Scotland, L.L.C.
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Newark, NJ 07102

PART II - FINANCIAL SECTION

DONOHUE, GIRONDA & DORIA

Certified Public Accountants

Matthew A. Donohue, CPA
Robert A. Gironda, CPA
Robert G. Doria, CPA (N.J. & N.Y.)
Frederick J. Tomkins, CPA, RMA
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INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Commissioners
Kearny Municipal Utilities Authority
Kearny, New Jersey

We have audited the accompanying financial statements of the Kearny Municipal Utilities Authority, (the "Authority"), a component unit of the Town of Kearny, as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kearny Municipal Utilities Authority as of December 31, 2009 and 2008, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2011, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require management's discussion and analysis and budgetary comparison information on pages 9 through 14 and 51 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 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 the management's discussion and analysis 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information in management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audits 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 budgetary comparison information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The introductory section, supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and State of New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, respectively and are also not a required part of the basic financial statements. These schedules and the supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.


DONOHUE, GIRONDA & DORIA
Certified Public Accountants

Bayonne, New Jersey
February 28, 2011

KEARNY MUNICIPAL UTILITIES AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2009 AND 2008

This section of the Kearny Municipal Utilities Authority, (the "Authority"), annual financial report presents our discussion and analysis of the Authority's financial performance during the years ended December 31, 2009 and 2008. Please read it in conjunction with the Authority's financial statements and accompanying notes as well as the transmittal letter of the front of the report.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's basic financial statements are comprised of three components: 1) enterprise fund financial statements 2) notes to the financial statements and 3) required supplementary information which includes this management's discussion and analysis. In addition to the basic financial statements, this report also contains other supplementary information as listed in the table of contents.

Enterprise fund financial statements – The Authority is a self-supporting entity and follows enterprise funds reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Authority. These statements are presented in a manner similar to a private business.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the enterprise fund financial statements. The notes to the financial statements can be found on pages 20 through 47.

Supplementary information – In addition to the basic financial statements and accompanying notes, the basic financial statements contain required supplementary information including this discussion and analysis on pages 9 through 14 and budgetary comparison information on page 51.

KEARNY MUNICIPAL UTILITIES AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2009 AND 2008

FINANCIAL HIGHLIGHTS

	2009			2008			2007		
* Change in total net assets	\$	3,241,428	or 54.92%	\$	559,228	or 10.47%	\$	(365,855)	or -6.41%
* Change in cash and cash equivalents	\$	(235,420)	or -10.23%	\$	444,697	or 23.95%	\$	1,020,192	or 121.93%
* Change in net capital assets	\$	4,628,996	or 35.66%	\$	1,821,549	or 24.29%	\$	1,232,406	or 9.11%
* Change in operating revenues	\$	512,780	or 14.83%	\$	544,597	or 18.70%	\$	(865,159)	or -22.90%
* Change in operating expenses	\$	31,651	or 1.37%	\$	(492,902)	or -17.57%	\$	626,973	or 28.79%
* Change in operating income	\$	481,129	or 42.01%	\$	1,037,499	or 961.63%	\$	(1,492,132)	or -93.26%

2009 FINANCIAL HIGHLIGHTS

Operating income increased \$481,129 along with a net assets increase of \$3,241,428 in 2009. This variation in operations is attributed to higher operating revenues in 2009 because of an increase of \$581,352 in user charges while operating expenses remained stable with a small increase of \$31,651. The remainder of the increase in net assets is mainly attributed to the contributed capital for investment in capital assets of \$2,270,099 for other government entities contributions to capital asset projects that the Authority is undertaking.

2008 FINANCIAL HIGHLIGHTS

Operating income increased \$1,037,499 along with a net assets increase of \$559,228 in 2008. This variation is attributed to higher revenues in 2008 because of an increase of \$380,996 in user charges and recovery of bad debt expense of \$107,570. Operating expenses in 2008 decreased primarily because of a legal settlement of \$400,000 in 2007.

2007 FINANCIAL HIGHLIGHTS

Operating income decreased \$1,492,132 along with net assets decrease of \$365,855 in 2007. This variation is attributed to higher revenues in 2006 because of a New Jersey State grant awarded for \$299,312 and recovery of bad debt expense of \$177,360. Operating expenses in 2007 increased primarily because of a legal settlement of \$400,000. The substantial increase of cash and cash equivalents of \$1,020,192 is largely attributed to the Authority implementing an effective policy for collecting delinquent user charges receivables.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2009 AND 2008

FINANCIAL ANALYSIS OF THE AUTHORITY

The following table summarizes the assets, liabilities and net assets as of December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>ASSETS:</u>			
Current assets:			
Unrestricted assets	\$ 6,799,830	\$ 9,710,081	\$ 9,629,193
Restricted assets	-	1,050,763	353,214
Noncurrent assets:			
Restricted assets	2,093,686	2,143,388	3,826,587
Net capital assets	<u>21,209,133</u>	<u>16,580,137</u>	<u>14,758,588</u>
Total assets	<u>\$ 30,102,649</u>	<u>\$ 29,484,369</u>	<u>\$ 28,567,582</u>
<u>LIABILITIES AND NET ASSETS:</u>			
Liabilities:			
Current liabilities (payable from unrestricted accounts)	\$ 840,892	\$ 2,280,823	\$ 781,898
Current liabilities (payable from restricted accounts)	760,254	743,232	726,056
Noncurrent liabilities	<u>19,357,710</u>	<u>20,557,949</u>	<u>21,716,491</u>
Total liabilities	<u>20,958,856</u>	<u>23,582,004</u>	<u>23,224,445</u>
Net assets:			
Invested in capital assets, net of related debt	6,281,286	3,193,571	3,277,058
Restricted	1,465,478	1,465,478	1,465,478
Unrestricted	<u>1,397,029</u>	<u>1,243,316</u>	<u>600,601</u>
Total net assets	<u>9,143,793</u>	<u>5,902,365</u>	<u>5,343,137</u>
Total liabilities and net assets	<u>\$ 30,102,649</u>	<u>\$ 29,484,369</u>	<u>\$ 28,567,582</u>

The decrease in unrestricted assets of \$2,910,251 is mostly attributed to proceeds received that were due from the New Jersey Environmental Infrastructure Trust for capital project reimbursements. Those proceeds were used for the capital projects that the Authority is undergoing. The decrease of noncurrent liabilities of \$1,200,239 is due to the principal payments made for bonds and loans payable.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2009 AND 2008

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

The following table summarizes the revenues, expenses and changes in net assets for the years ended December 31, 2009, 2008 and 2007.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
REVENUES:			
Operating revenues:			
User charges	\$ 3,811,488	\$ 3,230,136	\$ 2,849,140
Interest and penalties	42,093	113,199	63,801
Recovery of bad debt expense	116,737	107,570	-
Other income	-	6,633	-
Total operating revenues	<u>3,970,318</u>	<u>3,457,538</u>	<u>2,912,941</u>
Nonoperating revenues:			
Interest income from investments	45,808	144,269	219,173
Total nonoperating revenues	<u>45,808</u>	<u>144,269</u>	<u>219,173</u>
Total revenues	<u>4,016,126</u>	<u>3,601,807</u>	<u>3,132,114</u>
EXPENSES:			
Operating expenses:			
Cost of providing services	1,301,190	1,265,379	1,394,993
General and administrative	360,765	327,521	379,448
Depreciation expense	681,845	618,741	561,169
Bad debt expense	-	100,508	69,441
Legal settlement	-	-	400,000
Total operating expenses	<u>2,343,800</u>	<u>2,312,149</u>	<u>2,805,051</u>
Nonoperating expenses			
Interest expense	675,028	704,462	666,950
Amortization expense	25,969	25,968	25,968
Total nonoperating expenses	<u>700,997</u>	<u>730,430</u>	<u>692,918</u>
Total expenses	<u>3,044,797</u>	<u>3,042,579</u>	<u>3,497,969</u>
Income before contributions	971,329	559,228	(365,855)
Contributed capital for investment in capital assets	<u>2,270,099</u>	<u>-</u>	<u>-</u>
Change in net assets	3,241,428	559,228	(365,855)
Net assets - beginning of period	<u>5,902,365</u>	<u>5,343,137</u>	<u>5,708,992</u>
Net assets - end of period	<u>\$ 9,143,793</u>	<u>\$ 5,902,365</u>	<u>\$ 5,343,137</u>

**KEARNY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2009 AND 2008

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Operating income increased \$479,894 because of an increase in operating revenues of \$512,780 offset by a small increase in operating expenses of \$32,886. The variation in operating revenues is due to an increase in user charges of \$581,352.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The following table summarizes the changes in capital assets between January 1, 2007 and December 31, 2009:

	January 1, 2007	Additions/ Deletions Transfers	December 31, 2007	Additions/ Deletions Transfers	December 31, 2008	Additions/ Deletions Transfers	December 31, 2009
Structures and improvements	\$ 7,107,072	\$ 37,446	\$ 7,144,518	\$ -	\$ 7,144,518	\$ -	\$ 7,144,518
Major structural equipment and improvements	10,525,752	-	10,525,752	3,155,164	13,680,916	-	13,680,916
Furniture and equipment	319,664	-	319,664	-	319,664	-	319,664
Subtotal	17,952,488	37,446	17,989,934	3,155,164	21,145,098	-	21,145,098
Less: Accumulated depreciation	(6,985,322)	(561,169)	(7,546,491)	(618,741)	(8,165,232)	(681,845)	(8,847,077)
Subtotal	10,967,166	(523,723)	10,443,443	2,536,423	12,979,866	(681,845)	12,298,021
Add: Work in progress	2,559,016	1,756,129	4,315,145	(714,874)	3,600,271	5,310,841	8,911,112
Net capital assets	<u>\$ 13,526,182</u>	<u>\$ 1,232,406</u>	<u>\$ 14,758,588</u>	<u>\$ 1,821,549</u>	<u>\$ 16,580,137</u>	<u>\$ 4,628,996</u>	<u>\$ 21,209,133</u>

In 2009 the Authority capitalized \$5,310,841 in costs for the capital projects for Jacobus Avenue, Bergen Avenue, and 1D Landfill. In 2008 the Kearny Point Pump Station Project was completed and transferred from work in progress to major structural equipment and improvements.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2009 AND 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The following table summarizes the capital debt of the Authority as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
Series 1991, sewer revenue bonds payable	\$ 1,080,000	\$ 1,165,000	\$ 1,245,000
Series 1996, sewer revenue bonds payable	740,000	765,000	790,000
Series 2003A, revenue bonds payable	5,695,000	5,840,000	5,980,000
Series 2003B, revenue refunding bonds payable	4,140,000	4,510,000	4,870,000
2005A, Environmental Infrastructure trust loans payable	3,438,629	3,633,724	3,831,748
2007A, Environmental Infrastructure trust loans payable	5,254,066	5,517,500	5,517,500
Total debt	20,347,695	21,431,224	22,234,248
Deferred charges on refunding, net	(114,804)	(127,561)	(140,317)
Net debt	<u>\$ 20,232,891</u>	<u>\$ 21,303,663</u>	<u>\$ 22,093,931</u>

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Town of Kearny's citizens and taxpayers, customers of the South Kearny Industrial Area that utilize the Authority's services, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the public funds that it receives. If you have questions about this report or need additional information, you may contact the Authority's Executive Director at 39 Central Avenue, Kearny, New Jersey 07032 or at (973) 465-5367.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
STATEMENTS OF NET ASSETS**

DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS:</u>		
Current assets:		
Unrestricted assets:		
Operating fund:		
Cash and cash equivalents	\$ 1,053,145	\$ 1,262,800
User charges receivable	1,653,868	1,337,031
Other accounts receivable	-	18,728
Prepaid expenses	-	7,482
Due from other governments	603,823	1,009,993
Due from NJ Environmental Infrastructure Trust Fund	<u>3,488,994</u>	<u>6,074,047</u>
Total unrestricted assets	6,799,830	9,710,081
Restricted assets:		
Construction fund:		
Due from operating fund	<u>-</u>	<u>1,050,763</u>
Total current assets	<u>6,799,830</u>	<u>10,760,844</u>
Noncurrent assets:		
Restricted assets:		
Revenue fund:		
Cash and cash equivalents	51,721	51,537
Interest fund:		
Cash and cash equivalents	-	133
Debt service reserve fund:		
Cash and cash equivalents	632,544	661,339
Investments	804,254	804,254
Accrued interest receivable	6,895	7,268
Construction fund:		
Cash and cash equivalents	314,808	313,109
Deferred charge - unamortized debt issuance costs	269,666	282,878
Accrued interest receivable	1,075	10,192
Rebate fund:		
Cash and cash equivalents	<u>12,723</u>	<u>12,678</u>
Total restricted assets	<u>2,093,686</u>	<u>2,143,388</u>
Capital assets:		
Work in progress	8,911,112	3,600,271
Structures, improvements and equipment, net	<u>12,298,021</u>	<u>12,979,866</u>
Net capital assets	<u>21,209,133</u>	<u>16,580,137</u>
Total noncurrent assets	<u>23,302,819</u>	<u>18,723,525</u>
Total assets	<u>\$ 30,102,649</u>	<u>\$ 29,484,369</u>

See accompanying notes to financial statements.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
STATEMENTS OF NET ASSETS**

DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>LIABILITIES AND NET ASSETS:</u>		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	\$ 225,393	\$ 625,536
Payroll agency payable	6,898	-
Due to construction fund	-	1,050,763
Legal settlement	100,000	100,000
Loan interest payable	44,120	45,995
NJ Environmental Infrastructure Trust loans payable	464,481	458,529
	<u>840,892</u>	<u>2,280,823</u>
Current liabilities (payable from restricted assets):		
Bond interest payable	69,790	72,768
Bonds payable	645,000	625,000
Due to bond holders	45,464	45,464
	<u>760,254</u>	<u>743,232</u>
Current liabilities (payable from restricted assets)	<u>760,254</u>	<u>743,232</u>
Total current liabilities	<u>1,601,146</u>	<u>3,024,055</u>
Noncurrent liabilities:		
Bonds payable	10,895,196	11,527,439
NJ Environmental Infrastructure Trust loans payable	8,228,214	8,692,695
Legal Settlement	100,000	200,000
Developer escrow account	13,086	19,841
Arbitrage rebate payable	10,815	10,815
Compensated absences payable	61,037	59,001
Other liabilities	49,362	48,158
	<u>19,357,710</u>	<u>20,557,949</u>
Total noncurrent liabilities	<u>19,357,710</u>	<u>20,557,949</u>
Total liabilities	<u>20,958,856</u>	<u>23,582,004</u>
Net assets:		
Invested in capital assets, net of related debt	6,281,286	3,193,571
Restricted for:		
Debt service	1,215,478	1,215,478
Future plant renewal and replacement	250,000	250,000
Unrestricted	1,397,029	1,243,316
	<u>9,143,793</u>	<u>5,902,365</u>
Total net assets	<u>9,143,793</u>	<u>5,902,365</u>
Total liabilities and net assets	<u>\$ 30,102,649</u>	<u>\$ 29,484,369</u>

See accompanying notes to financial statements.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
User charges	\$ 3,811,488	\$ 3,230,136
Interest and penalties	42,093	113,199
Recovery of bad debt expense	116,737	107,570
Other income	<u>-</u>	<u>6,633</u>
Total operating revenues	<u>3,970,318</u>	<u>3,457,538</u>
Operating expenses:		
Cost of providing services	1,301,190	1,265,379
General and administrative	360,765	327,521
Depreciation expense	681,845	618,741
Bad debt expense	<u>-</u>	<u>100,508</u>
Total operating expenses	<u>2,343,800</u>	<u>2,312,149</u>
Operating income	<u>1,626,518</u>	<u>1,145,389</u>
Nonoperating revenue (expenses):		
Interest income from investments	45,808	144,269
Interest expense	(675,028)	(704,462)
Amortization expense	<u>(25,969)</u>	<u>(25,968)</u>
Total nonoperating revenue (expenses)	<u>(655,189)</u>	<u>(586,161)</u>
Income before contributions	971,329	559,228
Contributed capital for investment in capital assets	<u>2,270,099</u>	<u>-</u>
Change in net assets	3,241,428	559,228
Net assets at beginning of year	<u>5,902,365</u>	<u>5,343,137</u>
Net assets at end of year	<u>\$ 9,143,793</u>	<u>\$ 5,902,365</u>

See accompanying notes to financial statements.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from customers	\$ 3,611,388	\$ 3,269,348
Receipts from other sources	42,093	113,199
Costs of providing services paid	(1,255,470)	(1,281,230)
General and administrative expenses paid	(307,373)	(340,496)
Legal settlement	<u>(100,000)</u>	<u>(100,000)</u>
Net cash provided by operating activities	<u>1,990,638</u>	<u>1,660,821</u>
Cash flows from capital and related financing activities:		
Contributed capital for investment in capital assets	1,666,276	-
Proceeds from NJ Environmental Infrastructure Trust Fund	2,585,334	1,029,342
Purchases of capital assets	(4,199,911)	(2,905,167)
Principal paid on loans	(458,529)	(198,024)
Principal paid on bonds	(625,000)	(605,000)
Interest paid on capital debt	(679,881)	(691,363)
Developer escrow account	(6,755)	10,268
Payment of accounts payable used to finance capital assets	<u>(563,844)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(2,282,310)</u>	<u>(3,359,944)</u>
Cash flows from investing activities:		
Proceeds from maturities of investments	2,027,189	4,813,629
Purchases of investments	(2,027,189)	(2,808,507)
Interest	<u>55,017</u>	<u>138,698</u>
Net cash provided by investing activities	<u>55,017</u>	<u>2,143,820</u>
Net increase (decrease) in cash and cash equivalents	(236,655)	444,697
Cash and cash equivalents at the beginning of the year	<u>2,301,596</u>	<u>1,856,899</u>
Cash and equivalents at the end of the year	<u>\$ 2,064,941</u>	<u>\$ 2,301,596</u>

See accompanying notes to financial statements.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents by fund at the end of the year:		
Unrestricted funds	\$ 1,053,145	\$ 1,262,800
Revenue fund	51,721	51,537
Interest fund	-	133
Debt service reserve fund	632,544	661,339
Construction fund	314,808	313,109
Rebate fund	12,723	12,678
	<u>\$ 2,064,941</u>	<u>\$ 2,301,596</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income	\$ 1,626,518	\$ 1,145,389
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	681,845	618,741
(Increase) decrease in user charges receivable	(316,837)	32,150
Decrease in prepaid expenses	7,482	1,474
(Increase) decrease in accounts payable and accrued expenses	91,630	(30,300)
Increase in due to Town of Kearny	-	(6,633)
Legal settlement	(100,000)	(100,000)
Net cash provided by operating activities	<u>\$ 1,990,638</u>	<u>\$ 1,660,821</u>
Noncash capital and related financing transactions:		
Capital asset additions	\$ 5,310,841	\$ 2,440,290
Accounts payable used to finance capital assets	(82,209)	(563,844)
Increase (decrease) in accounts receivable	(18,728)	18,728
Increase (decrease) in due from other governments	(1,009,993)	1,009,993
Cash payments for capital assets	<u>\$ 4,199,911</u>	<u>\$ 2,905,167</u>

See accompanying notes to financial statements.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Authorizing Legislation

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"). The Authority is a public body, corporate and politic, organized under the laws of the State of New Jersey.

Authority Description

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.

Bond Resolutions

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.

Component Unit

The Authority is a component unit of the Town of Kearny under Governmental Accounting Standards Boards (GASB) Statement No. 14, as amended by GASB 39.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Accounting Policies

On August 26, 1983, the State of New Jersey enacted P.L. 1983, Chapter 313, providing for a State review of the financial operations of local authorities. The responsibility for this review was given to the Local Finance Board and the Division of Local Government Services of the Department of Community Affairs (DCA). In July 1984, the GASB became the promulgator of standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities. GASB Statement No. 20 recognizes that the accounting and financial reporting activities of Authorities are considered to be proprietary activities. In accordance with Statement No. 20, the Authority has applied all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements that were issued prior to November 30, 1989. The Authority has elected not to apply FASB pronouncements issued after that date unless they have specifically been made applicable by the GASB.

The Authority's financial statements are presented in accordance with GASB Statement No. 34 "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*."

C. Measurement Focus/Basis of Accounting

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. The financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net assets and the statement of revenues, expenses and changes in net assets presents increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

D. Scope of Audit

The audit covers the financial transactions of the Authority and the activities of the Board of Commissioners.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting

The State Division of Local Government Services requires that an annual budget be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures. Budget amounts presented in the accompanying financial statements represent amounts adopted by the Authority and approved by the Division per N.J.S.A. 40A:4 et. seq. The Division does not require over-expenditures of individual line items to be raised in succeeding year budgets. If the Authority incurs a deficit in any year, it is required to fund the deficit in the next year's budget. One individual line item in the budget was overexpended. The Division did not require this overexpenditure to be raised in the succeeding year budget. A reconciliation of the budgetary accounting information to GAAP information is summarized in note 20 and detailed in Schedule 4.

F. Cash, Cash Equivalents, and Investments

For the purposes of the Statement of Cash Flows, cash and cash equivalents include all demand and savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2.

G. Receivables

Sewer User Fee Revenue is recorded when billed by the Authority and an allowance for uncollectible accounts has been established for that part of the receivable recorded at year end that the Authority estimates would ultimately prove to be uncollectible.

H. Inventory

Purchases of materials and supplies are expensed when purchased. The Authority does not maintain an inventory of these purchases. The balance on hand of these items at December 31, 2009 and 2008 was not material.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

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

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

J. Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are related to general bond resolution requirements.

K. Long-Term Debt

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

L. Compensated Absences

The Authority's policy regarding sick time permits employees to accumulate earned but unused sick time, with certain limitations. The liability for these compensated absences is recorded as long-term debt in the statement of net assets. Authority employees cannot accumulate vacation time.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Equity Classification

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of 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.

Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

N. Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing, producing and delivering sewer services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

O. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make 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.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Deposits

N.J.S.A. 17:9-42 and the cash management plan adopted by the Authority requires the Authority to deposit funds in public depositories protected from loss under the provisions of the Government Unit Depository Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits (Continued)

Public funds are defined as the funds of any governmental unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of its deposits to the governmental units.

Custodial credit risk is the risk that, in the event of a bank or counterparty failure, the Authority will not be able to recover deposits and/or the value of its investments, or will not be able to recover collateral securities that are in the possession of an outside party.

Foreign currency risk is the risk that changes in exchange rates will adversely affect deposits and/or investments. The Authority does not invest in foreign currency.

As of December 31, 2009 and 2008, none of the Authority's bank balances of \$2,869,192 and \$3,113,167 was exposed to custodial credit risk or foreign currency risk.

As of December 31, 2009 and 2008, the Authority's deposits are summarized as follows:

	<u>2009</u>	<u>2008</u>
Insured - FDIC	\$ 500,602	\$ 536,514
Insured - GUDPA	<u>2,368,590</u>	<u>2,576,653</u>
	<u>\$ 2,869,192</u>	<u>\$ 3,113,167</u>

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments and Investment Risk

New Jersey Statutes permit the following investments for local funds:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America.
- Government money market mutual funds.
- Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- Bonds or other obligations of the Authority or bonds or other obligations of school districts of which the Authority is a part of.
- Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments.
- Local government investment pools, such as New Jersey CLASS, and the New Jersey Arbitrage Management Program.
- New Jersey Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to the following conditions: 1) the underlying securities are permitted investments, 2) the custody of the collateral is transferred to a third party, 3) the maturity of the agreement is not more than 30 days, 4) the underlying securities are purchased through a GUDPA bank and, 5) a master purchase agreement providing for the custody and security of collateral is executed.
- Obligations issued by the state and its agencies.

Any investments not purchased and redeemed directly from the issuer, government money market fund, local government investment pool, or the State of New Jersey Cash Management Fund, must be purchased and redeemed through the use of a GUDPA approved bank or through a securities broker-dealer which is registered with the New Jersey Bureau of Securities.

During 2009 and 2008 the Authority invested primarily in Certificates of Deposit with maturity dates not exceeding twelve months and Money Market Funds with balances as of December 31, 2009 and 2008 of \$804,254 and \$804,254, respectively.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments and Investment Risk (Continued)

Interest Rate Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2009 and 2008, the Authority did not have any investments which would expose it to interest rate risk.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk – The Authority places no formal limit on the amount it may invest in any one issuer. At December 31, 2009 and 2008, the Authority did not have any investments which would expose it to credit risk.

3. PENSIONS

Substantially all Authority employees participate in the Public Employees Retirement System of New Jersey ("PERS"). The PERS system is a cost sharing multiple-employer defined benefit plan, administered by the Division of Pensions in the Department of the Treasury, State of New Jersey. Participants are required to contribute a statutory amount to the PERS. The Authority contributes to the PERS at an actuarially determined rate. The PERS was established in January 1955 under provisions of N.J.S.A. 43:15A and provides retirement, death, disability and medical benefits to certain qualifying Plan members and beneficiaries. Membership is mandatory to substantially all full time employees and vesting occurs after 8 to 10 years of service. Employees who retire at or after age 55 are entitled to a retirement benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years compensation for each year of membership during years of creditable service.

According to state law, all obligations of PERS will be assumed by the State of New Jersey should the PERS be terminated. The State of New Jersey issues publicly available financial reports that include the financial statements and required supplementary information of the PERS. This report may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

3. PENSIONS (Continued)

The contribution policy is set by laws of the State of New Jersey. Contributions made by employees for the period January 1, 2008 to June 30, 2008 were 5.0% of their base wages, and from July 1, 2008 to December 31, 2009 they were 5.5% of their base wages. Employers are required to contribute at an actuarially determined rate. The Authority and employees' contributions for the past three years were as follows:

<u>Year Ended December 31,</u>	<u>Authority Contribution</u>	<u>Authority Contribution as a Percentage of Covered Payroll</u>	<u>Employee Contributions</u>
2009	\$ 21,488	8.31%	\$ 13,204
2008	10,732	4.33%	13,027
2007	16,506	6.82%	11,933

4. RESTRICTED ACCOUNTS

In accordance with the "1988 General Bond Resolution", the Authority established and created the following funds:

Revenue Fund	Operating Fund
Interest Fund	Principal Fund
Redemption Fund	Debt Service Reserve Fund
Renewal and Replacement Fund	Surplus Fund
Rebate Fund	Construction Fund

- A. The Operating Fund is held by the Authority. All other funds and accounts are held by the Trustee.
- B. So long as no gross deposit condition exists, all sewer revenue is collected and deposited daily in the name of the Trustee into the Revenue Fund.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

4. RESTRICTED ACCOUNTS (Continued)

C. As of the first day of each month, the Trustee makes payments out of the Revenue Fund into the following funds and accounts as follows:

- First: Into the Interest Fund, the amount required for the month;
- Second: Into the Principal Fund, the amount required for the month;
- Third: Into the Debt Service Reserve Fund, the amount, if any, necessary to increase the amount therein to the Debt Service Reserve Requirement;
- Fourth: Into the Operating Fund, the amount which will be sufficient to pay, when due, all operating expenses and fees and expenses payable to the Trustee and Paying Agent;
- Fifth: Into the Surplus Fund, the amount in excess of net revenues.

E. Moneys received from the provisions of the Resolution or applicable Supplemental Resolution may be paid into the Construction Fund. At the option of the Authority, any moneys received by the Authority from any other source, unless required to be otherwise applied as provided by the Resolutions may be paid into the Construction Fund. Amounts in the Construction Fund shall be applied to the costs of the project and costs of issuance.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

4. RESTRICTED ACCOUNTS (Continued)

- F. The amount required to be maintained in the Debt Service Reserve Fund is the largest annual Debt Service Requirement over the life of the Revenue Bonds.

The 1988 General Bond Resolution requires that the Authority maintain on deposit the following reserves for the years ended December 2009 and 2008:

Surplus Fund - Renewal and Replacement Account

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 250,000	\$ 250,000
Renewal and replacement requirement	<u>250,000</u>	<u>250,000</u>
Excess	<u>\$ -</u>	<u>\$ -</u>

Debt Service Reserve Fund

	<u>2009</u>	<u>2008</u>
Cash, cash equivalents and investments	\$ 1,436,798	\$ 1,465,593
Debt service reserve requirement	<u>1,215,478</u>	<u>1,215,478</u>
Excess	<u>\$ 221,320</u>	<u>\$ 250,115</u>

5. CAPITAL ASSETS

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

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

5. CAPITAL ASSETS (Continued)

B. Capital assets activity for the years ended December 31, 2009 and 2008 were as follows:

	2007	Additions	Deletions	2008	Additions	2009
Structures and improvements	\$ 7,144,518	\$ -	\$ -	\$ 7,144,518	\$ -	\$ 7,144,518
Major structural equipment and improvements	10,525,752	3,155,164	-	13,680,916	-	13,680,916
Furniture and equipment	319,664	-	-	319,664	-	319,664
Total	17,989,934	3,155,164	-	21,145,098	-	21,145,098
Less accumulated depreciation	(7,546,491)	(618,741)	-	(8,165,232)	(681,845)	(8,847,077)
	10,443,443	2,536,423	-	12,979,866	(681,845)	12,298,021
Add work in progress	4,315,145	2,440,290	3,155,164	3,600,271	5,310,841	8,911,112
	<u>\$ 14,758,588</u>	<u>\$ 4,976,713</u>	<u>\$ 3,155,164</u>	<u>\$ 16,580,137</u>	<u>\$ 4,628,996</u>	<u>\$ 21,209,133</u>

6. LONG-TERM OBLIGATIONS

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

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

6. LONG-TERM OBLIGATIONS (Continued)

A. The Sewer Revenue Bonds, Series 1991 (Continued)

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

Description	Original		Maturities and Obligations			Balance December 31, 2008	Paid in 2009	Balance December 31, 2009
	Date	Amount	Rate	Date	Amount			
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				11/15/10	90,000			
				11/15/11	95,000			
				11/15/12	105,000			
				11/15/13	110,000			
				11/15/14	120,000			
				11/15/15	125,000			
				11/15/16	135,000			
				11/15/17	145,000			
				11/15/18	155,000	1,165,000	85,000	1,080,000
						<u>\$ 1,165,000</u>	<u>\$ 85,000</u>	<u>\$ 1,080,000</u>
Recapitulation of balance:								
Current portion of bonds payable						\$ 85,000		\$ 90,000
Long-term portion of bonds payable						<u>1,080,000</u>		<u>990,000</u>
						<u>\$ 1,165,000</u>		<u>\$ 1,080,000</u>

B. Revenue Refunding Bonds, Series 1992

On December 1, 1992, the Authority issued \$6,810,000 of Revenue Refunding Bonds, Series 1992. The Bonds were issued to provide funds (a) to advance refund and defease the Authority's outstanding Revenue Bonds, Series 1988 maturing on and after November 15, 1998; and (b) to pay the costs of issuance on the Bonds. The 1988 bonds were initially issued to provide funds to finance the South Kearny Secondary Sewage Treatment Project. On February 26, 2003, the Authority issued the series 2003B Revenue Refunding Bonds to refund these bonds (see Note 6E). On April 1, 2003 the bonds were called and the entire amount payable of \$5,660,000 was refunded.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

6. LONG-TERM OBLIGATIONS (Continued)

C. The Sewer Revenue Bonds, Series 1996

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

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

	Original		Maturities and Obligations			Balance December 31,	Paid in	Balance December 31,
Description	Date	Amount	Rate	Date	Amount	2008	2009	2009
Series 1996 - Serial Bonds	12/01/96	\$ 350,000	5.25	11/15/10	\$ 30,000			
			5.30	11/15/11	30,000			
			5.35	11/15/12	30,000	\$ 115,000	\$ 25,000	\$ 90,000
Series 1996 - Term Bonds		650,000	5.50	11/15/18	220,000			
			5.50	11/15/26	430,000	650,000		650,000
						\$ 765,000	\$ 25,000	\$ 740,000
Recapitulation of balance:								
Current portion of bonds payable						\$ 25,000		\$ 30,000
Long-term portion of bonds payable						740,000		710,000
						\$ 765,000		\$ 740,000

D. Revenue Bonds, Series 2003A

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

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

6. LONG-TERM OBLIGATIONS (Continued)

D. Revenue Bonds, Series 2003A (Continued)

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

Description	Original		Maturities and Obligations			Balance December 31, 2008	Paid in 2009	Balance December 31, 2009
	Date	Amount	Rate	Date	Amount			
Series 2003A - Serial Bonds	2/26/03	\$ 6,500,000	3.375	11/15/10	\$ 145,000			
			3.625	11/15/11	150,000			
			3.750	11/15/12	160,000			
			4.000	11/15/13	165,000			
			4.100	11/15/14	170,000			
			4.200	11/15/15	175,000			
			4.300	11/15/16	185,000	\$ 1,295,000	\$ 145,000	\$ 1,150,000
Series 2003A - Term Bonds			5.000	11/15/23	1,580,000			
			4.750	11/15/32	2,965,000	4,545,000		4,545,000
						<u>\$ 5,840,000</u>	<u>\$ 145,000</u>	<u>\$ 5,695,000</u>
Recapitulation of balance:								
Current portion of bonds payable						\$ 145,000		\$ 145,000
Long-term portion of bonds payable						5,695,000		5,550,000
						<u>\$ 5,840,000</u>		<u>\$ 5,695,000</u>

E. Revenue Refunding 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; (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 the costs and expenses associated with the issuance of these bonds. The cash flow requirement of the series 2003B bonds is \$721,927 less than the series 1992 bonds for which they were issued to defease, and results in a present value savings of \$627,941.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

6. LONG-TERM OBLIGATIONS (Continued)

E. Revenue Refunding Bonds, Series 2003B (Continued)

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

	Original		Maturities and Obligations			Balance	Paid	Balance
Description	Date	Amount	Rate	Date	Amount	December 31, 2008	in 2009	December 31, 2009
Series 2003B - Serial Bonds	2/26/03	\$ 6,100,000	3.250	11/15/10	\$ 380,000			
			3.500	11/15/11	415,000			
			3.650	11/15/12	420,000			
			3.750	11/15/13	440,000			
			4.000	11/15/14	460,000			
			4.000	11/15/15	475,000			
			4.125	11/15/16	500,000			
			4.250	11/15/17	515,000			
			4.250	11/15/18	535,000	\$ 4,510,000	\$ 370,000	\$ 4,140,000
Recapitulation of balance:								
Bonds payable						\$ 4,510,000		\$ 4,140,000
Less: Deferred charge on refunding, net						(127,561)		(114,804)
						\$ 4,382,439		\$ 4,025,196
Current portion of bonds payable						\$ 370,000		\$ 380,000
Long-term portion of bonds payable						4,012,439		3,645,196
						\$ 4,382,439		\$ 4,025,196

F. 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.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

6. LONG-TERM OBLIGATIONS (Continued)

F. New Jersey Environmental Infrastructure Trust Loans – 2005A (Continued)

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

Date	Fund Loan	Trust Loan		Balance December 31, 2008	Paid in 2009	Balance December 31, 2009
	Maturities	Maturities	Rate			
2/1/2010	\$ 39,106					
8/1/2010	112,328	\$ 40,000	5.000			
2/1/2011	37,275					
8/1/2011	119,651	45,000	5.000			
2/1/2012	35,216					
8/1/2012	117,591	45,000	5.000			
2/1/2013	33,156					
8/1/2013	124,685	50,000	5.000			
2/1/2014	30,868					
8/1/2014	122,397	50,000	5.000			
2/1/2015	28,580					
8/1/2015	129,261	55,000	4.000			
2/1/2016	26,566					
8/1/2016	127,248	55,000	4.000			
2/1/2017	24,553					
8/1/2017	134,387	60,000	4.000			
2/1/2018	22,356					
8/1/2018	132,190	60,000	4.250			
2/1/2019	20,022					
8/1/2019	139,009	65,000	4.250			
2/1/2020	17,493					
8/1/2020	136,481	65,000	4.500			
2/1/2021	14,816					
8/1/2021	142,956	70,000	4.375			
2/1/2022	12,013					
8/1/2022	140,153	70,000	4.375			
2/1/2023	9,210					
8/1/2023	146,503	75,000	4.375			
2/1/2024	6,207					
8/1/2024	143,500	75,000	4.375			
2/1/2025	3,203					
8/1/2025	149,649	80,000	4.375			
				<u>\$ 3,633,724</u>	<u>\$ 195,095</u>	<u>\$ 3,438,629</u>
Recapitulation of balance:						
Current portion of loans payable				\$ 195,095		\$ 191,434
Long-term portion of loans payable				<u>3,438,629</u>		<u>3,247,195</u>
				<u>\$ 3,633,724</u>		<u>\$ 3,438,629</u>

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

6. LONG-TERM OBLIGATIONS (Continued)

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

This loan was obtained to provide financing for improvements to, and construction of, certain combined sewer outflows. Under the terms of the loans, the Authority pays its contractors for work performed and then submits for reimbursement to the Environmental Infrastructure Trust. The balance of loan proceeds due from the Environmental Infrastructure Trust fund at December 31, 2009 and 2008 were \$526,490 and \$914,989, respectively.

G. New Jersey Environmental Infrastructure Trust Loans - 2007A

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

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

Date	Fund Loan	Trust Loan		Balance December 31, 2008	Paid in 2009	Balance December 31, 2009
	Maturities	Maturities	Rate			
2/1/2010	\$ 58,277					
8/1/2010	159,770	\$ 55,000	5.000			
2/1/2011	55,740					
8/1/2011	157,233	55,000	5.000			
2/1/2012	53,203					
8/1/2012	163,922	60,000	3.400			
2/1/2013	51,321					
8/1/2013	162,040	60,000	3.500			
2/1/2014	49,383					
8/1/2014	160,102	60,000	3.600			
2/1/2015	47,390					
8/1/2015	167,336	65,000	5.000			
2/1/2016	44,391					
8/1/2016	173,564	70,000	5.000			
2/1/2017	41,162					
8/1/2017	170,334	70,000	5.000			
2/1/2018	37,933					
8/1/2018	176,332	75,000	5.000			
2/1/2019	34,473					
8/1/2019	182,098	80,000	4.000			
2/1/2020	31,520					
8/1/2020	179,146	80,000	4.000			
2/1/2021	28,568					
8/1/2021	185,420	85,000	5.000			

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

6. LONG-TERM OBLIGATIONS (Continued)

G. New Jersey Environmental Infrastructure Trust Loans - 2007A (Continued)

Date	Fund Loan	Trust Loan		Balance	Paid	Balance
	Maturities	Maturities	Rate	December 31, 2008	in 2009	December 31, 2009
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	207,299	110,000	4.250			
				<u>\$ 5,517,500</u>	<u>\$ 263,434</u>	<u>\$ 5,254,066</u>
Recapitulation of balance:						
				\$ 263,434		\$ 273,047
				<u>5,254,066</u>		<u>4,981,019</u>
				<u>\$ 5,517,500</u>		<u>\$ 5,254,066</u>

The loans were obtained to provide financing for improvements to, and construction of, certain combined sewer outflows. Under the terms of the loans, the Authority pays its 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 at December 31, 2009 and 2008 were \$2,962,504 and \$5,159,058, respectively.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

6. LONG-TERM OBLIGATIONS (Continued)

**H. Schedule of Annual Debt Service for
Principal and Interest for the Next Five Years
and to Maturity for Bonded Debt Issued and Outstanding**

Year	Authority Issued Debt		
	Principal	Interest	Total
2010	\$ 1,109,481	\$ 652,076	\$ 1,761,557
2011	1,159,899	621,938	1,781,837
2012	1,189,932	588,450	1,778,382
2013	1,226,201	553,560	1,779,761
2014	1,257,750	516,180	1,773,930
2014-2018	6,274,185	1,913,472	8,187,657
2019-2023	4,129,496	1,105,821	5,235,317
2024-2028	2,870,751	540,390	3,411,141
2029-2032	1,130,000	109,013	1,239,013
	<u>\$ 20,347,695</u>	<u>\$ 6,600,900</u>	<u>\$ 26,948,595</u>

7. COMPENSATED ABSENCES AND OTHER LIABILITIES

The Authority's Executive Director accrues sick time in accordance with the terms of his employment contract. All other 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 other than the Executive Director amounted to \$61,037 and \$59,001 at December 31, 2009 and 2008, respectively, and are reflected in the financial statements as compensated absences payable. There is a dispute as to the amount owed to the Authority's Executive Director upon his retirement from the Authority. The Executive Director maintains that he is entitled to a maximum of 120 days of unused sick time upon retirement. The Authority's Board of Commissioners maintain that the Executive Director is not entitled to any sick time benefit upon retirement. The Authority's attorney at this time has concluded that there is no definitive answer as to the potential benefit, if any, available to the current Executive Director upon retirement. The Authority has accrued for this potential liability in the amount of \$49,362 and \$48,158 at December 31, 2009 and 2008, respectively. These amounts are recorded as an other liability in the financial statements.

8. RECLASSIFICATIONS

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

9. 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 Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

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

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf

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, 2009 and 2008 the Authority had no retired participants eligible for the SHBP.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

10. DUE TO THE TOWN OF KEARNY

The activity for the amount due to the Town for its portion of costs incurred from the Passaic Valley Sewerage Commission (the "PVSC") for wastewater treatment was as follows for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Due to the Town at the beginning of the year	\$ -	\$ 6,633
Increased by:		
PVSC Charges	<u>994,192</u>	<u>860,000</u>
	<u>994,192</u>	<u>866,633</u>
Decreased by:		
Payments	(860,000)	(860,000)
Write off	<u>(134,192)</u>	<u>(6,633)</u>
	<u>(994,192)</u>	<u>(866,633)</u>
Due to the Town at the end of the year	<u>\$ -</u>	<u>\$ -</u>

11. LEGAL SETTLEMENT AGREEMENT

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

On October 3, 2007 the Authority agreed to an additional settlement with EHCA of \$400,000 for additional back charges that will be credited to their account over 4 years and any excess over current charges will be refunded. The liability for the legal settlement agreements with EHCA was \$200,000 and \$300,000 at December 31, 2009 and 2008, respectively.

12. INTERFUND BALANCES

During 2009 and 2008 the Authority had an interfund balance of \$0 and \$1,050,763, respectively, from restricted construction fund assets transferred to unrestricted assets to assist the Authority with payments for projects associated with the NJ Environmental Infrastructure Trust fund while awaiting reimbursement from the Trust fund.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

13. RESERVE FOR ARBITRAGE

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

14. SERVICE AGREEMENT WITH THE TOWN OF KEARNY

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

The Town Service Contract provides that if, in any calendar year, the revenues of the Authority derived from User-Charges shall not be sufficient to pay or provide for (a) operating expenses as defined in the Resolution, (b) the setting aside of any amounts required by the Resolution to be set aside for the payment of the principal of and interest on the Bonds, and on any and all Bonds, and Notes of the Authority issued for the Project, or for other purposes of the Authority, and (c) amounts required by the Resolution to be included in Net Revenues, then 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.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

15. LEASE COMMITMENTS

Land and Building

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

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

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

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

Rent expense for 2009 and 2008 was never determined by the Town and therefore the Authority incurred no expense for either year.

Pump Station and Sewerage Pipelines

The Authority entered into a 50 year lease agreement on March 2, 1997 with Joseph Supor who was the owner of the pump station and sewerage pipelines located on 1802 Harrison Avenue. In 2006 ownership of the lease and property were transferred to J-5 Realty. Under the terms of the lease, the Authority has agreed to operate, maintain and service the pump station and sewerage pipelines, and pay rent at a rate of \$5,000 per year. The lease expires March 2, 2047. The rent expense for the years ended December 31, 2009 and 2008 was \$5,000 and \$5,000, respectively.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

16. RISK MANAGEMENT

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

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

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

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

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

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

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

17. SEWER USER CHARGES

On January 1, 2005, the Authority established a new rate setting methodology. The prior methodology was based upon actual use including a distribution of the costs of inflow and infiltration based upon total acreage and total linear feet of road frontage. The new methodology has been simplified to solely be based on water consumption/wastewater generation. The Authority has recognized that several users within the system whose nature of operation is either such that there is much greater water consumption than actual sewer discharge or vice-versa. Accordingly, although most users are billed based on municipal water meters, some users require special water or sewerage metering. Based on the foregoing, the Authority segregates its customers into three classes as follows:

- Class I All customers with billing based on municipal water utility meters.
- Class II Customers with billing based on private water meters.
- Class III Customers with billing based on wastewater meters.

In 2008 and 2009 most customers were Class I customers and had their sewer bills based upon the previous year's water consumptions. In cases where a significant amount of water consumed by a customer was not returned to the sewer system as wastewater, the Class II customer was allowed to install additional private water meters. These meters placed allow measurement of those waters uses which generate wastewater. The Class II customers include a few users which measure their wastewater discharge as the basis of the Authority's billing.

The PVSC monitors and bills the Town for their flow and biological oxygen demand and suspended solids concentrations. The Authority reimburses the Town for their portion of costs incurred from the PVSC for wastewater treatment. A portion of the PVSC charges are raised through a surcharge imposed for concentrations in excess of the base concentrations used in the development of the user fee formulas. The remainders of the PVSC charges are included in the Authority's revenue requirements used in the calculation of the user rate. The PVSC fees used to surcharge excess concentrations are as follows:

Biological oxygen demand concentration/1,000	\$323.95
Suspended solids concentration/1,000	\$350.60

In 2004, an agreement was made between the New Jersey Meadowlands Commission ("NJMC") and PVSC providing that the NJMC was not to be assessed PVSC user charges from that point forward. To comply with this agreement, the user rate is calculated by segregating the total Authority revenue requirement from all service charges into two components: 1) the local revenue requirement that applies to all users including NJMC and 2) the PVSC charges that applies to all users except NJMC.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2009 AND 2008

17. SEWER USER CHARGES (Continued)

Revenue requirements are based upon the approved current year Authority operation budget, reflecting adjustments for average percent increases for significant expenses, any appropriations from surplus, and an 5% allowance for unanticipated cost or uncollected revenue. To arrive at the component 1 of the user rate per hundred cubic feet ("HCF"), the Authority totalizes the flow records of all users and arrives at a total annual water consumption (Class I and II) and wastewater generation (Class III). This total is then divided into the local revenue requirement. To arrive at the component 2 of the user rate per HCF, the Authority totalizes the flow records of all users excluding the NJMC. This total is then divided into the PVSC charges. The calculation of the user rates per HCF for 2009 and 2008 were as follows:

	Component 1 All Users			Component 2 All Users (Excluding NJMC)			Total User Rate
	Local Revenue Requirement	Annual Water Consumption	User Rate	PVSC Charges	Annual Water Consumption	User Rate	
2009	\$ 2,809,745	666,961	\$ 4.22	\$ 984,417	361,589	\$ 2.73	\$ 6.95
2008	2,302,799	542,717	4.25	900,369	333,853	2.70	6.95

18. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through February 28, 2011, the date on which the financial statements were available to be issued.

19. NET ASSETS

Net assets represent the difference between the Authority's assets and liabilities. Net assets are categorized into three components:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, notes or other borrowings.

Restricted - Net assets are reported as restricted when constraints are placed on the use of the net assets by either creditors, grantors, contributors, laws or regulation of other governments; or imposed by law through constitutional provisions or enabling legislation.

Unrestricted - Net assets that do not meet the definition of invested in capital assets, net of related debt or restricted.

KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

19. NET ASSETS (Continued)

Net asset amounts for the years ended December 31, 2009 and 2008 were calculated as follows:

	<u>2009</u>	<u>2008</u>
Invested in capital assets, net of related debt		
Net capital assets	\$ 21,209,133	\$ 16,580,137
Less related debt	<u>(14,927,847)</u>	<u>(13,386,566)</u>
	<u>6,281,286</u>	<u>3,193,571</u>
 Restricted		
Debt service reserve requirement	1,215,478	1,215,478
Plant renewal and replacement	<u>250,000</u>	<u>250,000</u>
	<u>1,465,478</u>	<u>1,465,478</u>
 Unrestricted	<u>1,397,029</u>	<u>1,243,316</u>
Total net assets	<u><u>\$ 9,143,793</u></u>	<u><u>\$ 5,902,365</u></u>

20. BUDGETARY COMPARISON

The following schedule is a summary comparison of budgeted amounts to actual, with a reconciliation to GAAP. A more detailed analysis, with 2008 results for comparison, is provided in Schedule 4.

	<u>2009 Budget</u>	<u>2009 Actual</u>	<u>Variance</u>
Revenues	\$ 3,670,448	\$ 6,786,225	\$ 3,115,777
Appropriations	<u>3,670,448</u>	<u>3,420,512</u>	<u>(249,936)</u>
Revenues less appropriations	<u>\$ -</u>	<u>\$ 3,365,713</u>	<u>\$ 3,365,713</u>
 <u>Reconciliation to GAAP Basis</u>			
Net assets appropriated		\$ (500,000)	
Revenues less appropriations		3,365,713	
Depreciation		(681,845)	
Amortization of debt issuance costs		(25,969)	
Loan and bond principal		<u>1,083,529</u>	
GAAP change in net assets		<u><u>\$ 3,241,428</u></u>	

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - RESTRICTED AND UNRESTRICTED

YEAR ENDED DECEMBER 31, 2009

	Unrestricted	Revenue Fund	Debt Service Reserve Fund	Construction Fund	Restricted Interest Fund	Rebate Fund	Renewal and Replacement	Total Restricted	Invested in Capital Assets, net of related debt	Total Net Assets
Operating revenues:										
User charges	\$ 3,811,488	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,811,488
Interest and penalties	42,093	-	-	-	-	-	-	-	-	42,093
Recovery of bad debt expense	116,737	-	-	-	-	-	-	-	-	116,737
	<u>3,970,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,970,318</u>
Operating expenses:										
Cost of providing services	1,301,190	-	-	-	-	-	-	-	-	1,301,190
General and administrative	360,765	-	-	-	-	-	-	-	-	360,765
Depreciation expense	-	-	-	-	-	-	-	-	681,845	681,845
	<u>1,661,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>681,845</u>	<u>2,343,800</u>
Operating income (loss)	<u>2,308,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(681,845)</u>	<u>1,626,518</u>
Nonoperating revenue (expenses):										
Interest income	1,528	184	51,468	(7,418)	1	45	-	44,280	-	45,808
Interest expense	(108,512)	-	(440,191)	-	(126,325)	-	-	(566,516)	-	(675,028)
Amortization expense	-	-	-	(25,969)	-	-	-	(25,969)	-	(25,969)
	<u>(106,984)</u>	<u>184</u>	<u>(388,723)</u>	<u>(33,387)</u>	<u>(126,324)</u>	<u>45</u>	<u>-</u>	<u>(548,205)</u>	<u>-</u>	<u>(655,189)</u>
Change in net assets before operating transfers	2,201,379	184	(388,723)	(33,387)	(126,324)	45	-	(548,205)	(681,845)	971,329
Operating transfers	(4,317,765)	(184)	388,723	33,387	126,324	(45)	-	548,205	3,769,560	-
Income before contributions	(2,116,386)	-	-	-	-	-	-	-	3,087,715	971,329
Contributed capital for investment in capital assets	2,270,099	-	-	-	-	-	-	-	-	2,270,099
Change in net assets	153,713	-	-	-	-	-	-	-	3,087,715	3,241,428
Net assets at the beginning of year	1,243,316	-	1,215,478	-	-	-	250,000	1,465,478	3,193,571	5,902,365
Net assets at the end of year	<u>\$ 1,397,029</u>	<u>\$ -</u>	<u>\$ 1,215,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 1,465,478</u>	<u>\$ 6,281,286</u>	<u>\$ 9,143,793</u>

SCHEDULE 2

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
UNRESTRICTED FUNDS**

YEAR ENDED DECEMBER 31, 2009

Balance, December 31, 2008	
Cash and cash equivalents	<u>\$ 1,262,800</u>
Increased by receipts:	
User charges	3,611,388
Interest and penalties	42,093
Interest Income	1,247
Contributed capital for investment in capital assets	1,666,276
Proceeds from NJ Environmental	
Infrastructure Trust Fund	<u>2,585,334</u>
	<u>7,906,338</u>
	<u>9,169,138</u>
Decreased by disbursements:	
Operations	1,562,843
Legal settlement	100,000
Capital assets	4,199,911
Loans payable principal	458,529
Loans payable interest	110,387
Transfers to restricted accounts	1,113,724
Developer escrow account	6,755
Accounts payable used to finance capital assets	<u>563,844</u>
	<u>8,115,993</u>
Balance, December 31, 2009	
Cash and cash equivalents	<u><u>\$ 1,053,145</u></u>

SCHEDULE 3

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
RESTRICTED FUNDS**

YEAR ENDED DECEMBER 31, 2009

	Revenue Fund	Debt Service Reserve Fund	Construction Fund	Interest Fund	Rebate Fund	Total
Balance, December 31, 2008						
Cash and cash equivalents	\$ 51,537	\$ 661,339	\$ 313,109	\$ 133	\$ 12,678	\$ 1,038,796
Increased by receipts						
Revenue:						
Interest from investments	184	51,841	1,699	1	45	53,770
Investments matured	-	2,027,189	-	-	-	2,027,189
Transfers from unrestricted accounts	-	929,330	-	184,394	-	1,113,724
Transfers from debt service reserve fund	-	-	-	52,755	-	52,755
	184	3,008,360	1,699	237,150	45	3,247,438
	51,721	3,669,699	314,808	237,283	12,723	4,286,234
Decreased by disbursements:						
Interest expense	-	442,211	-	127,283	-	569,494
Investments purchased	-	2,027,189	-	-	-	2,027,189
Bond principal paid	-	515,000	-	110,000	-	625,000
Transfers to interest fund	-	52,755	-	-	-	52,755
	-	3,037,155	-	237,283	-	3,274,438
Balance, December 31, 2009						
Cash and cash equivalents	\$ 51,721	\$ 632,544	\$ 314,808	\$ -	\$ 12,723	\$ 1,011,796

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET**

**YEAR ENDED DECEMBER 31, 2009
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2008**

	2009 Budget	2009 Actual	2008 Actual
<u>REVENUES</u>			
Revenue anticipated:			
Net assets appropriated	\$ 500,000	\$ 500,000	\$ 310,250
User charges and fees	3,120,448	3,811,488	3,230,136
Interest on investments	50,000	45,808	144,269
Nonbudgeted revenues	-	2,428,929	227,402
Total revenues	<u>\$ 3,670,448</u>	<u>\$ 6,786,225</u>	<u>\$ 3,912,057</u>
<u>APPROPRIATIONS</u>			
Cost of providing services:			
Salaries and wages	\$ 140,032	\$ 103,022	\$ 99,081
Employee benefits	45,757	53,713	34,731
Other expenses	1,224,900	1,144,455	1,131,567
Total cost of providing services	<u>1,410,689</u>	<u>1,301,190</u>	<u>1,265,379</u>
Administration:			
Salaries and wages	177,395	155,625	149,056
Employee benefits	62,984	70,168	52,249
Other expenses	153,000	134,972	126,216
Total administration	<u>393,379</u>	<u>360,765</u>	<u>327,521</u>
Debt service:			
Bond and loan principal	1,194,534	1,083,529	803,024
Bond and loan interest	571,846	675,028	704,462
Total debt service	<u>1,766,380</u>	<u>1,758,557</u>	<u>1,507,486</u>
Other Reserves	<u>100,000</u>	-	-
Total appropriations	<u>\$ 3,670,448</u>	<u>\$ 3,420,512</u>	<u>\$ 3,100,386</u>
Revenues less appropriations		<u>\$ 3,365,713</u>	<u>\$ 811,671</u>
Adjustments - GAAP basis			
Net assets appropriated		\$ (500,000)	\$ (310,250)
Depreciation		(681,845)	(618,741)
Bad debt expense		-	(100,508)
Amortization of debt issuance costs		(25,969)	(25,968)
Loan and bond principal		1,083,529	803,024
		<u>(124,285)</u>	<u>(252,443)</u>
Net increase in net assets - GAAP basis		<u>\$ 3,241,428</u>	<u>\$ 559,228</u>

SCHEDULE 5**KEARNY MUNICIPAL UTILITIES AUTHORITY
ANALYSIS OF USER CHARGES RECEIVABLE****YEAR ENDED DECEMBER 31, 2009**

Balance, December 31, 2008		
User charges receivable		\$ 1,337,031
Increased by:		
User charges billed	\$ 3,811,488	
Recovery of bad debt	<u>116,737</u>	
		<u>3,928,225</u>
		5,265,256
Decreased by:		
Collections	<u>3,611,388</u>	
		<u>3,611,388</u>
Balance, December 31, 2009		
User charges receivable		<u>\$ 1,653,868</u>

PART III - STATISTICAL SECTION

KEARNY MUNICIPAL UTILITIES AUTHORITY
EXPENDITURES BY FUNCTION
LAST EIGHT FISCAL YEARS

Year Ended December 31,	Administration		Cost of Providing Services			Interest on Long-term Debt	Debt Principal	Bond Premium	Total
	Salaries and Benefits	Other Expenses	Salaries and Benefits	Other Expenses					
2009	\$ 225,793	\$ 134,972	\$ 156,735	\$ 1,144,455	\$ 675,028	\$ 1,083,529	\$ -	-	\$ 3,420,512
2008	201,305	126,216	133,812	1,131,567	704,462	803,024	-	-	3,100,386
2007	201,298	178,150	134,255	1,260,738	666,950	692,752	-	-	3,134,143
2006	190,918	136,194	120,252	1,173,050	674,577	490,000	-	-	2,784,991
2005	226,396	144,272	123,017	924,346	645,347	435,000	-	-	2,498,378
2004	188,502	197,092	108,273	1,152,727	646,169	330,000	-	-	2,622,763
2003	172,829	111,888	105,671	1,034,181	727,910	375,000	113,200		2,640,679
2002	146,750	133,201	123,663	858,976	636,782	285,000	-	-	2,184,372

**KEARNY MUNICIPAL UTILITIES AUTHORITY
REVENUES BY SOURCE
LAST EIGHT FISCAL YEARS**

<u>Year Ended December 31,</u>	<u>Net Assets Appropriated</u>	<u>User Charges and Fees</u>	<u>Interest Income Investments</u>	<u>Non-budgeted Revenues</u>	<u>Total</u>
2009	\$ 500,000	\$ 3,811,488	\$ 45,808	\$ 2,428,929	\$ 6,786,225
2008	310,250	3,230,136	144,269	227,402	3,912,057
2007	190,477	2,849,140	219,173	63,801	3,322,591
2006	-	3,167,527	152,642	610,573	3,930,742
2005	400,000	2,693,418	239,329	-	3,332,747
2004	400,000	2,751,076	99,636	56,703	3,307,415
2003	350,000	2,693,048	121,730	72,628	3,237,406
2002	300,000	2,550,364	71,553	14,128	2,936,045

**KEARNY MUNICIPAL UTILITIES AUTHORITY
USER RATES
LAST EIGHT FISCAL YEARS**

Year Ended December 31,	Rate per 100 Cubic Feet					
	All Users	Class 1	Class 2A	Class 2B	Class 2A-1	Class 3A-1
2009	6.95					
2008	6.95					
2007	5.80					
2006	5.09					
*2005	4.98					
2004		3.49	2.57	3.49	3.17	3.17
2003		2.57	1.93	2.57	2.28	2.28
2002		2.57	1.93	2.57	2.28	2.28

* In 2005 a simplified user charge system was adopted where a single user rate is used for all users.

KEARNY MUNICIPAL UTILITIES AUTHORITY
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES TO TOTAL EXPENDITURES
LAST EIGHT FISCAL YEARS

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Bond Premium</u>	<u>Total Debt Service</u>	<u>Total Expenditures</u>	<u>Ratio of Debt Service to Expenditures</u>
2009	\$ 1,083,529	\$ 675,028	\$ -	\$ 1,758,557	\$ 3,420,512	51.41%
2008	803,024	704,462	-	1,507,486	3,100,386	48.62%
2007	692,752	666,950	-	1,359,702	3,134,143	43.38%
2006	490,000	674,577	-	1,164,577	2,784,991	41.82%
2005	435,000	645,347	-	1,080,347	2,498,378	43.24%
2004	330,000	646,169	-	976,169	2,622,763	37.22%
2003	375,000	727,910	113,200	1,102,910	2,640,679	41.77%
2002	285,000	636,782	-	921,782	2,184,372	42.20%

**KEARNY MUNICIPAL UTILITIES AUTHORITY
REVENUE BOND COVERAGE
LAST EIGHT FISCAL YEARS**

Year Ended December 31,	Operating Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements		
				Principal	Interest	Total Coverage
2009	\$ 3,970,318	\$ 2,343,800	\$ 1,626,518	\$ 1,083,529	\$ 675,028	\$ 1,758,557 \$ (132,039)
2008	3,457,538	2,312,149	1,145,389	803,024	704,462	1,507,486 (362,097)
2007	2,912,941	2,805,051	107,890	692,752	666,950	1,359,702 (1,251,812)
2006	3,778,100	2,178,078	1,600,022	490,000	674,577	1,164,577 435,445
2005	2,693,418	2,386,668	306,750	435,000	645,347	1,080,347 (773,597)
2004	2,807,779	2,809,003	(1,224)	330,000	646,169	976,169 (977,393)
2003	2,765,676	2,051,061	714,615	375,000	727,910	1,102,910 (388,295)
2002	2,564,492	2,012,147	552,345	285,000	636,782	921,782 (369,437)

**KEARNY MUNICIPAL UTILITIES AUTHORITY
MISCELLANEOUS STATISTICS**

AS OF DECEMBER 31, 2009

Date of Creation	May 25, 1988
Form of Government	Authority
Number of Employees	4
Miles of Sewers	Approximately 10
Number of Service Connections	Approximately 60
Daily Average Plant Flow in Million Gallons	1.83
Maximum Daily Capacity of Flow in Million Gallons	70

PART IV - SINGLE AUDIT SECTION

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

The Honorable Chairman and Commissioners
Kearny Municipal Utilities Authority
Kearny, New Jersey

We have audited the financial statements of the Kearny Municipal Utilities Authority, (the "Authority"), as of and for the year ended December 31, 2009, and have issued our report thereon dated February 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting as *Finding 09-01*. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as *Finding 09-02* through *Finding 09-07*. We noted certain other matters that we reported to management of the Authority in the Comments and Recommendations section of this report.

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

This report is intended solely for the information and use of the Authority's governing body, management, others within the organization, the New Jersey Department of Community Affairs, Division of Local Government Services, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


DONOHUE, GIRONDA & DORIA
Certified Public Accountants

Bayonne, New Jersey
February 28, 2011

DONOHUE, GIRONDA & DORIA

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04

The Honorable Chairman and Commissioners
Kearny Municipal Utilities Authority
Kearny, New Jersey

Compliance

We have audited the compliance of Kearny Municipal Utilities Authority, (the "Authority"), with the types of compliance requirements described in the U.S. Office of Management and Budget, ("OMB"), *Circular A-133 Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement*, that are applicable to its major federal and state programs for the year ended December 31, 2009. The Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal and state programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal and state programs for the year ended December 31, 2009.

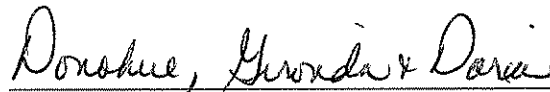
Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

This report is intended solely for the information and use of management, the Authority's governing body, others within the entity, Division of Local Government Services, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


DONOHUE, GIRONDA & DORIA
Certified Public Accountants

Bayonne, New Jersey
February 28, 2011

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2009

Federal grantor/ Pass-through grantor/ Program title	CFDA number	Grant period		Grant Award	Balance December 31, 2008		Expenditures	Balance December 31, 2009		Cumulative Expenditures
		From	To							
<u>United State of America Environmental Protection Agency</u>										
Passed through State of New Jersey										
Department of Environmental Protection:										
Environmental Infrastructure Trust -										
* Fund Loan	66.458	11/10/05	Completion	\$ 2,899,500	\$ 648,179	\$ (291,586)	\$ 356,593	\$ 2,542,907		
* Fund Loan	66.458	11/08/07	Completion	4,057,500	3,828,750	(1,647,415)	2,181,335	1,876,165		
Total federal awards					\$ 4,476,929	\$ (1,939,001)	\$ 2,537,928			

* - Denotes a major program

See accompanying notes to expenditures of federal awards and state financial assistance.

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

YEAR ENDED DECEMBER 31, 2009

State department/ Program title	State account number/ Grant number	Grant period		Grant award	Balance December 31, 2008	Expenditures	Program Income	Balance December 31, 2009	Cumulative Expenditures
		From	To						
<u>State of New Jersey Department of Environmental Protection</u>									
Environmental Infrastructure Trust -									
* Trust Loan	S340259-04	11/10/05	Completion	\$ 1,075,000	\$ 266,810	\$ (97,194)	\$ 281	\$ 169,897	\$ 905,384
* Trust Loan	S340259-07	11/08/07	Completion	1,460,000	1,330,308	(549,139)	-	781,169	678,831
Total state financial assistance					<u>\$ 1,597,118</u>	<u>\$ (646,333)</u>	<u>\$ 281</u>	<u>\$ 951,066</u>	

* - Denotes a major program

See accompanying notes to expenditures of federal awards and state financial assistance.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE**

YEAR ENDED DECEMBER 31, 2009

1. GENERAL

The accompanying schedules of expenditures of federal awards and state financial assistance include federal award and state financial assistance activity of the Kearny Municipal Utilities Authority (the "Authority"). The Authority is defined in Note 1 to the basic financial statements. All federal awards and state financial assistance received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies, is included on the schedules of expenditures of federal awards and state financial assistance.

2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of awards and financial assistance are presented using the accrual basis of accounting in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying schedules agree with amounts reported in the Authority's basic financial statements.

4. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS

Interest payment of \$53,442 due on August 1, 2008 was expended from the trust bond proceeds on deposit with the New Jersey Department of Environmental Protection Agency. All other principal and interest payments are required to be expended from the Authority's own operating budget.

5. CONTINGENCIES

Each of the grantor agencies reserves the right to conduct additional audits of the Authority's grant programs for economy, efficiency and program results. However, Authority management does not believe such audits would result in material amounts of disallowed costs.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED DECEMBER 31, 2009

Section 1 - Summary of Auditor's Results

Financial Statements Section

A) Type of Auditor's Report Issued: Unqualified

B) Internal Control over Financial Reporting:

1) Material weakness(es) identified? Yes ✓ No

2) Significant deficiency(ies) identified ? ✓ Yes None reported

C) Noncompliance material to basic financial statements noted? Yes ✓ No

Federal Awards Section

D) Internal Control over major programs:

1) Material weakness(es) identified? Yes ✓ No

2) Significant deficiency(ies) identified? Yes ✓ None reported

E) Type of auditor's report issued on compliance for major program: Unqualified

F) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 [section 510(a)]? Yes ✓ No

G) Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
<u>66.458</u>	<u>Environmental Infrastructure Trust - Fund Loan</u>

H) Dollar threshold used to distinguish between Type A and Type B Programs. \$300,000

I) Auditee qualified as low-risk auditee? Yes ✓ No

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED DECEMBER 31, 2009

Section 1 - Summary of Auditor's Results

State Awards Section

J) Dollar threshold used to distinguish between type A and Type B Programs.

\$300,000

K) Auditee qualified as low-risk auditee?

_____ Yes ✓ No

L) Internal Control over major programs:

1) Material weakness(es) identified?

_____ Yes ✓ No

2) Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ Yes ✓ None reported

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

Unqualified

N) Any audit findings disclosed that are required to be reported in accordance with N.J. OMB Circular Letter 04-04?

_____ Yes ✓ No

O) Identification of major programs:

State Grant/Project Number(s)

Name of State Program

S340259

Environmental Infrastructure Trust - Trust Loan

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

YEAR ENDED DECEMBER 31, 2009

Section 2 - Financial Statement Findings

(This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements, that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.)

Finding 09-01

Criteria:	Total accounts receivable balances must be reconciled to an accounts receivable control periodically.
Condition:	Total accounts receivable balances are not being reconciled to the accounts receivable control periodically.
Context:	Total accounts receivable balances were not reconciled to the accounts receivable control until the time the audit was conducted.
Effect:	Inaccuracies in accounts receivable may not be detected and corrected on a timely basis.
Cause:	The general ledger system containing accounts receivable balances is a separate system from the billing system that serves as the accounts receivable control. The two systems are not periodically reconciled to one another.
Recommendation:	The general ledger system containing accounts receivable balances should maintain more customer account detail and should be periodically reconciled to the billing system that serves as the accounts receivable control.
Authority's Response:	Accounts receivable detail will be maintained in the general ledger accounting system and will be reconciled periodically to the accounts receivable billing system.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

YEAR ENDED DECEMBER 31, 2009

Section 2 - Financial Statement Findings

Finding 09-02

Criteria:	Authorities are required to prepare and keep on file minutes of the board meetings as per the Open Public Meetings Act (<i>N.J.S.A. 10:4-6 et seq.</i>)
Condition:	The Authority did not prepare complete minutes for the board meetings in August 2009 and January 2010.
Context:	2 out of the 12 minutes of the monthly board meetings were not complete.
Effect:	The Authority is not in compliance with the Open Public Meetings Act (<i>N.J.S.A. 10:4-6 et seq.</i>) Furthermore, significant matters relating to the Authority may not be communicated or made available to others within the organization, the public, or the auditors, and could prevent any necessary addressing of such matters on a timely basis.
Cause:	Conversations were not properly recorded on those occasions when the executive director was responsible for manually recording board meeting conversations for the minutes, and became involved in those conversations.
Recommendation:	The Authority should electronically record board meetings and have them subsequently transcribed for the minutes.
Authority's Response:	The Authority will research more adequate methods for recording board meeting conversations for inclusion in its respective minutes.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

YEAR ENDED DECEMBER 31, 2009

Section 2 - Financial Statement Findings

Finding 09-03

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.
Condition:	Arbitrage rebate liability is not being calculated annually.
Context:	The Authority has not had an arbitrage rebate liability calculation in over 5 years.
Effect:	The arbitrage rebate liability may be material and not properly reported.
Cause:	The Authority has contracted a professional service firm to calculate the arbitrage rebate liability; however as of the audit date the calculation has not been performed.
Recommendation:	Arbitrage rebate liability should be calculated annually to determine if the amount is material and therefore reportable.
Authority's Response:	The Authority has contracted a professional service firm to calculate the arbitrage rebate liability and will have the calculation performed.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

YEAR ENDED DECEMBER 31, 2009

Section 2 - Financial Statement Findings

Finding 09-04

Criteria:	The 1988 General Bond Resolution requires that the Authority maintain on deposit a \$250,000 Renewal and Replacement Account in a separate bank account.
Condition:	The deposit reserve of \$250,000 for the Renewal and Replacement Account is not being maintained in a separate bank account.
Context:	The required balance of \$250,000 was only maintained in a separate bank account designated for the Renewal and Replacement Account for 2 months out of the year.
Effect:	The Authority is not adhering to this provision of the 1988 general bond resolution.
Cause:	A separate bank account has been designated for the Renewal and Replacement Account, however the required balance of \$250,000 is not being maintained.
Recommendation:	\$250,000 should be transferred from unrestricted funds to a separate bank account to comply with the deposit reserve requirement of the general bond resolution.
Authority's Response:	The Authority will maintain the \$250,000 required balance in the Renewal and Replacement Account once reimbursements from other governments are received for their share of several capital projects that the Authority is undergoing.

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED DECEMBER 31, 2009

Section 2 - Financial Statement Findings

Finding 09-05

Criteria:	Authorities are required to adopt annual budgets prior to the budget year's commencement.
Condition:	The Authority did not adopt their annual budget prior to the budget year's commencement.
Context:	The Authority did not adopt its 2008 or 2009 annual budget until June 4, 2009, however the 2010 budget was adopted prior to the budget year's commencement.
Effect:	The Authority is not in compliance with the regulations as prescribed by the New Jersey Department of Community Affairs, Division of Local Government Services.
Cause:	The Authority's 2009 budget had been rejected on several occasions by the Bureau of Authority Regulation.
Recommendation:	The Authority must adopt its annual budgets prior to the budget year's commencement.
Authority's Response:	The Authority will adopt its annual budgets prior to the budget year's commencement.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

YEAR ENDED DECEMBER 31, 2009

Section 2 - Financial Statement Findings

Finding 09-06

Criteria:	New Jersey Administrative Code 5:31-3.1 requires that all moneys received by the Authority from any source shall within 48 hours be deposited to the credit of the Authority in its legal depository.
Condition:	The Authority does not always deposit moneys received within 48 hours.
Context:	There were instances where the Authority deposited moneys more than 48 hours after said moneys were received by the Authority.
Effect:	The Authority is not in compliance with New Jersey Administrative Code 5:31-3.1.
Cause:	Deposits were not always brought to the Authority's depository on a timely basis.
Recommendation:	The Authority should deposit all moneys within 48 hours of receipt.
Authority's Response:	There were a few instances where small checks were not deposited within 48 hours. From now on, the Authority will make sure to deposit all checks within 48 hours.

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED DECEMBER 31, 2009

Section 2 - Financial Statement Findings

Finding 09-07

Criteria:	The Division of Local Government Services requires that the Authority utilize a formal voucher or purchase order form in its purchasing process.
Condition:	The Authority does not always prepare vouchers or purchase orders for all of its disbursements.
Context:	There were instances where disbursements were made without an official Authority voucher or purchase order being attached to the supporting documentation.
Effect:	The Authority is not in compliance with the requirements of the Division of Local Government Services.
Cause:	Disbursements were made without the proper voucher or purchase order being completed and attached to the supporting documentation.
Recommendation:	The Authority should prepare a voucher or purchase order for every disbursement.
Authority's Response:	The Authority will research upgrading its accounting software so it can implement a purchase order system.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

YEAR ENDED DECEMBER 31, 2009

Section 3 - Federal Awards and State Financial Assistance Findings and Questioned Costs

(This section identifies audit findings required to be reported by section .510(a) of Circular A-133 and New Jersey OMB Circular Letter 04-04.)

None

**KEARNY MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

YEAR ENDED DECEMBER 31, 2009

**Summary Schedule of Prior-Year Audit Findings and Questioned Costs
as Prepared by Management.**

(This section identifies the status of prior year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, U.S. OMB Circular A-133, [Section .315 (a)(b)] and New Jersey OMB's Circular 04-04).

None

PART V – COMMENTS AND RECOMMENDATIONS

**KEARNY MUNICIPAL UTILITIES AUTHORITY
GENERAL COMMENTS AND RECOMMENDATIONS**

YEAR ENDED DECEMBER 31, 2009

Contracts and Agreements Required to be Advertised for (N.J.S.A. 40A:11-4 As Amended)

N.J.S.A. 40A:11-4, as amended states, "Every contract or agreement, for the performance of any work or the hiring or furnishing of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate of \$21,000 except by contract or agreement".

It is pointed out that the Authority has the responsibility of determining whether the expenditures in any category will exceed the bidding threshold and, where question arises as to whether any contract or agreement might result in violation of the statute, opinion should be sought from Counsel before commitment is made.

The minutes indicate that Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5. The minutes also indicate that no bids were requested by public advertisement.

Expenditure less than bid threshold, but 15% or more of that amount per N.J.S.A. 40A:11-6.1

N.J.S.A. 40A:11-6.1 states, "For all contracts that in the aggregate are less than the bid threshold but 15 percent or more of that amount, the contracting agent shall award the contract after soliciting at least two competitive quotations, if practicable." The Authority advised us that quotations, for the most part, were not solicited for items, the cost of which was \$3,150 or more, within the terms of N.J.S.A. 40A:11-6.1.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS**

YEAR ENDED DECEMBER 31, 2009

COMMENT:

Total accounts receivable balances are not being reconciled to the accounts receivable control periodically.

RECOMMENDATION:

The general ledger system containing accounts receivable balances should maintain more customer account detail and should be periodically reconciled to the billing system that serves as the accounts receivable control.

COMMENT:

The Authority did not prepare complete minutes for the board meetings in August 2009 and January 2010.

RECOMMENDATION:

The Authority should electronically record board meetings and have them subsequently transcribed for the minutes.

COMMENT:

Arbitrage rebate liability is not being calculated annually.

RECOMMENDATION:

Arbitrage rebate liability should be calculated annually to determine if the amount is material and therefore reportable.

COMMENT:

The deposit reserve of \$250,000 for the Renewal and Replacement Account is not being maintained in a separate bank account.

RECOMMENDATION:

\$250,000 should be transferred from unrestricted funds to a separate bank account to comply with the deposit reserve requirement of the general bond resolution.

**KEARNY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS**

YEAR ENDED DECEMBER 31, 2009

COMMENT:

The Authority did not adopt its 2009 annual budget until June 4, 2009.

RECOMMENDATION:

The Authority must adopt its annual budgets prior to the budget year's commencement.

COMMENT:

All customer receipts are not being deposited within 48 hours.

RECOMMENDATION:

In accordance with New Jersey Administrative Code, all monies received by the Authority should be deposited within 48 hours.

COMMENT:

The Authority is not utilizing a formal purchase order form in its purchasing process.

RECOMMENDATION:

The Authority should utilize a formal purchase order form in its purchasing process.