

**KEARNY MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF**  
**THE TOWN OF KEARNY)**  
**REPORT OF AUDIT**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2013**

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Kearny Municipal Utilities Authority as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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



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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kearny Municipal Utilities Authority as of December 31, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Prior Period Adjustment***

As discussed in Note 18, the Authority hired a consulting engineer to perform an inventory of capital assets and recalculate accumulated depreciation based on the straight-line basis. The results of this inventory concluded that several items of major structural equipment and improvements that were previously classified as a non-capital asset and therefore not depreciated over the useful life of the asset. The Authority's management and consulting engineer reclassified these capital assets at the historical cost, whenever reasonably attainable, and recalculated the accumulated depreciation up to the current period. Our opinion is not modified with respect to this matter.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses

to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2014 on our consideration of the Kearny Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kearny Municipal Utilities Authority's internal control over financial reporting and compliance.

Very truly yours,



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

May 6, 2014

**Required Supplementary Information**

## **Management Discussion and Analysis**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013**

*As management of the Kearny Municipal Utilities Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2013. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.*

**Financial Highlights**

- The Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$15,491,529 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$14,304,168, as restated.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$10,466,751 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt and unexpended funds related to the purchase or construction of capital assets.
  - (2) Restricted of \$2,851,830 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted of \$2,172,948 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,489,277 to \$17,651,720 during the fiscal year.

**Overview of the Financial Statements**

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

**Required Financial Statements**

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *Statement of Net Position* includes all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets), the consumption of net assets that is applicable to a future period (deferred outflows of resources), the acquisition of net assets that is applicable to a future reporting period (deferred inflows of resources) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.



**KEARNY MUNICIPAL UTILITIES AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2013**

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

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

*Notes to the Financial Statements*

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

*Other Information*

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

**Financial Analysis of the Authority**

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

**KEARNY MUNICIPAL UTILITIES AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2013**

**Net Position**

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

The Authority's net position at fiscal year-end was \$15,491,529. This is a \$1,187,361 increase over last year's restated net position of \$14,304,168, as restated. A summary of the Authority's statements of net position is presented in the following table:

**Condensed Statement of Net Position**

	<u>FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	6,240,754	6,436,988	(196,234)	(3.05)%
Capital Assets	<u>26,561,092</u>	<u>26,640,867</u>	<u>(79,775)</u>	(0.30)%
Total Assets	<u>32,801,846</u>	<u>33,077,855</u>	<u>(276,009)</u>	(0.83)%
Deferred Outflows of Resources	<u>423,958</u>	<u>455,670</u>	<u>(31,712)</u>	(6.96)%
Current Liabilities	1,528,630	1,519,548	9,082	0.60%
Non-current Liabilities	<u>16,123,090</u>	<u>17,621,449</u>	<u>(1,498,359)</u>	(8.50)%
Total Liabilities	<u>17,651,720</u>	<u>19,140,997</u>	<u>(1,489,277)</u>	(7.78)%
Deferred Inflows of Resources	<u>82,555</u>	<u>88,360</u>	<u>(5,805)</u>	(6.57)%
Net Investment in Capital				
Assets	10,466,751	9,843,769	622,982	6.33%
Restricted	2,851,830	2,570,802	281,028	10.93%
Unrestricted	<u>2,172,948</u>	<u>1,889,597</u>	<u>283,351</u>	15.00%
Total Net Position	<u>15,491,529</u>	<u>14,304,168</u>	<u>1,187,361</u>	8.30%

**KEARNY MUNICIPAL UTILITIES AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2013**

**Net Position (Continued)**

A summary of the Authority's prior year statement of net assets is presented with comparative FY 2011 balances in the following table. The FY 2011 balances have been restated to reflect the financial reporting requirements of GASB No. 63 and the change in the classification of bond issuance costs required by GASB No. 65.

**Condensed Statement of Net Position**

	<u>Restated FY 2012</u>	<u>Restated FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	6,436,988	4,680,817	1,756,171	37.52%
Capital Assets	<u>26,640,867</u>	<u>24,385,824</u>	<u>2,255,043</u>	9.25%
Total Assets	<u>33,077,855</u>	<u>29,066,641</u>	<u>4,011,214</u>	13.80%
Deferred Outflows of Resources	<u>455,670</u>	<u>89,292</u>	<u>366,378</u>	410.31%
Current Liabilities	1,519,548	1,415,424	104,124	7.36%
Non-current Liabilities	<u>17,621,449</u>	<u>16,605,135</u>	<u>1,016,314</u>	6.12%
Total Liabilities	<u>19,140,997</u>	<u>18,020,559</u>	<u>1,120,438</u>	6.22%
Deferred Inflows of Resources	<u>88,360</u>	<u>34,519</u>	<u>53,841</u>	155.98%
Net Investment in Capital Assets	9,843,769	6,839,249	3,004,520	43.93%
Restricted	2,570,802	2,707,717	(136,915)	(5.06)%
Unrestricted	<u>1,889,597</u>	<u>1,553,889</u>	<u>335,708</u>	21.60%
Total Net Position	<u>14,304,168</u>	<u>11,100,855</u>	<u>3,203,313</u>	28.86%

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2013**

**Net Position (Continued)**

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

	<u>FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,032,792	4,041,217	(8,425)	(0.21)%
Non-operating Revenues	<u>107,288</u>	<u>49,020</u>	<u>58,268</u>	118.87%
Total Revenues	<u>4,140,080</u>	<u>4,090,237</u>	<u>49,843</u>	1.22%
Depreciation	734,042	699,754	34,288	4.90%
Other Operating Expenses	1,712,016	1,766,220	(54,204)	(3.07)%
Other Non-operating Expense	<u>506,661</u>	<u>693,689</u>	<u>(187,028)</u>	(26.96)%
Total Expenses	<u>2,952,719</u>	<u>3,159,663</u>	<u>(206,944)</u>	(6.55)%
Change in Net Assets	1,187,361	930,574	256,787	27.59%
Beginning Net Assets	14,304,168	11,100,855	3,203,313	28.86%
Prior Period Adjustment	<u>          </u>	<u>2,272,739</u>	<u>(2,272,739)</u>	(100.00)%
Ending Net Assets	<u>15,491,529</u>	<u>14,304,168</u>	<u>1,187,361</u>	8.30%

The Authority's non-operating revenues in 2013 were greater than non-operating revenue in 2012 as the result of a FEMA grant to reimburse certain Hurricane Sandy-related expenses.

**KEARNY MUNICIPAL UTILITIES AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2013**

**Net Position (Continued)**

A summary of the Authority's prior year statement of revenues, expenses and change in net assets is presented with comparative FY 2011 figures in the following table. This comparison has been restated to reflect the financial reporting requirements of GASB No. 63 and the change in classification of bond issuance costs required by GASB No. 65.

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

	<u>Restated FY 2012</u>	<u>Restated FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,041,217	3,901,448	139,769	3.58%
Non-operating Revenues	<u>49,020</u>	<u>347,783</u>	<u>(298,763)</u>	(85.91)%
Total Revenues	<u>4,090,237</u>	<u>4,249,231</u>	<u>(158,994)</u>	(3.74)%
Depreciation	699,754	685,469	14,285	2.08%
Other Operating Expenses	1,766,220	1,700,777	65,443	3.85%
Other Non-operating Expense	<u>693,689</u>	<u>1,385,857</u>	<u>(692,168)</u>	(49.95)%
Total Expenses	<u>3,159,663</u>	<u>3,772,103</u>	<u>(612,440)</u>	(16.24)%
Change in Net Position	930,574	477,128	453,446	95.04%
Beginning Net Position	11,100,855	10,731,805	369,050	3.44%
Capital Contributions		266,676	(266,676)	(100.00)%
Prior Period Adjustment	<u>2,272,739</u>	<u>(374,754)</u>	<u>2,647,493</u>	(706.46)%
Ending Net Position	<u>14,304,168</u>	<u>11,100,855</u>	<u>3,203,313</u>	28.86%

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2013**

**Budgetary Highlights**

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

The following tables provides a FY 2013 and FY 2012 budget comparison:

	<b>Budget vs. Actual</b>		
	<b>FY 2013</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,703,296	4,032,792	329,496
Non-Operating	<u>          </u>	<u>33,761</u>	<u>33,761</u>
	<u>3,703,296</u>	<u>4,066,553</u>	<u>363,257</u>
Expenses:			
Operating	1,854,669	1,712,016	142,653
Non-Operating	<u>1,848,627</u>	<u>1,789,039</u>	<u>59,588</u>
	<u>3,703,296</u>	<u>3,501,055</u>	<u>202,241</u>
Income before Depreciation	<u>          0</u>	<u>565,498</u>	<u>565,498</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2013**

**Budgetary Highlights (Continued)**

<b>Budget vs. Actual FY 2012</b>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,697,964	4,041,217	343,253
Non-Operating	<u>49,020</u>	<u>49,020</u>	<u>49,020</u>
	<u>3,697,964</u>	<u>4,090,237</u>	<u>392,273</u>
Expenses:			
Operating	1,794,582	1,766,220	28,362
Non-Operating	<u>1,903,382</u>	<u>1,862,967</u>	<u>40,415</u>
	<u>3,697,964</u>	<u>3,629,187</u>	<u>68,777</u>
Income before Depreciation	<u>0</u>	<u>461,050</u>	<u>461,050</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Authority's net property, plant and equipment at fiscal year end was \$26,561,092. This is a \$79,775 decrease over last year's net property, plant and equipment of \$26,640,867, as restated. A summary of the Authority's capital assets is presented in the following table:

<b>CAPITAL ASSETS</b>			
	<u>FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>
Equipment	445,029	445,029	
Major Structures and Improvements	7,144,518	7,144,518	
Structural Equipment and Improvements	25,431,141	25,431,141	
Less: Accumulated Depreciation	(21,125,672)	(20,391,630)	(734,042)
Work In-Progress	<u>14,666,076</u>	<u>14,011,809</u>	<u>654,267</u>
	<u>26,561,092</u>	<u>26,640,867</u>	<u>(79,775)</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2013**

**Capital Assets (Continued)**

The Authority's on going capital plan is reviewed each year by the Authority's consulting engineer. There are no notable future capital improvements planned in the 2013 fiscal year.

**Debt Administration**

At December 31, 2013, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$17,455,084. The debt service schedule goes out to 2032. Full details of the specific bond issues outstanding are found in Note 6 to the financial statements and the supplementary schedules.

**Economic Factors, Future Years' Budgets and Rates**

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

**Contacting the Authority**

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



## **Financial Statements**

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

**EXHIBIT A**

Page 1 of 3

	<u>2013</u>	<u>Restated 2012</u>
<b><u>ASSETS:</u></b>		
Current Assets:		
Unrestricted:		
Cash and Cash equivalents	\$ 1,487,115	\$ 1,951,503
User Charges Receivable	815,077	120,236
Total Unrestricted	<u>2,302,192</u>	<u>2,071,739</u>
Restricted:		
Construction Fund:		
Cash and Cash equivalents	1,234,671	972,043
Due From NJEIT	1,019,340	1,717,332
	<u>2,254,011</u>	<u>2,689,375</u>
Bond Service Fund:		
Cash and Cash equivalents	207,424	191,039
	<u>207,424</u>	<u>191,039</u>
Bond Reserve Fund:		
Cash and Cash equivalents	375,340	300,244
Investments	803,284	878,438
Accrued Interest Receivable	24,501	24,443
	<u>1,203,125</u>	<u>1,203,125</u>
Renewal and Replacement Fund:		
Cash and Cash equivalents	250,000	250,000
	<u>250,000</u>	<u>250,000</u>
Refund Fund:		
Cash and Cash equivalents	10,815	10,815
	<u>10,815</u>	<u>10,815</u>
Developer's Escrow:		
Cash and Cash equivalents	13,187	20,895
	<u>13,187</u>	<u>20,895</u>
Total Restricted Assets	<u>3,938,562</u>	<u>4,365,249</u>
Capital Assets:		
Structures, Improvements and Equipment	33,020,688	33,020,688
Less: Accumulated Depreciation	(21,125,672)	(20,391,630)
Construction In Progress	14,666,076	14,011,809
Total Capital Assets	<u>26,561,092</u>	<u>26,640,867</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>32,801,846</u></b>	<b>\$ <u>33,077,855</u></b>

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

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

**EXHIBIT A**

Page 2 of 3

	<u>2013</u>	<u>Restated 2012</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Deferred Debits:		
Bond Discount - Net	95,103	109,507
Costs in Excess of Advanced Refunding - Net	<u>328,855</u>	<u>346,163</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ <u>423,958</u></b>	<b>\$ <u>455,670</u></b>
 <b><u>LIABILITIES</u></b>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable - Operations	\$ 27,000	\$ 64,683
Accrued Interest Payable	<u>47,038</u>	<u>52,186</u>
Total Payable from Unrestricted Assets	<u>74,038</u>	<u>116,869</u>
Payable from Restricted Assets:		
Accrued Interest Payable	43,390	45,405
Developer's Escrow Payable	13,187	20,895
Bonds Payable - Current Portion	<u>1,398,015</u>	<u>1,336,379</u>
Total Payable from Restricted Assets	<u>1,454,592</u>	<u>1,402,679</u>
Total Current Liabilities	<u>1,528,630</u>	<u>1,519,548</u>
Non-Current Liabilities:		
Bonds Payable - Long-Term Portion	16,057,069	17,545,361
Arbitrage Rebate Payable	10,815	10,815
Compensated Absences Payable	<u>55,206</u>	<u>65,273</u>
Total Non-Current Liabilities	<u>16,123,090</u>	<u>17,621,449</u>
<b>TOTAL LIABILITIES</b>	<b><u>17,651,720</u></b>	<b><u>19,140,997</u></b>
 <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Deferred Credits:		
Unamortized Bond Premiums	<u>82,555</u>	<u>88,360</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ <u>82,555</u></b>	<b>\$ <u>88,360</u></b>

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

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

**EXHIBIT A**

Page 3 of 3

	<u>2013</u>	<u>Restated 2012</u>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	10,466,751	9,843,769
Restricted:		
Construction	1,234,671	972,043
Current Debt Service	164,034	145,634
Future Debt Service	1,203,125	1,203,125
Renewal and Replacement	250,000	250,000
Unrestricted:		
Undesignated	<u>2,172,948</u>	<u>1,889,597</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>15,491,529</u></b>	<b>\$ <u>14,304,168</u></b>

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

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

**EXHIBIT B**

	<u>2013</u>	<u>Restated 2012</u>
<b>Operating Revenue:</b>		
User Charges	\$ 3,901,937	\$ 3,882,864
Interest and Penalties	1,574	3,490
Connection Fees	111,578	141,653
Other Income	<u>17,703</u>	<u>13,210</u>
Total Operating Revenue	<u>4,032,792</u>	<u>4,041,217</u>
<b>Operating Expenses:</b>		
Administrative and General	355,961	256,321
Cost of Providing Services	1,356,055	1,509,899
Depreciation Expense	<u>734,042</u>	<u>699,754</u>
Total Operating Expenses	<u>2,446,058</u>	<u>2,465,974</u>
Operating Income	<u>1,586,734</u>	<u>1,575,243</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	33,761	49,020
FEMA Grant - Hurricane Sandy	73,527	-
Bond Issuance Costs	-	(188,478)
Interest Expense	(482,754)	(493,035)
Amortization Expense	<u>(23,907)</u>	<u>(12,176)</u>
Non-Operating Income (Loss)	<u>(399,373)</u>	<u>(644,669)</u>
<b>Change In Net Position</b>	1,187,361	930,574
<b>Net Position - January 1</b>	<u>14,304,168</u>	<u>11,100,855</u>
<b>Prior Period Adjustment:</b>		
Adjustment to Fixed Assets and Accum. Depreciation	<u>-</u>	<u>2,272,739</u>
<b>Net Position - December 31</b>	<u><u>\$ 15,491,529</u></u>	<u><u>\$ 14,304,168</u></u>

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

## KEARNY MUNICIPAL UTILITIES AUTHORITY

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

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 3,411,478	\$ 3,987,921
Cash Paid to Vendors and Employees	(1,686,259)	(1,793,377)
<b>Net Cash Provided by Operating Activities</b>	<u>1,725,219</u>	<u>2,194,544</u>
<b>Cash Flow from Investing Activities:</b>		
Capital Expenditures	(654,267)	(682,057)
Interest Earned on Investments	35,350	457
(Increase) Decrease in NJEIT Receivable	697,992	(1,596,961)
<b>Net Cash Provided by (used in) Investing Activities</b>	<u>79,075</u>	<u>(2,278,561)</u>
<b>Cash Flow from Financing Activities:</b>		
Bonds Issued		7,479,953
Bonds Refunded		(5,075,000)
Principal Payment on Bonds and Notes	(1,426,656)	(1,244,932)
Interest Paid on Bonds and Notes	(489,917)	(497,875)
Bond Issuance Costs		(188,478)
Increase (Decrease) in Deferred Costs	(23,907)	(12,176)
Increase (Decrease) in Developers Escrow	(7,708)	(7,587)
Increase (Decrease) in Unamortized Items	25,907	(312,537)
<b>Net Cash Used in Financing Activities</b>	<u>(1,922,281)</u>	<u>141,368</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	(117,987)	57,351
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>3,696,539</u>	<u>3,639,188</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 3,578,552</u>	<u>\$ 3,696,539</u>
<b>Analysis of Balance:</b>		
Unrestricted	1,487,115	1,951,503
Restricted	<u>2,091,437</u>	<u>1,745,036</u>
	<u>\$ 3,578,552</u>	<u>\$ 3,696,539</u>

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

**KEARNY MUNICIPAL UTILITIES AUTHORITY****COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2013</u>	<u>2012</u>
<b>CHANGE IN OPERATING NET POSITION</b>	\$ <u>1,586,734</u>	\$ <u>1,575,243</u>
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	734,042	699,754
FEMA Grant - Hurricane Sandy	73,527	
Decrease (Increase) in Accounts Receivable	(694,841)	(53,296)
Increase (Decrease) in Accounts Payable	35,824	(29,897)
Increase (Decrease) in Compensated Absences Payable	<u>(10,067)</u>	<u>2,740</u>
<b>Total Adjustments</b>	<u>138,485</u>	<u>619,301</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ <u><u>1,725,219</u></u>	\$ <u><u>2,194,544</u></u>

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

## **Notes to Financial Statements**



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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2013 AND 2012**

**1. GENERAL**

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

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

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

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

**General Bond Resolution**

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

The Authority's financial transactions are recorded in accounts that are created by various resolutions adopted by the Authority to meet bond covenant requirements (more fully defined in Note 14).

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**2. SIGNIFICANT ACCOUNTING POLICIES, (continued)**

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

**A. Basis of Presentation**

The financial statements of the Authority have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governmental units. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, accountability or other purposes. The Governmental Accounting Standards Board GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

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

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**2. SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**A. Basis of Presentation, (continued)**

- *Restricted* - This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**B. Basis of Accounting**

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

**C. Grant and Contributions**

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

**D. Cash Equivalents**

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

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**2. SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**E. Investments**

Investments are stated at fair value.

**F. Capital Assets**

In order to comply with the requirements of the "New Jersey Local Authorities Accounting Principles and Auditing Standards Manual," the Authority has valued capital assets at historical cost and has recorded depreciation thereon (see Note 7).

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**2. SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**F. Capital Assets, (continued)**

Capital assets activity for the years ended December 31, 2013 and 2012 were as follows:

	<u>2011</u>	<u>Additions</u>	<u>2012</u>	<u>Adjustments</u> <u>Per</u> <u>Inventory</u>	<u>Restated</u> <u>2012</u>	<u>Additions</u>	<u>2013</u>
Structures and Improvements	\$7,144,518	\$	\$7,144,518	\$	\$7,144,518	\$	\$7,144,518
Major Structural Equipment and Improvements	13,680,916		13,680,916	11,750,225	25,431,141		25,431,141
Furniture and Equipment	<u>345,034</u>	<u>99,995</u>	<u>445,029</u>		<u>445,029</u>		<u>445,029</u>
Total	21,170,468	99,995	21,270,463	11,750,225	33,020,688		33,020,688
Less Accumulated Depreciation	(10,214,391)	(699,753)	(10,914,144)	(9,477,486)	(20,391,630)	(734,042)	(21,125,672)
Add Construction in Progress	<u>13,429,747</u>	<u>582,062</u>	<u>14,011,809</u>		<u>14,011,809</u>	<u>654,267</u>	<u>14,666,076</u>
	<u>\$24,385,824</u>	<u>(\$17,696)</u>	<u>\$24,368,128</u>	<u>\$2,272,739</u>	<u>\$26,640,867</u>	<u>(\$79,775)</u>	<u>\$26,561,092</u>

**G. Long-Term Debt**

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

**H. Compensated Absences**

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

**I. Allowance for Doubtful Account**

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**2. SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**J. Operating Fund Budget**

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

**K. Use of Estimates**

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

**L. Net Position**

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

**M. Recent Accounting Pronouncements**

The Government Accounting Standards Board issued GASB Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision - useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**M. Recent Accounting Pronouncements, (continued)**

administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**M. Recent Accounting Pronouncements, (continued)**

The Government Accounting Standards Board issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement requires a state or local government employer to recognize a net pension liability measured as of a date no earlier than the end of its prior fiscal year. This Statement is effective for financial statements with fiscal years beginning after June 15, 2014. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

**N. Reclassifications/Restatements**

Certain reclassifications have been made to restrictions of 2012 amounts to conform with the 2013 financial presentation. Additionally, the Authority restated capital assets and accumulated depreciation as a result of the discovery of capital assets that were not included in property, plant and equipment. See Note 18 for details.

**3. FINANCIAL REPORTING ENTITY**

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

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

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

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



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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**4. CASH AND CASH EQUIVALENTS**

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

**Custodial Credit Risk**

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

**Deposits**

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

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. Operating cash, in the form of various checking, and savings accounts, are held in the Authority's name by commercial banking institutions. At December 31, 2013, the carrying amount of the Authority's deposits was \$3,578,552 and the bank balance was \$3,652,832. Of the bank balance, \$500,000 was insured with Federal Deposit Insurance and \$3,152,832 was covered by GUDPA.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's bank accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are uncollateralized (securities not pledged by the depositor), collateralized with securities held by the pledging institution or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2013, all of the Authority's deposits were insured with Federal Deposit Insurance or under the provisions of the Governmental Unit Deposit Protection Act (GUDPA) and not exposed to custodial credit risk. The Authority does not have a policy for custodial credit risk.

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**4. CASH AND CASH EQUIVALENTS, (continued)**

As of December 31, 2013, cash and cash equivalents of the Authority consisted of the following:

	<u>Cash and Cash Equivalents</u>	<u>Total</u>
Checking Accounts	\$2,483,656	\$2,483,656
Short Term Money Market Accounts	<u>1,094,896</u>	<u>1,094,896</u>
	<u>\$3,578,552</u>	<u>\$3,578,552</u>
	<u>Analysis</u>	
Restricted Accounts	\$2,091,437	
Unrestricted Accounts	<u>1,487,115</u>	
	<u>\$3,578,552</u>	

**5. INVESTMENTS**

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

At December 31, 2013, the Authority had an investment of \$803,284 in federal notes that mature on May 15, 2014.

**Interest Rate Risk**

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

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

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

**DECEMBER 31, 2013 AND 2012**

**5. INVESTMENTS, (continued)**

**Credit Risk**

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

**Concentration of Credit Risk**

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

**6. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST**

The Authority issued bonds in 2007 and 2012 through the Trust to finance the reconstruction and drainage improvements on Jacobus Avenue between Pennsylvania and Second Street in the Town of Kearny and the extension of existing stormwater sewer mains. The proceeds of these bonds are held by the Trust until the Authority expends funds on the project. The Authority then submits for reimbursement of these expenditures from the Trust. The following is the remaining amount of funds to be received by the Trust:

	Restated Balance <u>12/31/2012</u>	Less: Funds Deobligated	Less: Funds Received	Balance <u>12/31/2013</u>
2007 Project:				
Trust Portion	\$30,093	\$30,093	\$	\$0
Fund Portion	90,278	90,278		0
2012 Project:				
Trust Portion	396,915		142,081	254,834
Capital Interest	9,298		9,298	0
Fund Portion	<u>1,190,748</u>	<u>          </u>	<u>426,242</u>	<u>764,506</u>
	<u>\$1,717,332</u>	<u>\$120,371</u>	<u>\$577,621</u>	<u>\$1,019,340</u>

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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS**

The Authority has issued and has outstanding the following bonds at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Series 1991 Sewer Revenue Bonds	\$680,000	\$790,000
Series 1996 Sewer Revenue Bonds	620,000	650,000
Series 2003A Revenue Bonds		165,000
Series 2003B Revenue Bonds	2,485,000	2,925,000
Series 2005A NJ Environmental Infrastructure Trust Bonds	2,283,025	2,490,866
Series 2007A NJ Environmental Infrastructure Trust Bonds	4,072,282	4,435,921
Series 2012ABC NJ Environmental Infrastructure Trust Bonds	1,789,777	1,854,953
Series 2012 Revenue Refunding Bonds	<u>5,525,000</u>	<u>5,570,000</u>
Net Carrying Amount of Debt	<u>\$17,455,084</u>	<u>\$18,881,740</u>
Current Portion	1,398,015	1,336,379
Long-Term Portion	<u>16,057,069</u>	<u>17,545,361</u>
	<u>\$17,455,084</u>	<u>\$18,881,740</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$1,398,015	\$473,669	\$1,871,684
2015	1,442,832	432,874	1,875,706
2016	1,492,035	390,024	1,882,059
2017	1,535,701	343,994	1,879,695
2018	1,579,076	296,322	1,875,398
2019-2023	4,643,838	1,080,053	5,723,891
2024-2028	3,572,791	589,072	4,161,863
2029-2032	<u>1,790,796</u>	<u>146,092</u>	<u>1,936,888</u>
	<u>\$17,455,084</u>	<u>\$3,752,100</u>	<u>\$21,207,184</u>

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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS, (continued)**

**A. The Sewer Revenue Bonds, Series 1991**

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 1991 - Term Bonds	11/15/91	\$1,995,000	7.30%	11/15/19	\$1,080,000
Series 1991 - Term Bonds - Sinking Fund Obligations				11/15/14	120,000
				11/15/15	125,000
				11/15/16	135,000
				11/15/17	145,000
				11/15/18	<u>155,000</u>
					<u>\$680,000</u>

**B. The Sewer Revenue Bonds, Series 1996**

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

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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS, (continued)**

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 1996 - Term Bonds		\$650,000	5.50%	11/15/18	\$220,000
			5.50	11/15/26	430,000
Series 1996 - Term Bonds - Sinking Fund Obligations				11/15/14	35,000
				11/15/15	35,000
				11/15/16	40,000
				11/15/17	40,000
				11/15/18	40,000
				11/15/19	45,000
				11/15/20	45,000
				11/15/21	50,000
				11/15/22	50,000
				11/15/23	55,000
				11/15/24	60,000
				11/15/25	60,000
				11/15/26	<u>65,000</u>
					<u>\$620,000</u>

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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS, (continued)**

**C. Revenue Bonds, Series 2003B**

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 2003B - Serial Bonds Term Bonds	2/26/03	\$6,100,000	4.000%	11/15/14	\$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	<u>535,000</u>
					<u>\$2,485,000</u>

**D. New Jersey Environmental Infrastructure Trust Loans - 2005A**

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

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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS, (continued)**

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

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

<u>Date</u>	<u>Fund Loan</u>	<u>Trust Loan</u>	
	<u>Maturities</u>	<u>Maturities</u>	<u>Rate</u>
2/1/2014	\$30,868		
8/1/2014	122,397	\$50,000	5.000%
2/1/2015	28,580		
8/1/2015	129,261	55,000	4.000
2/1/2016	26,566		
8/1/2016	127,248	55,000	4.000
2/1/2017	24,553		
8/1/2017	134,387	60,000	4.000
2/1/2018	22,356		
8/1/2018	132,190	60,000	4.250
2/1/2019	20,022		
8/1/2019	139,009	65,000	4.250
2/1/2020	17,493		
8/1/2020	136,481	65,000	4.500
2/1/2021	14,816		
8/1/2021	142,956	70,000	4.375
2/1/2022	12,013		
8/1/2022	140,153	70,000	4.375
2/1/2023	9,210		
8/1/2023	92,468	75,000	4.375
2/1/2024			
8/1/2024		75,000	4.375
2/1/2025			
8/1/2025		80,000	4.375
	<u>\$1,503,027</u>	<u>\$780,000</u>	

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



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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS, (continued)**

**E. New Jersey Environmental Infrastructure Trust Loans - 2007A**

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

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

<u>Date</u>	<u>Fund Loan</u>	<u>Trust Loan</u>	
	<u>Maturities</u>	<u>Maturities</u>	<u>Rate</u>
2/1/2014	\$49,383		
8/1/2014	160,102	\$60,000	3.600%
2/1/2015	47,390		
8/1/2015	167,336	65,000	5.000
2/1/2016	44,391		
8/1/2016	173,564	70,000	5.000
2/1/2017	41,162		
8/1/2017	170,334	70,000	5.000
2/1/2018	37,933		
8/1/2018	176,332	75,000	5.000
2/1/2019	34,473		
8/1/2019	182,098	80,000	4.000
2/1/2020	31,520		
8/1/2020	179,146	80,000	4.000
2/1/2021	28,568		
8/1/2021	185,420	85,000	5.000
2/1/2022	24,646		
8/1/2022	190,725	90,000	5.000
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	<u>117,021</u>	<u>110,000</u>	4.250
	<u>\$2,892,282</u>	<u>\$1,180,000</u>	

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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS, (continued)**

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

The loans were obtained to provide financing for improvements to, and construction of, certain combined sewer outflows. Under the terms of the loans, the Authority pays its contracts for work performed and then submits for reimbursement to the Environmental Infrastructure Trust. The balance of loan proceeds due from the Environmental Infrastructure Trust Fund was deobligated in 2013 and used to defease a portion of the remaining debt.

**F. New Jersey Environmental Infrastructure Trust Loans - 2012ABC**

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

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

<u>Date</u>	<u>Fund Loan</u>	<u>Trust Loan</u>	
	<u>Maturities</u>	<u>Maturities</u>	<u>Rate</u>
2/1/2014	\$25,088		
8/1/2014	50,177	\$15,000	3.000%
2/1/2015	25,089		
8/1/2015	50,177	15,000	4.000
2/1/2016	25,088		
8/1/2016	50,177	15,000	5.000
2/1/2017	25,089		
8/1/2017	50,177	20,000	5.000
2/1/2018	25,088		
8/1/2018	50,177	20,000	5.000
2/1/2019	25,089		
8/1/2019	50,177	20,000	5.000
2/1/2020	25,088		
8/1/2020	50,177	20,000	5.000
2/1/2021	25,089		
8/1/2021	50,177	20,000	5.000
2/1/2022	25,088		
8/1/2022	50,177	25,000	5.000
2/1/2023	25,089		
8/1/2023	50,177	25,000	5.000

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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS, (continued)**

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

<u>Date</u>	<u>Fund Loan</u>	<u>Trust Loan</u>	
	<u>Maturities</u>	<u>Maturities</u>	<u>Rate</u>
8/1/2024	\$50,177	\$25,000	5.000%
2/1/2025	25,089		
8/1/2025	50,177	25,000	5.000
2/1/2026	25,088		
8/1/2026	50,177	30,000	5.000
2/1/2027	25,088		
8/1/2027	50,177	30,000	3.000
2/1/2028	25,088		
8/1/2028	50,177	30,000	3.000
2/1/2029	25,088		
8/1/2029	50,177	30,000	3.125
2/1/2030	25,088		
8/1/2030	50,177	35,000	3.200
2/1/2031	25,088		
8/1/2031	50,177	35,000	3.250
	<u>\$1,354,776</u>	<u>\$435,000</u>	

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

**G. Revenue Refunding Bonds, Series 2012**

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

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

**DECEMBER 31, 2013 AND 2012**

**7. LONG-TERM OBLIGATIONS, (continued)**

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 2012 - Serial Bonds	7/17/2012	\$5,625,000	3.000%	11/15/14	\$220,000
			3.000	11/15/15	225,000
			3.000	11/15/16	230,000
			3.000	11/15/17	240,000
			2.000	11/15/18	250,000
			3.000	11/15/19	255,000
			3.000	11/15/20	260,000
			3.000	11/15/21	265,000
			3.000	11/15/22	275,000
			3.000	11/15/23	285,000
			3.375	11/15/24	290,000
			3.375	11/15/25	300,000
			3.375	11/15/26	315,000
			3.375	11/15/27	320,000
			3.750	11/15/28	330,000
			3.750	11/15/29	350,000
			3.750	11/15/30	360,000
			3.750	11/15/31	370,000
			3.750	11/15/32	385,000
					<u>\$5,525,000</u>

**8. COMPENSATED ABSENCES AND OTHER LIABILITIES**

All Authority employees accrue sick time effective immediately from date of hire, and are capped at a maximum of 120 days. Authority employees cannot accrue vacation time. Accrued sick time owed to employees amounted to \$55,206 at December 31, 2013 and are reflected in the financial statements as compensated absences payable.

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

**DECEMBER 31, 2013 AND 2012**

**9. PENSION PLAN**

**Basis of Accounting**

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

**Investment Valuation**

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

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

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

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

- New members of PERS hired on or after June 28, 2011 (Tier 5 members), will need 30 years of creditable service and age 65 for receipt of early retirement benefit without a reduction of 1/4 to 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PERS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.

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

**DECEMBER 31, 2013 AND 2012**

**9. PENSION PLAN, (continued)**

- Active member contribution rates have increased. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For Fiscal Year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement system.

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

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

**DECEMBER 31, 2013 AND 2012**

**9. PENSION PLAN, (continued)**

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

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appoint officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

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

**Funding Status and Funding Progress**

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

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

**Actuarial Methods and Assumptions**

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

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

**DECEMBER 31, 2013 AND 2012**

**9. PENSION PLAN, (continued)**

**Employer and Employee Pension Contributions**

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

**Annual Pension Costs (APC)**

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

<b><u>Three Year Trend Information for PERS</u></b>			
<b><u>Year</u></b>	<b><u>Annual</u></b>	<b><u>Percentage</u></b>	<b><u>Net</u></b>
<b><u>Funding</u></b>	<b><u>Pension</u></b>	<b><u>of APC</u></b>	<b><u>Pension</u></b>
	<b><u>Cost (APC)</u></b>	<b><u>Contributed</u></b>	<b><u>Obligation</u></b>
12/31/13	\$16,696	100%	\$ 0
12/31/12	39,127	100%	0
12/31/11	27,227	100%	0

**Defined Contribution Retirement Program**

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a minimum base salary of \$1,500 or more, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

If the eligible elected or appointed official will earn less than \$5,000 annually, the official may choose to waiver participation in the DCRP for that office or position. The waiver is irrevocable.



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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**9. PENSION PLAN, (continued)**

**Defined Contribution Retirement Program, (continued)**

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

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

All elected officials taking office on or after July 1, 2007, except that a person who is reelected to an elected office held prior to that date without a break in service may retain in the PERS. A Governor appointee with advice and consent of the Legislature or who serves at the pleasure of the Governor only during that Governor's term of office.

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

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

**10. OTHER POSTEMPLOYMENT BENEFITS**

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**10. OTHER POSTEMPLOYMENT BENEFITS, (continued)**

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

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at [www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf](http://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, 2013 and 2012, the Authority had no retired participants eligible for the SHBP.

**11. ARBITRAGE REBATE PAYABLE**

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

**12. SERVICE AGREEMENT WITH THE TOWN OF KEARNY**

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

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

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

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

**13. AMOUNTS REQUIRED BY BOND RESOLUTIONS**

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

**Construction Reserve**

The 1988 Bond Resolution states that a Construction Reserve Fund should be established and maintained for any moneys used to fund the costs of projects or expenses associated with the issuance of bonds. At December 31, 2013 and 2012, the Authority's Construction accounts had balances totaling \$1,243,671 and \$972,043, respectively.

**Current Debt Service Reserve**

The 1988 Bond Resolution require the Authority to maintain separate Interest and Principal accounts for the purpose of funding debt service during the month in which payments become due. This Resolution was later amended by the 2005 Supplemental Resolution, which established a Current Debt Service Reserve Requirement. The Current Debt Service Requirement states that as of any particular date of computation in a particular fiscal year, an amount of money equal to the unpaid interest and principal then due. This requirement was later adopted in the Authority's 2007 Supplemental Resolution and applies to both the 2005 and 2007 bond issues. At December 31, 2013, the Current Debt Service Reserve was as follows:

Cash and Cash Equivalents		\$207,4224
Accrued Interest on NJEIT Bonds	\$43,390	
Current Debt Service Reserve Requirement	<u>164,034</u>	
		<u>207,424</u>
Excess (Deficit)		<u>\$ -0-</u>

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**13. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)**

**Future Debt Service Reserve**

The 1988 General Bond Resolution states that as of any particular date, the Debt Service Reserve Fund should have an amount of money equal to the aggregate of principal and interest due with respect to the fiscal year for which the computation is made or in any succeeding fiscal year, whichever is greater. At December 31, 2013, the balance of this account was as follows:

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

**Renewal and Replacement Reserve**

The 1988 General Bond Resolution established a separate account to be used for extraordinary renewals, repairs and replacements. At December 31, 2013, the balance of this account was as follows:

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

**14. LEASE COMMITMENTS**

**Land and Building**

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**14. LEASE COMMITMENTS, (continued)**

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

Rent expense for 2013 and 2012 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, 2013 and 2012 was \$5,000 and \$5,000, respectively.

**15. RISK MANAGEMENT**

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**15. RISK MANAGEMENT, (continued)**

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

**16. INTER-ACCOUNT ADVANCES**

At December 31, 2013, the following inter-account advances were outstanding between restricted and unrestricted accounts:

	<u>Due From</u> <u>Other Accounts</u>	<u>Due to</u> <u>Other Accounts</u>
<b>Unrestricted Accounts:</b>		
<b>Revenue Account:</b>		
Due to Bond Service Accounts		\$113,230
Due from Bond Reserve Accounts	\$316,154	
<b>Restricted Accounts:</b>		
<b>Bond Service Accounts:</b>		
Due from Revenue Accounts	113,230	
<b>Bond Reserve Accounts:</b>		
Due to Revenue Accounts		<u>316,154</u>
	<u>\$429,384</u>	<u>\$429,384</u>

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

**NOTES TO FINANCIAL STATEMENTS, (CONTINUED)**

**DECEMBER 31, 2013 AND 2012**

**17. COMMITMENTS AND CONTINGENCIES**

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

**18. PRIOR PERIOD ADJUSTMENTS**

In 2013, the Authority hired a consulting engineer to perform a complete inventory of their capital assets for the period ending December 31, 2012 and to recalculate depreciation on any items not previously included on their original fixed asset list. The following summarizes the required retroactive adjustment to capital assets and accumulated depreciation on the 2012 financial statements as a result of this inventory:

	Balance 12/31/12 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 12/31/12 <u>as Restated</u>
Assets:			
Capital Assets:			
Unrestricted:			
Structures, Improvements and Equipment	\$21,270,463	\$11,750,225	\$33,020,688
Accumulated Depreciation	(10,914,144)	(9,477,486)	(20,391,630)
Net Position:			
Net Investment in Capital Assets	7,571,030	2,272,739	9,843,769

**19. SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through May 6, 2014, the date which the financial statements were available to be issued and no additional items were noted for disclosure or adjustment.

## **Supplementary Schedules**



KEARNY MUNICIPAL UTILITIES AUTHORITY  
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Net Investment in Capital Assets	Restricted			Unrestricted		Total
		Construction Reserve	Current Debt Service Reserve	Future Debt Service Reserve	Renewal and Replacement Reserve	Undesignated	
Operating Revenue:							
User Charges						3,901,937	3,901,937
Interest and Penalties						1,574	1,574
Connection Fees						111,578	111,578
Other Income						17,703	17,703
Total Operating Revenue	-	-	-	-	-	4,032,792	4,032,792
Operating Expense:							
Administrative and General						355,961	355,961
Cost of Providing Services						1,356,055	1,356,055
Depreciation	734,042						734,042
Total Operating Expense	734,042	-	-	-	-	1,712,016	2,446,058
Operating Income	(734,042)	-	-	-	-	2,320,776	1,586,734
Non-Operating Revenue (Expense):							
Interest on Investments		1,820	10	31,724	207	-	33,761
FEMA Grant - Hurricane Sandy						73,527	73,527
Interest Expense						(482,754)	(482,754)
Amortization	(23,907)						(23,907)
	(23,907)	1,820	10	31,724	207	(409,227)	(399,373)
Net Income (Loss) Before Transfers	(757,949)	1,820	10	31,724	207	1,911,549	1,187,361
Transfers:							
Other Transfers	1,380,931	260,808	18,390	(31,724)	(207)	(1,628,198)	-
Increase/(Decrease) in Net Position	622,982	262,628	18,400	-	-	283,351	1,187,361
Restated Net Position - January 1, 2013	9,843,769	972,043	145,634	1,203,125	250,000	1,889,597	14,304,168
Net Position - December 31, 2013	10,466,751	1,234,671	164,034	1,203,125	250,000	2,172,948	15,491,529

## KEARNY MUNICIPAL UTILITIES AUTHORITY

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

	General Operating Accounts	Construction Accounts	Bond Service Accounts	Bond Reserve Account
<b>Cash, Cash Equivalents and Investments - January 1, 2013</b>	1,951,503	972,043	191,039	1,178,682
<b>Cash Receipts:</b>				
Interest on Investments	1,574	1,820	10	31,724
User Charges / Interest and Penalties	3,282,197			
Miscellaneous / Connection Fees	129,281			
NJEIT / FEMA Receipts		568,323		
Developer Trust				
Transfers	156,883		1,208,181	-
<b>Total Cash Receipts</b>	3,569,935	570,143	1,208,191	31,724
<b>Cash and Investments Available</b>	5,521,438	1,542,186	1,399,230	1,210,406
<b>Cash Disbursements:</b>				
Principal Payments	516,285		790,000	
Interest Payments	88,111		401,806	
Operations	1,750,042			
Capital and Other Expenses	471,704	182,563		
Developer Trust				
Transfers	1,208,181	124,952		31,782
<b>Total Cash Disbursements</b>	4,034,323	307,515	1,191,806	31,782
<b>Cash, Cash Equivalents and Investments - December 31, 2013</b>	1,487,115	1,234,671	207,424	1,178,624
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	1,487,115	1,234,671	207,424	375,340
Investments	-	-	-	803,284
	1,487,115	1,234,671	207,424	1,178,624
Unrestricted	1,487,115	-	-	-
Restricted	-	1,234,671	207,424	1,178,624
	1,487,115	1,234,671	207,424	1,178,624

## KEARNY MUNICIPAL UTILITIES AUTHORITY

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

	Renewal and Replacement Account	Rebate Account	Developer's Trust Account	Total
<b>Cash, Cash Equivalents and Investments - January 1, 2013</b>	250,000	10,815	20,895	4,574,977
<b>Cash Receipts:</b>				
Interest on Investments	207		15	35,350
User Charges / Interest and Penalties				3,282,197
Miscellaneous				129,281
NJEIT / NJDEP Receipts				568,323
Developer Trust			40,500	40,500
Transfers				1,365,064
<b>Total Cash Receipts</b>	207	-	40,515	5,420,715
<b>Cash and Investments Available</b>	250,207	10,815	61,410	9,995,692
<b>Cash Disbursements:</b>				
Bond Principal Payments				1,306,285
Interest Payments				489,917
Operations				1,750,042
Capital and Other Expenses				654,267
Developer Trust			48,223	48,223
Transfers	207			1,365,122
<b>Total Cash Disbursements</b>	207	-	48,223	5,613,856
<b>Cash, Cash Equivalents and Investments - December 31, 2013</b>	250,000	10,815	13,187	4,381,836
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	250,000	10,815	13,187	3,578,552
Investments	-	-	-	803,284
	250,000	10,815	13,187	4,381,836
Unrestricted	-	-	-	1,487,115
Restricted	250,000	10,815	13,187	2,894,721
	250,000	10,815	13,187	4,381,836

**KEARNY MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>FY 2013 Adopted Budget</b>	<b>FY 2013 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Revenues:</b>					
Sewer User Charges	3,701,296	3,701,296	3,901,937	200,641	3,882,864
Interest and Penalties	2,000	2,000	1,574	(426)	3,490
Connection Fees	-	-	111,578	111,578	141,653
Miscellaneous	-	-	17,703	17,703	13,210
Non-operating Investments	-	-	33,761	33,761	49,020
<b>Total Operating Revenues</b>	<b>3,703,296</b>	<b>3,703,296</b>	<b>4,066,553</b>	<b>363,257</b>	<b>4,090,237</b>
<b>Expenses:</b>					
<b>Administrative Expenses:</b>					
Salaries and Wages	171,731	171,731	163,779	7,952	96,910
Employee Benefits:					
PERS	9,750	9,750	8,348	1,402	15,651
Payroll Taxes	13,637	13,637	13,209	428	7,550
Medical Insurance	69,973	69,973	51,298	18,675	32,604
Legal	50,000	50,000	23,955	26,045	22,432
Accounting	27,000	27,000	27,000	-	27,000
Insurance	25,000	25,000	21,916	3,084	23,469
Postage and Miscellaneous	33,000	33,000	46,456	(13,456)	30,705
<b>Sub-total Administrative</b>	<b>400,091</b>	<b>400,091</b>	<b>355,961</b>	<b>44,130</b>	<b>256,321</b>
<b>Cost of Providing Services:</b>					
Salaries and Wages	108,500	108,500	96,847	11,653	107,548
Employee Benefits:					
PERS	9,750	9,750	8,348	1,402	23,476
Payroll Taxes	8,800	8,800	7,757	1,043	8,111
Medical Insurance	47,528	47,528	39,454	8,074	42,895
Solids Removal	10,000	10,000	5,554	4,446	13,267
Equipment Repairs and Supplies	120,000	120,000	64,882	55,118	164,262
Utilities	120,000	120,000	101,292	18,708	107,237
Fees and Permits	-	-	3,800	(3,800)	913
Consulting Fees	120,000	120,000	123,120	(3,120)	144,079
Flow Study	10,000	10,000	-	10,000	-
Sewer Cleaning / TV	-	-	-	-	3,000
Lab Fees	-	-	1,860	(1,860)	1,681
Education Expenses	-	-	3,603	(3,603)	1,908
Passaic Valley Sewerage Commission	860,000	860,000	860,000	-	860,000
Property Lease	10,000	10,000	5,000	5,000	5,000
NJEIT Loan Administration Fee	15,000	15,000	13,638	1,362	10,622
Trustee Fees	15,000	15,000	20,900	(5,900)	15,900
<b>Sub-total Cost of Providing Services</b>	<b>1,454,578</b>	<b>1,454,578</b>	<b>1,356,055</b>	<b>98,523</b>	<b>1,509,899</b>
<b>Sub-total Operating</b>	<b>1,854,669</b>	<b>1,854,669</b>	<b>1,712,016</b>	<b>142,653</b>	<b>1,766,220</b>

**KEARNY MUNICIPAL UTILITIES AUTHORITY**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>FY 2013 Adopted Budget</u>	<u>FY 2013 Budget as Amended</u>	<u>Paid or Charged</u>	<u>Excess / (Deficit)</u>	<u>Prior Year Actual</u>
<b>Other Costs Funded by Operating Revenues:</b>					
Debt Service:					
Interest Expense	512,248	512,248	482,754	29,494	493,035
Bond Principal	1,336,379	1,336,379	1,306,285	30,094	1,244,932
Reserves:					
Construction Reserve				-	125,000
Sub-total Other Costs	<u>1,848,627</u>	<u>1,848,627</u>	<u>1,789,039</u>	<u>59,588</u>	<u>1,862,967</u>
<b>Total Costs Funded by Operating Rev</b>	<b>3,703,296</b>	<b>3,703,296</b>	<b>3,501,055</b>	<b>202,241</b>	<b>3,629,187</b>
<b>Add: Excess / (Deficit)</b>	<u>-</u>	<u>-</u>	<u>565,498</u>	<u>565,498</u>	<u>461,050</u>
	<u><u>3,703,296</u></u>	<u><u>3,703,296</u></u>	<u><u>4,066,553</u></u>	<u><u>(363,257)</u></u>	<u><u>4,090,237</u></u>
<b>Excess of Revenues Over Expenses:</b>			565,498		461,050
<b>Reconciliation of Budgetary Basis to GAAP:</b>					
Depreciation Expense			(734,042)		(699,754)
Amortization Expense			(23,907)		(12,176)
FEMA Grant - Hurricane Sandy			73,527		-
Bond Issuance Costs			-		(188,478)
Bond Principal			1,306,285		1,244,932
Constuction Reserve			-		125,000
Total Adjustments			<u>621,863</u>		<u>469,524</u>
<b>Change in Net Position</b>			<u><u>1,187,361</u></u>		<u><u>930,574</u></u>

KEARNY MUNICIPAL UTILITIES AUTHORITY

**SCHEDULE 4**

Page 1 of 1

**SCHEDULE OF CAPITAL BUDGET PROGRAM  
FUNDED BY FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>FY 2013 Adopted Budget</b>	<b>FY 2013 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>
<b>Financing Sources:</b>				
Retained Earnings Appropriated	850,000	850,000	654,267	195,733
	850,000	850,000	654,267	195,733
<b>Capital Outlays:</b>				
Building Renovation	600,000	600,000	471,704	128,296
Facility and Equipment Upgrades / Maintenance	250,000	250,000	182,563	67,437
<b>Total Capital Outlays</b>	850,000	850,000	654,267	195,733
<b>Total Costs Funded by Capital Revenue</b>	850,000	850,000	654,267	195,733
<b>Add: Excess</b>	-	-	-	-
	850,000	850,000	654,267	195,733

**KEARNY MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2013		Balance Jan. 1, 2013	2013 Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
Revenue Bonds (Series 1991)	11/15/1991	7.30%	2014	120,000.00				
		7.30%	2015	125,000.00				
		7.30%	2016	135,000.00				
		7.30%	2017	145,000.00				
		7.30%	2018	155,000.00				
					790,000		110,000	680,000
Revenue Bonds (Series 1996)	12/1/1996	5.50%	2014	35,000.00				
		5.50%	2015	35,000.00				
		5.50%	2016	40,000.00				
		5.50%	2017	40,000.00				
		5.50%	2018	40,000.00				
		5.60%	2019	45,000.00				
		5.60%	2020	45,000.00				
		5.60%	2021	50,000.00				
		5.60%	2022	50,000.00				
		5.60%	2023	55,000.00				
		5.60%	2024	60,000.00				
		5.60%	2025	60,000.00				
		5.60%	2026	65,000.00				
					650,000		30,000	620,000

**KEARNY MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

<u>Description</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Outstanding Maturities December 31, 2013</u>		<u>Balance Jan. 1, 2013</u>	<u>2013 Defeased</u>	<u>2013 Redeemed</u>	<u>Balance Dec. 31, 2013</u>
			<u>Date</u>	<u>Amount</u>				
Revenue Bonds (Series 2003A)	2/26/2003				165,000		165,000	
Revenue Refunding Bonds (Series 2003B)	2/26/2003	4.00%	2014	460,000.00				
		4.00%	2015	475,000.00				
		4.13%	2016	500,000.00				
		4.25%	2017	515,000.00				
		4.25%	2018	535,000.00				
					2,925,000		440,000	2,485,000



**KEARNY MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2013		Balance Jan. 1, 2013	2013 Defensed	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJEIT Bonds (Series 2005A&B) Fund Portion	11/10/2005	n/a	2014	153,265.00				
		n/a	2015	157,841.00				
		n/a	2016	153,814.00				
		n/a	2017	158,940.00				
		n/a	2018	154,546.00				
		n/a	2019	159,031.00				
		n/a	2020	153,974.00				
		n/a	2021	157,772.00				
		n/a	2022	152,166.00				
		n/a	2023	101,676.00				
					1,660,866		157,841	1,503,025
NJEIT Bonds (Series 2005A&B) Trust Portion	11/10/2005	5.00%	2014	50,000.00				
		4.00%	2015	55,000.00				
		4.00%	2016	55,000.00				
		4.00%	2017	60,000.00				
		4.25%	2018	60,000.00				
		4.25%	2019	65,000.00				
		4.50%	2020	65,000.00				
		4.38%	2021	70,000.00				
		4.38%	2022	70,000.00				
		4.38%	2023	75,000.00				
		4.38%	2024	75,000.00				
		4.38%	2025	80,000.00				
					830,000		50,000	780,000

**KEARNY MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	2013 Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJFIT Bonds (Series 2007A&B) Fund Portion	11/8/2007	n/a	2014	209,485.00				
		n/a	2015	214,726.00				
		n/a	2016	217,955.00				
		n/a	2017	211,496.00				
		n/a	2018	214,265.00				
		n/a	2019	216,571.00				
		n/a	2020	210,666.00				
		n/a	2021	213,988.00				
		n/a	2022	215,371.00				
		n/a	2023	216,295.00				
		n/a	2024	208,844.00				
		n/a	2025	210,182.00				
		n/a	2026	211,104.00				
		n/a	2027	121,334.00				
					3,195,921	90,278	213,361	2,892,282

**KEARNY MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2013		Balance Jan. 1, 2013	2013 Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJEIT Bonds (Series 2007A&B) Trust Portion	11/8/2007	3.60%	2014	60,000.00				
		5.00%	2015	65,000.00				
		5.00%	2016	70,000.00				
		5.00%	2017	70,000.00				
		5.00%	2018	75,000.00				
		4.00%	2019	80,000.00				
		4.00%	2020	80,000.00				
		5.00%	2021	85,000.00				
		5.00%	2022	90,000.00				
		4.25%	2023	95,000.00				
		4.50%	2024	95,000.00				
		4.50%	2025	100,000.00				
		4.50%	2026	105,000.00				
		4.25%	2027	110,000.00				
					1,240,000	30,093	29,907	1,180,000

**KEARNY MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	2013 Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJFIT Bonds (Series 2012 ABC) Fund Portion	5/3/2012	n/a	2014	75,265.33				
		n/a	2015	75,265.33				
		n/a	2016	75,265.33				
		n/a	2017	75,265.33				
		n/a	2018	75,265.33				
		n/a	2019	75,265.33				
		n/a	2020	75,265.33				
		n/a	2021	75,265.33				
		n/a	2022	75,265.33				
		n/a	2023	75,265.33				
		n/a	2024	75,265.33				
		n/a	2025	75,265.33				
		n/a	2026	75,265.33				
		n/a	2027	75,265.33				
		n/a	2028	75,265.33				
		n/a	2029	75,265.33				
		n/a	2030	75,265.33				
		n/a	2031	75,265.50	1,404,953		50,176	1,354,777

**KEARNY MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2013		Balance Jan. 1, 2013	2013 Defensed	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
NJEIT Bonds (Series 2012A) Trust Portion	5/3/2012	3.00%	2014	15,000.00				
		4.00%	2015	15,000.00				
		5.00%	2016	15,000.00				
		5.00%	2017	20,000.00				
		5.00%	2018	20,000.00				
		5.00%	2019	20,000.00				
		5.00%	2020	20,000.00				
		5.00%	2021	20,000.00				
		5.00%	2022	25,000.00				
		5.00%	2023	25,000.00				
		5.00%	2024	25,000.00				
		5.00%	2025	25,000.00				
		5.00%	2026	30,000.00				
		3.00%	2027	30,000.00				
		3.00%	2028	30,000.00				
		3.13%	2029	30,000.00				
		3.20%	2030	35,000.00				
		3.25%	2031	35,000.00				
					450,000		15,000	435,000

**KEARNY MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS**

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2013	2013 Defeased	2013 Redeemed	Balance Dec. 31, 2013
			Date	Amount				
Revenue Refunding Bonds (Series 2012)	6/21/2012	3.00%	2014	220,000.00				
		3.00%	2015	225,000.00				
		3.00%	2016	230,000.00				
		3.00%	2017	240,000.00				
		2.00%	2018	250,000.00				
		3.00%	2019	255,000.00				
		3.00%	2020	260,000.00				
		3.00%	2021	265,000.00				
		3.00%	2022	275,000.00				
		3.00%	2023	285,000.00				
		3.38%	2024	290,000.00				
		3.38%	2025	300,000.00				
		3.38%	2026	315,000.00				
		3.38%	2027	320,000.00				
		3.75%	2028	330,000.00				
		3.75%	2029	350,000.00				
		3.75%	2030	360,000.00				
		3.75%	2031	370,000.00				
		3.75%	2032	385,000.00				
						5,570,000		45,000
Total Bonds Payable				18,881,740	120,371	1,306,285	17,455,084	
Current Portion				1,336,379			1,398,015	
Noncurrent Portion				17,545,361			16,057,069	
				18,881,740			17,455,084	

**SCHEDULE 6**

**ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS**

The following officials were in office at December 31, 2013:

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

KEARNY MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE  
DECEMBER 31, 2013

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	CFDA Number	State Agency Account Number	Grant Award	Grant Receipts	Grant Period		Grant Expenditures	Cumulative Grant Expenditures
					From	To		
U.S. Department of Environmental Protection:								
Pass Through New Jersey Department of Environmental Protection								
Capitalization Grants for Clean Water Revolving Funds: Wastewater Treatment Fund	66.458	4860-510-009-13	\$ 1,404,953	426,242	01/01/13	12/31/13	-	640,447
U.S. Department of Homeland Security:								
Pass Through New Jersey State Police								
FEMA Bundle Grant	97.036	1200-100-A92-13	\$ 73,527	73,527	01/01/13	12/31/13	73,527	73,527
Total Federal Financial Assistance				499,769			73,527	713,974





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

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Kearny Municipal Utilities Authority, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated May 6, 2014.

### ***Internal Control Over Financial Reporting***

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

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



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies (Finding 2013-1 and 2013-2).

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Kearny Municipal Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying schedule of findings and questioned costs as Finding 2013-3. We noted certain other matters that we reported to management of the Authority in the comments and recommendations section of this report.

### ***Kearny Municipal Utilities Authority's Response to Findings***

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

### ***Purpose of this Report***

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

*Ferraioli, Wielkottz, Cerullo & Cuva, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

May 6, 2014



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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2013**  
**(continued)**

**FINDING: 2013-1\***

**STATEMENT OF CONDITION**

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

**CRITERIA**

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

**EFFECT**

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

**CAUSE**

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

**RECOMMENDATION**

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

**MANAGEMENT RESPONSE**

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2013**  
**(continued)**

**FINDING: 2013-2\***

**STATEMENT OF CONDITION**

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

**CRITERIA**

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

**EFFECT**

Depreciation expense of \$734,042 was not initially recognized by management. Bond principal payments of \$1,306,285 were originally classified as an expense rather than a reduction of bonds payable.

**CAUSE**

Management postponed the calculation of depreciation until several months after year end. Bond principal was classified as an expense for internal budgetary reporting purposes.

**RECOMMENDATION**

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

**MANAGEMENT RESPONSE**

Bond principal was classified as an expense for internal budgetary reporting purposes. Management plans to review their internal accounting policies and will work to rectify these findings for the 2014 fiscal year.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2013  
(continued)**

**FINDING: 2013-3\***

**STATEMENT OF CONDITION**

Arbitrage rebate liability is not being calculated annually.

**CRITERIA**

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

**EFFECT**

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

**CAUSE**

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

**RECOMMENDATION**

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

**MANAGEMENT RESPONSE**

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

## **Comments and Recommendations**

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

**GENERAL COMMENTS**

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

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

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

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

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

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

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

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



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

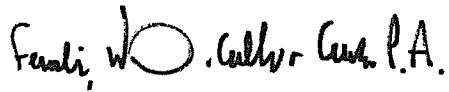
**GENERAL COMMENTS, CONTINUED**

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

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

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

Respectfully submitted,



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey