KEARNY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF
THE TOWN OF KEARNY)
REPORT OF AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2010

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

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

CONTENTS, (continued)

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INDEPENDENT AUDITOR'S REPORT

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

Ladies and Gentlemen:

We have audited the accompanying statement of net assets of the Kearny Municipal Utilities Authority, (a component unit of the Town of Kearny) as of and for the year ended December 31, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Kearny Municipal Utilities Authority as of and for the year ended December 31, 2009 were audited by other auditors whose report dated February 28, 2011, expressed an unqualified opinion on those statements in accordance with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in accordance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kearny Municipal Utilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kearny Municipal Utilities Authority, as of December 31, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As more fully discussed in Note 21 to the financial statements, certain errors, resulting in an overstatement of assets, liabilities and net assets as of December 31, 2009, were discovered by management of the Authority during the year. Accordingly, the 2009 financial statements have been restated and adjusted to reflect the correction of these errors.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2011 on our consideration of the Kearny Municipal Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The Management's Discussion and Analysis and Supplementary Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Very truly yours,

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

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

November 11, 2011

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Required Supplementary Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010

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, 2010. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities by $10,731,805 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by $9,125,714.
- Total net assets are comprised of the following:

  (1) Capital assets, net of related debt of $7,032,740 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt and unexpended funds related to the purchase or construction of capital assets.

  (2) Restricted net assets of $2,018,331 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.

  (3) Unrestricted net assets of $1,680,734 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.

- Total liabilities of the Authority decreased by $1,319,428 to $19,322,570 during the fiscal year.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the Authority

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

Net Assets

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

The Authority's net assets at fiscal year-end are $10,731,805. This is a $1,606,091 increase over last year's net assets of $9,125,714. A summary of the Authority's statement of net assets is presented in the following table:

Condensed Statement of Net Assets

	FY 2010	FY 2009	Dollar Change	Percent Change
Current and Non-current Assets	5,379,464	8,162,167	(2,782,703)	(34.09)%
Capital Assets	24,300,157	21,209,133	3,091,024	14.57%
Other Assets	374,754	396,412	(21,658)	(5.46)%
Total Assets	30,054,375	29,767,712	286,663	0.96%
Long-term Debt Outstanding	19,270,208	20,589,636	(1,319,428)	(6.41)%
Other Liabilities	52,362	52,362	0	0.00%
Total Liabilities	19,322,570	20,641,998	(1,319,428)	(6.39)%
Invested in Capital Assets, net of Related Debt	7,032,740	5,188,461	1,844,279	35.55%
Restricted	2,018,331	2,198,727	(180,396)	(8.20)%
Unrestricted	1,680,734	1,738,526	(57,792)	(3.32)%
Total Net Assets	10,731,805	9,125,714	1,606,091	17.60%

Net Assets (Continued)

A summary of the Authority's prior year statement of net assets is presented with comparative FY 2008 balances in the following table:

Condensed Statement of Net Assets

	FY 2009	FY 2008	Dollar Change	Percent Change
Current and Non-current Assets	8,162,167	12,904,232	(4,742,065)	(36.75)%
Capital Assets	21,209,133	16,580,137	4,628,996	27.92%
Other Assets	396,412		396,412	100.00%
Total Assets	29,767,712	29,484,369	283,343	0.96%
Long-term Debt Outstanding	20,589,636	23,533,846	(2,944,210)	(12.51)%
Other Liabilities	52,362	48,158	4,204	8.73%
Total Liabilities	20,641,998	23,582,004	(2,940,006)	(12.47)%
Invested in Capital Assets, net of Related Debt	5,188,461	3,193,571	1,994,890	62.47%
Restricted	2,198,727	1,465,478	733,249	50.03%
Unrestricted	1,738,526	1,243,316	495,210	39.83%
Total Net Assets	9,125,714	5,902,365	3,223,349	54.61%

While the *Statement of Net Assets* shows the change in financial position of net assets, the *Statement of Revenues, Expenses and Changes in Net Assets* provides answers as to the nature and source of these changes. As can be seen in the following table, net assets increased by $1,606,091 and $3,223,349 during the 2010 and 2009 fiscal years, respectively.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

Net Assets (Continued)

Condensed Statement of Revenues, Expenses And Changes in Net Assets

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

A summary of the Authority's prior year statement of revenues, expenses and change in net assets is presented with comparative FY 2008 figures in the following table:

Condensed Statement of Revenues, Expenses And Changes in Net Assets

	FY 2009	FY 2008	Dollar Change	Percent Change
Operating Revenues	3,970,318	3,457,538	512,780	14.83%
Non-operating Revenues	45,808	144,269	(98,461)	(68.25)%
Total Revenues	4,016,126	3,601,807	414,319	11.50%
Depreciation	681,845	618,741	63,104	10.20%
Other Operating Expenses	1,661,955	1,693,408	(31,453)	(1.86)%
Other Non-operating Expense	700,997	730,430	(29,433)	(4.03)%
Total Expenses	3,044,797	3,042,579	2,218	0.07%
Change in Net Assets	971,329	559,228	412,101	73.69%
Beginning Net Assets	5,902,365	5,343,137	559,228	10.47%
Prior Period Adjustment	(18,079)		(18,079)	(100.00)%
Contributed Capital	2,270,099		2,270,099	100.00%
Ending Net Assets	9,125,714	5,902,365	3,223,349	54.61%

Net Assets (Continued)

The Authority's operating revenues increased by $263,598 to $4,233,916 in fiscal year 2010 from $3,970,318 in 2009. This increase is primarily due to increased revenue from service agreements and water sales. Non-operating revenues increased by $10,245 to $56,053 from $45,808 due to an increase in interest on investments. This increase in earnings is a variable condition based on changes in interest rates.

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 2010 and FY 2009 budget comparison:

Budget vs. Actual
FY 2010

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

Budgetary Highlights (Continued)

Budget vs. Actual
FY 2009

	Budget	Actual	Variance
Revenues:			
Operating	3,620,448	4,311,488	691,040
Non-Operating	50,000	45,808	(4,192)
	3,670,448	4,357,296	686,848
Expenses:			
Operating	1,804,068	1,661,955	142,113
Non-Operating	1,866,380	1,758,557	107,823
	3,670,448	3,420,512	249,936
Income before Depreciation	0	936,784	936,784

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During fiscal year 2010, the Authority had an increase of $3,091,024 in capital assets. The Authority's net property, plant and equipment at fiscal year end was $21,170,468. This is a $25,370 increase over last year's net property, plant and equipment of $21,145,098. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	FY 2010	FY 2009	Dollar Change
Equipment	345,033	319,662	25,371
Major Structures and Improvements	7,144,519	7,144,519	0
Structural Equipment and Improvements	13,680,917	13,680,917	0
Less: Accumulated Depreciation	(9,528,921)	(8,847,077)	(681,844)
Work In-Progress	12,658,609	8,911,112	3,747,497
	24,300,157	21,209,133	3,091,024

Capital Assets (Continued)

The Authority's on going capital plan is reviewed each year by the Authority's consulting engineer. Notable future capital improvements are listed below.

Bergen Ave Pump Station Force Main	600,000
MSLA Landfill	700,000
Jacobus Ave. Storm Water Drainage	800,000
	2,100,000

Debt Administration

At December 31, 2010, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the accreted amount of $18,779,570. The debt service schedule goes out to 2027. Full details of the specific bond issues outstanding are found in Note 6 to the financial statements and the supplementary schedules.

Economic Factors, Future Years' Budgets and Rates

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

Contacting the Authority

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

Financial Statements

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

	2010	Restated 2009
ASSETS:		
Current Assets:		
Unrestricted:		
Cash and Cash equivalents	$ 254,789	$ 610,417
User Charges Receivable	1,861,751	1,653,868
	2,116,540	2,264,285
Restricted:		
Construction Fund:		
Cash and Cash equivalents	436,100	613,842
Accrued Interest Receivable	-	1,075
Due From Other Government Agencies	419	603,823
Due From NJEIT	1,178,694	3,027,311
	1,615,213	4,246,051
Bond Service Fund:		
Cash and Cash equivalents	158,332	162,452
Bond Reserve Fund:		
Cash and Cash equivalents	386,845	404,329
Investments	804,255	804,254
Accrued Interest Receivable	24,378	6,895
	1,373,810	1,377,930
Renewal and Replacement Fund:		
Cash and Cash equivalents	250,000	250,000
Refund Fund:		
Cash and Cash equivalents	10,815	10,815
Developer's Escrow:		
Cash and Cash equivalents	13,086	13,086
Total Restricted Assets	3,262,924	5,897,882
Non-Current Assets:		
Capital Assets:		
Structures, Improvements and Equipment	21,170,468	21,145,098
Less: Accumulated Depreciation	(9,528,922)	(8,847,077)
Work In Progress	12,658,611	8,911,112
Total Capital Assets	24,300,157	21,209,133
Other Assets:		
Deferred Costs	374,754	396,412
TOTAL ASSETS	$ 30,054,375	$ 29,767,712

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

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

	2010	Restated 2009
LIABILITIES:		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable - Operations	$ 103,768	$ 93,208
Accrued Interest Payable - Revenue Bonds	66,547	69,790
Legal Settlement	100,000	100,000
Other Liabilities	52,362	52,362
	322,677	315,360
Payable from Restricted Assets:		
Accounts Payable - Construction	4,586	132,185
Accrued Interest Payable - NJEIT Bonds	41,579	44,120
Developer's Escrow Payable	13,086	13,086
Bonds Payable - Current Portion	1,159,899	1,109,481
	1,219,150	1,298,872
Total Current Liabilities	1,541,827	1,614,232
Non-Current Liabilities:		
Bonds Payable - Long-Term Portion	17,619,671	18,766,815
Legal Settlement	-	100,000
Arbitrage Rebate Payable	10,815	10,815
Compensated Absenses Payable	113,129	110,399
Unamortized Bond Premiums	37,128	39,737
Total Non-Current Liabilities	17,780,743	19,027,766
TOTAL LIABILITIES	19,322,570	20,641,998

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

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

	2010	Restated 2009
NET ASSETS:		
Invested in Capital Assets, net of Related Debt	7,032,740	5,188,461
Restricted:		
Construction	436,100	614,917
Current Debt Service	116,753	118,332
Future Debt Service	1,215,478	1,215,478
Renewal and Replacement	250,000	250,000
Unrestricted:		
Undesignated	1,680,734	1,738,526
TOTAL NET ASSETS	$ 10,731,805	$ 9,125,714

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

EXHIBIT B

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

	2010	Restated 2009
Operating Revenue:		
User Charges	$ 4,128,127	$ 3,928,225
Interest and Penalties	80,975	42,093
Other Income	24,814	-
Total Operating Revenue	4,233,916	3,970,318
Operating Expenses:		
Administrative and General	334,475	360,765
Cost of Providing Services	1,318,572	1,301,190
Depreciation Expense	681,845	681,845
Total Operating Expenses	2,334,892	2,343,800
Operating Income	1,899,024	1,626,518
Non-Operating Revenue (Expenses):		
Interest on Investments	56,053	45,808
Interest Expense	(646,292)	(675,028)
Amortization Expense	(31,806)	(25,969)
Non-Operating Income (Loss)	(622,045)	(655,189)
Change In Net Assets	1,276,979	971,329
Net Assets - January 1	9,125,714	5,902,365
Contributed Capital:		
NJDEP Grant Contribution	329,112	2,270,099
Prior Period Adjustments:		
NJEIT Receivable	-	(461,683)
Bond Issuance Costs, Net of Amortization	-	126,746
NJEIT Bonds Payable	-	356,595
Bond Premiums, Net of Amortization	-	(39,737)
Net Assets - December 31	$ 10,731,805	$ 9,125,714

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

KEARNY MUNICIPAL UTILITIES AUTHORITY

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

	2010	Restated 2009
Cash Flows from Operating Activities:		
Cash Received from Customers	$ 4,026,033	$ 3,653,481
Cash Paid to Vendors and Employees	(1,639,757)	(1,562,843)
Legal Settlement	(100,000)	(100,000)
Net Cash Provided by Operating Activities	2,286,276	1,990,638
Cash Flow from Investing Activities:		
Capital Expenditures	(3,900,468)	(4,763,755)
Interest Earned on Investments	39,644	55,017
(Increase) Decrease in NJEIT Receivable	1,848,617	2,585,334
Net Cash Provided by (used in) Investing Activities	(2,012,207)	(2,123,404)
Cash Flow from Financing Activities:		
Capital Contributions	932,516	1,666,276
Principal Payment on Bonds and Notes	(1,096,726)	(1,083,529)
Interest Paid on Bonds and Notes	(652,076)	(679,881)
Increase (Decrease) in Deferred Costs	(10,148)	
Increase (Decrease) in Developers Escrow		(6,755)
Increase (Decrease) in Unamortized Items	(2,609)	
Net Cash Used in Financing Activities	(829,043)	(103,889)
Net Increase/(Decrease) in Cash and Cash Equivalents	(554,974)	(236,655)
Cash and Cash Equivalents at Beginning of Year	2,064,941	2,301,596
Cash and Cash Equivalents at End of Year	$ 1,509,967	$ 2,064,941

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

KEARNY MUNICIPAL UTILITIES AUTHORITY

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

	2010	Restated 2009
CHANGE IN NET ASSETS	$ 1,899,024	$ 1,626,518
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	681,845	681,845
Legal Settlement	(100,000)	(100,000)
Decrease (Increase) in Accounts Receivable	(207,883)	(316,837)
Increase (Decrease) in Accounts Payable	10,560	91,630
Increase (Decrease) in Compensated Absenses Payable	2,730	7,482
Total Adjustments	387,252	364,120
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,286,276	$ 1,990,638

The accompanying "Independent Auditor's Report" and the "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, 2010 AND 2009

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 5).

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

A. Basis of Presentation

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

B. Basis of Accounting

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

C. Grant and Contributions

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

D. Cash Equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

D. Cash Equivalents, (continued)

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

E. Investments

Investments are stated at fair value.

F. Capital Assets

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

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

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

G. Long-Term Debt

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

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. Compensated Absences

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

I. Allowance for Doubtful Account

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

J. Operating Fund Budget

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

K. Use of Estimates

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

L. Net Assets

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

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 60, *Accounting and Financial Reporting for Services Concession Arrangements*. This Statement improves financial reporting by addressing issues relating to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The provisions of this Statement generally are required to be applied retroactively for all periods presented. As of December 31, 2010, the Authority had no such service concession agreements.

The Government Accounting Standards Board issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. The objective of this statement is to modify certain requirements for inclusion of component units in the financial reporting entity. Since the Authority has no component units, the provisions of this Statement do no apply to the reporting period ending December 31, 2010.

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

1. Financial Accounting Standards Board (FASB) Statements and Interpretations

2. Accounting Principles Board Opinions

3. Accounting Research Bulletins or the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

The Authority acknowledges this codification and has determined that it will have no affect on the financial presentation as of December 31, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Recent Accounting Pronouncements, (continued)

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

The Government Accounting Standards Board issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53.* The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty of swap counterparty's credit support provider. The Authority has determined that this Statement is not applicable for the reporting period ending December 31, 2010.

3. FINANCIAL REPORTING ENTITY

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

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

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

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

4. CASH AND CASH EQUIVALENTS

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

Custodial Credit Risk

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

Deposits

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

Bank balances are insured up to $250,000 in the aggregate by the FDIC for each bank. Operating cash, in the form of various checking, and savings accounts, are held in the Authority's name by commercial banking institutions. At December 31, 2010, the carrying amount of the Authority's deposits was $1,509,967 and the bank balance was $1,529,865. Of the bank balance, $500,000 was insured with Federal Deposit Insurance and $1,029,865 was covered by GUDPA.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's bank accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of it's deposits or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are uncollateralized (securities not pledged by the depositor), collateralized with securities held by the pledging institution or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2010, all of the Authority's deposits were insured with Federal Deposit Insurance or under the provisions of the Governmental Unit Deposit Protection Act (GUDPA) and not exposed to custodial credit risk. The Authority does not have a policy for custodial credit risk.

4. CASH AND CASH EQUIVALENTS, (continued)

As of December 31, 2010, cash and cash equivalents of the Authority consisted of the following:

	Cash and Cash Equivalents	Total
Checking Accounts	$540,779	$540,779
Short Term Money Market Accounts	969,188	969,188
	$1,509,967	$1,509,967

	Analysis
Restricted Accounts	$1,255,178
Unrestricted Accounts	254,789
	$1,509,967

5. INVESTMENTS

At December 31, 2010, the Authority had an investment of $804,255 in federal notes that mature on May 16, 2011.

Interest Rate Risk

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

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

5. INVESTMENTS, (continued)

Credit Risk

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

Concentration of Credit Risk

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

6. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

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

	Restated Balance 12/31/2009	Less: Project Credit	Less: Funds Received	Balance 12/31/2010
2005 Project:				
Trust Portion	$118,865	$61,357		$57,508
2007 Project:				
Trust Portion	727,111		446,815	280,296
Fund Portion	2,181,335		1,340,445	840,890
	$3,027,311	$61,357	$1,787,260	$1,178,694

7. CAPITAL ASSETS

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

Capital assets activity for the years ended December 31, 2010 and 2009 were as follows:

	2008	Additions	2009	Additions	2010
Structures and Improvements	$7,144,518		$7,144,518		$7,144,518
Major Structural Equipment and Improvements	13,680,916		13,680,916		13,680,916
Furniture and Equipment	319,664		319,664	$ 25,370	345,034
Total	21,145,098		21,145,098	25,370	21,170,468
Less Accumulated Depreciation	(8,165,232)	$(681,845)	(8,847,077)	(681,845)	(9,528,922)
	12,979,866	(681,845)	12,298,021	(656,475)	11,641,546
Add Work in Progress	3,600,271	5,310,841	8,911,112	3,747,499	12,658,611
	$16,580,137	$4,628,996	$21,209,133	$3,091,024	$24,300,157

8. LONG-TERM OBLIGATIONS

The Authority has issued and has outstanding the following bonds at December 31, 2010 and 2009:

	2010	2009
Series 1991 Sewer Revenue Bonds	$990,000	$1,080,000
Series 1996 Sewer Revenue Bonds	710,000	740,000
Series 2003A Revenue Bonds	5,550,000	5,695,000
Series 2003B Revenue Bonds	3,760,000	4,140,000
Series 2005A NJ Environmental Infrastructure Trust Bonds	2,890,599	3,082,034
Series 2007A NJ Environmental Infrastructure Trust Bonds	4,981,019	5,254,066
	18,881,618	19,991,100
Less:		
Unamortized Loss on Refunding (Series 2003B)	(102,048)	(114,804)
Net Carrying Amount of Debt	$18,779,570	$19,876,296
Current Portion	1,159,899	1,109,481
Long-Term Portion	17,619,671	18,766,815
	$18,779,570	$19,876,296

8. LONG-TERM OBLIGATIONS, (continued)

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

Year	Principal	Interest	Total
2011	$1,159,899	$621,938	$1,781,837
2012	1,189,932	588,450	1,778,382
2013	1,226,201	553,560	1,779,761
2014	1,257,750	516,180	1,773,930
2015	1,302,567	475,465	1,778,032
2016-2020	5,751,258	1,708,850	7,460,108
2021-2025	3,881,297	1,037,672	4,918,969
2026-2030	2,342,714	455,653	2,798,367
2031-2032	770,000	55,338	825,338
	$18,881,618	$6,013,106	$24,894,724

A. The Sewer Revenue Bonds, Series 1991

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

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

	Original		Maturities and Obligations			Balance	Paid	Balance
Description	Date	Amount	Rate	Date	Amount	Dec.31, 2009	in 2010	Dec.31, 2010
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				11/15/11	95,000			
				11/15/12	105,000			
				11/15/13	110,000			
				11/15/14	120,000			
				11/15/15	125,000			
				11/15/16	135,000			
				11/15/17	145,000			
				11/15/18	155,000	1,080,000	90,000	990,000
						$1,080,000	$90,000	$990,000
Recapitulation of Balance:								
Current Portion of Bonds Payable						$90,000		$95,000
Long-term Portion of Bonds Payable						990,000		895,000
						$1,080,000		$990,000

8. LONG-TERM OBLIGATIONS, (continued)

B. The Sewer Revenue Bonds, Series 1996

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

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

	Original		Maturities and Obligations			Balance	Paid	Balance
Description	Date	Amount	Rate	Date	Amount	Dec.31, 2009	in 2010	Dec.31, 2010
Series 1996 - Serial Bonds	12/01/96	$350,000	5.30%	11/15/11	$30,000			
			5.35	11/15/12	30,000	$90,000	$30,000	$60,000
Series 1996 - Term Bonds		650,000	5.50	11/15/18	220,000			
			5.50	11/15/26	430,000	650,000		650,000
						$740,000	$30,0000	$710,000
Recapitulation of Balance:								
Current Portion of Bonds Payable						$30,000		$30,000
Long-term Portion of Bonds Payable						710,000		680,000
						$740,000		$710,000

C. Revenue Bonds, Series 2003A

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

8. LONG-TERM OBLIGATIONS, (continued)

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

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

Description	Original Date	Original Amount	Maturities and Obligations Rate	Maturities and Obligations Date	Maturities and Obligations Amount	Balance Dec.31, 2009	Paid in 2010	Balance Dec.31, 2010
Series 2003A - Serial Bonds	2/26/03	$6,500,000	3.625%	11/15/11	$150,000			
			3.750	11/15/12	160,000			
			4.000	11/15/13	165,000			
			4.100	11/15/14	170,000			
			4.200	11/15/15	175,000			
			4.300	11/15/16	185,000	$1,150,000	$145,000	$1,005,000
Series 2003A - Term Bonds			5.000	11/15/23	1,580,000			
			4.750	11/15/32	2,965,000	4,545,000		4,545,000
						$5,695,000	$145,000	$5,550,000
Recapitulation of Balance:								
Current Portion of Bonds Payable						$145,000		$150,000
Long-term Portion of Bonds Payable						5,550,000		5,400,000
						$5,695,000		$5,550,000

D. Revenue Bonds, Series 2003B

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

8. LONG-TERM OBLIGATIONS, (continued)

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

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

	Original		Maturities and Obligations			Balance Dec.31,	Paid in	Balance Dec.31,
Description	Date	Amount	Rate	Date	Amount	2009	2010	2010
Series 2003B - Serial Bonds	2/26/03	$6,100,000	3.500%	11/15/11	$415,000			
			3.650	11/15/12	420,000			
			3.750	11/15/13	440,000			
			4.000	11/15/14	460,000			
			4.000	11/15/15	475,000			
			4.125	11/15/16	500,000			
			4.250	11/15/17	515,000			
			4.250	11/15/18	535,000	$4,140,000	$380,000	$3,760,000
Recapitulation of Balance:								
Bonds Payable						$4,140,000		$3,760,000
Less: Deferred Charge on Refunding, Net						(114,804)		(102,048)
						$4,025,196		
Current Portion of Bonds Payable						380,000		415,000
Long-term Portion of Bonds Payable						3,645,196		3,242,952
						$4,025,196		$3,657,952

E. New Jersey Environmental Infrastructure Trust Loans - 2005A

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

8. LONG-TERM OBLIGATIONS, (continued)

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

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

Date	Fund Loan Maturities	Trust Loan Maturities	Trust Loan Rate	Balance Dec. 31, 2009	Paid in 2010	Balance Dec. 31, 2010
2/1/2011	$37,275					
8/1/2011	119,651	45,000	5.000			
2/2/2012	35,216					
8/1/2012	117,591	45,000	5.000			
2/1/2013	33,156					
8/1/2013	124,685	50,000	5.000			
2/1/2014	30,868					
8/1/2014	122,397	50,000	5.000			
2/1/2015	28,580					
8/1/2015	129,261	55,000	4.000			
2/1/2016	26,566					
8/1/2016	127,248	55,000	4.000			
2/1/2017	24,553					
8/1/2017	134,387	60,000	4.000			
2/1/2018	22,356					
8/1/2018	132,190	60,000	4.250			
2/1/2019	20,022					
8/1/2019	139,009	65,000	4.250			
2/1/2020	17,493					
8/1/2020	136,481	65,000	4.500			
2/1/2021	14,816					
8/1/2021	142,956	70,000	4.375			
2/1/2022	12,013					
8/1/2022	140,153	70,000	4.375			
2/1/2023	9,210					
8/1/2023	92,468	75,000	4.375			
2/1/2024						
8/1/2024		75,000	4.375			
2/1/2025						
8/1/2025		80,000	4.375			
				$3,082,034	$191,435	$2,890,599

	Balance Dec. 31, 2009	Balance Dec. 31, 2010
Recapitulation of balance:		
Current Portion of Loans Payable	$191,435	$201,926
Long-term Portion of Loans Payable	2,890,599	2,688,673
	$3,082,034	$2,890,599

8. LONG-TERM OBLIGATIONS, (continued)

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

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

F. New Jersey Environmental Infrastructure Trust Loans - 2007A

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

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

Date	Fund Loan Maturities	Trust Loan Maturities	Trust Loan Rate	Balance Dec. 31, 2009	Paid in 2010	Balance Dec. 31, 2010
2/1/2011	$55,740					
8/1/2011	157,233	$55,000	5.000			
2/2/2012	53,203					
8/1/2012	163,922	60,000	3.400			
2/1/2013	51,321					
8/1/2013	162,040	60,000	3.500			
2/1/2014	49,383					
8/1/2014	160,102	60,000	3.600			
2/1/2015	47,390					
8/1/2015	167,336	65,000	5.000			
2/1/2016	44,391					
8/1/2016	173,564	70,000	5.000			
2/1/2017	41,162					
8/1/2017	170,334	70,000	5.000			
2/1/2018	37,933					
8/1/2018	176,332	75,000	5.000			
2/1/2019	34,473					
8/1/2019	182,098	80,000	4.000			
2/1/2020	31,520					
8/1/2020	179,146	80,000	4.000			
2/1/2021	28,568					
8/1/2021	185,420	85,000	5.000			
2/1/2022	24,646					
8/1/2022	190,725	90,000	5.000			

8. LONG-TERM OBLIGATIONS, (continued)

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

Date	Fund Loan Maturities	Trust Loan Maturities	Trust Loan Rate	Balance Dec. 31, 2009	Paid in 2010	Balance Dec. 31 2010
2/1/2023	$20,495					
8/1/2023	195,800	$95,000	4.250			
2/1/2024	16,769					
8/1/2024	192,075	95,000	4.500			
2/1/2025	12,825					
8/1/2025	197,357	100,000	4.500			
2/1/2026	8,673					
8/1/2026	202,431	105,000	4.500			
2/1/2027	4,313					
8/1/20257	207,299	110,000	4.250			
				$5,254,066	$273,047	$4,981,019
Recapitulation of balance:						
Current Portion of Loans Payable				$273,047		$267,973
Long-term Portion of Loans Payable				4,981,019		4,713,046
				$5,254,066		$4,981,019

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

9. COMPENSATED ABSENCES AND OTHER LIABILITIES

The Authority's Executive Director accrues sick time in accordance with the terms of his employment contract. All other Authority employees accrue sick time effective immediately from date of hire, and are capped at a maximum of 120 days. Authority employees cannot accrue vacation time. Accrued sick time owed to employees other than the Executive Director amounted to $62,532 and $61,037 at December 31, 2010 and 2009, respectively, and are reflected in the financial statements as compensated absences payable. There is a dispute as to the amount owed to the Authority's Executive Director upon his retirement from the Authority. The Executive Director maintains that he is entitled to a maximum of 120 days of unused sick time upon retirement. The Authority's Board of Commissioners maintain that the Executive Director is not entitled to any sick time benefit upon retirement. The Authority's attorney at this time has concluded that there is no definitive answer as to the potential benefit, if any, available to the current Executive Director upon retirement. The Authority has accrued for this potential liability in the amount of $50,597 and $49,362 at December 31, 2010 and 2009, respectively. These amounts are recorded as an other liability in the financial statements.

10. PENSION PLAN

Description of System

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

Public Employees' Retirement System (PERS)

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

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

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

10. PENSION PLAN, (continued)

Description of System, (continued)

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

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

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

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

Significant Legislation

On March 17, 2009, the legislative of the State of New Jersey enacted Public Laws 2009, c.19(S-21) the "Pension Deferral Program". This law allows the Division of Pensions and Benefits to provide non-state government pension system employers the option of paying their full amount, or an amount that reflects a 50 percent reduction of the normal and accrued liability component of the Public Employees' Retirement System and/or the Police and Firemen's Retirement System obligation for payment due to the State Fiscal Year ending June 30, 2009. The amount deferred will be repaid starting in April 2012 over a 15-year period at 8¼ percent. The amount will fluctuate based on pension system investment earnings on the deferred amount. The local employer is allowed to payoff the obligation at any time prior to April 2012.

The Authority did not opt for this deferral.

10. PENSION PLAN, (continued)

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The PERS provides for employee contributions based on 5.0% of the employee's annual compensation, as defined through June 30, 2007. Under Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, the PERS and employee contribution rate will increase to 5.5 percent effective July 1, 2007. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums.

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

Year Ending	PERS
Dec. 31, 2010	$24,285
Dec. 31, 2009	21,488
Dec. 31, 2008	10,732

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.

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.

10. PENSION PLAN, (continued)

Defined Contribution Retirement Program, (continued)

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

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

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

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

11. OTHER POSTEMPLOYMENT BENEFITS

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

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.

11. OTHER POSTEMPLOYMENT BENEFITS, (continued)

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

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

At December 31, 2010 and 2009, the Authority had no retired participants eligible for the SHBP.

12. LEGAL SETTLEMENT AGREEMENT

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

On October 3, 2007, the Authority agreed to an additional settlement with EHCA of $400,000 for additional back charges that will be credited to their account over 4 years and any excess over current charges will be refunded. The liability for the legal settlement agreements with EHCA was $100,000 and $200,000 at December 31, 2010 and 2009, respectively.

13. ARBITRAGE REBATE PAYABLE

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

14. SERVICE AGREEMENT WITH THE TOWN OF KEARNY

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

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

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

15. AMOUNTS REQUIRED BY BOND RESOLUTIONS

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

Construction Reserve

The 1988 Bond Resolution states that a Construction Reserve Fund should be established and maintained for any moneys used to fund the costs of projects or expenses associated with the issuance of bonds. At December 31, 2010 and 2009, the Authority's Construction accounts had balances totaling $436,100 and $613,842, respectively.

15. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)

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, 2010, the Current Debt Service Reserve was as follows:

Cash and Cash Equivalents		$158,332
Accrued Interest on NJEIT Bonds	$41,579	
Current Debt Service Reserve Requirement	116,753	
		158,332
Excess (Deficit)		$ -0-

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, 2010, the balance of this account was as follows:

Cash, Investments and Interest Receivable	$1,215,478
Future Debt Service Reserve Requirement	1,215,478
Excess (Deficit)	$ -0-

15. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)

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, 2010, the balance of this account was as follows:

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

16. LEASE COMMITMENTS

Land and Building

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

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

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

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

Rent expense for 2010 and 2009 was never determined by the Town and, therefore, the Authority incurred no expense for either year.

16. LEASE COMMITMENTS, (continued)

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, 2010 and 2009 was $5,000 and $5,000, respectively.

17. RISK MANAGEMENT

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

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

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

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

17. RISK MANAGEMENT, (continued)

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.

18. INTER-ACCOUNT ADVANCES

At December 31, 2010, the following inter-account advances were outstanding between restricted and unrestricted accounts:

	Due From Other Accounts	Due to Other Accounts
Unrestricted Accounts:		
Revenue Account:		
Due to Bond Service Accounts		$68,484
Due from Bond Reserve Accounts	$153,877	
Due to Renewal and Replacement Account		249,000
Due to Rebate Account		10,815
Due from Developer's Trust Account	3,223	
Restricted Accounts:		
Bond Service Accounts:		
Due from Revenue Accounts	68,484	
Bond Reserve Accounts:		
Due to Revenue Accounts		153,877
Renewal and Replacement Account:		
Due from Revenue Accounts	249,000	
Rebate Account:		
Due from Revenue Accounts	10,815	
Developer's Trust Account:		
Due to Revenue Accounts		3,223
	$485,399	$485,399

19. COMMITMENTS AND CONTINGENCIES

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

20. SUBSEQUENT EVENTS

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

21. PRIOR PERIOD ADJUSTMENTS

The Authority's NJEIT receivable and payable have been adjusted to show the 2009 defeasance of the Series 2005 NJEIT Fund Loan. Additionally, bond issue costs and premiums for the Series 2005 and 2007 bonds have been reclassified as unamortized amounts, net of prior period amortization expenses.

Cash and Net Asset balances have been adjusted to show the restrictions required in the 2005 and 2007 Supplemental Bond Resolutions.

Supplementary Schedules

KEARNY MUNICIPAL UTILITIES AUTHORITY

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2010

		Restricted				Unrestricted	
	Invested in Capital Assets	Construction Reserve	Current Debt Service Reserve	Future Debt Service Reserve	Renewal and Replacement Reserve	Undesignated	Total
Operating Revenue:							
User Charges						4,128,127	4,128,127
Interest and Penalties						80,975	80,975
Other Income						24,814	24,814
Total Operating Revenue	-	-	-	-	-	4,233,916	4,233,916
Operating Expense:							
Administrative and General						334,475	334,475
Cost of Providing Services						1,318,572	1,318,572
Depreciation	681,845						681,845
Total Operating Expense	681,845	-	-	-	-	1,653,047	2,334,892
Operating Income	(681,845)	-	-	-	-	2,580,869	1,899,024
Non-Operating Revenue (Expense):							
Interest on Investments						56,053	56,053
Interest Expense						(646,292)	(646,292)
Amortization	(31,806)						(31,806)
	(31,806)	-	-	-	-	(590,239)	(622,045)
Net Income (Loss) Before Transfers	(713,651)	-	-	-	-	1,990,630	1,276,979
Capital Contributions:							
NJDEP Grant Contribution	329,112	-	-	-	-	-	329,112
Transfers:							
Other Transfers	2,228,818	(178,817)	(1,579)			(2,048,422)	-
Increase/(Decrease) in Net Assets	1,844,279	(178,817)	(1,579)	-	-	(57,792)	1,606,091
Net Assets - January 1, 2010	5,188,461	614,917	118,332	1,215,478	250,000	1,738,526	9,125,714
Net Assets - December 31, 2010	7,032,740	436,100	116,753	1,215,478	250,000	1,680,734	10,731,805

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, 2010

	General Operating Accounts	Construction Accounts	Bond Service Accounts	Bond Reserve Account
Cash, Cash Equivalents and Investments - January 1, 2010	743,066	613,842	119,776	1,369,309
Cash Receipts:				
Interest on Investments	39,552		6	86
User Charges / Interest and Penalties	4,001,219			
Miscellaneous	24,814			
NJEIT / NJDEP Receipts	244,397	2,536,736		
Developer Trust				
Transfers	2,198,210	3,254,128	1,278,642	
Total Cash Receipts	6,508,192	5,790,864	1,278,648	86
Cash and Investments Available	7,251,258	6,404,706	1,398,424	1,369,395
Cash Disbursements:				
Principal Payments	464,481		645,000	
Interest Payments	52,947		599,129	
Operations	1,743,588			
Capital and Other Expenses	52,862	3,847,606		
Developer Trust				
Transfers	4,535,770	2,121,000	64,447	40
Total Cash Disbursements	6,849,648	5,968,606	1,308,576	40
Cash, Cash Equivalents and Investments - December 31, 2010	401,610	436,100	89,848	1,369,355
Analysis of Balance:				
Cash and Cash Equivalents	401,610	436,100	89,848	565,100
Investments	-	-	-	804,255
	401,610	436,100	89,848	1,369,355
Unrestricted	401,610	-	(68,484)	178,255
Restricted	-	436,100	158,332	1,191,100
	401,610	436,100	89,848	1,369,355

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, 2010

	Renewal and Replacement Account	Rebate Account	Developer's Trust Account	Total
Cash, Cash Equivalents and Investments - January 1, 2010	1,000	12,723	9,479	2,869,195
Cash Receipts:				
Interest on Investments				39,644
User Charges / Interest and Penalties				4,001,219
Miscellaneous				24,814
NJEIT / NJDEP Receipts				2,781,133
Developer Trust			25,700	25,700
Transfers			3,000	6,733,980
Total Cash Receipts	-	-	28,700	13,606,490
Cash and Investments Available	1,000	12,723	38,179	16,475,685
Cash Disbursements:				
Bond Principal Payments				1,109,481
Interest Payments				652,076
Operations				1,743,588
Capital and Other Expenses				3,900,468
Developer Trust			21,870	21,870
Transfers		12,723		6,733,980
Total Cash Disbursements	-	12,723	21,870	14,161,463
Cash, Cash Equivalents and Investments - December 31, 2010	1,000	-	16,309	2,314,222
Analysis of Balance:				
Cash and Cash Equivalents	1,000	-	16,309	1,509,967
Investments	-	-	-	804,255
	1,000	-	16,309	2,314,222
Unrestricted	(249,000)	(10,815)	3,223	254,789
Restricted	250,000	10,815	13,086	2,059,433
	1,000	-	16,309	2,314,222

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2010

	FY 2010 Adopted Budget	FY 2010 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Revenues:					
Sewer User Charges	3,565,531	3,565,531	4,128,127	562,596	3,928,225
Interest and Penalties	-	-	80,975	80,975	42,093
Miscellaneous	3,822	3,822	24,814	20,992	-
Non-operating Investments	50,000	50,000	56,053	6,053	45,808
Total Operating Revenues	3,619,353	3,619,353	4,289,969	670,616	4,016,126
Expenses:					
Administrative Expenses:					
Salaries and Wages	158,700	158,700	154,992	3,708	155,625
Employee Benefits:					
PERS	10,810	10,810	13,685	(2,875)	8,559
Payroll Taxes	14,581	14,581	11,116	3,465	11,702
Medical Insurance	36,941	36,941	68,544	(31,603)	49,907
Legal	70,000	70,000	11,650	58,350	39,902
Accounting	30,000	30,000	27,000	3,000	30,000
Insurance	30,000	30,000	30,506	(506)	20,408
Postage and Miscellaneous	18,000	18,000	16,982	1,018	44,662
Sub-total Administrative	369,032	369,032	334,475	34,557	360,765
Cost of Providing Services:					
Salaries and Wages	110,500	110,500	102,266	8,234	103,022
Employee Benefits:					
PERS	7,206	7,206	10,600	(3,394)	12,929
Payroll Taxes	9,781	9,781	7,823	1,958	7,747
Medical Insurance	24,627	24,627	45,696	(21,069)	33,037
Solids Removal	18,000	18,000	3,368	14,632	3,027
Equipment Repairs and Supplies	35,000	35,000	46,778	(11,778)	29,712
Utilities	170,000	170,000	139,651	30,349	143,524
Fees and Permits	500	500	150	350	-
Consulting Fees	70,000	70,000	92,523	(22,523)	88,285
Harrison Avenue Flow Study	35,000	35,000	-	35,000	-
Lab Fees	4,000	4,000	1,717	2,283	1,890
Education Expenses	4,000	4,000	-	4,000	117
Passaic Valley Sewerage Commission	860,000	860,000	860,000	-	860,000
Property Lease	5,000	5,000	5,000	-	5,000
Trustee Fees	15,500	15,500	3,000	12,500	12,900
Sub-total Cost of Providing Services	1,369,114	1,369,114	1,318,572	50,542	1,301,190
Sub-total Operating	1,738,146	1,738,146	1,653,047	85,099	1,661,955
Other Costs Funded by Operating Revenues:					
Debt Service:					
Talbot Hall Settlement	100,000	100,000	100,000	-	100,000
Interest Expense	621,938	621,938	646,292	(24,354)	675,028
Bond Principal	1,159,269	1,159,269	1,109,481	49,788	1,083,529
Sub-total Other Costs	1,881,207	1,881,207	1,855,773	25,434	1,858,557
Total Costs Funded by Operating Revenues	3,619,353	3,619,353	3,508,820	110,533	3,520,512
Add: Excess / (Deficit)	-	-	781,149	781,149	495,614
	3,619,353	3,619,353	4,289,969	(670,616)	4,016,126

KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2010

	FY 2010 Adopted Budget	FY 2010 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Excess of Revenues Over Expenses:			781,149		495,614
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(681,845)		(681,845)
Amortization Expense			(31,806)		(25,969)
Talbot Hall Settlement			100,000		100,000
Bond Principal			1,109,481		1,083,529
Total Adjustments			495,830		475,715
Change in Net Assets			1,276,979		971,329

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2010

	FY 2010 Adopted Budget	FY 2010 Budget as Amended	Paid or Charged	Excess / (Deficit)
Financing Sources:				
Retained Earnings Appropriated	-	-	25,370	25,370
Debt Authorization	2,100,000	2,100,000	3,747,499	1,647,499
	2,100,000	2,100,000	3,772,869	1,672,869
Capital Outlays:				
Bergen Avenue Pump State Force Main	600,000	600,000	420,355	179,645
MSLA Landfill	700,000	700,000	1,167,051	(467,051)
Jacobus Avenue Storm Water Drainage	800,000	800,000	2,160,093	(1,360,093)
Unbudgeted Capital Expenditures	-	-	25,370	(25,370)
Total Capital Outlays	2,100,000	2,100,000	3,772,869	(1,672,869)
Total Costs Funded by Capital Revenue	2,100,000	2,100,000	3,772,869	(1,672,869)
Add: Excess	-	-	-	-
	2,100,000	2,100,000	3,772,869	(1,672,869)

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2010		Balance Jan. 1, 2010	2010 Issued	2010 Redeemed	Balance Dec. 31, 2010
			Date	Amount				
Revenue Bonds (Series 1991)	11/15/1991	7.30%	2011	95,000.00				
		7.30%	2012	105,000.00				
		7.30%	2013	110,000.00				
		7.30%	2014	120,000.00				
		7.30%	2015	125,000.00				
		7.30%	2016	135,000.00				
		7.30%	2017	145,000.00				
		7.30%	2018	155,000.00				
					1,080,000		90,000	990,000
Revenue Bonds (Series 1996)	12/1/1996	5.30%	2011	30,000.00				
		5.35%	2012	30,000.00				
		5.50%	2013	30,000.00				
		5.50%	2014	35,000.00				
		5.50%	2015	35,000.00				
		5.50%	2016	40,000.00				
		5.50%	2017	40,000.00				
		5.50%	2018	40,000.00				
		5.60%	2019	45,000.00				
		5.60%	2020	45,000.00				
		5.60%	2021	50,000.00				
		5.60%	2022	50,000.00				
		5.60%	2023	55,000.00				
		5.60%	2024	60,000.00				
		5.60%	2025	60,000.00				
		5.60%	2026	65,000.00				
					740,000		30,000	710,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2010 Date	Outstanding Maturities December 31, 2010 Amount	Balance Jan. 1, 2010	2010 Issued	2010 Redeemed	Balance Dec. 31, 2010
Revenue Bonds (Series 2003A)	2/26/2003	3.63%	2011	150,000.00				
		3.75%	2012	160,000.00				
		4.00%	2013	165,000.00				
		4.10%	2014	170,000.00				
		4.20%	2015	175,000.00				
		4.30%	2016	185,000.00				
		5.00%	2017	195,000.00				
		5.00%	2018	205,000.00				
		5.00%	2019	215,000.00				
		5.00%	2020	225,000.00				
		5.00%	2021	235,000.00				
		5.00%	2022	245,000.00				
		5.00%	2023	260,000.00				
		4.75%	2024	270,000.00				
		4.75%	2025	285,000.00				
		4.75%	2026	300,000.00				
		4.75%	2027	310,000.00				
		4.75%	2028	325,000.00				
		4.75%	2029	345,000.00				
		4.75%	2030	360,000.00				
		4.75%	2031	375,000.00				
		4.75%	2032	395,000.00				
					5,695,000		145,000.00	5,550,000
Revenue Refunding Bonds (Series 2003B)	2/26/2003	3.50%	2011	415,000.00				
		3.65%	2012	420,000.00				
		3.75%	2013	440,000.00				
		4.00%	2014	460,000.00				
		4.00%	2015	475,000.00				
		4.13%	2016	500,000.00				
		4.25%	2017	515,000.00				
		4.25%	2018	535,000.00				
					4,140,000		380,000.00	3,760,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2010 Date	Outstanding Maturities December 31, 2010 Amount	Balance Jan. 1, 2010	2010 Issued	2010 Redeemed	Balance Dec. 31, 2010
NJEIT Bonds (Series 2005A&B)	11/10/2005	n/a	2011	156,926.00				
Fund Portion		n/a	2012	152,807.00				
		n/a	2013	157,841.00				
		n/a	2014	153,265.00				
		n/a	2015	157,841.00				
		n/a	2016	153,814.00				
		n/a	2017	158,940.00				
		n/a	2018	154,546.00				
		n/a	2019	159,031.00				
		n/a	2020	153,974.00				
		n/a	2021	157,772.00				
		n/a	2022	152,166.00				
		n/a	2023	101,676.00				
					2,122,034		151,435	1,970,599

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2010		Balance Jan. 1, 2010	2010 Issued	2010 Redeemed	Balance Dec. 31, 2010
			Date	Amount				
NJEIT Bonds (Series 2005A&B)	11/10/2005	5.00%	2011	45,000.00				
Trust Portion		5.00%	2012	45,000.00				
		5.00%	2013	50,000.00				
		5.00%	2014	50,000.00				
		4.00%	2015	55,000.00				
		4.00%	2016	55,000.00				
		4.00%	2017	60,000.00				
		4.25%	2018	60,000.00				
		4.25%	2019	65,000.00				
		4.50%	2020	65,000.00				
		4.38%	2021	70,000.00				
		4.38%	2022	70,000.00				
		4.38%	2023	75,000.00				
		4.38%	2024	75,000.00				
		4.38%	2025	80,000.00				
					960,000		40,000	920,000

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2010 Date	Amount	Balance Jan. 1, 2010	2010 Issued	2010 Redeemed	Balance Dec. 31, 2010
NJEIT Bonds (Series 2007A&B)	11/8/2007	n/a	2011	212,973.00				
Fund Portion		n/a	2012	217,125.00				
		n/a	2013	213,361.00				
		n/a	2014	209,485.00				
		n/a	2015	214,726.00				
		n/a	2016	217,955.00				
		n/a	2017	211,496.00				
		n/a	2018	214,265.00				
		n/a	2019	216,571.00				
		n/a	2020	210,666.00				
		n/a	2021	213,988.00				
		n/a	2022	215,371.00				
		n/a	2023	216,295.00				
		n/a	2024	208,844.00				
		n/a	2025	210,182.00				
		n/a	2026	211,104.00				
		n/a	2027	211,612.00				
					3,844,066		218,047	3,626,019

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2010 Date	Amount	Balance Jan. 1, 2010	2010 Issued	2010 Redeemed	Balance Dec. 31, 2010
NJEIT Bonds (Series 2007A&B)	11/8/2007	5.00%	2011	55,000.00				
Trust Portion		3.40%	2012	60,000.00				
		3.50%	2013	60,000.00				
		3.60%	2014	60,000.00				
		5.00%	2015	65,000.00				
		5.00%	2016	70,000.00				
		5.00%	2017	70,000.00				
		5.00%	2018	75,000.00				
		4.00%	2019	80,000.00				
		4.00%	2020	80,000.00				
		5.00%	2021	85,000.00				
		5.00%	2022	90,000.00				
		4.25%	2023	95,000.00				
		4.50%	2024	95,000.00				
		4.50%	2025	100,000.00				
		4.50%	2026	105,000.00				
		4.25%	2027	110,000.00				
					1,410,000		55,000	1,355,000
Total Bonds Payable					19,991,100		1,109,482	18,881,618
Less: Unamortized Charge on Refunding					(114,804)		12,756	(102,048)
Bonds Payable (Net)					19,876,296			18,779,570
Current Portion					1,109,481			1,159,899
Noncurrent Portion					18,766,815			17,619,671
					19,876,296			18,779,570

SCHEDULE 6

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2010:

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

Single Audit Section

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the Kearny Municipal Utilities Authority (a component unit of the Town of Kearny) as of and for the year ended December 31, 2010, and have issued our report thereon dated November 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

FWCC

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (Finding 2010-1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (Findings 2010-2 through 2010-7).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kearny Municipal Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as *Finding 2010-8* through *Finding 2010-11*. We noted certain other matters that we reported to management of the Authority in the Comments and Recommendations section of this report (Findings 2010-8 through 2010-11).

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

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

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

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

November 11, 2011

FWCC

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

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AND STATE PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NJ OMB CIRCULAR 04-04 AS AMENDED

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

Compliance

We have audited the compliance of the Kearny Municipal Utilities Authority (a component unit of the Town of Kearny) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and New Jersey Office of Management and Budget State Aid/Grant Compliance Supplement* that are applicable to each of its major federal and state programs for the fiscal year ended December 31, 2010. The Kearny Municipal Utilities Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs are the responsibility of the Kearny Municipal Utilities Authority's management. Our responsibility is to express an opinion on the Kearny Municipal Utilities Authority's compliance based on our audit.

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

FWCC

In our opinion, the Kearny Municipal Utilities Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the fiscal year ended December 31, 2010.

Internal Control Over Compliance

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

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

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

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

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

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

November 11, 2011

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

DECEMBER 31, 2010

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity ID Number	Program Amount	Grant Period		Cash Received			Program Expenditures		
				From	To	Prior Years	Current Year	Total	Prior Years	Current Year	Total
U.S. Department of Environmental Protection:											
Pass Through New Jersey Department of Environmental Protection											
Capitalization Grants for Clean Water Revolving Funds:											
Wastewater Treatment Fund	66.458	4860-510-013-702105	$ 4,057,500	01/01/10	12/31/10	1,876,165	1,340,445	3,216,610	1,876,165	1,738,436	3,614,601
Total Federal Financial Assistance						1,876,165	1,340,445	3,216,610	1,876,165	1,738,436	3,614,601

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

DECEMBER 31, 2010

State Grantor/Pass-Through Grantor/Program	Pass Through Entity ID No.	State Account Number	Program Amount	Grant Period From	Grant Period To	Cash Received Prior Years	Cash Received Current Year	Cash Received Total	Program Expenditures Prior Years	Program Expenditures Current Year	Program Expenditures Total
New Jersey Department of Environmental Protection:											
NJ Environmental Infrastructure Trust Loan	n/a	100-042-4800-008	$ 1,352,500	01/01/10	12/31/10	625,389	446,815	1,072,204	625,389	446,815	1,072,204
Harzardous Substance Remediation - 1D Landfill	n/a	100-042-4815-435	$ 2,114,000	01/01/10	12/31/10	302,952	905,697	1,208,649	327,972	881,096	1,209,068
Solid Waste Administration - Claim Payment	n/a	100-042-4860-002	$ 26,819	01/01/10	12/31/10	-	26,819	26,819	-	26,819	26,819
Total State Financial Assistance						928,341	1,379,331	2,307,672	953,361	1,354,730	2,308,091

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

NOTES TO THE SCHEDULES OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2010

NOTE 1. GENERAL

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

NOTE 2. BASIS OF ACCOUNTING

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

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

	Grants Receivable Dec.31, 2009	Grants Awarded	Funds Received	Project Credit	Grants Receivable Dec.31, 2010
Federal Programs:					
U.S. Department of Environmental Protection:					
Capitalization Grants for Clean Water Revolving Funds	2,181,335		1,340,445		840,890
State Programs:					
N.J. Department of Environmental Protection:					
NJ Environmental Infrastructure Trust Loan (2005)	118,865			61,357	57,508
NJ Environmental Infrastructure Trust Loan (2007)	727,111		446,815		280,296
Hazardous Substance Remediation	603,823	302,293	905,697		419
Solid Waste Administration		26,819	26,819		
	3,631,134	329,112	2,719,776	61,357	1,179,113

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		unqualified
Internal control over financial reporting:		
1. Reportable condition(s) identified that are not considered to be material weaknesses?	X yes	___ none reported
2. Material weakness(es) identified?	X yes	___ no
Noncompliance material to basic financial statements noted?	___ yes	X no

Federal Awards

Internal Control over major programs:		
1. Significant deficiencies identified that are not considered to be material weaknesses?	___ yes	X none reported
2. Material weakness(es) identified?	___ yes	X no
Type of auditor's report issued on compliance for major programs:		unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	___ yes	X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.458	Clean Water State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs:		$300,000
Auditee qualified as low-risk auditee?	___ yes	X no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010
(continued)

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

State Awards

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

Auditee qualified as low-risk auditee? ______ yes ___X___ no

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

Internal control over financial reporting:

1. Reportable condition(s) identified that are not considered to be material weaknesses? ______ yes ___X___ none reported
2. Material weakness(es) identified? ______ yes ___X___ no

Any audit findings disclosed that are required to be reported in accordance with NJ OMB Circular Letter 04-04? ______ yes ___X___ no

Identification of major programs:

GMIS Number(s)	Name of State Program
N/A	NJ Environmental Infrastructure Trust Fund
N/A	Hazardous Substance Remediation

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010
(continued)

Schedule II – Financial Statement Findings

FINDING: 2010-1

STATEMENT OF CONDITION

Restatement of prior year financial statements

CRITERIA

Statements of Auditing Standards No. 115 suggests that such restatements are indicators of a material weakness in an entity's internal controls.

EFFECT

Material corrections were required for several prior year balances.

CAUSE

The Authority did not recognize a defeasance on its 2005 NJEIT Loan. Unamortized bond issue costs and premiums for the 2005 and 2007 bond issues were not properly recorded on the financial statements. Additionally, cash and reserve balances did not reflect the requirements of the 2005 and 2007 Supplemental Bond Resolutions.

RECOMMENDATION

Control deficiencies should be removed and corrected by management.

MANAGEMENT RESPONSE

Management believes these deficiencies well be resolved during the new fiscal period.

FINDING: 2010-2

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.

FINDING: 2010-3*

STATEMENT OF CONDITION

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

CRITERIA

Total accounts receivable balances must be reconciled to an accounts receivable control on a regular basis.

EFFECT

Inaccuracies in accounts receivable may not be detected and corrected on a timely basis.

CAUSE

The general ledger system containing accounts receivable balances in a separate system from the billing system that serves as the accounts receivable control. The two systems are not periodically reconciled to one another.

RECOMMENDATION

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

MANAGEMENT RESPONSE

The accounts receivable control and general ledger system will be integrated so that billings and receipts will post automatically to both systems.

FINDING: 2010-4

STATEMENT OF CONDITION

An allowance for doubtful accounts receivable has not been established for two uncollectable customer account balances.

CRITERIA

Generally accepted accounting principles suggests that management establish an allowance for any receivable balance that is potentially uncollectable.

EFFECT

Accounts receivable is possibly overstated.

CAUSE

Unknown.

RECOMMENDATION

The Authority should establish an allowance for doubtful accounts for all balances estimated to be uncollectable.

MANAGEMENT RESPONSE

The Authority plans to establish an allowance for doubtful accounts during the new fiscal period. All cancellations of customer balances will be made by an adopted resolution.

FINDING: 2010-5

STATEMENT OF CONDITION

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

CRITERIA

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

EFFECT

Absent or inadequate controls over the safeguarding of assets.

CAUSE

Unknown.

RECOMMENDATION

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

MANAGEMENT RESPONSE

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

FINDING: 2010-6

STATEMENT OF CONDITION

The Authority has several old accounts payable balances on their system that have not been reviewed for accuracy by management.

CRITERIA

Liability accounts should represent obligations due from the Authority at the closing date of a financial statement.

EFFECT

Liabilities are possibly overstated.

CAUSE

Unknown.

RECOMMENDATION

The Authority should review all old accounts payable balances.

MANAGEMENT RESPONSE

Management recognizes this problem and will begin to investigate these balances in the new fiscal period.

FINDING: 2010-7*

STATEMENT OF CONDITION

Arbitrage rebate liability is not being calculated annually.

CRITERIA

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

EFFECT

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

CAUSE

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010
(continued)

FINDING: 2010-8*

STATEMENT OF CONDITION

Minutes for the board meetings held in June 2010 were not completed.

CRITERIA

Authorities are required to prepare and keep on file minutes of the board meetings as per the Open Public Meetings Act (N.J.S.A. 10:4-6 et seq.)

EFFECT

The Authority is not in compliance with the Open Public Meetings Act (N.J.A.C. 10:4-6 et seq.). Furthermore, significant matters relating to the Authority may not be communicated or made available to others within the organization, the public, or the auditors, and could prevent any necessary addressing of such matters on a timely basis.

CAUSE

Conversations were not properly recorded on those occasions when the executive director was responsible for manually recording board meeting conversations for the minutes, and became involved those conversations.

RECOMMENDATION

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

MANAGEMENT RESPONSE

The Authority will research more adequate methods for recording board meeting conversations for inclusion in its' respective minutes.

FINDING: 2010-9*

STATEMENT OF CONDITION

The Authority does not always deposit moneys received within 48 hours.

CRITERIA

New Jersey Administrative Code 5:31-3.1 requires that all moneys received by the Authority from any source shall be deposited within 48 hours to the credit of the Authority in its' legal depository.

EFFECT

The Authority is not in compliance with New Jersey Administrative Code 5:31-3.1

CAUSE

Receipts are not always deposited in the Authority's depository in a timely manner.

RECOMMENDATION

All moneys should be deposited within 48 hours of receipt.

MANAGEMENT RESPONSE

The Authority will deposit all moneys collected with 48 hours of receipt.

FINDING: 2010-10*

STATEMENT OF CONDITION

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

CRITERIA

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

EFFECT

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

CAUSE

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

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

FINDING: 2010-11

STATEMENT OF CONDITION

Capital expenditures were made without a budgetary capital line item.

CRITERIA

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

EFFECT

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

CAUSE

Unknown.

RECOMMENDATION

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

MANAGEMENT RESPONSE

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

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

No matters were reported.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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

General Comments

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

GENERAL COMMENTS

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

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

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

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

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

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

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

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

GENERAL COMMENTS, CONTINUED

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

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

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

Respectfully submitted,

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

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