

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF
THE TOWN OF KEARNY)
REPORT OF AUDIT
FOR THE YEAR ENDED
DECEMBER 31, 2015 AND 2014

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Kearny Municipal Utilities Authority as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kearny Municipal Utilities Authority as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Principles

As discussed in Note 2 to the financial statements, during the fiscal year ended December 31, 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Prior Period Restatement

Because of the implementation of GASB Statements No. 68 and No. 71, beginning net position on the statement of revenues, expenses and changes in net position has been restated for fiscal year December 31, 2015, as discussed in Note 2 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and schedule of the Authority's proportionate share of the net pension liability and schedule of Authority contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Financial Assistance as required by Uniform Guidance is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplemental schedules as listed in the table of contents and the Schedule of Expenditures of Federal Financial Assistance as required by Uniform Guidance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information, as listed in the table of contents, and the Schedule of Expenditures of Federal Financial Assistance and the Schedule of Expenditures of State Financial Assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Honorable Chairperson and Members of the
Kearny Municipal Utilities Authority
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016 on our consideration of the Kearny Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kearny Municipal Utilities Authority's internal control over financial reporting and compliance.

Very truly yours,

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

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

March 28, 2016



Required Supplementary Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Kearny Municipal Utilities Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2015. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$29,224,727 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$27,367,301, as restated.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$26,179,518 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt and unexpended funds related to the purchase or construction of capital assets.
 - (2) Restricted of \$1,967,038 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted of \$1,078,171 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,801,082 to \$15,176,422 during the fiscal year.

Overview of the Financial Statements

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

Required Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the Authority

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position

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

The Authority's net position at fiscal year-end was \$29,224,727. This is a \$1,857,426 increase over last year's net position of \$27,367,301, as restated. A summary of the Authority's statements of net position is presented in the following table:

Condensed Statement of Net Position

	<u>FY 2015</u>	<u>Restated FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	3,820,544	5,639,920	(1,819,376)	(32.26)%
Capital Assets	<u>40,118,983</u>	<u>38,144,292</u>	<u>1,974,691</u>	5.18%
Total Assets	<u>43,939,527</u>	<u>43,784,212</u>	<u>155,315</u>	0.35%
Deferred Outflows of Resources	<u>626,242</u>	<u>678,621</u>	<u>(52,379)</u>	(7.72)%
Current Liabilities	1,613,007	1,614,228	(1,221)	(0.08)%
Non-current Liabilities	<u>13,563,415</u>	<u>15,363,276</u>	<u>(1,799,861)</u>	(11.72)%
Total Liabilities	<u>15,176,422</u>	<u>16,977,504</u>	<u>(1,801,082)</u>	(10.61)%
Deferred Inflows of Resources	<u>164,620</u>	<u>118,028</u>	<u>46,592</u>	39.48%
Net Investment in Capital Assets	26,179,518	23,421,108	2,758,410	11.78%
Restricted	1,967,038	2,406,221	(439,183)	(18.25)%
Unrestricted	<u>1,078,171</u>	<u>1,539,972</u>	<u>(461,801)</u>	(29.99)%
Total Net Position	<u><u>29,224,727</u></u>	<u><u>27,367,301</u></u>	<u><u>1,857,426</u></u>	6.79%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

A summary of the Authority's prior year statement of net assets is presented with comparative restated FY 2013 balances in the following table. The FY 2013 balances have been restated to reflect the financial reporting requirements of GASB No. 63 and the change in the classification of bond issuance costs required by GASB No. 65. The FY 2014 balances have not been restated to reflect the financial reporting requirements of GASB No. 68.

Condensed Statement of Net Position

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

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

	<u>FY 2015</u>	<u>Restated FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,917,014	4,429,108	487,906	11.02%
Non-operating Revenues	<u>53,532</u>	<u>29,045</u>	<u>24,487</u>	84.31%
Total Revenues	<u>4,970,546</u>	<u>4,458,153</u>	<u>512,393</u>	11.49%
Depreciation	628,120	632,937	(4,817)	(0.76)%
Other Operating Expenses	2,040,753	2,235,401	(194,648)	(8.71)%
Other Non-operating Expense	<u>444,247</u>	<u>489,255</u>	<u>(45,008)</u>	(9.20)%
Total Expenses	<u>3,113,120</u>	<u>3,357,593</u>	<u>(244,473)</u>	(7.28)%
Change in Net Position	1,857,426	1,100,560	756,866	68.77%
Beginning Net Position	27,367,301	26,616,859	750,442	2.82%
Prior Period Adjustment	_____	<u>(350,118)</u>	<u>350,118</u>	(100.00)%
Ending Net Position	<u>29,224,727</u>	<u>27,367,301</u>	<u>1,857,426</u>	6.79%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Position (Continued)

A summary of the Authority's prior year statement of revenues, expenses and change in net assets is presented with comparative restated FY 2013 figures in the following table. This comparison has been restated to reflect the financial reporting requirements of GASB No. 63 and the change in classification of bond issuance costs required by GASB No. 65. The FY 2014 figures have not been restated to reflect the financial reporting requirements of GASB No. 68.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Budgetary Highlights

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

The following tables provides a FY 2015 and FY 2014 budget comparison:

Budget vs. Actual FY 2015			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,997,707	4,917,014	919,307
Non-Operating	<u> </u>	<u>53,532</u>	<u>53,532</u>
	<u>3,997,707</u>	<u>4,970,546</u>	<u>972,839</u>
Expenses:			
Operating	2,122,000	1,947,523	(174,477)
Non-Operating	<u>1,875,707</u>	<u>1,860,697</u>	<u>(15,010)</u>
	<u>3,997,707</u>	<u>3,808,220</u>	<u>(189,487)</u>
Income before Depreciation	<u> 0</u>	<u>1,162,326</u>	<u>1,162,326</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Budgetary Highlights (Continued)

	Budget vs. Actual FY 2014		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	3,850,891	4,429,108	578,217
Non-Operating	<u> </u>	<u>29,045</u>	<u>29,045</u>
	<u>3,850,891</u>	<u>4,458,153</u>	<u>607,262</u>
Expenses:			
Operating	1,979,206	2,124,014	144,808
Non-Operating	<u>1,871,685</u>	<u>1,860,412</u>	<u>(11,273)</u>
	<u>3,850,891</u>	<u>3,984,426</u>	<u>133,535</u>
Income before Depreciation	<u> 0</u>	<u>473,727</u>	<u>473,727</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's net property, plant and equipment at fiscal year end was \$40,118,983. This is a \$1,974,691 increase over last year's net property, plant and equipment of \$38,144,292. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>
Equipment	7,516,461	7,144,518	371,943
Major Structures and Improvements	25,431,141	25,431,141	0
Structural Equipment and Improvements	<u>762,636</u>	<u>445,029</u>	<u>317,607</u>
	33,710,238	33,020,688	689,550
Less Accumulated Depreciation	(11,261,399)	(10,633,279)	(628,120)
Work In-Progress	<u>17,670,144</u>	<u>15,756,883</u>	<u>1,913,261</u>
	<u>40,118,983</u>	<u>38,144,292</u>	<u>1,974,691</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets (Continued)

The Authority's on going capital plan is reviewed each year by the Authority's consulting engineer. There are no notable future capital improvements planned in the 2015 fiscal year.

Debt Administration

At December 31, 2015, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds and revenue refunding bonds in the amount of \$14,269,278. The debt service schedule goes out to 2032. Full details of the specific bond issues outstanding are found in Note 6 to the financial statements and the supplementary schedules.

Economic Factors, Future Years' Budgets and Rates

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

Contacting the Authority

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

Financial Section

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

EXHIBIT A

Page 1 of 3

	2015	Restated 2014
<u>ASSETS:</u>		
Current Assets:		
Unrestricted:		
Cash and Cash equivalents	\$ 961,206	\$ 1,935,917
User Charges Receivable	795,638	214,180
Total Unrestricted	1,756,844	2,150,097
Restricted:		
Construction Fund:		
Cash and Cash equivalents	352,712	790,921
Due From NJEIT	41,652	1,019,340
	394,364	1,810,261
Bond Service Fund:		
Cash and Cash equivalents	202,488	205,948
Bond Reserve Fund:		
Cash and Cash equivalents	373,924	372,922
Investments	803,284	803,284
Accrued Interest Receivable	23,433	24,435
	1,200,641	1,200,641
Renewal and Replacement Fund:		
Cash and Cash equivalents	250,000	250,000
Rebate Fund:		
Cash and Cash equivalents	10,815	10,815
Developer's Escrow:		
Cash and Cash equivalents	5,392	12,158
Total Restricted Assets	2,063,700	3,489,823
Capital Assets:		
Structures, Improvements and Equipment	33,710,238	33,020,688
Less: Accumulated Depreciation	(11,261,399)	(10,633,279)
Construction In Progress	17,670,144	15,756,883
Total Capital Assets	40,118,983	38,144,292
TOTAL ASSETS	\$ 43,939,527	\$ 43,784,212

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

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

EXHIBIT A

Page 2 of 3

	2015	Restated 2014
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Debits:		
Deferred Pension-Related Costs	266,068	286,614
Bond Discount - Net	66,262	80,678
Costs in Excess of Advanced Refunding - Net	293,912	311,329
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 626,242	\$ 678,621
<u>LIABILITIES</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable - Operations	\$ 27,000	\$ 48,615
Accounts Payable - Pension Related	27,000	26,855
Accrued Interest Payable	37,777	42,479
Total Payable from Unrestricted Assets	91,777	117,949
Payable from Restricted Assets:		
Accrued Interest Payable	38,803	41,289
Developer's Escrow Payable	5,392	12,158
Bonds Payable - Current Portion	1,477,035	1,442,832
Total Payable from Restricted Assets	1,521,230	1,496,279
Total Current Liabilities	1,613,007	1,614,228
Non-Current Liabilities:		
Net Pension Liability	701,196	680,698
Bonds Payable - Long-Term Portion	12,792,243	14,614,237
Arbitrage Rebate Payable	10,815	10,815
Compensated Absences Payable	59,161	57,526
Total Non-Current Liabilities	13,563,415	15,363,276
TOTAL LIABILITIES	15,176,422	16,977,504

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

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

EXHIBIT A
Page 3 of 3

	2015	Restated 2014
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Credits:		
Deferred Pension-Related Inflows	92,607	40,566
Unamortized Bond Premiums	72,013	77,462
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 164,620	\$ 118,028
 <u>NET POSITION</u>		
Net Investment in Capital Assets	26,179,518	23,421,108
Restricted:		
Construction	352,712	790,921
Current Debt Service	163,685	164,659
Future Debt Service	1,200,641	1,200,641
Renewal and Replacement	250,000	250,000
Unrestricted:		
Undesignated	1,078,171	1,539,972
TOTAL NET POSITION	\$ 29,224,727	\$ 27,367,301

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

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

EXHIBIT B

	<u>2015</u>	<u>Restated 2014</u>
Operating Revenue:		
User Charges	\$ 4,903,486	\$ 4,425,471
Interest and Penalties	9,958	259
Other Income	3,570	3,378
	<hr/>	<hr/>
Total Operating Revenue	4,917,014	4,429,108
	<hr/>	<hr/>
Operating Expenses:		
Administrative and General	428,448	438,725
Cost of Providing Services	1,612,305	1,796,676
Depreciation Expense	628,120	632,937
	<hr/>	<hr/>
Total Operating Expenses	2,668,873	2,868,338
	<hr/>	<hr/>
Operating Income	2,248,141	1,560,770
	<hr/>	<hr/>
Non-Operating Revenue (Expenses):		
Interest on Investments	53,532	29,045
Interest Expense	(417,864)	(462,397)
Amortization Expense	(26,383)	(26,858)
	<hr/>	<hr/>
Non-Operating Income (Loss)	(390,715)	(460,210)
	<hr/>	<hr/>
Change In Net Position	1,857,426	1,100,560
	<hr/>	<hr/>
Net Position - January 1	27,367,301	26,616,859
	<hr/>	<hr/>
Prior Period Adjustment:		
Cumulative Effect of Change of Accounting Principle (Implementation of GASB No. 68)	-	(350,118)
	<hr/>	<hr/>
Net Position - January 1, as restated	<hr/>	26,266,741
	<hr/>	<hr/>
Net Position - December 31	\$ 29,224,727	\$ 27,367,301
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

	2015	Restated 2014
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 4,335,556	\$ 5,030,005
Cash Paid to Vendors and Employees	(1,967,503)	(2,100,079)
	2,368,053	2,929,926
Net Cash Provided by Operating Activities		
Cash Flow from Investing Activities:		
Capital Expenditures	(2,602,811)	(1,090,807)
Interest Earned on Investments	54,534	29,111
(Increase) Decrease in NJEIT Receivable	977,688	
	(1,570,589)	(1,061,696)
Net Cash Provided by (used in) Investing Activities		
Cash Flow from Financing Activities:		
Principal Payment on Bonds and Notes	(1,787,791)	(1,398,015)
Interest Paid on Bonds and Notes	(425,052)	(469,057)
Increase (Decrease) in Deferred Costs	(26,383)	(26,858)
Increase (Decrease) in Developers Escrow	(6,766)	(1,029)
Increase (Decrease) in Unamortized Items	26,384	26,858
	(2,219,608)	(1,868,101)
Net Cash Used in Financing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	(1,422,144)	129
Cash and Cash Equivalents at Beginning of Year	3,578,681	3,578,552
Cash and Cash Equivalents at End of Year	\$ 2,156,537	\$ 3,578,681
Analysis of Balance:		
Unrestricted	961,206	1,935,917
Restricted	1,195,331	1,642,764
	\$ 2,156,537	\$ 3,578,681

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

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

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

	2015	2014
CHANGE IN OPERATING NET POSITION	\$ 2,248,141	\$ 1,560,770
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	628,120	632,937
Decrease (Increase) in Accounts Receivable	(581,458)	600,897
Pension Obligation	93,230	
Increase (Decrease) in Accounts Payable	(21,615)	21,615
Increase (Decrease) in Compensated Absences Payable	1,635	2,320
Total Adjustments	119,912	1,257,769
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,368,053	\$ 2,818,539

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

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

1. GENERAL

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

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

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

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

General Bond Resolution

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The Authority’s financial transactions are recorded in accounts that are created by various resolutions adopted by the Authority to meet bond covenant requirements (more fully defined in Note 13).

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

A. Basis of Presentation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

A. Basis of Presentation, (continued)

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

B. Basis of Accounting

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

C. Grant and Contributions

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

D. Cash Equivalents

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

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

E. Investments

Investments are stated at fair value.

F. Capital Assets

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

F. Capital Assets, (continued)

Capital assets activity for the years ended December 31, 2015 and 2014 were as follows:

	<u>2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>2015</u>
Major Structures and Improvements	\$7,144,518	\$371,943	\$	\$7,516,461
Structural Equipment and Improvements	25,431,141			25,431,141
Furniture and Equipment	<u>445,029</u>	<u>317,607</u>	<u> </u>	<u>762,636</u>
	33,020,688	689,550		33,710,238
Less Accumulated Depreciation	(10,633,279)		(628,120)	(11,261,399)
Add Construction in Progress	<u>15,756,883</u>	<u>1,913,261</u>	<u> </u>	<u>17,670,144</u>
	<u>\$38,144,292</u>	<u>\$2,602,811</u>	<u>(\$628,120)</u>	<u>\$40,118,983</u>

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

G. Long-Term Debt

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. Compensated Absences

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

I. Allowance for Doubtful Account

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

J. Operating Fund Budget

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

K. Use of Estimates

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

L. Reclassifications

After a review of the cash restriction requirements of the general bond resolution, certain reclassifications have been made to restrictions of 2013 amounts to conform with the 2014 financial presentation.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

M. Net Position

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

N. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement applies to OPEB plans and basically parallels GASB Statement 67 and replaces GASB Statement 43 and is effective for fiscal years beginning after June 15, 2016. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for fiscal years beginning after June 15, 2017. Although these figures have not been determined, the Authority anticipates this may have an impact on the financial statements.

The Government Accounting Standards Board issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

N. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 77, *Tax Abatement Disclosures*, which improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The Authority believes this Statement will have no impact on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition for pension liabilities, expense and expenditures; note disclosures of descriptive information about the plan, benefit terms, and contributions items; and required supplementary information presenting required contribution amounts for the past 10 fiscal years. The Authority is currently reviewing what effect this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participation*, which permits qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes. The Authority is currently reviewing what effect this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which provides clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The Authority does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Authority does not believe this Statement will have any effect on future financial statements.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

2. SIGNIFICANT ACCOUNTING POLICIES, (continued)

N. Recent Accounting Pronouncements, (continued)

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Authority does not believe this Statement will have any effect on future financial statements.

O. Recently Issued and Adopted Accounting Pronouncements

For the fiscal year ended December 31, 2015, the Authority adopted GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting such Statements, the Authority was required to measure and recognize liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to their defined benefit pensions. The cumulative effect of adopting GASB Statements No. 68 and No. 71 totaled \$428,932, and was recognized as a restatement of the Authority's December 31, 2014 net position on the statements of net position (see Note 19).

3. FINANCIAL REPORTING ENTITY

Component Unit

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain*

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

3. FINANCIAL REPORTING ENTITY, (continued)

Component Unit, (continued)

Organizations are Component Units, Determining Whether Certain Organizations are Component Units, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority has no component units and is a component unit of the Town of Kearny.

4. CASH AND CASH EQUIVALENTS

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits. The Authority does not have a policy for custodial credit risk; however, the State of New Jersey imposes certain collateral requirements for governmental units. These requirements are disclosed in detail in Note 2D.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

4. CASH AND CASH EQUIVALENTS, (continued)

Deposits

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

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. Operating cash, in the form of various checking, and savings accounts, are held in the Authority's name by commercial banking institutions. At December 31, 2015 and 2014, the carrying amount of the Authority's deposits were \$2,156,537 and \$3,578,681, respectively. The bank balances were \$2,971,462 and \$3,635,437, respectively. Of the bank balance, \$500,000 was insured with Federal Deposit Insurance and \$2,471,462 was covered by GUDPA.

As of December 31, 2015, cash and cash equivalents of the Authority consisted of the following:

	<u>Cash and Cash Equivalents</u>	<u>Total</u>
Checking Accounts	\$1,269,498	\$1,269,498
Short Term Money Market Accounts	<u>887,039</u>	<u>887,039</u>
	<u>\$2,156,537</u>	<u>\$2,156,537</u>
	<u>Analysis</u>	
Restricted Accounts	\$1,195,331	
Unrestricted Accounts	<u>961,206</u>	
	<u>\$2,156,537</u>	

5. INVESTMENTS

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

At December 31, 2015, the Authority had an investment of \$803,284 federal notes that mature on May 15, 2016.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

5. INVESTMENTS, (continued)

Interest Rate Risk

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

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

Credit Risk

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

Concentration of Credit Risk

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

6. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

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

	Balance <u>12/31/2014</u>	2015 <u>Received</u>	2015 <u>Deobligated</u>	Balance <u>12/31/2015</u>
2012 Project:				
Trust Portion	\$254,834	\$158,182	\$55,000	\$41,652
Fund Portion	<u>764,506</u>	<u>474,548</u>	<u>289,958</u>	<u>0</u>
	<u>\$1,019,340</u>	<u>\$632,730</u>	<u>\$344,958</u>	<u>\$41,652</u>

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS

The Authority has issued and has outstanding the following bonds at December 31, 2015 and 2014:

	<u>2014</u>	<u>2015</u> <u>Defeased</u>	<u>2015</u> <u>Redeemed</u>	<u>2015</u>
Series 1991 Sewer Revenue Bonds	\$560,000	\$	\$125,000	\$435,000
Series 1996 Sewer Revenue Bonds	585,000		35,000	550,000
Series 2003B Revenue Bonds	2,025,000		475,000	1,550,000
Series 2005A NJ Environmental Infrastructure Trust Bonds	2,079,760		212,841	1,866,919
Series 2007A NJ Environmental Infrastructure Trust Bonds	3,802,798		279,726	3,523,072
Series 2012ABC NJ Environmental Infrastructure Trust Bonds	1,699,511	344,958	90,266	1,264,287
Series 2012 Revenue Refunding Bonds	<u>5,305,000</u>		<u>225,000</u>	<u>5,080,000</u>
Net Carrying Amount of Debt	<u>\$16,057,069</u>	<u>\$344,958</u>	<u>\$1,442,833</u>	<u>\$14,269,278</u>
Current Portion	1,442,832			1,477,035
Long-Term Portion	<u>16,614,237</u>			<u>12,792,243</u>
	<u>\$18,057,069</u>			<u>\$14,269,278</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$1,477,035	\$372,779	\$1,849,814
2017	1,515,700	327,499	1,843,199
2018	1,559,076	288,410	1,847,486
2019	915,868	248,869	1,164,737
2020	909,905	233,157	1,143,062
2021-2025	4,497,622	905,630	5,403,252
2026-2030	2,604,072	383,674	2,987,746
2031-2032	<u>790,000</u>	<u>43,889</u>	<u>833,889</u>
	<u>\$14,269,278</u>	<u>\$2,803,907</u>	<u>\$17,073,185</u>

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS, (continued)

A. The Sewer Revenue Bonds, Series 1991

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 1991 - Term Bonds	11/15/91	\$1,995,000	7.30%	11/15/19	\$1,080,000
Series 1991 - Term Bonds - Sinking Fund Obligations				11/15/16	135,000
				11/15/17	145,000
				11/15/18	<u>155,000</u>
					<u>\$435,000</u>

B. The Sewer Revenue Bonds, Series 1996

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS, (continued)

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 1996 - Term Bonds		\$650,000	5.50%	11/15/18	\$220,000
			5.50	11/15/26	430,000
Series 1996 - Term Bonds - Sinking Fund Obligations				11/15/16	40,000
				11/15/17	40,000
				11/15/18	40,000
				11/15/19	45,000
				11/15/20	45,000
				11/15/21	50,000
				11/15/22	50,000
				11/15/23	55,000
				11/15/24	60,000
				11/15/25	60,000
				11/15/26	65,000
					<u>\$550,000</u>

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS, (continued)

C. Revenue Bonds, Series 2003B

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 2003B - Serial Bonds					
Term Bonds	2/26/03	\$6,100,000	4.125%	11/15/16	\$500,000
			4.250	11/15/17	515,000
			4.250	11/15/18	<u>535,000</u>
					<u>\$1,550,000</u>

D. New Jersey Environmental Infrastructure Trust Loans - 2005A

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS, (continued)

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

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

<u>Date</u>	<u>Fund Loan Maturities</u>	<u>Trust Loan Maturities</u>	<u>Rate</u>
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		<u>80,000</u>	4.375
	<u>\$1,191,921</u>	<u>\$675,000</u>	

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS, (continued)

E. New Jersey Environmental Infrastructure Trust Loans - 2007A

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

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

<u>Date</u>	<u>Fund Loan Maturities</u>	<u>Trust Loan Maturities</u>	<u>Rate</u>
2/1/2016	\$44,391		
8/1/2016	173,564	\$70,000	5.000%
2/1/2017	41,162		
8/1/2017	170,334	70,000	5.000
2/1/2018	37,933		
8/1/2018	176,332	75,000	5.000
2/1/2019	34,473		
8/1/2019	182,098	80,000	4.000
2/1/2020	31,520		
8/1/2020	179,146	80,000	4.000
2/1/2021	28,568		
8/1/2021	185,420	85,000	5.000
2/1/2022	24,646		
8/1/2022	190,725	90,000	5.000
2/1/2023	20,495		
8/1/2023	195,800	95,000	4.250
2/1/2024	16,769		
8/1/2024	192,075	95,000	4.500
2/1/2025	12,825		
8/1/2025	197,357	100,000	4.500
2/1/2026	8,673		
8/1/2026	202,431	105,000	4.500
2/1/2027	4,313		
8/1/2027	<u>117,021</u>	<u>110,000</u>	4.250
	<u>\$2,468,071</u>	<u>\$1,055,000</u>	

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS, (continued)

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

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

F. New Jersey Environmental Infrastructure Trust Loans - 2012ABC

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

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

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS, (continued)

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

<u>Date</u>	<u>Fund Loan</u>	<u>Trust Loan</u>	
	<u>Maturities</u>	<u>Maturities</u>	<u>Rate</u>
2/1/2024	\$25,088		
8/1/2024	50,177	\$25,000	5.000%
2/1/2025	25,089		
8/1/2025	50,177	25,000	5.000
2/1/2026	25,088		
8/1/2026	50,177	30,000	5.000
2/1/2027	25,088		
8/1/2027	50,177	30,000	3.000
2/1/2028	11,104		
8/1/2028		30,000	3.000
2/1/2029			
8/1/2029		30,000	3.125
2/1/2030			
8/1/2030		35,000	3.200
2/1/2031			
8/1/2031		35,000	3.250
	<u>\$914,288</u>	<u>\$350,000</u>	

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

G. Revenue Refunding Bonds, Series 2012

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

7. LONG-TERM OBLIGATIONS, (continued)

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

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

<u>Description</u>	<u>Original</u>		<u>Maturities and Obligations</u>		
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>
Series 2012 -					
Serial Bonds	7/17/2012	\$5,625,000	3.000%	11/15/16	\$230,000
			3.000	11/15/17	240,000
			2.000	11/15/18	250,000
			3.000	11/15/19	255,000
			3.000	11/15/20	260,000
			3.000	11/15/21	265,000
			3.000	11/15/22	275,000
			3.000	11/15/23	285,000
			3.375	11/15/24	290,000
			3.375	11/15/25	300,000
			3.375	11/15/26	315,000
			3.375	11/15/27	320,000
			3.750	11/15/28	330,000
			3.750	11/15/29	350,000
			3.750	11/15/30	360,000
			3.750	11/15/31	370,000
			3.750	11/15/32	385,000
					<u>\$5,080,000</u>

8. COMPENSATED ABSENCES AND OTHER LIABILITIES

All Authority employees accrue sick time effective immediately from date of hire, and are capped at a maximum of 120 days. Authority employees cannot accrue vacation time. Accrued sick time owed to employees amounted to \$59,161 and \$57,526 at December 31, 2015 and 2014, respectively, and are reflected in the financial statements as compensated absences payable.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

9. PENSION PLAN

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

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

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

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

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

DECEMBER 31, 2015 AND 2014

9. PENSION PLAN, (continued)

increase by 0.14% each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018. May 31, 2016 The phase in will take place on July 1 of each subsequent fiscal year. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums. Employee contributions for DCRP are based on 5.50% of employee's annual compensation and are matched by a 3% employer contribution.

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

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

Year Ending	Annual Pension Cost (APC)
12/31/15	\$29,972
12/31/14	16,269
12/31/13	16,696

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, (continued)

At December 31, 2015, the Authority had a liability of \$701,196 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2015, the Authority's proportion was 0.0031236485 percent, which was a decrease of 0.0005120289 percent from its proportion measured as of June 30, 2014.

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

DECEMBER 31, 2015 AND 2014

9. PENSION PLANS, (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, (continued)

For the year ended December 31, 2015, the Authority recognized pension expense of \$76,202. At December 31, 2015, deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$75,303	
Net difference between projected and actual earnings on pension plan investments	16,303	\$11,274
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	194,552	81,333
Adjustments to Deferred Outflows	(46,945)	
Authority contributions subsequent to the measurement date	<u>26,855</u>	<u> </u>
Total	<u>\$266,068</u>	<u>\$92,607</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2015) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$14,702
2017	14,702
2018	14,702
2019	23,415
2020	13,236

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

DECEMBER 31, 2015 AND 2014

9. PENSION PLANS, (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, (continued)

Additional Information

Local Group Collective balances at June 30, 2015 and June 30, 2014 are as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Collective deferred outflows of resources	\$3,578,755,666	\$952,194,675
Collective deferred inflows of resources	993,410,455	1,479,224,662
Collective net pension liability	22,447,996,119	18,722,735,003
Authority s Proportion	0.0031236485%	0.0036356774%

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which rolled forward to June 30, 2015. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	3.04 Percent
Salary Increases:	
2012-2021	2.15-4.40 Percent (based on age)
Thereafter	3.15-5.40 Percent (based on age)
Investment Rate of Return	7.90 Percent

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

9. PENSION PLANS, (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, (continued)

Mortality Rates

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback one year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad U.S. Equities	27.25%	8.52%
Developed Foreign Markets	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Returns	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%
REIT	4.25%	5.12%

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

9. PENSION PLANS, (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, (continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2014 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 - percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2015		
	1% Decrease	At Current Discount Rate	1% Increase
Authority's proportionate share of the pension liability	<u>3.90%</u> \$871,501	<u>4.90%</u> \$701,196	<u>5.90%</u> \$558,414

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS). The financial report may be accessed at www.state.nj.us/treasury/pensions.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

10. OTHER POSTEMPLOYMENT BENEFITS

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

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

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-july2014.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, 2015 and 2014, the Authority had no retired participants eligible for the SHBP.

11. ARBITRAGE REBATE PAYABLE

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

12. SERVICE AGREEMENT WITH THE TOWN OF KEARNY

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

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

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

13. AMOUNTS REQUIRED BY BOND RESOLUTIONS

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

Construction Reserve

The 1988 Bond Resolution states that a Construction Reserve Fund should be established and maintained for any moneys used to fund the costs of projects or expenses associated with the issuance of bonds. At December 31, 2015 and 2014, the Authority's Construction accounts had balances totaling \$352,712 and \$790,921, respectively.

Current Debt Service Reserve

The 1988 Bond Resolution require the Authority to maintain separate Interest and Principal accounts for the purpose of funding debt service during the month in which payments become due. This Resolution was later amended by the 2005 Supplemental Resolution, which established a Current Debt Service Reserve Requirement. The Current Debt Service Requirement states that as of any particular

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

13. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)

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, 2015, the Current Debt Service Reserve was as follows:

Cash and Cash Equivalents		\$202,488
Accrued Interest on NJEIT Bonds	\$38,803	
Current Debt Service Reserve Requirement	<u>163,685</u>	
		<u>202,488</u>
Excess (Deficit)		<u>\$ -0-</u>

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, 2015, the balance of this account was as follows:

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

Renewal and Replacement Reserve

The 1988 General Bond Resolution established a separate account to be used for extraordinary renewals, repairs and replacements. At December 31, 2015, the balance of this account was as follows:

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

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

14. LEASE COMMITMENTS

Land and Building

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

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

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

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

The Authority entered into a 10 year facility lease starting July 1, 2014 with the Town of Kearny. Under the terms, the property will be used for sewer system primary treatment and pump station, administrative offices and general utility authority purposes as necessary and permitted by law. The Authority agrees to pay \$16,000 per month for the first year. Afterwards the rent will increase in each successive year in an amount that is greater of 2%, or the increase in the CPI over the prior year. The lease expires June 30, 2024 and has two 10 year renewal options exercisable by the Authority. The rent expense for the years ended December 31, 2015 and 2014 was \$192,000 and \$96,000, respectively.

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.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

15. RISK MANAGEMENT

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

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

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

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

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

The Authority is also a member of the Municipal Excess Liability Joint Insurance Fund (the "MEL"). The MEL provides additional coverage above the levels provided by the JIF (and before third party insurance) for the following: employer's liability to \$1,700,000; general liability to \$850,000; automobile liability to \$1,000,000; public officials and employment practice liability to \$2,000,000; excess public employees' bond to \$950,000; and excess public officials' bond to \$1,000,000.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

16. INTER-ACCOUNT ADVANCES

At December 31, 2015, the following inter-account advances were outstanding between restricted and unrestricted accounts:

	<u>Due From Other Accounts</u>	<u>Due to Other Accounts</u>
Unrestricted Accounts:		
Revenue Account:		
Due to Bond Service Accounts		\$108,896
Due from Bond Reserve Accounts	\$367,238	
Restricted Accounts:		
Bond Service Accounts:		
Due from Revenue Accounts	108,896	
Bond Reserve Accounts:		
Due to Revenue Accounts		<u>367,238</u>
	<u>\$476,134</u>	<u>\$476,134</u>

17. COMMITMENTS AND CONTINGENCIES

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

18. SUBSEQUENT EVENTS

On November 13, 2014, the Authority was certified a SAIL Program Loan by NJEIT for Project No. S340259-07 for the replacement of equipment, repairs and to increase the resiliency to the Kearny Point and Harrison Pump Stations damaged during Superstorm Sandy. The loan for the project was issued on January 7, 2016 in the amount of \$6,441,376.

The Authority has evaluated subsequent events through March 28, 2016, the date which the financial statements were available to be issued and no additional items were noted for disclosure or adjustment.

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

NOTES TO FINANCIAL STATEMENTS, (CONTINUED)

DECEMBER 31, 2015 AND 2014

19. PRIOR PERIOD ADJUSTMENTS

On January 1, 2015, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. This statement requires, among other things, the recognition of unfunded net pension obligations and related deferred outflows and inflows in the financial statements of an entity. As a result, the following prior period adjustments have been made on the 2014 financial statements:

	Balance 12/31/14 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 12/31/14 as Restated
Deferred Outflows of Resources:			
Deferred Pension-Related Costs	\$ -	\$286,614	\$286,614
Liabilities:			
Net Pension Liability	-	680,698	680,698
Accounts Payable - Pension Related	-	26,855	26,855
Deferred Inflows of Resources:			
Deferred Pension-Related Inflows	-	40,566	40,566
Net Position:			
Unrestricted: Undesignated	2,001,477	461,505	1,539,972

Required Supplementary Information - Part II

SCHEDULE RSI-1

**KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS)
Last Two Fiscal Years**

	<u>Measurement Date Ending June 30,</u>	
	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability	0.00312346485%	0.0036356774%
Authority's Proportionate Share of the Net Pension Liability	\$701,196	\$680,698
Authority's Covered-Employee Payroll	\$260,753	\$214,855
Authority's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	268.91%	316.82%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

SCHEDULE RSI-2

**KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
Required Supplementary Information
Schedule of the Authority's Contributions
Public Employees' Retirement System (PERS)
Last Two Fiscal Years**

	<u>Fiscal Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$29,972	\$16,269
Contributions in Relation to the Contractually Required Contribution	<u>(29,972)</u>	<u>(16,269)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered-Employee Payroll	\$260,753	\$214,855
Contributions as a Percentage of Authority's Covered-Employee Payroll	11.49%	7.57%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
Notes to Required Supplementary Information
For the Year ended December 31, 2015

Public Employees' Retirement System (PERS)

Changes in Benefit Terms - None

Changes in Assumptions - The discount rate changed from 5.39% as of June 30, 2014 to 4.90% as of June 30, 2015, in accordance with Paragraph 44 of GASB Statement No. 67.

SUPPLEMENTARY SCHEDULES

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

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2015

	Net Investment in Capital Assets	Restricted			Unrestricted		Total
		Construction Reserve	Current Debt Service Reserve	Future Debt Service Reserve	Renewal and Replacement Reserve	Undesignated	
Operating Revenue:							
User Charges						4,903,486	4,903,486
Interest and Penalties						9,958	9,958
Other Income						3,570	3,570
Total Operating Revenue	-	-	-	-	-	4,917,014	4,917,014
Operating Expense:							
Administrative and General						428,448	428,448
Cost of Providing Services	628,120					1,612,305	1,612,305
Depreciation						628,120	628,120
Total Operating Expense	628,120					2,040,753	2,668,873
Operating Income	(628,120)	-	-	-	-	2,876,261	2,248,141
Non-Operating Revenue (Expense):							
Interest on Investments		1,269		49,448	508	2,307	53,532
Interest Expense						(417,864)	(417,864)
Amortization	(26,383)						(26,383)
	(26,383)	1,269		49,448	508	(415,557)	(390,715)
Net Income (Loss) Before Transfers	(654,503)	1,269	-	49,448	508	2,460,704	1,857,426
Transfers:							
Other Transfers	3,412,913	(439,478)	(974)	(49,448)	(508)	(2,922,505)	-
Increase/(Decrease) in Net Position	2,758,410	(438,209)	(974)	-	-	(461,801)	1,857,426
Restated Net Position - January 1, 2015	23,421,108	790,921	164,659	1,200,641	250,000	1,539,972	27,367,301
Net Position - December 31, 2015	26,179,518	352,712	163,685	1,200,641	250,000	1,078,171	29,224,727

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

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Operating Accounts	Construction Accounts	Bond Service Accounts	Bond Reserve Account
Cash, Cash Equivalents and Investments - January 1, 2015	1,935,917	790,921	205,948	1,176,206
Cash Receipts:				
Interest on Investments	3,263	1,269		48,447
User Charges / Interest and Penalties	4,322,027			
Miscellaneous / Connection Fees		632,730		1,002
Developer Trust Transfers	53,729	1,207,510		
Total Cash Receipts	4,379,019	1,841,509	-	49,449
Cash and Investments Available	6,314,936	2,632,430	205,948	1,225,655
Cash Disbursements:				
Principal Payments	1,442,833			
Interest Payments	417,864			
Operations	1,961,162			
Capital and Other Expenses	324,361	2,278,449		
Developer Trust Transfers	1,207,510	1,269	3,460	48,447
Total Cash Disbursements	5,353,730	2,279,718	3,460	48,447
Cash, Cash Equivalents and Investments - December 31, 2015	<u>961,206</u>	<u>352,712</u>	<u>202,488</u>	<u>1,177,208</u>
Analysis of Balance:				
Cash and Cash Equivalents	961,206	352,712	202,488	373,924
Investments	-	-	-	803,284
	<u>961,206</u>	<u>352,712</u>	<u>202,488</u>	<u>1,177,208</u>
Unrestricted	961,206	-	-	-
Restricted	-	352,712	202,488	1,177,208
	<u>961,206</u>	<u>352,712</u>	<u>202,488</u>	<u>1,177,208</u>

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

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Renewal and Replacement Account	Rebate Account	Developer's Trust Account	Total
Cash, Cash Equivalents and Investments - January 1, 2015	250,000	10,815	12,158	4,381,965
Cash Receipts:				
Interest on Investments	509	22	22	53,532
User Charges / Interest and Penalties				4,322,027
Miscellaneous				633,732
Developer Trust			1,500	1,500
Transfers				1,261,239
Total Cash Receipts	<u>509</u>	<u>22</u>	<u>1,522</u>	<u>6,272,030</u>
Cash and Investments Available	<u>250,509</u>	<u>10,837</u>	<u>13,680</u>	<u>10,653,995</u>
Cash Disbursements:				
Bond Principal Payments				1,442,833
Interest Payments				417,864
Operations				1,961,162
Capital and Other Expenses				2,602,810
Developer Trust			8,266	8,266
Transfers	509	22	22	1,261,239
Total Cash Disbursements	<u>509</u>	<u>22</u>	<u>8,288</u>	<u>7,694,174</u>
Cash, Cash Equivalents and Investments - December 31, 2015	<u>250,000</u>	<u>10,815</u>	<u>5,392</u>	<u>2,959,821</u>
Analysis of Balance:				
Cash and Cash Equivalents	250,000	10,815	5,392	2,156,537
Investments	-	-	-	803,284
	<u>250,000</u>	<u>10,815</u>	<u>5,392</u>	<u>2,959,821</u>
Unrestricted	-	-		961,206
Restricted	250,000	10,815	5,392	1,998,615
	<u>250,000</u>	<u>10,815</u>	<u>5,392</u>	<u>2,959,821</u>

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2015

	FY 2015 Adopted Budget	FY 2015 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Revenues:					
Sewer User Charges	3,995,707	3,995,707	4,903,486	907,779	4,425,471
Interest and Penalties	2,000	2,000	9,958	7,958	259
Miscellaneous	-	-	3,570	3,570	3,378
Non-operating Investments	-	-	53,532	53,532	29,045
Total Operating Revenues	3,997,707	3,997,707	4,970,546	972,839	4,458,153
Expenses:					
Administrative Expenses:					
Salaries and Wages	179,000	179,000	177,736	1,264	176,217
Employee Benefits:					
PERS	10,000	10,000	16,794	(6,794)	8,135
Payroll Taxes	14,194	14,194	12,871	1,323	11,975
Medical Insurance	54,807	54,807	53,170	1,637	51,586
Legal	50,000	50,000	20,807	29,193	22,944
Bond Counsel	5,000	5,000	-	5,000	1,526
Accounting	27,000	27,000	27,000	-	27,750
Insurance	25,000	25,000	23,804	1,196	22,833
Trustee Fees	18,000	18,000	20,900	(2,900)	20,900
Postage and Miscellaneous	20,000	20,000	28,751	(8,751)	39,166
Sub-total Administrative	403,000	403,000	381,833	21,167	383,032
Cost of Providing Services:					
Salaries and Wages	137,000	137,000	128,942	8,058	119,243
Employee Benefits:					
PERS	10,000	10,000	16,794	(6,794)	8,134
Payroll Taxes	10,981	10,981	9,356	1,625	10,128
Medical Insurance	66,020	66,020	64,042	1,978	23,630
Solids Removal	10,000	10,000	8,932	1,068	10,645
Equipment Repairs and Supplies	130,000	130,000	43,489	86,511	63,246
Utilities	150,000	150,000	116,708	33,292	141,897
Fees and Permits	5,000	5,000	414	4,586	1,911
Consulting Fees	100,000	100,000	106,373	(6,373)	388,270
Flow Study	10,000	10,000	-	10,000	-
Sewer Cleaning / TV	20,000	20,000	-	20,000	-
Lab Fees	-	-	2,177	(2,177)	-
Education Expenses	5,000	5,000	2,825	2,175	4,240
Passaic Valley Sewerage Commission	860,000	860,000	860,000	-	860,000
Property / Facility Lease	192,000	192,000	192,000	-	96,000
NJEIT Loan Administration Fee	13,000	13,000	13,638	(638)	13,638
Sub-total Cost of Providing Services	1,719,000	1,719,000	1,565,690	153,310	1,740,982
Sub-total Operating	2,122,000	2,122,000	1,947,523	174,477	2,124,014

KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2015

	FY 2015 Adopted Budget	FY 2015 Budget as Amended	Paid or Charged	Excess / (Deficit)	Prior Year Actual
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	432,874	432,874	417,864	15,010	462,397
Bond Principal	<u>1,442,833</u>	<u>1,442,833</u>	<u>1,442,833</u>	<u>-</u>	<u>1,398,015</u>
Sub-total Other Costs	<u>1,875,707</u>	<u>1,875,707</u>	<u>1,860,697</u>	<u>15,010</u>	<u>1,860,412</u>
Total Costs Funded by Operating Revenues	<u>3,997,707</u>	<u>3,997,707</u>	<u>3,808,220</u>	<u>189,487</u>	<u>3,984,426</u>
Add: Excess / (Deficit)	<u>-</u>	<u>-</u>	<u>1,162,326</u>	<u>1,162,326</u>	<u>473,727</u>
	<u><u>3,997,707</u></u>	<u><u>3,997,707</u></u>	<u><u>4,970,546</u></u>	<u><u>(972,839)</u></u>	<u><u>4,066,553</u></u>
Excess of Revenues Over Expenses:			1,162,326		473,727
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(628,120)		(632,937)
Amortization Expense			(26,383)		(26,858)
Pension Expense			(93,230)		
Bond Principal			<u>1,442,833</u>		<u>1,398,015</u>
Total Adjustments			<u>695,100</u>		<u>738,220</u>
Change in Net Position			<u><u>1,857,426</u></u>		<u><u>1,211,947</u></u>

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

**SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	FY 2015 Adopted Budget	FY 2015 Budget as Amended	Paid or Charged	Excess / (Deficit)
Financing Sources:				
Unrestricted Net Position	500,000	500,000	589,047	89,047
Debt Authorization	-	-	1,689,402	(1,689,402)
	<u>500,000</u>	<u>500,000</u>	<u>2,278,449</u>	<u>(1,600,355)</u>
Capital Outlays:				
Facility and Equipment Upgrades / Maintenance	500,000	500,000	2,278,449	(1,778,449)
Total Capital Outlays	<u>500,000</u>	<u>500,000</u>	<u>2,278,449</u>	<u>(1,778,449)</u>
Total Costs Funded by Capital Revenue	500,000	500,000	2,278,449	(1,778,449)
Add: Excess	-	-	-	178,094
	<u><u>500,000</u></u>	<u><u>500,000</u></u>	<u><u>2,278,449</u></u>	<u><u>(1,600,355)</u></u>

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	2015 Defeased	2015 Redeemed	Balance Dec. 31, 2015
			Date	Amount				
Revenue Bonds (Series 1991)	11/15/1991	7.30%	2016	135,000.00	560,000		125,000	435,000
		7.30%	2017	145,000.00				
		7.30%	2018	155,000.00				
Revenue Bonds (Series 1996)	12/1/1996	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				
	2026	65,000.00		585,000		35,000	550,000	
Revenue Refunding Bonds (Series 2003B)	2/26/2003	4.13%	2016	500,000.00	2,025,000		475,000	1,550,000
		4.25%	2017	515,000.00				
		4.25%	2018	535,000.00				

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	2015 Defeased	2015 Redeemed	Balance Dec. 31, 2015
			Date	Amount				
NJFIT Bonds (Series 2005A&B) Fund Portion	11/10/2005	n/a	2016	153,814.00	1,349,760			1,191,919
		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	152,168.00				
		n/a	2023	101,676.00				
		157,841						
NJFIT Bonds (Series 2005A&B) Trust Portion	11/10/2005	4.00%	2016	55,000.00	730,000			675,000
		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						
55,000								

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Date	Outstanding Maturities		Balance Jan. 1, 2015	2015 Defeased	2015 Redeemed	Balance Dec. 31, 2015	
				December 31, 2015	Amount					
NJ/EIT Bonds (Series 2007A&B) Fund Portion	11/8/2007	n/a	2016	217,955.00						
			2017	211,496.00						
			2018	214,265.00						
			2019	216,571.00						
			2020	210,666.00						
			2021	213,988.00						
			2022	215,371.00						
			2023	216,295.00						
			2024	208,844.00						
			2025	210,182.00						
			2026	211,104.00						
			2027	121,334.00						
									2,682,797	214,726
NJ/EIT Bonds (Series 2007A&B) Trust Portion	11/8/2007	5.00%	2016	70,000.00						
			2017	70,000.00						
			2018	75,000.00						
			2019	80,000.00						
			2020	80,000.00						
			2021	85,000.00						
			2022	90,000.00						
			2023	95,000.00						
			2024	95,000.00						
			2025	100,000.00						
			2026	105,000.00						
			2027	110,000.00						
									1,120,000	65,000

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities December 31, 2015	Balance			
				Jan. 1, 2015	2015 Defeased	2015 Redeemed	Balance Dec. 31, 2015
NJ/EIT Bonds (Series 2012 ABC) Fund Portion	5/3/2012	n/a	75,265.33				
	2016	n/a	75,265.33				
	2017	n/a	75,265.33				
	2018	n/a	75,265.33				
	2019	n/a	75,265.33				
	2020	n/a	75,265.33				
	2021	n/a	75,265.33				
	2022	n/a	75,265.33				
	2023	n/a	75,265.33				
	2024	n/a	75,265.33				
	2025	n/a	75,265.33				
	2026	n/a	75,265.33				
	2027	n/a	75,265.33				
2028	n/a	11,104.00					
			1,279,512	289,958	75,266	914,288	

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2015	2015 Defeased	2015 Redeemed	Balance Dec. 31, 2015
			Date	Amount				
NJ/EIT Bonds (Series 2012A) Trust Portion	5/3/2012	5.00%	2019	20,000.00	420,000	55,000	15,000	350,000
			2020	20,000.00				
			2021	20,000.00				
			2022	25,000.00				
			2023	25,000.00				
			2024	25,000.00				
			2025	25,000.00				
			2026	30,000.00				
			2027	30,000.00				
			2028	30,000.00				

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

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Date	Outstanding Maturities		Balance Jan. 1, 2015	2015 Defeased	2015 Redeemed	Balance Dec. 31, 2015
				December 31, 2015	Amount				
Revenue Refunding Bonds (Series 2012)	6/21/2012	3.00%	2016	230,000.00					
		3.00%	2017	240,000.00					
		2.00%	2018	250,000.00					
		3.00%	2019	255,000.00					
		3.00%	2020	260,000.00					
		3.00%	2021	265,000.00					
		3.00%	2022	275,000.00					
		3.00%	2023	285,000.00					
		3.38%	2024	290,000.00					
		3.38%	2025	300,000.00					
		3.38%	2026	315,000.00					
		3.38%	2027	320,000.00					
		3.75%	2028	330,000.00					
		3.75%	2029	350,000.00					
		3.75%	2030	360,000.00					
		3.75%	2031	370,000.00					
		3.75%	2032	385,000.00					
						5,305,000		225,000	5,080,000
Total Bonds Payable						16,057,069	344,958	1,442,833	14,269,278
Current Portion						1,442,833			1,477,035
Noncurrent Portion						14,614,236			12,792,243
						16,057,069			14,269,278

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2015:

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

Single Audit Section

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Kearny Municipal Utilities Authority, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2016.

Internal Control Over Financial Reporting

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

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



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies (Finding 2015-1 and 2015-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kearny Municipal Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying schedule of findings and questioned costs as Finding 2015-3, 2015-4, 2015-5 and 2015-6. We noted certain other matters that we reported to management of the Authority in the comments and recommendations section of this report.

Kearny Municipal Utilities Authority's Response to Findings

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

Purpose of this Report

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

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

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

March 28, 2016



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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Kearny Municipal Utilities Authority's compliance with the types of compliance requirements described in the Office of Management and Budget (OMB)'s *Compliance Supplements* that could have a direct and material effect on each of the Kearny Municipal Utilities Authority's major federal programs for the year ended December 31, 2015. The Kearny Municipal Utilities Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Kearny Municipal Utilities Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and Uniform Guidance 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 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 provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Kearny Municipal Utilities Authority's compliance.

Opinion on Each Major Federal Programs

In our opinion, the Kearny Municipal Utilities Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the Kearny Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Kearny Municipal Utilities Authority's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kearny Municipal Utilities Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal 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 program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Honorable Chairman and Members of the
Kearny Municipal Utilities Authority
Page 3.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards by Uniform Guidance

We have audited the financial statements of the Kearny Municipal Utilities Authority as of and for the year ended December 31, 2015, and have issued our report thereon dated March 28, 2016 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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, Wielkatz, Cerullo & Cuva, P.A.

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

March 28, 2016



KEARNY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS

DECEMBER 31, 2015

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	CFDA Number	State Agency Account Number	Grant Award	Grant Receipts	Grant Period		Grant Expenditures	Cumulative Grant Expenditures
					From	To		
U.S. Department of Environmental Protection:								
<i>Pass Through New Jersey Department of Environmental Protection</i>								
(1) Capitalization Grants for Clean Water Revolving Funds: Wastewater Treatment Fund	66-458	4860-510-009-13	\$ 1,404,953	474,548	01/01/15	12/31/15	141,735	1,114,995
Principal: Project No: S340259-07 (SAIL)	66-458	4860-510-009-13	4,713,202		01/01/15	12/31/15	1,267,052	1,267,052
Total Federal Financial Awards				474,548			1,408,787	2,382,047

See accompanying notes to schedule of expenditures of federal awards.

KEARNY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

DECEMBER 31, 2015

<u>State Funding Department</u>	<u>State Account Number</u>	<u>Grant Award</u>	<u>Grant Receipts</u>	<u>Grant Period</u>		<u>Grant Expenditures</u>	<u>Cumulative Grant Expenditures</u>
				<u>From</u>	<u>To</u>		
<u>New Jersey Department of Environmental Protection:</u> (1) NJ Environmental Infrastructure Trust Loan Interest Portion Project No: S340259.07 (SAIL)	4860-510-009-13	\$ 468,317	158,182	01/01/15	12/31/15	47,244	371,665
	4860-510-009-13	\$ 15,393		01/01/15	12/31/15	-	15,393
	4860-510-009-13	\$ 1,728,174		01/01/15	12/31/15	422,350	422,350
Total State Financial Assistance			<u>158,182</u>			<u>469,594</u>	<u>809,408</u>

**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, 2015**

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 Uniform Guidance and Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid.

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:

	New Jersey Environmental <u>Fund</u>	New Jersey Environmental <u>Trust</u>	<u>Total</u>
Balance - 12/31/14	\$764,506	\$254,834	\$1,019,340
Grant Receipts	474,548	158,182	632,730
Deobligated	<u>289,958</u>	<u>55,000</u>	<u>344,958</u>
Balance - 12/31/15	<u>\$0</u>	<u>\$41,652</u>	<u>\$41,652</u>

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, 2015**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- | | | |
|--|----------------|------------------------|
| 1. Reportable condition(s) identified that are not considered to be material weaknesses? | <u> X </u> yes | <u> </u> none reported |
| 2. Material weakness(es) identified? | <u> X </u> yes | <u> </u> no |

Noncompliance material to basic financial statements noted?	<u> </u> yes	<u> X </u> no
---	--------------	---------------

Federal Awards

Internal Control over major programs:

- | | | |
|---|--------------|--------------------------|
| 1. Significant deficiencies identified that are not considered to be material weaknesses? | <u> </u> yes | <u> X </u> none reported |
| 2. Material weakness(es) identified? | <u> </u> yes | <u> X </u> no |

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

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Uniform Guidance?	<u> </u> yes	<u> X </u> no
---	--------------	---------------

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?	<u> </u> yes	<u> X </u> no
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KEARNY MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Town of Kearny)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015
(continued)

Section II – Financial Statement Findings

FINDING: 2015-1*

STATEMENT OF CONDITION

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

CRITERIA

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

EFFECT

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

CAUSE

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015
(continued)

Section II – Financial Statement Findings, (continued)

FINDING: 2015-2*

STATEMENT OF CONDITION

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

CRITERIA

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

EFFECT

Depreciation expense of \$628,120 was not initially recognized by management. Bond principal payments of \$1,442,833 were originally classified as an expense rather than a reduction of bonds payable.

CAUSE

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

Bond principal was classified as an expense for internal budgetary reporting purposes. Management plans to review their internal accounting policies and will work to rectify these findings for the 2016 fiscal year.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015
(continued)**

Section II – Financial Statement Findings, (continued)

FINDING: 2015-3*

STATEMENT OF CONDITION

Arbitrage rebate liability is not being calculated annually.

CRITERIA

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

EFFECT

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

CAUSE

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

The Authority has contracted a professional service firm to calculate the arbitrage liability in 2016.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015
(continued)**

Section II – Financial Statement Findings, (continued)

FINDING: 2015-4

STATEMENT OF CONDITION

Evidence of failure to perform tasks that are part of internal control, such as reconciliations not agreeing with year end balances.

CRITERIA

Activity posted to cash accounts should be monitored periodically. Previous reconciliations should be updated to include subsequent entries to the previous month.

EFFECT

The balances reported on several bank reconciliations do not always agree to actual balances reported at year end.

CAUSE

There appears to be a failure of certain controls over the reconciliation of cash accounts.

RECOMMENDATION

The Authority should review and monitor all cash account activity on a regular basis and update reconciliations for changes to the subsequent month.

MANAGEMENT RESPONSE

Management acknowledges this problem and hopes to correct this finding in the 2016 fiscal year.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015
(continued)**

Section II – Financial Statement Findings, (continued)

FINDING: 2015-5

STATEMENT OF CONDITION

Several vouchers tested were missing vendor's certification signature.

CRITERIA

The Authority's purchasing policy and N.J.A.C. 5:31-4.1 requires a Claimant to certify the voucher to verify its accuracy.

EFFECT

The Authority has not complied with its purchasing policy or N.J.A.C. 5:31-4.1.

CAUSE

The Authority believes these missing claimant signatures were the result of clerical oversight.

RECOMMENDATION

The Authority should request for the Claimant's signature for all vouchers.

MANAGEMENT'S RESPONSE

Management recognizes the importance of complying with their purchasing policy and does not anticipate this comment next year.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015
(continued)**

Section II – Financial Statement Findings, (continued)

FINDING: 2015-6

STATEMENT OF CONDITION

Evidence of failure to perform tasks that are part of internal control over purchasing such as missing approvals for purchases.

CRITERIA

All purchase orders should have proper approvals to ensure the requirements of purchasing policy.

EFFECT

All purchase orders should have proper approvals to ensure it went through all channels.

CAUSE

There appears to be a failure of certain controls over the approvals of purchases.

RECOMMENDATION

The Authority should approve each purchase.

MANAGEMENT'S RESPONSE

Management acknowledges this problem and hopes to correct this finding in the 2016 fiscal year.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015
(continued)**

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

No matters were reported

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.A 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 \$40,000 (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 bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$40,000.

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

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

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

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

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

GENERAL COMMENTS, CONTINUED

Status of Prior Years' Audit Findings and Recommendations

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

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, Wielkocz, Cerullo & Cuva, P.A.

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