PATERSON MUNICIPAL UTILITIES AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2012 AND 2011

MALIGU ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

PATERSON MUNICIPAL UTILITIES AUTHORITY

TABLE OF CONTENTS

MALIGU ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS/CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Paterson Municipal Utilities Authority
Paterson, New Jersey

We have audited the accompanying statements of net assets of Paterson Municipal Utilities Authority (The Authority) as of January 31, 2012 and 2011, and the related statements of revenues and expenses, statement of changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paterson Municipal Utilities Authority as of January 31, 2012 and 2011, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2012 on our consideration of the Paterson 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 21 and 22 is presented for additional analysis as required by the Local Finance Board, Department of Community Affairs, State of New Jersey. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Malegu Associates, LLC

November 8, 2012
Jersey City, New Jersey

PATERSON MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS

This section of Paterson Municipal Utilities Authority annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended January 31, 2012. Please read it in conjunction with the Authority's financial statements which follow this section.

The Paterson Municipal Utilities Authority (MUA) was created on June 29, 1981 under New Jersey State Statues. Its primary purpose is to manage a 1914 hydroelectric plant on the Passaic River and the care and maintenance of the surrounding property. The surrounding property includes two public parks, Overlook Park at McBride Avenue Extension and Mary Ellen Kramer Park at Maple Street. The hydroelectric plant has been renovated and is operated under a site lease between the MUA and the Great Falls Hydro Electric Company, a limited partnership. The partnership interest is owned by Algonquin Power, Ontario, Canada which purchased ownership in September 2000. The hydroelectric plant is operated under Federal Energy Regulatory Commission license number 2814 and a water diversion permit issued by the New Jersey Department of Environmental Protection.

FINANCIAL HIGHLIGHTS

Recurring Business Activities:

- The Authority's net assets changed over the course of this year's operations, increasing by $259,033, a 7.9% increase.
- Monthly revenue from the Authority's business-type activities of rental income was slightly higher by $9,929.
- Expenses related to the Authority's business-type activities increased by $41,204 or 32.3%.

Total recurring operating revenues and expenses were in line with budgeted amounts.

Non-Recurring Business Activities:

- Grant awards of $106,791 were received during the year. Included in this amount is $58,639 of grant revenue that was accrued last year to match restoration expenses incurred on the hydroelectric power plant. The net amount of $48,152 was grant revenue recognized for the current year ended January 31, 2012 on the accrual basis.
- For the matching grant program, Paterson MUA received $97,158 during the year from Algonquin to fund unanticipated extra expenses for restoration work on the hydroelectric plant cornice. This amount will be applied as matching funds toward the outstanding 2010 NJ Historic Trust grant.

FINANCIAL HIGHLIGHTS-CONTINUED

Non-Recurring Business Activities (Continued):

- This year for the first time, Paterson MUA sponsored a series of summer jazz festivals. The Board of Commissioners chose to offer these festivals with free admission to the citizens of Paterson as a community effort event. Related expenses exceeded budget by $4,642.

- Plans to launch a bottled spring water project were put on hold due to the Board of Commissioners' focus on establishing the national park (See the explanation under "Capital Assets"). Expenditures for the bottled water project amounted to $3,550. The budgeted amount was $35,000 for the year.

- Due to financial constraints for the City of Paterson, the Paterson MUA was asked to sponsor the Department of Recreation Youth Games held in Florida. The Board of Commissioners considered and approved this request. A donation of $25,000 was submitted to the City of Paterson.

- The Paterson MUA received correspondence from St. Luke's Community Development Corporation regarding their Freedom School that educates fifty children over the summer. The Board of Commissioners majority approved a one time donation of $5,000.

- Regarding under budget expenditures for the project manager position, the project manager resigned during the year and this position was not replaced.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Annual Report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information.

The financial statements are presented on the accrual basis and present the Authority's financial information as a proprietary fund which offers short and long term financial information about activities operated like businesses.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the entities assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF THE PATERSON MUNCICIPAL UTILITIES AUTHORITY

Changes in Net Assets:
The Authority's net assets increased to $3.53 million between fiscal years 2012 and 2011. Approximately $2.36 million is invested in land and buildings. The remaining $1.17 million is unrestricted and available for use in the maintenance and improvement of the property. Costs incurred this current year in restoring the hydroelectric plant exterior and stabilizing the plaza of the former S.U.M. steam plant foundation were capitalized and included in capital assets.

Revenues and Expenses:
Normal monthly revenues from the Authority's rental activity remained constant with a slight increase over last year according to the terms of the leases. The principal revenue source of the MUA is the rental income from the site lease, an amount that is fixed for the term of the lease. Additional rental income of $7,347 was accrued for the year ended January 31, 2012 as a result of annual above average power generation. A check from Algonquin for this amount was deposited in February 2012. Other rental income is derived from a long-term lease with a nearby restaurant.

Earnings from certificates of deposit investments continued to decline during the current year. Five CDs amounting to $776,672 matured and were redeemed and placed in the interest bearing operating account. The Board of Commissioners intends to re-invest these CDs with another bank in an effort to increase the yield on investments. Interest earnings on CD investments decreased by $4,620 compared to last year.

Administrative expenses have been relatively stable. There is no full-time staff. Legal services and the project manager services are provided by third party contracts. Basic lawn maintenance and snow removal are on a contract basis.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:
Capital asset additions during the year included costs incurred for projects in progress in restoring the hydroelectric plant exterior and stabilizing the plaza of the former S.U.M. steam plant foundation. For purposes of the Authority's 2012 capital budget, capital expenditures were not budgeted. These costs were considered repair and maintenance expenses.

For the hydroelectric plant restoration project, there was an $180,000 grant (identified as Yr 2008 grant) from the New Jersey Historic Trust (NJHT) and a matching $180,000 local subsidy and donation. The Authority utilized the NJHT grant to assist its lessee of the S.U.M. Power Plant, Algonquin Power, in its responsibility for repairs to the plant. Algonquin Power provided the required match through a combination of cash and in-kind expenditures for the repair project. The primary repairs are to the terra cotta cornice on the building exterior. This phase of the restoration project was still in progress as of January 31, 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION-CONTINUED

The Authority is also working with the City of Paterson which will implement two Green Acres projects on MUA property. Improvements are planned for Mary Ellen Kramer Park. This project will be administered by the City under a license agreement. In Overlook Park, the stabilization on the plaza of the former S.U.M. Steam Plant foundation was completed this year.

November 2011, the Paterson MUA, City Mayor and the Secretary of the Interior signed an agreement establishing the Great Falls Historical National Park. During the second phase, the Paterson MUA will sign over Mary Ellen Kramer and Overlook Parks to the National Park Service.

Long-Term Debt:
The MUA financial statements do not have long-term debt for the fiscal year ended January 31, 2012. Long term debt was not budgeted for fiscal year ended January 31, 2013.

FACTORS BEARING ON THE AUTHORITY'S FUTURE

At the time these financial statements were prepared and audited, the Authority was not aware of any circumstances that could have a significant effect on its future financial health. As almost all of the Authority's revenue comes from the hydroelectric plant lease, a significant impediment to the flow of the river could in the long run affect MUA's revenue stream.

PATERSON MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF NET ASSETS

JANUARY 31, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets		
Cash	$ 894,338	$ 186,436
Invested Funds	338,397	1,108,192
Rent Receivable	20,283	-
Grants Receivable	-	58,639
Total Current Assets	1,253,018	1,353,267
Capital Assets		
Land	1,911,027	1,911,027
Buildings and Imporovements	287,030	287,030
Restoration Projects in Progress	345,929	70,411
Office Equipment	5,853	5,853
Less: Accumulated Depreciation	(193,304)	(184,270)
Capital Assets-Net	2,356,535	2,090,051
TOTAL ASSETS	3,609,553.00	3,443,318.00
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued Liabilities	65,328.00	23,126.00
Refundable Deposit	-	135,000
	65,328	158,126
Non-Current Liabilities		
Security Deposit	16,400	16,400
	16,400	16,400
TOTAL LIABILITIES	81,728	174,526
Net Assets		
Invested in Capital Assets	2,356,535	2,090,051
Unrestricted	1,171,290	1,178,741
Total Net Assets	3,527,825	3,268,792
TOTAL LIABILITIES AND NET ASSETS	$ 3,609,553	$ 3,443,318

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

	Unrestricted Net Assets	Net Assets Invested in Capital Assets	Total
BALANCE FEBRUARY 1, 2010	$ 1,138,439	$ 2,028,674	$ 3,167,113
Net Revenues Over Expenses	110,713	-	110,713
Net Change in Investment in Capital Assets	(70,411)	61,377	(9,034)
BALANCE JANUARY 31, 2011	1,178,741	2,090,051	3,268,792
Net Revenues Over Expenses	268,067	-	268,067
Net Change in Investment in Capital Assets	(275,518)	266,484	(9,034)
BALANCE JANUARY 31, 2012	$ 1,171,290	$ 2,356,535	$ 3,527,825

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

	2012	2011
REVENUES		
Rental Income	$ 134,429	$ 124,500
Government Grant Awards	48,152	92,059
Private Matching Grant	232,158	-
Contributions	5,000	-
Interest Income	7,980	12,602
Total Revenues	427,719	229,161
EXPENSES		
Project Manager Services	14,000	24,000
Professional Fees	40,200	37,300
Utilities and Telephone	9,266	9,035
Repairs and Maintenance	29,982	35,895
Jazz Festival	18,422	-
Bottled Water	3,550	-
Secretarial Services	3,000	3,216
Administrative Expenses	8,732	7,169
Donations	30,000	-
Commissioner Fees	2,500	1,833
Depreciation	9,034	9,034
Total Expenses	168,686	127,482
Net revenues over expenses before transfer of depreciation to invested net assets	259,033	101,679
Transfer of depreciation to invested net assets	9,034	9,034
NET REVENUES OVER EXPENSES	$ 268,067	$ 110,713

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental and other income received	$ 225,937	$ 157,920
Refundable deposits received	-	135,000
Private Matching Grant received	97,158	-
Cash payments to suppliers for services	(117,450)	(108,902)
Net Cash Provided by Operating Activities	205,645	184,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	7,980	12,602
Sale of certificates of deposit	769,795	37,398
Restoration Projects in Progress	(275,518)	(70,411)
Net Cash Provided by/(Used in) Investing Activities	502,257	(20,411)
Net Change in Cash	707,902	163,607
Cash at Beginning of Year	186,436	22,829
Cash at End of Year	894,338	186,436
Reconciliation of operating income to net cash provided by operating activities		
Net revenues over expenditures	268,067	110,713
Less: Non-operating revenues	(7,980)	(12,602)
Operating income	260,087	98,111
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities		
Decrease/(Increase) in grant and rent receivable	38,356	(58,639)
Increase in accrued liabilities	42,202	9,546
Decrease/(Increase) in refundable deposits	(135,000)	135,000
	(54,442)	85,907
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 205,645	$ 184,018

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of significant accounting policies of Paterson Municipal Utilities Authority is presented to assist in understanding the Authority's financial statements.

Organization

The Paterson Municipal Utilities Authority was created on August 11, 1981 to develop the existing site, which would provide the generation of hydroelectric power, in Passaic County, New Jersey. As a public body, under existing statute, the Authority is exempt from both Federal and State income taxes.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments.

Revenue Recognition

Revenue from rentals is recognized based on the terms of the lease agreement.

Capital Assets

Capital assets consist of property, plant, and equipment originally recorded at cost on date of acquisition. The Authority capitalizes all capital assets over $1,500. Repairs, maintenance, and minor replacements are expensed as incurred. The Authority uses straight-line methods to compute its annual depreciation expense over the useful lives of its assets as follows:

Buildings	40 Years
Improvements	10-40 Years
Office equipment	5 Years

Fair Value Measurements

The Authority has adopted SFAS-157, Fair Value Measurements, subsequently included in the codification as ASC 820. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value Measurements-Continued

In determining fair value, the Authority uses valuation approach. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1-Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2-Valuation based on quoted price in markets that are not active, or for which all significant inputs are observable, either directly or indirectly.

Level 3-Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on inputs that are less observable in the market, the determination of fair value requires more judgment. The estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future that cannot be reasonable determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market exist. Accordingly, the degree of judgment exercised by the Authority in determining fair value is greatest for assets and liabilities categorized as Level 3.

PATERSON MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value Measurements-Continued

The carrying amounts of cash and investments funds approximate fair value because of the short maturity of these financial instruments. The Authority's financial instruments are summarized as follows:

Asset	Fair Value	Level 1
Cash	$ 894,338	$894,338
Invested Funds	$ 338,397	$338,397

Estimates

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

NOTE 2 INVESTED FUNDS

Invested funds are primarily certificates of deposit and are stated at cost plus accrued interest. The investments are maintained at high quality banking institutions.

NOTE 3 SITE LEASE

The Authority had entered into a leasing agreement with the Great Falls Hydroelectric Company (GFHC) in which the tenant agreed to develop the site. The net lease, which is dated September 10, 1984, expires on March 10, 2021. The minimum annual rental of $99,000 per year was effective January 1, 1987. There are provisions for additional rent adjustments, which will not be realized until the facility generates greater kilowatt hours. The lease also calls for an annual insurance reimbursement. During Fiscal 2001 GFHC transferred its rights under the lease to Algonquin Power Fund (America), Inc. which now operates GFHC.

NOTE 3 SITE LEASE - CONTINUED

In fiscal year ending January 31, 2012 and 2011, the Authority received $7,347 and $-0- respectively for rent adjustment due to increase in purchase price.

NOTE 4 CAPITAL SUBSIDY

Net assets (invested in capital assets) include contributed capital of $2,356,535 and $2,090,051, net of allocated depreciation, at January 31, 2012 and 2011, respectively.

NOTE 5 COMMITMENTS AND CONTINGENCIES

Contributed Capital

The City of Paterson carries on its books an amount in excess of $3 million in connection with its original investment in the Authority. A loan of $2 million from the U.S. Department of Housing and Urban Development was originally used to fund the transfer of land to the Authority. The city paid back the loan with interest in annual installments from 1983 through 1988. The Authority accounted for the funds as contributed capital. Repayment of any part of this remains an unresolved issue with the City.

Grants

In fiscal years 2008 and 2010, Paterson Municipal Utilities Authority was awarded a grant from the New Jersey Historic Trust Fund (NJHT) amounting to $180,000 for each year. As of January 31, 2012, the MUA have received matching funds of $232,158 from Algonquin Power Fund (America), Inc. The funds are to be used for the restoration of Great Falls Power Plant. In addition, Algonquin has provided, and NJHT has accepted eligible match expenditures totaling $53,830. The MUA and Algonquin power fund (America), Inc. have agreed to apply $180,000 of the private match contribution to the 2008 grant award. The remaining $105,988 of the match will be applied to 2010 grant award.

Contract Fees

The Paterson Municipal Utilities Authority contracted with an engineering firm to design an outdoor theatre structure to be placed on the Authority's property. The consultants presented a claim for additional compensation which was not accepted by the MUA. The MUA requested additional documentation which has not been provided.

NOTE 5 COMMITMENTS AND CONTINGENCIES-CONTINUED

Contract Fees

A potential liability exists if the engineering firm seeks to collect remuneration for the additional work performed. Management believes that the ultimate resolution of these matters will not have a material adverse effect upon the Authority's financial position or results of operations.

NOTE 6 REFUNDABLE DEPOSIT

The Authority received a matching grant from Algonquin Power Fund (America), Inc. in fiscal year 2010-2011 for restoration of the power plant. The amount was reclassified as private match grant and used for the restoration of the power plant in fiscal year 2011-2012

NOTE 7 SUBSEQUENT EVENTS

Management has reviewed events subsequent to January 31, 2012, up through the financial statements issuance to evaluate their effect on the fair presentation of the financial statements. As of the issuance date of November 8, 2012, there have been no events that are required to be disclosed in order to present fairly the financial position and changes in net assets of the Authority.

MALIGU ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS/CONSULTANTS

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

Paterson Municipal Utilities Authority
Paterson, New Jersey

We have audited the financial statements of Paterson Municipal Utilities Authority (the Authority), as of and for the year ended January 31, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of audit findings that we consider to be significant deficiencies in internal control over financial reporting described as finding number 2012-01.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of audit findings as findings number 2012-02 and 2012-03.

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

This report is intended solely for the information and use of the trustees and management of Paterson Municipal Utilities Authority and the Bureau of Authority Regulation. However, this report is a matter of public record and its distribution is not limited.

Malegu Associates, LLC

November 8, 2012
Jersey City, New Jersey

PATERSON MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF AUDIT FINDING

FOR THE YEAR ENDED JANUARY 31, 2012

Finding # 2012-01

Inadequate Segregation of Duties

During the audit testing, it was noted that the same individual who received, deposited, and disbursed cash was also responsible for bookkeeping.

Recommendation:
The Authority should segregate the responsibilities for authorizing transactions, physical custody of assets and the related record keeping.

Management Response:
All cash disbursements require approval and duel signatures from the Board of Commissioners. Due to the Project Manager's resignation during the year, a commissioner stepped in to manage the basic operations and in doing so, an inadequate segregation of duties resulted. When the auditor presented this exception to the MUA, the Board of Commissioners appointed a bookkeeper to take over maintaining the records in November 2012.

Finding # 2012-02

Grant Management

The Authority did not hire a grant manager during the year and as a result reimbursement reports were not filed on a timely basis to request grant funds from the New Jersey Historical Trust Fund.

Recommendation:
Management should ensure that the Authority hires someone with suitable knowledge of grant management in order to comply with all grant requirements.

Management Response:
Grant applications with the NJ Historical Trust Fund Agency were not filed on a timely basis this year due to the resignation of the Project Manager and in addition, the Board members were unfamiliar with the grant application process. Recently, the Paterson MUA reached out to the NJ Trust Fund Agency and obtained instructions to apply for the outstanding grants. The Paterson MUA is working closely with the City of Paterson grant writer to apply for future grants.

PATERSON MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF AUDIT FINDING

FOR THE YEAR ENDED JANUARY 31, 2012

Finding # 2012-03

The Authority did not file its audit report within Four (4) months after the close of the fiscal year as required by the New Jersey Statute (40:14B-66).

Recommendation:
Management should establish procedures to ensure that annual audit is conducted and filed timely with the Director of the Division of Local Government in the Department of the Treasury.

Management Response:
Management will ensure timely filing of the 2013 audit report.

PATERSON MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF PRIOR AUDIT FINDING

FOR THE YEAR ENDED JANUARY 31, 2012

STATUS OF PRIOR AUDIT FINDING

There were no findings in prior year.

SUPPLEMENTARY INFORMATION

PATERSON MUNICIPAL UTILITIES AUTHORITY

SUPPLEMENTARY INFORMATION
Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Invested Funds - Unrestricted Accounts

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

	2012	2011
Cash and Invested Funds - Beginning	$ 1,294,628	$ 1,168,419
Cash Receipts		
Rental and Other Income	323,095	157,920
Interest on Investments	7,980	12,602
Refundable Deposits	-	135,000
Total Cash and Invested Funds Available	1,625,703	1,473,941
Cash Disbursements		
Operations	117,450	108,902
Restoration Projects in Progress	275,518	70,411
Total Cash Disbursements	392,968	179,313
Cash and Invested Funds - Ending	$ 1,232,735	$ 1,294,628
Balance Comprised of		
Cash	894,338	186,436
Invested Funds - Certificates of Deposit	338,397	1,108,192
TOTAL	$ 1,232,735	$ 1,294,628

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY

SUPPLEMENTARY INFORMATION
Schedules of Operating Revenues and costs Funded by Operating Revenues Compared to Budget

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

	2012 Budget	2012 Actual	2011 Actual
REVENUES			
Rental Income-Land Lease	$ 99,000	$ 106,347	$ 99,000
Rental Income - Other	25,500	28,082	25,500
Grant Awards	132,951	280,310	92,059
Jazz Festival	8,141	-	-
Contributions	-	5,000	-
Interest Income	11,000	7,980	12,602
TOTAL REVENUES	276,592	427,719	229,161
EXPENDITURE			
Operating			
Project Manager Services	24,000	14,000	24,000
Professional Fees	36,000	40,200	37,300
Utilities and Telephone	10,800	9,266	9,035
Repairs and Maintenance	265,000	29,982	35,895
Secretarial Services	3,000	3,000	3,216
Jazz Festival	13,780	18,422	-
Bottled Water	35,000	3,550	-
Donations	30,000	30,000	-
Administrative Expenses	9,000	8,732	7,169
Commissioner Fees	2,500	2,500	1,833
Engineering Fees	50,000	-	-
	479,080	159,652	118,448
Other Costs Funded by Revenues			
Capital Outlay	-	275,518	70,411
Total Costs Funded by Revenues	479,080	435,170	188,859
(Deficit)/Surplus	(202,488)	(7,451)	40,302
	$ 276,592	$ 427,719	$ 229,161

See accompanying notes to financial statements.