

PATERSON MUNICIPAL UTILITIES AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2013 AND 2012

**MALIGU ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS**

PATERSON MUNICIPAL UTILITIES AUTHORITY

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INDEPENDENT AUDITORS' REPORT

Paterson Municipal Utilities Authority
Paterson, New Jersey

Report on the Financial Statements

We have audited the accompanying statements of net assets of Paterson Municipal Utilities Authority (the Authority) as of and for the years ended January 31, 2013 and 2012, and the related statements of revenues and expenses, statement of changes in net assets, and cash flows for the years then ended.

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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from 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 opinions.

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, 2013 and the changes in net assets, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 21 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Authority's internal control over financial reporting and compliance.

Malaga Associates, LLC

Jersey City, New Jersey
December 10, 2013

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, 2013. 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. Algonquin Power of Ontario, Canada purchased this partnership interest from September 2000 to July 2013. Currently, Eagle Creek Renewable Energy has purchased ownership of this partnership interest. 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 \$51,450, a 1.5% increase.
- Revenue from the Authority's business-type activities of rental income was slightly lower by \$5,772. The rental income is lower in the yearly comparison solely because there was additional rental income during the year ended January 31, 2012. Algonquin Power paid \$7,347 over and above the normal rent as a result of above average annual power pricing generated.
- Expenses related to the Authority's business-type activities were mainly unchanged.

Recurring operating revenues and expenses in total were lower than budgeted amounts.

This year Paterson MUA again sponsored a series of summer jazz festivals. The Board of Commissioners offers these festivals with free admission to the citizens of Paterson as a community effort event. Related expenses exceeded budget by \$25,139.

Non-Recurring Business Activities:

- Grant receivable of \$84,417 was recorded during the year. This amount is the remaining balance of a 2008 grant that was not reimbursed by the grantor, New Jersey Historical Trust (NJHT). Paterson MUA must submit a final reimbursement report to obtain these grant funds. The Authority also has an outstanding NJHT grant award of \$180,000 (Year

FINANCIAL HIGHLIGHTS-CONTINUED

Non-Recurring Business Activities - Continued:

2010). Paterson MUA did not expend or request funds for any of its 2010 award during the year.

- The bottled spring water project was inactive during the year. Expenditures for the bottled water project amounted to \$625. There was no budgeted amount for the year.
- There was a \$30,000 annual budget amount for donations. Donations were not made during the year.

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 MUNICIPAL UTILITIES AUTHORITY

Changes in Net Assets:

The Authority's net assets increased to \$3.58 million between fiscal years 2013 and 2012. Approximately \$2.47 million is invested in land and buildings. The remaining \$1.11 million is unrestricted and available for use in the maintenance and improvement of the property.

Revenues and Expenses:

Normal monthly revenues from the Authority's rental activity remained constant 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.

FINANCIAL ANALYSIS OF THE PATERSON MUNICIPAL UTILITIES AUTHORITY-CONTINUED

Revenues and Expenses – Continued:

Additional rental income of \$7,347 was accrued for the year ended January 31, 2012 as a result of annual above average power pricing generated. Other rental income is derived from a long-term lease with a nearby restaurant.

Earnings from certificates of deposit investments and interest bearing operating account continued to decline during the current year. A large cash balance remains in the interest bearing operating account from matured CDs. Interest earnings decreased by \$4,868 compared to last year.

Administrative expenses have been relatively stable. There are no employees. All services including legal and accounting services are provided by third party contracts. The project manager responsibilities have been temporarily assumed by the Board Chairman. Basic lawn maintenance and snow removal are on a contract basis.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

During the two years presented in these financial statements, phase 1 of a restoration project for the S.U.M. hydroelectric power plant was performed. It was funded by a \$180,000 grant (identified as Year 2008 grant) from the New Jersey Historic Trust (NJHT) and a matching \$180,000 subsidy from the lessee, Algonquin Power. The Authority utilized the NJHT grant to assist Algonquin Power, in its responsibility for repairs to the plant. The completed phase 1 project restored the terra cotta cornice on the building exterior. Funds for phase 2 of the restoration project are planned to be funded in the same manner. This phase focuses on the restoration of the power plant windows.

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.

On November 2011, the Paterson MUA, City Mayor and the Secretary of the Interior signed an agreement establishing the Great Falls Historical National Park. The Paterson MUA agreed to terms by which Mary Ellen Kramer and Overlook Parks would eventually be owned by the National Park Service.

Long-Term Debt:

The MUA financial statements do not have long-term debt for the fiscal year ended January 31, 2013. Long term debt was not budgeted for fiscal year ended January 31, 2014.

**FINANCIAL ANALYSIS OF THE PATERSON MUNICIPAL UTILITIES
AUTHORITY-CONTINUED**

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
<u>Current Assets</u>		
Cash	\$ 684,705	\$ 894,338
Invested Funds	339,953	338,397
Rent Receivable	19,259	20,283
Grant Receivable	84,417	-
Other Receivable	7,332	-
	<u>1,135,666</u>	<u>1,253,018</u>
Total Current Assets		
<u>Capital Assets</u>		
Land	1,911,027	1,911,027
Buildings and Improvements	765,581	287,030
Restoration Projects in Progress	-	345,929
Office Equipment	5,853	5,853
Less: Accumulated Depreciation	<u>(209,702)</u>	<u>(193,304)</u>
Capital Assets-Net	<u>2,472,759</u>	<u>2,356,535</u>
TOTAL ASSETS	<u>\$ 3,608,425</u>	<u>\$ 3,609,553</u>
LIABILITIES AND NET ASSETS		
<u>Current Liabilities</u>		
Accrued Liabilities	<u>12,750</u>	<u>65,328</u>
	<u>12,750</u>	<u>65,328</u>
<u>Non-Current Liabilities</u>		
Security Deposit	<u>16,400</u>	<u>16,400</u>
	<u>16,400</u>	<u>16,400</u>
TOTAL LIABILITIES	<u>29,150</u>	<u>81,728</u>
<u>Net Assets</u>		
Invested in Capital Assets	2,472,758	2,356,535
Unrestricted	<u>1,106,517</u>	<u>1,171,290</u>
Total Net Assets	<u>3,579,275</u>	<u>3,527,825</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,608,425</u>	<u>\$ 3,609,553</u>

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

	Unrestricted Net Assets	Net Assets Invested in Capital Assets	Total
BALANCE FEBRUARY 1, 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	<u>(275,518)</u>	<u>266,484</u>	<u>(9,034)</u>
BALANCE JANUARY 31, 2012	1,171,290	2,356,535	3,527,825
Net Revenues Over Expenses	67,848	-	67,848
Net Change in Investment in Capital Assets	<u>(132,621)</u>	<u>116,223</u>	<u>(16,398)</u>
BALANCE JANUARY 31, 2013	<u>\$ 1,106,517</u>	<u>\$ 2,472,758</u>	<u>\$ 3,579,275</u>

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Rental Income	\$ 128,657	\$ 134,429
Government Grant Award	84,417	48,152
Private Matching Grant	-	232,158
Other Income	3,910	5,000
Interest Income	3,112	7,980
Total Revenues	<u>220,096</u>	<u>427,719</u>
EXPENSES		
Project Manager Services	-	14,000
Professional Fees	42,762	40,200
Utilities and Telephone	8,875	9,266
Repairs and Maintenance	55,394	29,982
Jazz Festival	35,139	18,422
Bottled Water	625	3,550
Secretarial Services	3,000	3,000
Administrative Expenses	4,786	8,732
Donations	-	30,000
Commissioner Fees	1,667	2,500
Depreciation	16,398	9,034
Total Expenses	<u>168,646</u>	<u>168,686</u>
Net revenues over expenses before transfer of depreciation to invested net assets	51,450	259,033
Transfer of depreciation to invested net assets	<u>16,398</u>	<u>9,034</u>
NET REVENUES OVER EXPENSES	<u>\$ 67,848</u>	<u>\$ 268,067</u>

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental and other income received	\$ 133,591	\$ 225,937
Grants received	-	97,158
Cash payments to suppliers for services	<u>(212,159)</u>	<u>(117,450)</u>
Net Cash (Used)/Provided by Operating Activities	<u>(78,568)</u>	<u>205,645</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	1,556	7,980
Sale of certificates of deposit	-	769,795
Restoration Projects	<u>(132,621)</u>	<u>(275,518)</u>
Net Cash Provided by/(Used in) Investing Activities	<u>(131,065)</u>	<u>502,257</u>
Net Change in Cash	(209,633)	707,902
Cash at Beginning of Year	<u>894,338</u>	<u>186,436</u>
Cash at End of Year	<u>\$ 684,705</u>	<u>\$ 894,338</u>
Reconciliation of operating income to net cash provided by operating activities		
Net revenues over expenditures	\$ 67,848	\$ 268,067
Less: Non-operating revenues	<u>(3,112)</u>	<u>(7,980)</u>
Operating income	<u>64,736</u>	<u>260,087</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities		
Decrease/(Increase) in rent and other receivable	(6,308)	38,356
Increase/(Decrease) in accrued liabilities	(52,579)	42,202
Increase/in grant receivable	(84,417)	-
Decrease in refundable deposits	<u>-</u>	<u>(135,000)</u>
	<u>(143,304)</u>	<u>(54,442)</u>
NET CASH (USED)/PROVIDED BY OPERATING ACTIVITIES	<u>\$ (78,568)</u>	<u>\$ 205,645</u>

See accompanying notes to financial statements.

PATERSON MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2013 AND 2012

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.

PATERSON MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2013 AND 2012

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, 2013 AND 2012

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:

<u>Asset</u>	<u>Fair Value</u>	<u>Level 1</u>
Cash	\$ 684,705	\$684,705
Invested Funds	\$ 339,956	\$339,953

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 operated GFHC until July 2013. Currently, Eagle Creek Renewable Energy has purchased ownership of this partnership interest.

PATERSON MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2013 AND 2012

NOTE 3 SITE LEASE – CONTINUED

In fiscal year ending January 31, 2013 and 2012, the Authority received no rent adjustment due to increase in purchase price.

NOTE 4 CAPITAL SUBSIDY

Net assets (invested in capital assets) include contributed capital of \$2,472,759 and \$2,356,535, net of allocated depreciation, at January 31, 2013 and 2012, respectively.

NOTE 5 GRANT RECEIVABLE

Grants receivable is deemed to be fully collectible by management. At January 31, 2013, grants receivable consisted of the 2008 New Jersey Historic Trust Fund (NJHT) grant funds expended during the fiscal year but not yet reimbursed by the grantor. The Authority must submit final reimbursement report to NJHT before the amount is reimbursed.

NOTE 6 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, 2013, the MUA have received matching funds of \$232,158 from Algonquin Power Fund (America), Inc. The funds were used for the restoration of Great Falls Power Plant. In addition, Algonquin 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.

PATERSON MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JANUARY 31, 2013 AND 2012

NOTE 6 COMMITMENTS AND CONTINGENCIES - CONTINUED

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. 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 7 SUBSEQUENT EVENTS

Management has reviewed events subsequent to January 31, 2013, up through the financial statements issuance to evaluate their effect on the fair presentation of the financial statements. As of the issuance date of December 10, 2013, 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.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Paterson Municipal Utilities Authority
Paterson, New Jersey

We have audited, in accordance with the 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, the financial statements of Paterson Municipal Utilities Authority (the Authority) as of and for the year ended January 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paterson Municipal Utilities Authority's financial statements are free from 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 items number 2013-01 and 2013-02.

Management's Response to Findings

Management's response to the findings identified in our audit is described in the accompanying schedule of audit findings. The response was not subjected to the auditing procedures applied in the audit of the financial 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Malaga Associates, LLC

Jersey City, New Jersey
December 10, 2013

PATERSON MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF AUDIT FINDINGS

FOR THE YEAR ENDED JANUARY 31, 2012

Finding # 2013-1

Grant Management

The Authority did not hire a qualified grant manager during the year and as a result reimbursement reports were not filed with the New Jersey Historical Trust Fund.

Recommendation:

The Authority should hire someone with suitable knowledge of grant management in order to comply with all grant requirements.

Management Response:

The Authority will be partnering with the City of Paterson's grant writer to apply and execute all grant funds. The Authority will also hire an Executive Director with suitable knowledge of grant management to administer all grant funds.

Finding # 2013-2

Annual Audit

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:

The Authority 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:

The Authority will review the current accounting services contract and establish procedures to ensure the timeliness of future audits.

PATERSON MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JANUARY 31, 2013

STATUS OF PRIOR AUDIT FINDINGS

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.

Management Response:

All cash disbursements require approval and dual 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.

Current Year Assessment

The corrective plan of action was fully implemented in fiscal year 2013.

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.

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.

Current Year Assessment

It appears that the corrective plan of action was not fully implemented in that the Authority did not file a reimbursement report related to the 2008 grant in fiscal year 2013. See our current year finding number 2013-01.

PATERSON MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JANUARY 31, 2013

STATUS OF PRIOR AUDIT FINDINGS-CONTINUED

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).

Management Response:

Management will ensure timely filing of the 2013 audit report.

Current Year Assessment

It appears that the corrective plan of action was not fully implemented in that the Authority did not file a fiscal year 2013 audit report on time. See our current year finding number 2013-02.

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash and Invested Funds - Beginning	\$ 1,232,735	\$ 1,294,628
Cash Receipts		
Rental and Other Income	133,591	323,095
Interest on Investments	3,112	7,980
Total Cash and Invested Funds Available	<u>1,369,438</u>	<u>1,625,703</u>
Cash Disbursements		
Operations	212,159	117,450
Restoration Projects	132,621	275,518
Total Cash Disbursements	<u>344,780</u>	<u>392,968</u>
Cash and Invested Funds - Ending	<u>\$ 1,024,658</u>	<u>\$ 1,232,735</u>
Balance Comprised of		
Cash	684,705	894,338
Invested Funds - Certificates of Deposit	339,953	338,397
TOTAL	<u>\$ 1,024,658</u>	<u>\$ 1,232,735</u>

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, 2013 AND 2012

	<u>2013 Budget</u>	<u>2013 Actual</u>	<u>2012 Actual</u>
REVENUES			
Rental Income-Land Lease	\$ 99,000	\$ 99,000	\$ 106,347
Rental Income - Other	25,500	29,657	28,082
Grant Awards	89,000	84,417	280,310
Jazz Festival	2,700	-	-
Other Income	-	3,910	5,000
Interest Income	6,000	3,112	7,980
TOTAL REVENUES	<u>222,200</u>	<u>220,096</u>	<u>427,719</u>
EXPENDITURE			
<u>Operating</u>			
Project Manager Services	-	-	14,000
Professional Fees	40,000	42,762	40,200
Utilities and Telephone	12,000	8,875	9,266
Repairs and Maintenance	48,000	55,394	29,982
Secretarial Services	3,000	3,000	3,000
Jazz Festival	10,000	35,139	18,422
Bottled Water	-	625	3,550
Donations	30,000	-	30,000
Administrative Expenses	20,000	4,786	8,732
Commissioner Fees	2,500	1,667	2,500
Engineering Fees	6,000	-	-
	<u>171,500</u>	<u>152,248</u>	<u>159,652</u>
<u>Other Costs Funded by Revenues</u>			
Capital Outlay	-	132,621	275,518
Total Costs Funded by Revenues	171,500	284,869	435,170
Suplus/(Deficit)	<u>50,700</u>	<u>(64,773)</u>	<u>(7,451)</u>
	<u>\$ 222,200</u>	<u>\$ 220,096</u>	<u>\$ 427,719</u>

See accompanying notes to financial statements.