

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)**

**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011**

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

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THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT



VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
Township of Hanover Sewerage Authority
Whippany, New Jersey 07981

We have audited the accompanying basic financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover) as of and for the year ended November 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover) as of November 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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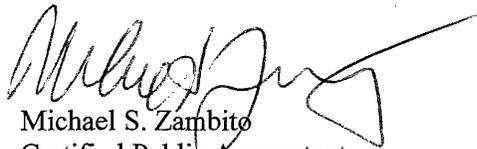
In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2012 on our consideration of the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) internal control over financial reporting and on our tests of its compliance with certain 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. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) basic financial statements. The accompanying other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

March 28, 2012

REQUIRED SUPPLEMENTARY INFORMATION – PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) financial activities for the fiscal year ended November 30, 2011. Please read it in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's net assets decreased \$223,606.11 as a result of this year's operations, or .70 percent.
- Total cost of all of the Authority's programs was \$5,369,306.34 in 2010-2011 compared to \$5,137,268.59 in 2009-2010.
- During the year, the Authority had expenses for business-type activities that were \$223,606.11 more than the \$5,145,700.23 generated in program revenues.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view on the Authority's finances. Fund financial statements start on page 11. Fund financial statements report the Authority's operation in more detail than the government-wide statements by providing information about the Authority's most financially significant funds.

Reporting the Authority as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's *net assets* and changes in them. You can think of the Authority's net assets, the difference between assets and liabilities, as one way to measure the Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Authority's net assets are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's user fee base, and the condition of the Authority's capital assets to assess the overall *health* of the Authority's.

Reporting the Authority's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the Authority as a whole. Some funds are required to be established by State law.

Proprietary funds: when the Authority charges customers for the full cost of the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Authority's enterprise funds (a component of business type funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The Authority as Trustee

Reporting the Authority’s Fiduciary Responsibilities

The Authority is the trustee, or *fiduciary*, for the Unemployment Compensation Trust Funds. All of the Authority’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 15 and 16. We exclude these activities from the Authority’s other financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE AUTHORITY AS A WHOLE

The Authority’s *combined* net assets changed from a year ago, *decreasing* from \$31,990,084.26 to \$31,766,478.15. Looking at the net assets and net expenses of business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Authority’s business-type activities as of November 30.

**Table 1
Net Assets**

	Business-type	
	Activites	
	2011	2010
Current and Other Assets	\$ 5,164,107.74	\$ 7,204,742.15
Capital Assets	<u>27,985,372.23</u>	<u>27,708,305.09</u>
Total Assets	<u>33,149,479.97</u>	<u>34,913,047.24</u>
NonCurrent Liabilities	11,689.00	23,077.00
Other Liabilities	<u>1,371,312.82</u>	<u>2,899,885.98</u>
Total Liabilities	<u>1,383,001.82</u>	<u>2,922,962.98</u>
Net Assets:		
Invested in Capital Assets, Net		
of Debt	27,985,372.23	27,708,305.09
Restricted	2,713,107.79	3,363,043.38
Unrestricted	<u>1,067,998.13</u>	<u>918,735.79</u>
Total Net Assets	<u>\$ 31,766,478.15</u>	<u>\$ 31,990,084.26</u>

Net assets of the Authority’s business-type activities decreased .70 percent. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased \$149,262.34. Restricted net assets, decreased by \$649,935.59. The investment in capital assets, net of debt category increased \$277,067.14.

Table 2
Changes in Net Assets

	Business-type	
	Activities	
	2011	2010
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 5,092,659.86	\$ 4,711,604.36
Operating Grants and Contributions		
General Revenues:		
Interest and Investment Earnings	(2,846.33)	11,087.80
Other General Revenues	55,886.70	10,218.90
Total Revenues	5,145,700.23	4,732,911.06
<u>Program Expenses including Indirect Expenses</u>		
Business-type Activities:		
Sewer	5,369,306.34	5,137,268.59
Total Expenses	5,369,306.34	5,137,268.59
Increase in Net Assets	\$ (223,606.11)	\$ (404,357.53)

Business-type Activities

Authority's major Enterprise Fund consists of the Sewer Operating Fund. The basic financial statements for the major funds are included in this report. Because the focus on business-type funds is a cost of service measurement or capital maintenance, we have included these funds in Table 3, which demonstrates return on ending assets and return on ending net assets.

Table 3

	Sewer
	Service
Total Assets	\$ 33,149,479.97
Net Assets	\$ 31,766,478.15
Change in Net Assets	\$ (223,606.11)
Return on Ending Total Assets	-0.67%
Return on Ending Net Assets	-0.70%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets Table 4

Capital Assets at Year-end

	Business-type	
	Activities	
	2011	2010
Land	\$ 381,455.00	\$ 381,455.00
Distribution and Collection System	9,302,183.33	8,971,864.73
Buildings and Improvements	30,929,832.11	30,929,832.11
Machinery and Equipment	1,478,135.14	1,417,214.97
Construction-In-Progress	8,557,122.62	7,725,584.16
Subtotal	50,648,728.20	49,425,950.97
Accumulated Depreciation	(22,663,355.98)	(21,717,645.88)
Totals	\$ 27,985,372.22	\$ 27,708,305.09

This year's major additions in the Business-type Activities included

- Continued construction on a rehabilitation contract for sludge digestion facilities.
- Awarded two contracts for the rehabilitation of lateral sewers.
- Continued construction of HVAC improvements at the treatment plant.
- Continued GIS mapping of the system.
- Continued TV inspection program using in house staff and equipment.
- Installed permanent alternate disinfection process using in house staff.
- Continued manhole maintenance, repair and upgrade program using in house staff and equipment.
- Completed design and permitting and arranged funding through the NJEIT Program for a project to rehabilitate the equalization ponds and related equipment.
- Started design for the upgrade to Primary Digester No. 2, combined heat and power, electrical distribution improvements, influent screening replacement and de-chlorination replacement. Also began process to obtain funding through the NJEIT program.

The Authority's 2011-2012 capital budget anticipates a spending level of \$6,060,000.00 for capital projects. More detailed information about the Authority capital assets is presented in the notes to the basic financial statements

DEBT

At year – end the Authority had no debt outstanding.

CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Michael C. Wynne, P.E., Executive Director, of the Hanover Sewerage Authority, 1000 Route 10, Whippany, New Jersey.

BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

PROPRIETARY FUNDS

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
NOVEMBER 30, 2011**

	Business-type Activities - Enterprise Funds	
	<u>Sewer</u>	<u>Totals</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 4,354,993.24	\$ 4,354,993.24
Cash Restricted - Customer Deposits	118,121.68	118,121.68
Accounts Receivable	678,371.08	678,371.08
Prepaid Expenses	<u>12,621.74</u>	<u>12,621.74</u>
Total Current Assets	<u>5,164,107.74</u>	<u>5,164,107.74</u>
Noncurrent Assets:		
Capital Assets Not Being Depreciated:		
Land	381,455.00	381,455.00
Construction in Progress	<u>8,557,122.62</u>	<u>8,557,122.62</u>
	<u>8,938,577.62</u>	<u>8,938,577.62</u>
Capital Assets Being Depreciated:		
Capital Assets	41,710,150.58	41,710,150.58
Less: Accumulated Depreciation	<u>(22,663,355.97)</u>	<u>(22,663,355.97)</u>
	<u>19,046,794.61</u>	<u>19,046,794.61</u>
Total Noncurrent Assets	<u>27,985,372.23</u>	<u>27,985,372.23</u>
Total Assets	<u>33,149,479.97</u>	<u>33,149,479.97</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	901,709.22	901,709.22
Prepaid Revenue	8,281.68	8,281.68
Other Liabilities	5,826.86	5,826.86
Contracts Payable	337,373.38	337,373.38
Customer Deposits	<u>118,121.68</u>	<u>118,121.68</u>
Total Current Liabilities	<u>1,371,312.82</u>	<u>1,371,312.82</u>
Noncurrent Liabilities:		
Compensated Absences	<u>11,689.00</u>	<u>11,689.00</u>
Total Noncurrent Liabilities	<u>11,689.00</u>	<u>11,689.00</u>
Total Liabilities	<u>1,383,001.82</u>	<u>1,383,001.82</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	27,985,372.23	27,985,372.23
Restricted for:		
Plant Expansion	2,713,107.79	2,713,107.79
Unrestricted	<u>1,067,998.13</u>	<u>1,067,998.13</u>
Total Net Assets	<u>\$ 31,766,478.15</u>	<u>\$ 31,766,478.15</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED NOVEMBER 30, 2011**

	Business-type Activities - Enterprise Funds	
	Sewer	Totals
Operating Revenues:		
Service Charges	\$ 4,512,624.72	\$ 4,512,624.72
Connection Fees	138,400.00	138,400.00
Other Operating Revenues	441,635.14	441,635.14
Total Operating Revenues	5,092,659.86	5,092,659.86
Operating Expenses:		
Salaries and Wages	1,782,395.92	1,782,395.92
Fringe Benefits	806,943.34	806,943.34
Other Expenses	1,834,256.99	1,834,256.99
Depreciation	945,710.09	945,710.09
Total Operating Expenses	5,369,306.34	5,369,306.34
Operating Income	(276,646.48)	(276,646.48)
Nonoperating Revenues (Expenses):		
Noncapitalized Expenses	(16,323.52)	(16,323.52)
Contracts Payable Canceled	25,861.00	25,861.00
Accounts Payable Canceled	34,961.22	34,961.22
Compensated Absences Accrued	11,388.00	11,388.00
Interest on Investments	(2,846.33)	(2,846.33)
Total Nonoperating Revenues (Expenses)	53,040.37	53,040.37
Change in net assets	(223,606.11)	(223,606.11)
Total Net Assets—Beginning	31,990,084.26	31,990,084.26
Total Net Assets—Ending	\$ 31,766,478.15	\$ 31,766,478.15

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED NOVEMBER 30, 2011**

	Business-type Activities - Enterprise Funds	
	<u>Sewer</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 5,119,465.21	\$ 5,119,465.21
Payments to Employees	(1,782,395.92)	(1,782,395.92)
Payments for Employee Benefits	(800,943.34)	(800,943.34)
Payments to Suppliers	<u>(1,742,374.40)</u>	<u>(1,742,374.40)</u>
Net Cash Provided by Operating Activities	<u>793,751.55</u>	<u>793,751.55</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Customer Deposits	16,107.82	16,107.82
Customer Refunds	<u>(22,833.22)</u>	<u>(22,833.22)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>(6,725.40)</u>	<u>(6,725.40)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(2,440,841.59)	(2,440,841.59)
Contracts Payable Adjustment	<u>9,537.48</u>	<u>9,537.48</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,431,304.11)</u>	<u>(2,431,304.11)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends	<u>(2,846.33)</u>	<u>(2,846.33)</u>
Net Cash Provided by Investing Activities	<u>(2,846.33)</u>	<u>(2,846.33)</u>
Net Increase in Cash and Cash Equivalents	(1,647,124.29)	(1,647,124.29)
Balances—Beginning of Year	<u>6,120,239.21</u>	<u>6,120,239.21</u>
Balances—End of Year	<u>\$ 4,473,114.92</u>	<u>\$ 4,473,114.92</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ (276,646.48)	\$ (276,646.48)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	945,710.09	945,710.09
(Increase) Decrease in Accounts Receivable, Net	394,533.38	394,533.38
(Increase) Decrease in Prepaid Expenses	(1,023.26)	(1,023.26)
Increase (Decrease) in Accounts Payable	(263,771.16)	(263,771.16)
Increase (Decrease) in Prepaid Revenue	(5,169.10)	(5,169.10)
Increase (Decrease) in Other Liabilities	<u>118.08</u>	<u>118.08</u>
Total Adjustments	<u>1,070,398.03</u>	<u>1,070,398.03</u>
Net Cash Provided by Operating Activities	<u>\$ 793,751.55</u>	<u>\$ 793,751.55</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

FIDUCIARY FUNDS

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED NOVEMBER 30, 2011

	Unemployment Compensation <u>Trust</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 64,289.66</u>
Total Assets	<u>\$ 64,289.66</u>
NET ASSETS	
Held in Trust for Unemployment Claims and Other Purposes	<u>\$ 64,289.66</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
 (A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED NOVEMBER 30, 2011**

	Unemployment Compensation <u>Trust</u>
ADDITIONS	
Contributions:	
Plan Member	\$ 1,975.99
Other	<u>-</u>
Total Contributions	<u>1,975.99</u>
Investment Earnings:	
Interest	<u>65.31</u>
Net Investment Earnings	<u>65.31</u>
Total Additions	<u>2,041.30</u>
DEDUCTIONS	
Unemployment Claims	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Assets	<u>2,041.30</u>
Net Assets—Beginning	<u>62,248.36</u>
Net Assets—Ending	<u>\$ 64,289.66</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover) ("the Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

In June 2007, The Governmental Standards Board (GASB) issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 51 are not applicable for the Authority.

In June 2008, The Governmental Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 53 are not applicable for the Authority.

In March 2009, the Governmental Accounting Standards Board (GASB) adopted Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement will become effective for fiscal periods beginning after June 15, 2010. The effective date for the Authority is the fiscal year beginning December 1, 2010. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and clarifying the existing fund balance type definitions.

B. Reporting Entity

These financial statements present the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover). As defined by GASB No. 14, component units are legally separate entities that are included in the Township's reporting entity because of the significance of their operating or financial relationships with the Township.

The Division of Local Government Services, Department of Community Affairs, State of New Jersey has not mandated that municipalities in the State of New Jersey implement GASB 34 therefore the Township's financial statements are not presented.

The Authority is a public body politic and corporate of the State of New Jersey, created by virtue of an ordinance of the Township Committee duly and finally adopted on March 8, 1956. The Authority was created pursuant to the Sewerage Authorities Law.

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

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

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

The Authority is a component unit of the primary government the Township of Hanover. The Commissioners of the Authority are appointed by the Township Committee of the Township of Hanover for staggered terms of five years and under the agreement entered into by the Authority and Township of Hanover, the Township is obligated to guarantee the Authority's Debt Service, to the extent not met by other sources.

An Agreement dated May 2, 1960 between the Authority and the Township establishes conditions under which the Authority shall operate the System and from time to time enlarge, alter, renew and replace the same.

Among other things, the Agreement provides that the Authority will charge Service Charges in accordance with the Act to the extent permitted by the Agreement and at the rates established in accordance with the Agreement and will charge to the Township Annual Charges computed in accordance with the Agreement. The Annual Charge made by the Authority to be paid by the Township shall include and make provision for all of the amounts (not actually paid from Service Charges) necessary (1) to pay Operating Expenses, and (2) the principal of and interest on any and all Bonds as the same become due and (3) to provide for any deficits of the Authority by the Township, any other municipality, any county or any person, or from any other cause, and (4) to maintain such reserves or sinking funds for any of the foregoing purposes as may be required by the Bond Resolution.

In the Agreement the Township agrees not to construct any sewerage disposal plant or sewers or other facilities for the collection, treatment or disposal of sewage originating within or without its territory unless the Authority shall have given its written consent to such construction.

In the Agreement the Authority may, and under the terms of the Bond Resolution the Authority has, assigned or pledged for the benefit and security of the holders on Bonds all of its rights under the provisions of the Agreement to receive payments from the Township.

The Authority may not permit property located outside of the Township to be connected with the System unless written consent has been given by or on behalf of the Township.

The Agreement may be terminated at any time after five years from the date of the Agreement (May 2, 1960) and after the payment in full of all obligations of the Authority including its Bonds, original or refunding or both, issued to finance construction, acquisition, replacement, improvement, maintenance or operation of the System, the Township or the Authority upon two years' notice to the other party hereto may terminate the Agreement.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

C. Basic Financial Statements- Fund Financial Statements

Proprietary Fund Type

The focus of Proprietary Fund measurement is upon determination of net income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States of America are those similar to businesses in the private sector. The following is a description of the Proprietary Funds of the Authority:

Enterprise Funds – The Enterprise Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the Authority is that the costs (i.e. expenses including depreciation and indirect costs) of providing goods or services to the users on a continuing basis be financed or recovered primarily through user charges; or, where the Authority has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-50 Years
Land Improvements	10-20 Years
Machinery and Equipment	5-10 Years
Light Trucks and Vehicle	5 Years
Heavy Trucks and Vehicle	6 Years
Infrastructure	10-50 Years

D. Measurement Focus and Basis of Accounting

The proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, grants entitlements and donations.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

E. Budgets/Budgetary Control

The annual budget is required to be balanced and authorities are permitted to utilize unreserved retained earnings to balance their budget; however, the maximum amount which can be utilized is the lesser of (a) the estimated year-end balance of unreserved retained earnings or (b) working capital reduced by unrestricted assets not ordinarily convertible into cash (non-liquid, such as prepaid insurance and inventory).

For the purpose of using projected Unreserved Retained Earnings or funding operating deficits, Authorities are permitted to amend or modify the annual operating budget, since actual results may differ from the amount estimated in the budget process.

Amendments to the operating and/or capital budgets may be permitted for a variety of conditions, as more fully described in the rules and regulations promulgated by the Local Finance Board. There were no significant budget amendments during the fiscal year.

F. Assets, Liabilities and Fund Equity

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be Investments. U.S. Treasury and Agency Obligations and Certificates of Deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey Authorities are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 17:9-41 et. seq. provides a list of permissible investments that may be purchased by New Jersey Authorities.

2. Short – term Interfund Receivables/Payables

Short – term interfund receivables/payables represents amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the Authority and that are due within one year.

3. Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements and the Authority has therefore chosen to report these items as expenditures/expenses at the time of purchase.

4. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Business-type activities report user fees and interest earnings as their major receivables.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

5. Capital Assets

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on the following assets is provided on the straight – line basis over the following estimated useful lives:

Buildings	20-50 years
Machinery and Equipment	5-10 years
Land Improvements	10-20 years
Other Infrastructure	10-50 years

Land and Construction in Progress are not depreciated.

6. Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to debt related trustee accounts and developer's deposits.

7. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds, notes and loans payable.

The accounting for proprietary fund debt is the same in the fund statements as it is in the government-wide statements.

8. Compensated Absences

The Authority's policies regarding sick time permit employees to accumulate earned but unused sick leave. The proprietary fund reports the liability as it is incurred.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

9. Equity Classifications

Fund Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – 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.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

10 Use of 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 certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Revenues, Expenditures and Expenses

1. Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

2. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for business-type activities.

In the fund financial statements, expenditures are classified as follows:

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, proprietary funds report expenses relating to use of economic resources.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note II: Stewardship, Compliance and Accountability

By its nature as a local government unit, the Authority is subject to various federal, state, and local laws and contractual regulations. An analysis of the Authority's compliance with significant laws and regulations and demonstration of its stewardship over Authority resources follows.

A. Revenue and Plant Expansion Funds

The Authority has established the following cash and investment accounts for the deposit of all revenues received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for which restricted</u>
Revenue	All revenue received by the Authority.	Authorized operating expenses.
Plant Expansion	Amounts budgeted annually.	To build a reserve for renewal, replacement, And repairs of facilities..

In addition, the Authority has also established the following restricted accounts:

1. Customer deposits accounts for monies required from customers or vendors to assure payment or performance. Deposits are retained in the account until all outstanding debts to the Authority have been satisfied or all contracts satisfactorily concluded.
2. Escrow accounts to be held in reserve for payroll-related liabilities, such as Unemployment Insurance.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund, or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

N.J.S.A. 17:9-41 et. Seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act (GUDPA). Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

At November 30, 2011 the Authority's cash and cash equivalent's amounted to \$4,698,196.28. Of this amount, \$697,974.41 was covered by federal depository insurance (F.D.I.C.) and \$528,653.68 was covered by a collateral pool maintained by the banks as required by GUDPA.

At November 30, 2011 the Authority's participation in the State of New Jersey Cash Management Fund amounted to \$3,471,568.19.

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures* ("GASB 40"), the Authority's operating cash accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the Authority would not be able to recover the value of its deposits and investments). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by a pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the government's name.

As of November 30, 2011, \$4,698,196.28 of the Authority's cash and cash equivalents of \$4,698,196.28 was exposed to custodial credit risk as follows:

Uninsured and collateral held by public depository or by its' trust department not in the Township of Hanover Sewerage Authority's name	<u>\$4,698,196.28</u>
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THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 40A:5-15.1) permit the Authority to purchase the following types of securities:

a. When authorized by resolution adopted by a majority vote of all its members the board of commissioners of any Authority may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the Authority;

(1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

(2) Government money market mutual funds;

(3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

(4) Bonds or other obligations of the Authority or bonds or other obligations of local unit or units within which the Authority is located;

(5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by Authority;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or

(8) Agreements for the repurchase of fully collateralized securities, if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;

(b) the custody of collateral is transferred to a third party;

(c) the maturity of the agreement is not more than 30 days;

(d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

The Authority had no investments as described above at November 30, 2011.

B. Accounts Receivable

Accounts receivable consists mainly of user charges and IPP fees receivable.

TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

C. Capital Assets

Capital asset activity for the year ended November 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustment</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 381,455.00	\$ -	\$ -	\$ 381,455.00
Construction in Progress	<u>7,725,584.16</u>	<u>1,161,857.06</u>	<u>(330,318.60)</u>	<u>8,557,122.62</u>
Total Capital Assets Not Being Depreciated	<u>8,107,039.16</u>	<u>1,161,857.06</u>	<u>(330,318.60)</u>	<u>8,938,577.62</u>
Other Capital Assets:				
Distribution & Collection System	8,971,864.73	330,318.60	-	9,302,183.33
Buildings & Improvements	30,929,832.11	-	-	30,929,832.11
Machinery & Equipment	<u>1,417,214.97</u>	<u>60,920.17</u>	<u>-</u>	<u>1,478,135.14</u>
	<u>41,318,911.81</u>	<u>391,238.77</u>	<u>-</u>	<u>41,710,150.58</u>
Less Accumulated Depreciation for:				
Distribution & Collection System	5,222,161.36	110,548.54	-	5,332,709.90
Buildings and Improvements	15,429,606.47	751,691.57	-	16,181,298.04
Machinery and Equipment	<u>1,065,878.05</u>	<u>83,469.99</u>	<u>-</u>	<u>1,149,348.04</u>
Total Accumulated Depreciation	<u>21,717,645.88</u>	<u>945,710.10</u> (1)	<u>-</u>	<u>22,663,355.98</u>
Net Capital Assets Being Depreciated	<u>19,601,265.93</u>	<u>(554,471.33)</u>	<u>-</u>	<u>19,046,794.60</u>
Business-Type Activities Capital Assets, Net	<u>\$ 27,708,305.09</u>	<u>\$ 607,385.73</u>	<u>\$ (330,318.60)</u>	<u>\$ 27,985,372.22</u>

(1) Depreciation expense was charged to governmental functions as follows:

Sewer	<u>\$ 945,710.10</u>
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TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Accounts Payable

Accounts payable are composed of payables to vendors.

B. Long - Term Liabilities

Long - Term liability activity for the year ended November 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Other Liabilities:					
Compensated Absences	\$ 23,077.00	\$ -	\$ (11,388.00)	\$ 11,689.00	
Total Other Liabilities	<u>23,077.00</u>	<u>-</u>	<u>(11,388.00)</u>	<u>11,689.00</u>	<u>-</u>
Governmental Activities					
Long - Term Liabilities	<u>\$ 23,077.00</u>	<u>\$ -</u>	<u>\$ (11,388.00)</u>	<u>\$ 11,689.00</u>	<u>\$ -</u>

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

B. Long – Term Liabilities (Continued)

1. Loans Payable

As of November 30, 2011 the Authority had no Loans Payable.

2. Bonds Authorized But Not Issued

As of November 30, 2011 the Authority had no authorized but not issued bonds.

Note V: Detailed Disclosure Regarding Fund Equity

A. Restricted Net Assets

Enterprise Fund:

Restricted for:

Plant Expansion	\$2,713,107.79
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Fiduciary Fund:

Restricted for:

Unemployment Claims	\$ 64,289.66
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THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note VI: Pension Plans

Description of Systems

Substantially all of the Authority's employees participate in the following contributory defined benefit public employee retirement system which has been established by State statute: the Public Employees' Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The PERS is considered a cost sharing multiple-employer defined benefit plan.

The Public Employees' Retirement System (PERS) was established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits.

According to State law all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system terminate. The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues a publicly available financial report that includes the financial statements and required supplementary information of the Public Employees Retirement System.. This report may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

Significant Legislation

Chapter 89, P.L. 2008, effective November 1, 2008, increased the PERS retirement age. If a person becomes a member on or after November 1, 2008 that person must be at least 62 years of age in order to retire without a reduction in their retirement allowance.

Chapter 99, P.L. 2009, effective March 17, 2009 gave local PERS employers the option to defer 50% of their contributions in fiscal year 2009 the normal and accrued liability and pay 50 percent of the certified amount as determined by the actuary or pay the full 100% certified amount.

Contribution Requirements

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The PERS pension fund provide for employee contributions based 5.50 percent of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note VI: Pension Plans

Contribution Requirements (Continued)

During the year ended June 30, 2010, 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.

The Authority's total payroll for the fiscal year ended November 30, 2011 was \$1,767,068.96 and covered payroll was \$1,563,282.67 for PERS. Contributions to PERS for the last three years made by the employees and the Authority were as follows:

		<u>PERS</u>	Percent of Covered <u>Payroll</u>
Employees	11/30/09	84,874.16	5.51%
	11/30/10	86,852.87	5.50%
	11/30/11	88,561.75	5.67%
Authority	11/30/09	116,216.00	6.96%
	11/30/10	135,316.00	8.57%
	11/30/11	170,987.00	10.93%

Note VII: Post Retirement Medical Benefits

PERS employees do not receive post – retirement medical benefits from the State of New Jersey, however the Authority has recently been budgeting monies to pay post retirement medical benefits for 4 previously retired employees and is considering reserving monies to pay for future post retirement medical benefits.

Note VIII: 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 Authority Joint Insurance Fund (the "Fund"). The Fund is both an insured and self-administered group of municipalities established for the purpose of providing certain low-cost property, liability, public officials' liability and workers' compensation insurance coverage for member authorities. The Authority pays an annual assessment to the Fund and should it be determined that payments received by the Fund are deficient, additional assessments may be levied.

The Authority continues to carry commercial insurance coverage for all other risks of loss, including health and accident insurance. There have been no significant reductions in insurance coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

Note VIII: Risk Management (Continued)

New Jersey Unemployment Compensation Insurance – The District has elected to fund its New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. Under this plan, the District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The District is billed quarterly for amounts due to the State.

<u>Fiscal Year</u>	<u>Authority Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2010-2011	\$ 0.00	\$1,975.99	\$ 0.00	\$64,289.66
2009-2010	\$ 0.00	\$1,968.66	\$ 0.00	\$62,248.36
2008-2009	\$ 0.00	\$1,952.79	\$ 0.00	\$60,148.33

Note IX: Accrued Sick and Vacation Benefits

The Authority does not have any provision to allow employees to accumulate vacation from year to year that would result in an extraordinary payment to an individual upon termination of employment, nor is there any provision for payment of any unused sick time upon termination of employment.

The Authority does have a contingent liability that is created by its termination leave allowance. It enables an employee to receive a certain number of days pay based upon years of service and unused sick time upon termination of employment followed by retirement into the pension system. It is expected that the cost of such unpaid compensation would be included in the Authority's budget operating expenditures in the year in which it is used. The contingent liability for the Authority at November 30, 2011 is \$11,689.00.

Note X: Contingent Liabilities

The Authority is a defendant in a few lawsuits, none of which is unusual for an authority of its size. Additional liabilities, if not covered by insurance, should not be material in amount.

Note XI Subsequent Events

The Authority has authorized the issuance of up to \$8,000,000.00 Bonds (Series 2012) for the Rehabilitation of Pond Liners and Miscellaneous Improvements through the New Jersey Environmental Infrastructure Financing Program.

OFFICIALS IN OFFICE

<u>Name</u>	<u>Title</u>
Joseph Schleifer	Chairman
Walter B. Galacki	Vice-Chairman
Robert E. O'Hare	Secretary
Leonardo A. Fariello	Member
John L. O'Brien, Jr.	Assistant Secretary
Michael C. Wynne	Executive Director
Silvio Esposito	Treasurer

There is a Public Employees Faithful Performance Blanket Position Bond with NJUA with coverage of \$1,000,000.

REQUIRED SUPPLEMENTARY INFORMATION – PART II

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
 (A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)**

**STATEMENT OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES
 COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>2010-2011 Actual</u>
Operating Revenues:			
Sewer Charges	\$ 4,605,565.00	\$ 4,605,565.00	\$ 4,512,624.72
Delinquent Penalties	22,000.00	22,000.00	39,387.28
Connection Fees	300,000.00	300,000.00	138,400.00
Interest Income	5,000.00	5,000.00	(5,230.32)
Pretreatment Fees	445,000.00	445,000.00	307,161.33
Application Fees	25,000.00	25,000.00	27,300.00
Inspection Fees	15,000.00	15,000.00	23,325.59
Miscellaneous	<u>1,000.00</u>	<u>1,000.00</u>	<u>44,460.94</u>
Total Operating Fees	<u>5,418,565.00</u>	<u>5,418,565.00</u>	<u>5,087,429.54</u>
 Total Revenues	 <u>\$ 5,418,565.00</u>	 <u>\$ 5,418,565.00</u>	 <u>\$ 5,087,429.54</u>

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

STATEMENT OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011
(CONTINUED)

	Original <u>Budget</u>	Modified <u>Budget</u>	2010-2011 <u>Actual</u>
Expenses:			
Operating Appropriations:			
Personnel Services (Salaries and Wages):			
Administrative	\$ 193,000.00	\$ 229,000.00	\$ 228,749.95
Plant	1,590,000.00	1,554,000.00	1,553,645.97
Employee Benefits:			
Public Employees' Retirement System	171,000.00	171,000.00	170,987.00
Social Security Tax	136,500.00	136,500.00	130,836.78
Workmens' Compensation Insurance	64,700.00	64,700.00	64,843.82
Dental Insurance	23,600.00	23,600.00	21,960.00
Health Insurance	420,000.00	420,000.00	418,315.74
Administration Expenses:			
Other Expenses	57,200.00	63,200.00	62,421.76
Professional Services	254,500.00	248,500.00	236,867.21
Other Insurance	9,500.00	9,500.00	9,256.95
Reimbursement to the Township of Hanover	64,015.00	64,015.00	64,015.00
Operations and Maintenance:			
Electricity	350,000.00	350,000.00	312,302.92
Sludge Removal	162,000.00	162,000.00	124,632.60
Fuel, Lubricants, Water	117,000.00	207,000.00	191,135.28
Maintenance Supplies	91,000.00	116,000.00	111,371.05
Maintenance Services	142,800.00	142,800.00	108,465.72
Plant Equipment	90,000.00	143,000.00	74,061.84
Chemicals	132,000.00	107,000.00	66,429.05
Vehicle Expense	30,500.00	30,500.00	24,923.82
Collection System	283,600.00	140,600.00	76,991.95
Permits	20,800.00	20,800.00	18,720.00
Plant Supplies	11,300.00	11,300.00	8,642.31
Laboratory Expense	128,200.00	128,200.00	105,425.88
Pretreatment Expense	274,700.00	274,700.00	145,105.91
Safety	21,800.00	21,800.00	16,412.35
Other Insurance	78,850.00	78,850.00	77,075.39
Total Operating Appropriations	<u>4,918,565.00</u>	<u>4,918,565.00</u>	<u>4,423,596.25</u>
Other Appropriations:			
Reserve for Plant Expansion	<u>500,000.00</u>	<u>500,000.00</u>	<u>500,000.00</u>
Total Other Appropriations	<u>500,000.00</u>	<u>500,000.00</u>	<u>500,000.00</u>
 Total Appropriations	 <u>\$ 5,418,565.00</u>	 <u>\$ 5,418,565.00</u>	 <u>\$ 4,923,596.25</u>

OTHER SUPPLEMENTARY INFORMATION

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

SCHEDULE OF NET ASSETS

	<u>Reserved</u>			<u>Totals 2010-2011</u>
	<u>Unreserved</u>	<u>Plant Expansion</u>	<u>Customer Deposits</u>	
ASSETS				
Current Assets:				
Cash	\$ 1,804,512.07	\$ 2,550,481.17	\$ 118,121.68	\$ 4,473,114.92
Accounts Receivable:				
Sewer Charges	170,533.08			170,533.08
Pretreatment Fees	7,838.00			7,838.00
Other		500,000.00		500,000.00
Prepaid Expenses	12,621.74			12,621.74
Noncurrent Assets:				
Land	381,455.00			381,455.00
Construction in Progress	8,557,122.62			8,557,122.62
Capital Assets, Net	19,046,794.61	-	-	19,046,794.61
TOTAL ASSETS	<u>29,980,877.12</u>	<u>3,050,481.17</u>	<u>118,121.68</u>	<u>33,149,479.97</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	901,709.22			901,709.22
Prepaid Revenue	8,281.68			8,281.68
Other	5,826.86			5,826.86
Contracts Payable		337,373.38		337,373.38
Customer Deposits			118,121.68	118,121.68
Noncurrent Liabilities:				
Compensated Absences	11,689.00	-	-	11,689.00
TOTAL LIABILITIES	<u>927,506.76</u>	<u>337,373.38</u>	<u>118,121.68</u>	<u>1,383,001.82</u>
NET ASSETS				
Invested in Capital Assets, Net	27,985,372.23			27,985,372.23
Restricted for:				
Plant Expansion		2,537,458.63		2,537,458.63
Encroachment Agreement - Hanover Renaissance		175,649.16		175,649.16
Unrestricted	1,067,998.13	-	-	1,067,998.13
TOTAL NET ASSETS	<u>\$ 29,053,370.36</u>	<u>\$ 2,713,107.79</u>	<u>\$ -</u>	<u>\$ 31,766,478.15</u>

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Reserved			Totals 2010-2011
	Unreserved	Encroachment Agreement	Plant Expansion	
Operating Revenues:				
Sewer Charges	\$ 4,512,624.72	\$ -	\$ -	\$ 4,512,624.72
Delinquent Penalties	39,387.28			39,387.28
Connection Fees	138,400.00			138,400.00
Interest Income	(5,230.32)			(5,230.32)
Pretreatment Fees	307,161.33			307,161.33
Application Fees	27,300.00			27,300.00
Inspection Fees	23,325.59			23,325.59
Miscellaneous	44,460.94			44,460.94
	<u>5,087,429.54</u>			<u>5,087,429.54</u>
Operating Expenses:				
Operating Appropriations	4,423,596.25			4,423,596.25
Depreciation	945,710.09			945,710.09
	<u>5,369,306.34</u>			<u>5,369,306.34</u>
	(281,876.80)			(281,876.80)
Operating Income				
Non Operating Revenues and (Expenses):				
Interest Income		675.50	1,708.49	2,383.99
Noncapitalized Expenses			(16,323.52)	(16,323.52)
Compensated Absences Accrued	11,388.00			11,388.00
Contracts Payable Canceled	-		25,861.00	25,861.00
Accounts Payable Canceled	34,961.22			34,961.22
	<u>(235,527.58)</u>			<u>(235,527.58)</u>
Net Income (Deficit) Before Transfers		675.50	11,245.97	(223,606.11)
Transfers:				
Other	1,161,857.06		(1,161,857.06)	-
Budget Reserve	(500,000.00)		500,000.00	-
Increase in Net Assets	426,329.48	675.50	(650,611.09)	(223,606.11)
Net Assets December 1	28,627,040.88	174,973.66	3,188,069.72	31,990,084.26
Net Assets November 30	<u>\$ 29,053,370.36</u>	<u>\$ 175,649.16</u>	<u>\$ 2,537,458.63</u>	<u>\$ 31,766,478.15</u>

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)**

SCHEDULE OF CONTRACTS PAYABLE

Balance December 1, 2010		\$ 1,555,437.74
Increased by:		
Contracts Awarded in 2010-2011	\$ -	
Change Orders Awarded in 2010-2011	<u>508,339.68</u>	
		<u>508,339.68</u>
		2,063,777.42
Decreased by:		
Paid in 2010-2011	1,700,543.04	
Canceled in 2010-2011	<u>25,861.00</u>	
		<u>1,726,404.04</u>
Balance November 30, 2011		<u>\$ 337,373.38</u>
 <u>Analysis of Balance November 30, 2011</u>		
GDS Mechanical (Contract #36)		\$ 217,451.00
MBE Mark III (Contract #37)		<u>119,922.38</u>
		<u>\$ 337,373.38</u>

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)**

SCHEDULE OF CONSTRUCTION IN PROGRESS

Balance December 1, 2010		\$ 7,725,584.16
Increased by:		
Contracts Awarded in 2010-2011	\$ 508,339.68	
Payments in 2010-2011	<u>653,517.38</u>	
		<u>1,161,857.06</u>
		8,887,441.22
Decreased by:		
Transferred to Capital Assets 2010-2011	330,318.60	
Canceled in 2010-2011	<u>-</u>	
		<u>330,318.60</u>
Balance November 30, 2011		<u>\$ 8,557,122.62</u>
 <u>Analysis of Balance November 30, 2011</u>		
Pond Liner (#24)		\$ 425,409.85
GDS Mechanical HVAC Upgrades (#36)		3,928,684.79
Treatment Plant Upgrade Pilot Study		143,098.84
Digester Upgrade (#37)		3,991,372.11
PLC Upgrade		14,775.00
Primary Digester Rehab (#38)		43,664.77
Sewer Repairs		<u>10,117.26</u>
		<u>\$ 8,557,122.62</u>

**REPORTS PURSUANT TO GOVERNMENT AUDITING
STANDARDS**



VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

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
Township of Hanover Sewerage Authority
Whippany, New Jersey 07981

We have audited the financial statements of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover) as of and for the year ended November 30, 2011, and have issued our report thereon dated March 28, 2012. 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; and in compliance with audit requirements prescribed by the bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) 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 Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) 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 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) 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 no instances on noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Township of Hanover Sewerage Authority in the General Comments and Recommendations section dated March 28, 2012.

This report is intended solely for the information and use of management, the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover), the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey and 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.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

March 28, 2012

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)**

PART II

**GENERAL COMMENTS AND RECOMMENDATIONS
YEAR ENDED NOVEMBER 30, 2011**

GENERAL COMMENTS

CONTRACTS AND AGREEMENTS REQUIRED TO BE ADVERTISED PER N.J.S.A. 40A:11-4

The following is presented for the information of the Members and Officials:

N.J.S.A. 40A:11-4 states "Every contract or agreement, for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of the act, shall be made or awarded only after public advertising for bids and bidding therefore, except as is provided otherwise in the act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate the amount set forth in, or the amount calculated by the Governor pursuant to, Section 3 of c. 198, P.L. (N.J.S.A. 40A:11-3) except by contract or agreement."

The governing body of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover) has the responsibility of determining whether the expenditures in any category will exceed the statutory limit within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, professional opinion should be sought before a commitment is made.

Effective April 17, 2000 N.J.S.A. 40A:11-1 et seq. (Local Public Contracts Law) was revised by P.L. 1999, c.440 (originally known as Assembly bill No. 3519). The Division of Local Government Services in the Department of Community Affairs, after consultation with the Commissioner of Education, shall prescribe rules and procedures to implement the requirements of the law.

Effective July 1, 2010 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 (as amended) is \$26,000.00.

In accordance with N.J.S.A. 40A:11--3(a), The Authority has increased the bid threshold from \$26,000.00 to \$36,000.00

Inasmuch as the system of records did not provide for an accumulation of payments by categories for the performance of any work or the furnishings 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. None were disclosed.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory limit where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 40A:11-4.

EXAMINATION OF CLAIMS

Claims paid during the period under review were examined for clerical accuracy, supporting documentation and proper approvals.

It was noted that supporting documentation for payments could not always be found. The authority needs to establish further procedures to ensure that all supporting documentation is on file at time of audit.

OTHER MATTERS

It was noted that the minutes of the authority were not in satisfactory condition. Greater care needs to be taken to ensure that typographical errors do not occur, approvals are made in a timely fashion, and the bill list amounts are in agreement with the treasurer's records. It is also suggested that the authority maintain a permanent minute book.

RECOMMENDATIONS

That procedures be established to ensure that all supporting documentation for disbursements is readily available for audit.

That an official permanent minute book be maintained by the authority and greater care be taken to ensure the accuracy of the minutes.

Status of Prior Years' Audit Findings/Recommendations:

Not Applicable

* * * * *

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

APPRECIATION

We wish to express our appreciation of the assistance and courtesies rendered by the Authority Officials during the course of the audit.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

March 28, 2012