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

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2015

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

VMA

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the business-type activities 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, 2015, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 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 performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that the audit evidence obtained is sufficient to provide a reasonable basis for our opinions.

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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, 2015, 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.

Emphasis of Matter

As discussed in Note VI to the basic financial statements, the Authority implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment to GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68* during the year ended November 30, 2015. Our opinions are not modified with respect to this matter. The implementation resulted in the restatement of certain balances on the Statement of Net Position and the ending balance for Net Position for the Business-Type Funds as of November 30, 2014 as detailed in Note XII to the basic financial statements.

Other Matters

Required Supplementary Information

The Management's Discussion and Analysis and budgetary comparison information on schedule 1 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Supplementary and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover) that collectively comprise their financial statements. The accompanying supplementary information listed in the table of contents including statistical information and the letter of comments and recommendations section are presented for purposes of additional analysis, as required by the Division of Local Government Services and are not a required part of the financial statements.

The supplemental information listed in the table of contents are the responsibility of management and were derived from the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the financial statements taken as a whole

Other Reporting Required by Government Auditing Standards

In accordance with Governmental Auditing Standards, we have also issued our report dated May 16, 2016 on our consideration of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover)'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in considering the Authority's internal control over financial reporting and compliance.

Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375

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

May 16, 2016

REQUIRED SUPPLEMENTARY INFORMATION – PART I

The Township of Hanover Sewerage Authority
(A Component Unit of the Township of Hanover)
Management's Discussion and Analysis
For the Fiscal Year Ended November 30, 2015
(UNAUDITED)

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, 2015. Please read it in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's net position increased $742,055.77 as a result of this year's operations, or 2.48 percent.

- Total cost of all of the Authority's programs was $6,300,238.08 in 2014-2015 compared to $5,887,734.43 in 2013-2014.
- During the year, the Authority had expenses for business-type activities that were $742,055.77 less than the $7,042,293.85 generated in program revenues.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows provide information about the activities of the Authority as a whole and present a longer-term view on the Authority's finances.

Reporting the Authority as a Whole

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position

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 Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position 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 position* and changes in them. You can think of the Authority's net position, 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 position 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.

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 Position 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 Fund. All of the Authority's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. 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.

Notes to the Basic Financial Statements: The notes provided additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Major Features of
The Township of Hanover Sewerage Authority
(A Component Unit of the Township of Hanover)
Fund Financial Statements
(Figure A-1)

	Fund Statements	
	Proprietary Funds	Fiduciary Funds
Scope	Activities the Authority operates similar to private businesses.	Instances in which the Authority is the trustee or agent for someone else's resources such as Unemployment Compensation Trust
Required financial statements	Statement of net position Statement of revenues, expenses, and changes in net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.

Financial Analysis of the District as a Whole

The Authority's *combined* net position changed from a year ago, *increasing* from $29,874,480.45 to $30,616,536.22. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Authority's business-type activities as of November 30.

Table 1
Net Position

	Business-type Activites	
	2015	2014
Current and Other Assets	$ 12,940,814.51	$ 14,013,152.19
Capital Assets	42,205,040.38	39,167,324.76
Total Assets	55,145,854.89	53,180,476.95
Deferred Outflows of Resources	1,038,774.00	321,151.00
Current Liabilities	6,904,135.12	12,238,646.27
Non Current Liabilities	18,547,858.55	11,097,082.23
Total Liabilities	25,451,993.67	23,335,728.50
Deferred Inflows of Resources	116,099.00	291,419.00
Net Position:		
Net Investment in Capital Assets	28,303,126.55	26,333,692.87
Restricted	3,072,429.91	3,660,492.34
Unrestricted	(759,020.24)	(119,704.76)
Total Net Position	$ 30,616,536.22	$ 29,874,480.45

- Net Position of the Authority's business-type activities *increased* 2.48 percent.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – *decreased* $639,315.48.
- Restricted net position, those restricted mainly for capital projects, *decreased* by $588,062.43.
- The Net investment in capital assets category *increased* $1,969,433.68.

Table 2
Changes in Net Position

	Business-type Activites	
	2015	2014
Revenues		
Operating Revenues:		
Charges for Services	$ 6,008,915.13	$ 6,401,243.97
Nonoperating Revenues:		
Interest and Investment Earnings	16,822.97	12,625.07
Connection Fees	960,200.00	88,100.00
Other General Revenues	56,355.75	35,882.90
Total Revenues	7,042,293.85	6,537,851.94
Program Expenses including Indirect Expenses		
Business-type Activities:		
Sewer	6,300,238.08	5,887,734.43
Total Expenses	6,300,238.08	5,887,734.43
Increase in Net Position	$ 742,055.77	$ 650,117.51

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 position.

Table 3

	Sewer Service
Total Assets	$ 55,145,854.89
Net Position	$ 30,616,536.22
Change in Net Position	$ 742,055.77
Return on Ending Total Assets	1.35%
Return on Ending Net Net Position	2.42%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets
Table 4

Capital Assets at Year-end

	Business-type Activites	
	2015	2014
Land	$ 381,455.00	$ 381,455.00
Distribution and Collection System	9,542,391.93	9,542,391.93
Buildings and Improvements	35,143,305.85	35,143,305.85
Machinery and Equipment	1,737,629.40	1,699,844.03
Construction-In-Progress	22,240,173.31	18,165,258.72
Subtotal	69,044,955.49	64,932,255.53
Accumulated Depreciation	(26,839,915.11)	(25,764,930.77)
Totals	$ 42,205,040.38	$ 39,167,324.76

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

Continued construction of HVAC improvements at the treatment plant (Contract 36).
Continued GIS mapping of the system.
Continued TV inspection program using in house staff and equipment.
Continued manhole maintenance, repair and upgrade program using in house staff and equipment.
Continued construction on a contract to rehabilitate the equalization ponds and related equipment. Funding was through the NJEIT Program (Contract 24).
Continued construction on a contract for rehabilitating Primary Digester No. 2, combined heat and power, electrical distribution improvements, influent screening replacement and de-chlorination replacement. Funding was through the NJEIT program (Contract 38).
Undertook a study of upgraded aeration systems.
Began design on a clarifier replacement project (Contract 42).
Awarded a contract for a fuel source reliability and diversification project (Contract 40). Funding was through the NJEIT Program.
Undertook design of fuel storage upgrades (Contract 39).
Completed design and awarded a contract for fire alarm system replacement (Contract 41).

The Authority's 2015-2016 capital budget anticipates a spending level of $8,760,000.00 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 total debt of $19,276,569.83 outstanding versus $17,139,234.89 last year. The Authority continued to pay down its debt as scheduled, retiring $687,678.06 of its outstanding loan balance with the New Jersey Wastewater Treatment Trust Financing Program.

Outstanding Debt, at year –end
Table 5

	Business-type Activities	
	2015	2014
Loans	$ 13,901,913.83	$ 12,833,631.89
Net Pension Liability	5,299,745.00	4,254,977.00
Compensated Absences	74,911.00	50,626.00
	$ 19,276,569.83	$ 17,139,234.89

An analysis of Authority Debt is presented in the notes to the basic financial statements.

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

ENTITY WIDE FINANCIAL STATEMENTS

BUSINESS-TYPE FUNDS

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF NET POSITION
BUSINEES-TYPE ACTIVITIES
NOVEMBER 30, 2015

	Business-type Activities - Enterprise Funds Sewer
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 6,915,492.41
Cash Restricted - Customer Deposits	147,009.95
Accounts Receivable:	
Sewer Charges	285,212.46
Pretreatment Fees	10,605.46
Wastewater Treatment Loans	5,569,640.00
Prepaid Expenses	12,854.23
Total Current Assets	12,940,814.51
Noncurrent Assets:	
Capital Assets Not Being Depreciated:	
Land	381,455.00
Construction in Progress	22,240,173.31
	22,621,628.31
Capital Assets Being Depreciated:	
Capital Assets	46,423,327.18
Less: Accumulated Depreciation	(26,839,915.11)
	19,583,412.07
Total Noncurrent Assets	42,205,040.38
Total Assets	55,145,854.89
DEFERRED OUTFLOWS OF RESOURCES	
Pension Deferred Outflows	1,038,774.00
LIABILITIES	
Current Liabilities:	
Accounts Payable	638,615.59
Prepaid Revenue	13,160.32
Other Liabilities	7,596.71
Contracts Payable	5,369,041.27
Loans Payable	728,711.28
Customer Deposits	147,009.95
Total Current Liabilities	6,904,135.12
Noncurrent Liabilities:	
Loans Payable	13,173,202.55
Net Pension Liability	5,299,745.00
Compensated Absences	74,911.00
Total Noncurrent Liabilities	18,547,858.55
Total Liabilities	25,451,993.67
DEFERRED INFLOWS OF RESOURCES	
Pension Deferred Inflows	116,099.00
NET POSITION	
Net Investment in Capital Assets	28,303,126.55
Restricted/Assigned for:	
Plant Expansion	3,072,429.91
Unrestricted/Unassigned	(759,020.24)
Total Net Position	$ 30,616,536.22

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

Statement 2

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED NOVEMBER 30, 2015

	Business-type Activities - Enterprise Funds
	Sewer
Operating Revenues:	
Service Charges	$ 5,586,966.76
Other Operating Revenues	421,948.37
Total Operating Revenues	6,008,915.13
Operating Expenses:	
Salaries and Wages	1,800,202.07
Fringe Benefits	868,986.96
Other Expenses	2,200,065.87
Depreciation	1,074,984.34
Total Operating Expenses	5,944,239.24
Operating Income	64,675.89
Nonoperating Revenues (Expenses):	
Connection Fees	960,200.00
Additions to Capital Assets Paid From Budget	37,785.37
Accounts Payable Canceled	18,570.38
Compensated Absences Accrued	(24,285.00)
Adjustment for Net Pension Liability	(151,825.00)
Debt Service Interest	(179,888.84)
Interest on Investments	16,822.97
Total Nonoperating Revenues (Expenses)	677,379.88
Change in Net Position	742,055.77
Total Net Position—Beginning (Restated)	29,874,480.45
Total Net Position—Ending	$ 30,616,536.22

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

Statement 3

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED NOVEMBER 30, 2015

	Business-type Activities - Enterprise Funds Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 6,902,075.59
Payments to Employees	(1,800,202.07)
Payments for Employee Benefits	(869,222.50)
Payments to Suppliers	(1,751,357.55)
Net Cash Provided by Operating Activities	2,481,293.47
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Customer Deposits	74,369.52
Customer Refunds	(69,074.61)
Net Cash Provided by Non-Capital Financing Activities	5,294.91
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Connection Fees	960,200.00
Purchase of Capital Assets	(4,515,775.48)
Principal Paid on Capital Debt	(687,678.06)
Interest Paid on Capital Debt	(179,888.84)
Loan Proceeds	5,374,019.00
Net Cash (Used for) Capital and Related Financing Activities	950,876.62
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends	16,822.97
Net Cash Provided by Investing Activities	16,822.97
Net Increase in Cash and Cash Equivalents	3,454,287.97
Balances—Beginning of Year	3,608,214.39
Balances—End of Year	$ 7,062,502.36
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$ 64,675.89
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,074,984.34
Decrease in Accounts Receivable, Net	908,802.19
(Increase) in Prepaid Expenses	(235.54)
Increase in Accounts Payable	433,397.22
(Decrease) in Prepaid Revenue	(1,641.73)
Increase in Other Liabilities	1,311.10
Total Adjustments	2,416,617.58
Net Cash Provided by Operating Activities	$ 2,481,293.47

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

FIDUCIARY FUNDS

Statement 4

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED NOVEMBER 30, 2015

	Unemployment Compensation Trust
ASSETS	
Cash and Cash Equivalents	$ 72,920.39
Total Assets	$ 72,920.39
NET POSITION	
Held in Trust for Unemployment Claims and Other Purposes	$ 72,920.39

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

Statement 5

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED NOVEMBER 30, 2015

	Unemployment Compensation Trust
ADDITIONS	
Contributions:	
Plan Member	$ 2,077.81
Other	-
Total Contributions	2,077.81
Investment Earnings:	
Interest	233.77
Net Investment Earnings	233.77
Total Additions	2,311.58
DEDUCTIONS	
Unemployment Claims	-
Total Deductions	-
Change in Net Position	2,311.58
Net Position—Beginning	70,608.81
Net Position—Ending	$ 72,920.39

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

NOTES TO BASIC FINANCIAL STATEMENTS

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 more significant accounting policies established in GAAP and used by the Authority are discussed below.

In March 2009, the Governmental Accounting Standards Board (GASB) adopted Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement became effective for fiscal periods beginning after June 15, 2010. The effective date for the Authority was 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.

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.

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

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.

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Note I: Summary of Significant Accounting Policies (Continued)

C. Basic Financial Statements- Fund Financial Statements

Business-Type activities

The focus of Business-type activities measurement is upon determination of net income, changes in net position, 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 Business-type activities 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 business-type activities is charged as an expense against their operations. Accumulated depreciation is reported on business-type activities 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.

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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.

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 business-type activities 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 business-type activities 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 business-type activities 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 business-type activities reports the liability as it is incurred.

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 position and displayed in three components:

a. Net Investment in capital assets – 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 position – Consists of 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 position – All other assets that do not meet the definition of "restricted" or "net investment in capital assets."

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 business-type activities 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

Note I: Summary of Significant Accounting Policies (Continued)

H. Recent Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, "Fair Value Measurement and Application." The requirements of this statement are effective for financial statements beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is 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. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The Authority is in the process of reviewing its obligations under GASB 72, and its potential impact on the financial statements.

GASB 73, "Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.

GASB 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", will be effective beginning with the fiscal year ending June 30, 2016. The objective of this Statement is to identify- in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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:

Account	Amount	Use for which restricted
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. Reserve accounts to be held for an Encroachment Agreement and for Environmental Compliance.

3. Escrow accounts to be held in reserve for payroll-related liabilities, such as Unemployment Insurance.

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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, 2015 the Authority's cash and cash equivalent's amounted to $7,459,094.75. Of this amount, $500,000.00 was covered by federal depository insurance (F.D.I.C.) and $6,954,429.59 was covered by a collateral pool maintained by the banks as required by GUDPA.

At November 30, 2015 the Authority's participation in the State of New Jersey Cash Management Fund amounted to $4,665.16.

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, 2015, $4,665.16 of the Authority's cash and cash equivalents of $7,459,094.75 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	$4,665.16

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.

Credit Risk: The Authority does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosures be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. The Authority did not have any investments at November 30, 2015.

Interest Rate Risk: The Authority does not have a formal policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority did not have any investments at November 30, 2015.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. The Authority did not have any investments at November 30, 2015.

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

B. Accounts Receivable

Accounts Receivable for the year ended November 30, consisted mainly of user charges and IPP fees.

C. Capital Assets

Capital asset activity for the year ended November 30, 2015 was as follows:

	Beginning Balance	Additions		Adjustment	Ending Balance
Business-Type Activities:					
Capital Assets Not Being Depreciated:					
Land	$ 381,455.00	$ -		$ -	$ 381,455.00
Construction in Progress	18,165,258.72	4,074,914.59		-	22,240,173.31
Total Capital Assets Not Being Depreciated	18,546,713.72	4,074,914.59		-	22,621,628.31
Other Capital Assets:					
Distribution & Collection System	9,542,391.93	-		-	9,542,391.93
Buildings & Improvements	35,143,305.85	-			35,143,305.85
Machinery & Equipment	1,699,844.03	37,785.37		-	1,737,629.40
	46,385,541.81	37,785.37		-	46,423,327.18
Less Accumulated Depreciation for:					
Distribution & Collection System	5,688,530.08	120,490.94			5,809,021.02
Buildings and Improvements	18,646,819.29	856,914.84			19,503,734.13
Machinery and Equipment	1,429,581.40	97,578.56			1,527,159.96
Total Accumulated Depreciation	25,764,930.77	1,074,984.34	(1)		26,839,915.11
Net Capital Assets Being Depreciated	20,620,611.04	(1,037,198.97)		-	19,583,412.07
Business-Type Activities Capital Assets, Net	$ 39,167,324.76	$ 3,037,715.62		$ -	$ 42,205,040.38

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

Sewer	$ 1,074,984.34

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, 2015 was as follows:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Long - Term Debt:					
Loan Payable	$ 12,833,631.89	$ 1,755,960.00	$ 687,678.06	$ 13,901,913.83	$ 728,711.28
Total Debt Payable	12,833,631.89	1,755,960.00	687,678.06	13,901,913.83	728,711.28
Other Liabilities:					
Net Pension Liability	4,254,977.00	1,044,768.00		5,299,745.00	
Compensated Absences	50,626.00	24,285.00	-	74,911.00	
Total Other Liabilities	4,305,603.00	1,069,053.00	-	5,374,656.00	-
Business-Type Activities Long - Term Liabilities	$ 17,139,234.89	$ 2,825,013.00	$ 687,678.06	$ 19,276,569.83	$ 728,711.28

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

B. Long – Term Liabilities (Continued)

1. Loans Payable

Pursuant to agreements entered into with the New Jersey Wastewater Treatment Trust Financing Program dated May 3, 2012, May 22, 2014 and May 28, 2015, the Authority has borrowed the following:

	Amount of Loans (1)	Amount Outstanding November 30, 2015
Loan	$11,577,989.00	$10,286,913.83
Trust	3,815,000.00	3,615,000.00
	$15,392,989.00	$13,901,913.83

(1) Net of Debt Issuance Costs and Investment Earnings.

2. Bonds Authorized But Not Issued

As of November 30, 2015 the Authority had no authorized but not issued bonds.

Note V: Detailed Disclosure Regarding Fund Equity

A. Restricted Net Position

Enterprise Fund:	
Restricted for:	
Plant Expansion	$3,072,429.91
Fiduciary Fund:	
Restricted for:	
Unemployment Claims	$ 72,920.39

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

Summary of Significant Accounting Policies-

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

At November 30, 2015, the Authority reported a liability of $5,299,745 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013. The Authority's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2015 and 2014. At June 30, 2015, the Authority's proportion was 0.023609%, which was an increase of 0.00883% from its proportion measured as of June 30, 2014.

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Note VI: Pension Plans (Continued)

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

For the year ended November 30, 2015, the Authority recognized pension expense of $347,663.00. At November 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$126,433.00	
Changes of Assumptions	$569,150.00	
Net difference between Projected and Actual Earnings on Pension Plan Investments		$85,210.00
Changes in proportion and differences between Authority Contributions and Proportionate Share of Contributions	$140,217.00	$30,889.00
Authority Contributions Subsequent to the Measurement Date	$202,974.00	0.00
Total	$1,038,774.00	$116,099.00

$202,974.00 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date (i.e. for the fiscal year ending November 30, 2015, the plan measurement date is June 30, 2015) has been recognized as a reduction of the net position liability measured as of June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Amount
2016	$111,118.62
2017	111,118.62
2018	111,118.62
2019	176,974.22
2020	100,042.92
Total	$610,373.00

Note VI: Pension Plans (Continued)

	6/30/14	6/30/15
Collective Deferred Outflows of Resources	$952,194,675.00	$3,578,755,666.00
Collective Deferred Inflows of Resources	$1,479,224,662.00	$993,410,455.00
Collective Net Pension Liability (Non-State-Local Group)	$18,722,735,003.00	$22,447,996,119.00
Authority's Portion of Net Pension Liability	$4,254,977.00	$5,299,745.00
Authority's Proportion %	0.022726%	0.023609%

Actuarial Assumptions

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

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

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements form the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. It is unlikely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

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Note VI: Pension Plans (Continued)

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PER's target asset allocation as of June 30, 2015 are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Note VI: Pension Plans (Continued)

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability measured as of June 30, 2015, calculated using the discount rate of 4.90%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.90%) or 1-percentage-point higher (5.90%) than the current rate:

	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
Authority's proportionate share of the net pension liability	$6,586,935	$5,299,745	$4,220,575

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report at hhtp://www.nj.gov/treasury/pensions/financial-rpts-home.shtml.

During the year ended June 30, 2015, 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, 2015 was $1,796,702.07 and covered payroll was $1,610,962.67 for PERS. Contributions to PERS for the last three years made by the employees and the Authority were as follows:

		PERS	Percent of Covered Payroll
Employees	11/30/13	104,623.59	6.73%
	11/30/14	109,500.80	6.85%
	11/30/15	114,107.78	7.08%
Authority	11/30/13	173,475.00	11.15%
	11/30/14	173,004.00	10.83%
	11/30/15	187,352.00	10.83%

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 form these risks have not exceeded commercial coverage in any of the past three fiscal years.

New Jersey Unemployment Compensation Insurance – The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority 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 Authority is billed quarterly for amounts due to the State.

Fiscal Year	Authority Contributions	Employee Contributions	Amount Reimbursed	Ending Balance
2014-2015	$ 0.00	$2,077.81	$ 0.00	$72,920.39
2013-2014	$ 0.00	$2,084.09	$ 0.00	$70,608.81
2012-2013	$ 0.00	$2,002.48	$ 0.00	$68,417.48

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, 2015 is $74,911.00.

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: Retroactive Restatement of Net Position

The Authority adopted GASBNo.68-Accounting and Financial Reporting for Pensions - An amendment of GASB No. 27 during the 2015 fiscal year as required by the pronouncement. The pronouncement requires the Authority to record its proportional share of the State of New Jersey's net pension liability on the face of its financial statements as of November 30, 2015 and to record related pension expense in accordance with the pronouncement. In order to correctly reflect pension expense in accordance with GASB No. 68, the beginning Net Position of the Authority was adjusted to reflect the beginning balance of the net pension liability. Since the measurement date of the net pension liability is June 30, 2015 (as described in Note VI), the restatement adjustments to Net Position relate to the beginning net pension liability measured as of June 30, 2014. Also, in accordance with GASB No. 71 -Pension Transition for Contributions Made Subsequent to the Measurement Date, The Authority restated its Net Position for pension contributions made after the beginning net pension liability measurement date of June 30, 2014 (deferred outflows).

Governmental Activities Net Position

Net Position (per Statement 2), November 30, 2014	$ 34,099,725.45
Restatement of Net Pension Liability	(4,254,977.00)
Restatement of Deferred Outflows – Pension	321,151.00
Restatement of Deferred Inflows – Pension	(291,419.00)
Net Position (per Statement 2), November 30, 2014, as Restated	$29,874,480.45

Note XII Subsequent Events

The Authority's management has informed us that there are no significant events that need to be disclosed after the balance sheet date through the date of audit.

OFFICIALS IN OFFICE

Name	Title
Joseph Schleifer	Chairman
Dennis Dittrick	Vice-Chairman
William Byrne	Secretary
John Corona	Assistant Secretary
Bill Kuehner	Member
John L. Ferramosca	Member Liaison
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.

OTHER SUPPLEMENTARY INFORMATION

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, 2015

	Original Budget	Modified Budget	2014-2015 Actual
Operating Revenues:			
Sewer Charges	$ 6,105,215.00	$ 6,105,215.00	$ 5,586,966.76
Delinquent Penalties	22,000.00	22,000.00	46,930.14
Interest Income	1,000.00	1,000.00	16,602.19
Pretreatment Fees	358,000.00	358,000.00	278,881.13
Application Fees	25,000.00	25,000.00	31,435.00
Inspection Fees	20,000.00	20,000.00	15,785.00
Miscellaneous	1,000.00	1,000.00	48,917.10
Total Operating Fees	6,532,215.00	6,532,215.00	6,025,517.32
Non-Operating Revenues:			
Connection Fees	200,000.00	200,000.00	960,200.00
Total Revenues	$ 6,732,215.00	$ 6,732,215.00	$ 6,985,717.32

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, 2015 (CONTINUED)

	Original Budget	Modified Budget	2014-2015 Actual
Expenses:			
Operating Appropriations:			
Personnel Services (Salaries and Wages):			
Administrative	$ 222,000.00	$ 222,000.00	$ 217,928.46
Plant	1,605,000.00	1,605,000.00	1,582,273.61
Employee Benefits:			
Public Employees' Retirement System	196,000.00	196,000.00	187,352.00
Social Security Tax	139,800.00	139,800.00	128,047.25
Workmens' Compensation Insurance	67,500.00	67,500.00	60,562.35
Dental Insurance	23,900.00	23,900.00	21,462.00
Health Insurance	533,000.00	533,000.00	471,563.36
Administration Expenses:			
Other Expenses	66,000.00	66,000.00	65,440.42
Professional Services	368,500.00	368,500.00	368,323.99
Other Insurance	12,000.00	12,000.00	11,648.44
Reimbursement to the Township of Hanover	64,015.00	64,015.00	64,015.00
Operations and Maintenance:			
Electricity	280,000.00	280,000.00	265,866.44
Sludge Removal	170,000.00	170,000.00	165,988.00
Fuel, Lubricants, Water	200,500.00	125,500.00	107,525.75
Maintenance Supplies	106,500.00	96,500.00	96,110.48
Maintenance Services	134,400.00	144,400.00	140,061.94
Plant Equipment	35,000.00	110,000.00	103,631.60
Chemicals	99,200.00	99,200.00	83,704.08
Vehicle Expense	30,500.00	30,500.00	29,335.11
Collection System	343,600.00	343,600.00	334,124.75
Permits	26,400.00	26,400.00	21,275.10
Plant Supplies	13,200.00	13,200.00	12,184.33
Laboratory Expense	79,100.00	79,100.00	70,654.46
Pretreatment Expense	188,900.00	188,900.00	165,189.97
Safety	19,700.00	19,700.00	12,382.13
Other Insurance	83,500.00	83,500.00	82,603.88
Total Operating Appropriations	5,108,215.00	5,108,215.00	4,869,254.90
Other Appropriations:			
Reserve for Plant Expansion	750,000.00	750,000.00	750,000.00
Loan Principal and Interest	874,000.00	874,000.00	867,566.90
Total Other Appropriations	1,624,000.00	1,624,000.00	1,617,566.90
Total Appropriations	$ 6,732,215.00	$ 6,732,215.00	$ 6,486,821.80

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

SCHEDULE OF NET POSITION

		Reserved		
	Unreserved	Plant Expansion	Customer Deposits	Totals 2014-2015
ASSETS				
Current Assets:				
Cash	$ 3,154,518.57	$ 3,760,973.84	$ 147,009.95	$ 7,062,502.36
Accounts Receivable:				
Sewer Charges	285,212.46			285,212.46
Pretreatment Fees	10,605.46			10,605.46
Other		5,569,640.00		5,569,640.00
Prepaid Expenses	12,854.23			12,854.23
Noncurrent Assets:				
Land	381,455.00			381,455.00
Construction in Progress	22,240,173.31			22,240,173.31
Capital Assets, Net	19,583,412.07	-	-	19,583,412.07
TOTAL ASSETS	45,668,231.10	9,330,613.84	147,009.95	55,145,854.89
DEFERRED OUTFLOWS OF RESOURCES				
Pension Deferred Outflows	1,038,774.00			1,038,774.00
LIABILITIES				
Current Liabilities:				
Accounts Payable	638,615.59			638,615.59
Prepaid Revenue	13,160.32			13,160.32
Other	7,596.71			7,596.71
Contracts Payable		5,369,041.27		5,369,041.27
Customer Deposits			147,009.95	147,009.95
Noncurrent Liabilities:				
Loans Payable	13,012,771.17	889,142.66		13,901,913.83
Net Pension Liability	5,299,745.00			5,299,745.00
Compensated Absences	74,911.00	-	-	74,911.00
TOTAL LIABILITIES	19,046,799.79	6,258,183.93	147,009.95	25,451,993.67
DEFERRED INFLOWS OF RESOURCES				
Pension Deferred Inflows	116,099.00			116,099.00
NET POSITION				
Net Investment in Capital Assets	28,303,126.55			28,303,126.55
Restricted/Assigned for:				
Plant Expansion		2,885,745.29		2,885,745.29
Encroachment Agreement - Hanover Renaissance		176,658.75		176,658.75
Woodmont Environmental Compliance		10,025.87		10,025.87
Unrestricted/Unassigned	(759,020.24)	-	-	(759,020.24)
TOTAL NET POSITION	$ 27,544,106.31	$ 3,072,429.91	$ -	$ 30,616,536.22

Schedule 3

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

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

		Reserved/Assigned			
	Unreserved/ Unassigned	Encroachment Agreement	Plant Expansion	Woodmont Environment Compliance	Totals 2014-2015
Operating Revenues:					
Sewer Charges	$ 5,586,966.76	$ -	$ -	$ -	$ 5,586,966.76
Delinquent Penalties	46,930.14				46,930.14
Interest Income	16,602.19				16,602.19
Pretreatment Fees	278,881.13				278,881.13
Application Fees	31,435.00				31,435.00
Inspection Fees	15,785.00				15,785.00
Miscellaneous	48,917.10				48,917.10
	6,025,517.32				6,025,517.32
Operating Expenses:					
Operating Appropriations	4,869,254.90				4,869,254.90
Depreciation	1,074,984.34				1,074,984.34
	5,944,239.24				5,944,239.24
Operating Income	81,278.08				81,278.08
Non Operating Revenues and (Expenses):					
Interest Income		176.56	34.22	10.00	220.78
Connection Fees	960,200.00				960,200.00
Compensated Absences Accrued	(24,285.00)				(24,285.00)
Adjustment for Net Pension Liability	(151,825.00)				(151,825.00)
New Jersey Wastewater Treatment Financing Program Interest Expense: Budget Interest	(179,888.84)				(179,888.84)
Additions to Capital Assets Paid From Budget	37,785.37				37,785.37
Accounts Payable Canceled	18,570.38	-	-	-	18,570.38
Net Income (Deficit) Before Transfers	741,834.99	176.56	34.22	10.00	742,055.77
Transfers:					
Other	1,338,283.21	-	(1,338,283.21)		-
Budget Reserve	(750,000.00)	-	750,000.00	-	-
Increase in Net Position	1,330,118.20	176.56	(588,248.99)	10.00	742,055.77
Net Position December 1 (Restated)	26,213,988.11	176,482.19	3,473,994.28	10,015.87	29,874,480.45
Net Position November 30	$ 27,544,106.31	$ 176,658.75	$ 2,885,745.29	$ 10,025.87	$ 30,616,536.22

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

SCHEDULE OF CONTRACTS PAYABLE

Balance December 1, 2014		$ 5,809,902.16
Increased by:		
Contracts Awarded in 2014-2015	$ 2,728,630.00	
Change Orders Awarded in 2014-2015	8,001.38	
		2,736,631.38
		8,546,533.54
Decreased by:		
Paid in 2014-2015	3,177,492.27	
Canceled in 2014-2015	-	
		3,177,492.27
Balance November 30, 2015		$ 5,369,041.27

Analysis of Balance November 30, 2015

GDS Mechanical (Contract #36)	$ 217,451.00
RML Construction Co. (Contract #24)	256,753.22
Meridian (Fire Alarm Upgrade)	329,930.00
Spectraserv (Contract #40)	1,790,246.95
Spectraserv (Contract #38)	2,774,660.10
	$ 5,369,041.27

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

SCHEDULE OF CONSTRUCTION IN PROGRESS

Balance December 1, 2014		$ 18,165,258.72
Increased by:		
Contracts Awarded in 2014-2015	$ 2,736,631.38	
Payments in 2014-2015	1,338,283.21	
		4,074,914.59
Balance November 30, 2015		$ 22,240,173.31

Analysis of Balance November 30, 2015

Pond Liner (#24)	$ 5,929,453.65
GDS Mechanical HVAC Upgrades (#36)	4,109,573.91
Oil Tank Replacement	37,344.75
Fuel Source (#40)	2,550,525.26
County Bridge-Ridgedale	27,401.13
Primary Digester Rehab (#38)	8,793,790.46
Fire Alarm Upgrade (#41)	381,280.76
HJ Pump Station	7,407.88
PACL Enclosure	58,025.08
Aeration System Study	68,452.73
River Crossing (2015-2)	165,354.71
Settling Tank Rehabilatation (#42)	6,386.40
Sewer Repairs	105,176.59
	$ 22,240,173.31

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

Schedule 6

SCHEDULE OF NEW JERSEY WASTEWATER TREATMENT FINANCING PROGRAM LOAN PAYABLE

Balance December 1, 2014	$ 12,833,631.89
Increased by:	
Awarded in 2014-2015	1,755,960.00
	14,589,591.89
Decreased by:	
Paid in 2014-2015	687,678.06
Balance November 30, 2015	$ 13,901,913.83

Analysis of Loan Payable November 30, 2015

Date	Fund Loan Program	Trust Loan Program	Total
2/1/2016	$ 196,237.09	$ -	$ 196,237.09
8/1/2016	392,474.19	140,000.00	532,474.19
2/1/2017	196,237.09		196,237.09
8/1/2017	392,474.19	145,000.00	537,474.19
2/1/2018	196,237.09		196,237.09
8/1/2018	392,474.19	155,000.00	547,474.19
2/1/2019	196,237.09		196,237.09
8/1/2019	392,474.19	160,000.00	552,474.19
2/1/2020	196,237.09		196,237.09
8/1/2020	392,474.19	170,000.00	562,474.19
2/1/2021	196,237.09		196,237.09
8/1/2021	392,474.19	175,000.00	567,474.19
2/1/2022	196,237.09		196,237.09
8/1/2022	392,474.19	190,000.00	582,474.19
2/1/2023	196,237.09		196,237.09
8/1/2023	392,474.19	195,000.00	587,474.19
2/1/2024	196,237.09		196,237.09
8/1/2024	392,474.19	205,000.00	597,474.19
2/1/2025	196,237.09		196,237.09
8/1/2025	392,474.19	210,000.00	602,474.19
2/1/2026	196,237.09		196,237.09
8/1/2026	392,474.19	225,000.00	617,474.19
2/1/2027	196,237.09		196,237.09
8/1/2027	392,474.19	235,000.00	627,474.19
2/1/2028	196,237.09		196,237.09
8/1/2028	392,474.19	235,000.00	627,474.19
2/1/2029	196,237.09		196,237.09
8/1/2029	392,474.19	245,000.00	637,474.19
2/1/2030	196,237.09		196,237.09
8/1/2030	392,474.19	255,000.00	647,474.19
2/1/2031	196,237.09		196,237.09
8/1/2031	392,474.48	265,000.00	657,474.48
2/1/2032	134,072.20		134,072.20
8/1/2032	268,144.40	185,000.00	453,144.40
2/1/2033	134,072.20		134,072.20
8/1/2033	268,144.58	185,000.00	453,144.58
2/1/2034	21,033.22		21,033.22
8/1/2034	42,066.46	40,000.00	82,066.46
	$ 10,286,913.83	$ 3,615,000.00	$ 13,901,913.83

SINGLE AUDIT SECTION

VMA

VM ASSOCIATES, INC.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Members
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, 2015, and have issued our report thereon dated May 16, 2016. 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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. 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) basic 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 direct and material effect on the determination of basic 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 of noncompliance or other matters that are required to be reported under Governmental Auditing Standards and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

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.

Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375

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

May 16, 2016

VMA

VM ASSOCIATES, INC.

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE AS REQUIRED BY OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR LETTER 15-08

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

Report on Compliance for Each Major State and Federal Programs

We have audited the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover)'s compliance with the types of compliance requirements described in the New Jersey State Aid/Grants Compliance Supplement and OMB A-133 Compliance Supplement that could have a direct and material effect on each of its major federal and state programs for the year ended November 30, 2015. The Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover)'s major federal and state programs are identified in the Summary of Auditor's Results Section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover)'s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133,the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey; Audits of States, Local Governments, and Non-Profit Organizations; and New Jersey Office of Management and Budget Circular Letter 15-08 Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, OMB Circular A-133 and New Jersey's OMB's Circular Letter 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover)'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination on the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover)'s compliance.

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Opinion on Each Major Federal and State Program

In our opinion, the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover), in the County of Morris, State of New Jersey, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended November 30, 2015.

Report on Internal Control Over Compliance

The management of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover) is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB A-133 and NJOMB 15-08, 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 compliance. 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 compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or 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 over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results that the testing based on the requirements of OMB A-133 and NJOMB 15-08. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 and Schedule of Expenditures of State Financial Assistance Required by New Jersey OMB Circular 15-08

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover), as of and for the fiscal year ended November 30, 2015 and the related notes to the financial statements, which collectively comprise the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) basic financial statements. We issued our report thereon dated May 16, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards as required by OMB Circular A-133 and schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 15-08 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375

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

May 16, 2016

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY

Schedule A

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED NOVEMBER 30, 2015

Funding Department	Program	CFDA Number	State Agency Account Number	Grant/Loan Approval Amount	Grant/Loan Period From	Grant/Loan Period To	Amount of Receipts Prior Year	Amount of Receipts Current Year	Amount of Expenditures Prior Year	Amount of Expenditures Current Year (1)	Balance Receivable 11/30/2015
FEDERAL:											
Environmental Protection	Wastewater Treatment Fund-2011	66.458	042-4860-510-009	$3,667,729.00	3/1/2012	2/28/2013	$ 3,336,998.00	$ -	$ 3,288,822.23	$ 48,175.77	$ 330,731.00
	Wastewater Treatment Fund-2014	66.458	042-4860-510-009	6,669,300.00	7/11/2013	9/30/2015		4,030,514.00	1,998,068.00	2,938,432.00	2,638,786.00
	Wastewater Treatment Fund-2015	66.458	042-4860-510-009	1,240,960.00	6/1/2015	9/30/2016				1,240,960.00	1,240,960.00
STATE:											
Environmental Protection	Wastewater Treatment Trust-2011		042-4860-510-009	1,135,000.00	3/1/2012	2/28/2013	1,112,332.00		1,017,745.10	94,586.90	22,668.00
	Wastewater Treatment Trust-2014		042-4860-510-009	2,165,000.00	7/11/2013	9/30/2015		1,343,505.00	666,023.00	979,477.00	821,495.00
	Wastewater Treatment Trust-2015		042-4860-510-009	515,000.00	6/1/2015	9/30/2016				515,000.00	515,000.00

(1) Represents total expenditures (grant activity) subject to audit.

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

NOTES TO SCHEDULES OF EXPENDITURES OF AWARDS AND FINANCIAL ASSISTANCE
YEAR ENDED NOVEMBER 30, 2015

Note 1: General

The accompanying schedules of expenditures of awards and financial assistance present the activity of all federal and state programs of the Township of Hanover Sewerage Authority (A Component Unit of the Township of Hanover). All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards.

Note 2: Basis of Accounting

The accompanying schedules of expenditures of awards and financial assistance are presented using the budgetary basis of accounting as described in Notes I:E. to the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) basic financial statements.

Note 3: Relationship to Basic Financial Statements

Amounts reported in the accompanying schedules agree with amounts reported in the Township of Hanover Sewerage Authority's (A Component Unit of the Township of Hanover) basic financial statements.

Note 4: Relationship to Federal and State Financial Reports

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED NOVEMBER 30, 2015

Part I – Summary of Auditor's Report

Financial Statement Section

A) Type of auditor's report issued: Unmodified

B) Internal Control over financial reporting:

1) Material weakness(es) identified? _____yes __X__no

2) Were significant deficiencies identified that were not considered to be material weaknesses? _____yes __X__no

C) Noncompliance material to basic financial statements noted? _____yes __X__no

Federal Awards Section

D) Dollar threshold used to determine Type A programs $ 300,000.00

E) Auditee qualified as low-risk auditee? _____yes __X__no

F) Type of auditor's report on compliance for major programs Unmodified

G) Internal Control over compliance:

1) Material weakness(es) identified? _____yes __X__no

2) Were reportable condition(s) identified that were not considered to be material weaknesses? _____yes __X__no

H) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510 (a))? _____yes __X__no

I) Identification of major programs:

Grant/CFDA Number(s)	Name of Federal Program or Cluster
66-458	Environmental Infrastructure Fund - 2014
66-458	Environmental Infrastructure Fund - 2015

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED NOVEMBER 30, 2015
(CONTINUED)

Part I – Summary of Auditor's Results (Continued)

State Financial Assistance Section

J) Dollar threshold used to determine Type A programs $ 300,000.00

K) Auditee qualified as low-risk auditee? ____ yes X no

L) Type of auditor's report on compliance for major programs: Unmodified

M) Internal Control over compliance:

1) Material weakness(es) identified? ____ yes X no

2) Were significant deficiencies identified that were not considered to be material weaknesses? ____ yes X no

N) Any audit findings disclosed that are required to be reported in accordance with N.J. OMB Circular 15-08? ____ yes X no

O) Identification of major programs:

GMIS Number(s)	Name of State Program
S340388-04	Environmental Infrastructure Trust - 2014
S340388-04	Environmental Infrastructure Trust - 2015

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED NOVEMBER 30, 2015
(CONTINUED)

Part 2 – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 of Government Auditing Standards.

Not Applicable

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED NOVEMBER 30, 2015
(CONTINUED)

Part 3 – Schedule of Federal Awards and State Financial Assistance Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB's Circular 15-08.

FEDERAL AWARDS

Not Applicable

STATE FINANCIAL ASSISTANCE

Not Applicable

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

SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE YEAR ENDED NOVEMBER 30, 2015

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of Government Auditing Standards, U.S. OMB Circular A-133 (section .315 (a) (b)) and New Jersey OMB's Circular 15-08.

Not Applicable

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

PART II

GENERAL COMMENTS AND RECOMMENDATIONS
YEAR ENDED NOVEMBER 30, 2015

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, 2015 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 (as amended) is $29,000.00.

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

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.

The review and inquiry indicate good scrutiny on the part of the Authority and Authority Officials regarding expenditures.

RECOMMENDATIONS

NONE

Status of Prior Years' Audit Findings/Recommendations:

NOT APPLICABLE

* * * * * * * * * *

Should any questions arise as to our comments, or should the Authority desire any assistance, 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

May16, 2016