

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

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**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013**

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

**TABLE OF CONTENTS**

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITOR'S REPORT</b>	
Independent Auditor's Report	1-2
<b>REQUIRED SUPPLEMENTARY INFORMATION – PART I</b>	
Management's Discussion and Analysis (Unaudited)	4-9
<b>BASIC FINANCIAL STATEMENTS</b>	
Entity Wide Financial Statements:	
Business-Type Funds:	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Fund Net Position	14
Statement of Cash Flows	15
Fiduciary Funds:	
Statement of Net Position	17
Statement of Changes in Fund Net Position	18
<b>NOTES TO BASIC FINANCIAL STATEMENTS</b>	20-36
<b>OFFICIALS IN OFFICE</b>	37

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

**TABLE OF CONTENTS**  
**CONTINUED**

	<u>Page</u>
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
Statement of Operating Revenues and Costs Funded by Operating Revenues Compared to the Budget for the Fiscal Year Ended November 30, 2013	39-40
Schedule of Net Position	41
Schedule of Revenues, Expenses and Changes in Fund Balance – Reserved and Unreserved	42
Schedule of Contracts Payable	43
Schedule of Construction in Progress	44
Schedule of New Jersey Wastewater Trust Fund – Loan Payable	45
<b>SINGLE AUDIT SECTION</b>	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with “Government Auditing Standards”	47-48
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 04-04	49-51
Schedule of Expenditures of Federal Awards and State Financial Assistance, Schedule A	52
Notes to Schedules of Expenditures of Awards and Financial Assistance	53
Schedule of Findings and Questioned Costs	
Part 1 – Summary of Auditor’s Results	54-55
Part 2 – Schedule of Financial Statement Findings	56
Part 3 – Schedule of Federal Award and State Financial Assistance Findings and Questioned Costs	57
Summary Schedule of Prior-Year Audit Findings and Questioned Costs as Prepared by Management	58
<b>GENERAL COMMENTS AND RECOMMENDATIONS</b>	
General Comments	60
Recommendations	61

**FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**



# VM ASSOCIATES, INC.

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

## INDEPENDENT AUDITOR'S REPORT

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

### **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, 2013, 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, 2013, 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.

## 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.

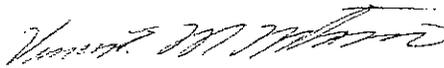
### Supplementary and Other Information

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 March 28, 2014 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. Zambifo  
Certified Public Accountant  
License No. 20CC00789500

March 28, 2014

**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, 2013**  
**(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, 2013. Please read it in conjunction with the Authority's financial statements.

#### **FINANCIAL HIGHLIGHTS**

- The Authority's net position increased \$1,085,028.03 as a result of this year's operations, or 3.35 percent.
- Total cost of all of the Authority's programs was \$5,646,227.04 in 2012-2013 compared to \$5,871,961.67 in 2011-2012.
- During the year, the Authority had expenses for business-type activities that were \$1,085,028.03 less than the \$6,731,255.07 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 \$32,364,579.91 to \$33,449,607.94. 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	
	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 7,107,295.22	\$ 8,463,664.63
Capital Assets	<u>39,272,104.13</u>	<u>32,438,751.38</u>
Total Assets	<u>46,379,399.35</u>	<u>40,902,416.01</u>
NonCurrent Liabilities	4,265,556.85	4,715,985.21
Other Liabilities	<u>8,664,234.56</u>	<u>3,821,850.89</u>
Total Liabilities	<u>12,929,791.41</u>	<u>8,537,836.10</u>
Net Position:		
Net Investment in Capital Assets	34,820,199.60	28,256,513.84
Restricted	2,466,654.60	2,472,318.04
Unrestricted	<u>(3,837,246.26)</u>	<u>1,635,748.03</u>
Total Net Position	<u>\$ 33,449,607.94</u>	<u>\$ 32,364,579.91</u>

- Net Position of the Authority's business-type activities *increased* 3.35 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* \$5,472,994.29.
- Restricted net position, those restricted mainly for capital projects, *decreased* by \$5,663.44.
- The Net investment in capital assets category *increased* \$6,563,685.76.

**Table 2**  
**Changes in Net Position**

	Business-type Activities	
	<u>2013</u>	<u>2012</u>
<u>Revenues</u>		
Operating Revenues:		
Charges for Services	\$ 5,789,329.41	\$ 5,355,702.68
Nonoperating Revenues:		
Interest and Investment Earnings	14,256.59	12,931.61
Connection Fees	893,800.00	1,035,800.00
Other General Revenues	<u>33,869.07</u>	<u>65,629.14</u>
Total Revenues	<u>6,731,255.07</u>	<u>6,470,063.43</u>
<u>Program Expenses including Indirect Expenses</u>		
Business-type Activities:		
Sewer	<u>5,646,227.04</u>	<u>5,871,961.67</u>
Total Expenses	<u>5,646,227.04</u>	<u>5,871,961.67</u>
Increase in Net Position	<u>\$ 1,085,028.03</u>	<u>\$ 598,101.76</u>

**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	\$ 46,379,399.35
Net Position	\$ 33,449,607.94
Change in Net Position	\$ 1,085,028.03
Return on Ending Total Assets	2.34%
Return on Ending Net Net Position	3.24%

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets Table 4

#### Capital Assets at Year-end

	Business-type Activities	
	2013	2012
Land	\$ 381,455.00	\$ 381,455.00
Distribution and Collection System	9,527,616.93	9,302,183.33
Buildings and Improvements	35,143,305.85	35,130,695.79
Machinery and Equipment	1,699,844.03	1,639,260.27
Construction-In-Progress	17,208,736.31	9,599,037.89
Subtotal	63,960,958.12	56,052,632.28
Accumulated Depreciation	(24,688,853.99)	(23,613,880.90)
Totals	<u>\$ 39,272,104.13</u>	<u>\$ 32,438,751.38</u>

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

- Continued rehabilitation of the sand filters using in house staff.
- Began rehabilitation of the raw sewage pumps.
- Completed two contracts for the rehabilitation of lateral sewers.
- 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).
- Awarded a contract for rehabilitating Primary Digester No. 2, combined heat and power, electrical distribution improvements, influent screening replacement and de-chlorination replacement. Obtained interim funding through the NJEIT program (Contract 38).
- Began design of a fuel source reliability and diversification project (Contract 40). Applications for funding were processed through the NJEIT Program and for a FEMA HMGP grant.

The Authority's 2013-2014 capital budget anticipates a spending level of \$7,110,000.00 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 \$4,492,051.53 outstanding versus \$4,715,985.21 last year. The Authority continued to pay down its debt as scheduled, retiring \$226,494.68 of its outstanding loan balance with the New Jersey Wastewater Treatment Trust Financing Program.

**Outstanding Debt, at year –end  
Table 5**

	<u>Business-type Activities</u>	
	<u>2013</u>	<u>2012</u>
Loans	\$ 4,451,904.53	\$ 4,678,399.21
Compensated Absences	<u>40,147.00</u>	<u>37,586.00</u>
	<u>\$ 4,492,051.53</u>	<u>\$ 4,715,985.21</u>

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**  
**BUSINESS-TYPE ACTIVITIES**  
**NOVEMBER 30, 2013**

Statement 1

	<b>Business-type Activities - Enterprise Funds <u>Sewer</u></b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 3,123,860.01
Cash Restricted - Customer Deposits	143,979.66
Accounts Receivable	3,826,890.54
Prepaid Expenses	<u>12,565.01</u>
Total Current Assets	<u>7,107,295.22</u>
Noncurrent Assets:	
Capital Assets Not Being Depreciated:	
Land	381,455.00
Construction in Progress	<u>17,208,736.31</u>
	<u>17,590,191.31</u>
Capital Assets Being Depreciated:	
Capital Assets	46,370,766.81
Less: Accumulated Depreciation	<u>(24,688,853.99)</u>
	<u>21,681,912.82</u>
Total Noncurrent Assets	<u>39,272,104.13</u>
Total Assets	<u>46,379,399.35</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	245,684.36
Prepaid Revenue	31,661.03
Other Liabilities	6,070.61
Contracts Payable	8,010,344.22
Loans Payable	226,494.68
Customer Deposits	<u>143,979.66</u>
Total Current Liabilities	<u>8,664,234.56</u>
Noncurrent Liabilities:	
Loans Payable	4,225,409.85
Compensated Absences	<u>40,147.00</u>
Total Noncurrent Liabilities	<u>4,265,556.85</u>
Total Liabilities	<u>12,929,791.41</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	34,820,199.60
Restricted/Assigned for:	
Plant Expansion	2,466,654.60
Unrestricted/Unassigned	<u>(3,837,246.26)</u>
Total Net Position	<u>\$ 33,449,607.94</u>

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

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY  
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
BUSINESS-TYPE ACTIVITIES  
FOR THE YEAR ENDED NOVEMBER 30, 2013**

	<u>Business-type Activities - Enterprise Funds</u>
	<u>Sewer</u>
<b>Operating Revenues:</b>	
Service Charges	\$ 5,316,813.66
Other Operating Revenues	<u>472,515.75</u>
Total Operating Revenues	<u>5,789,329.41</u>
 <b>Operating Expenses:</b>	
Salaries and Wages	1,724,839.45
Fringe Benefits	828,802.58
Other Expenses	2,017,611.92
Depreciation	<u>1,074,973.09</u>
Total Operating Expenses	<u>5,646,227.04</u>
Operating Income	<u>143,102.37</u>
 <b>Nonoperating Revenues (Expenses):</b>	
Noncapitalized Expenses	(238,043.66)
Connection Fees	893,800.00
Additions to Capital Assets Paid From Budget	60,583.76
Reserve for Operations	17,807.62
Developer Contributions	10,000.00
Contracts Payable Canceled	110,857.60
Accounts Payable Canceled	98,686.00
Compensated Absences Accrued	(2,561.00)
Debt Service Interest	(23,461.25)
Interest on Investments	<u>14,256.59</u>
Total Nonoperating Revenues (Expenses)	<u>941,925.66</u>
Change in Net Position	1,085,028.03
Total Net Position—Beginning	<u>32,364,579.91</u>
Total Net Position—Ending	<u>\$ 33,449,607.94</u>

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

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY  
( A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)  
STATEMENT OF CASH FLOWS  
BUSINESS-TYPE ACTIVITIES  
FOR THE YEAR ENDED NOVEMBER 30, 2013**

	<u>Business-type Activities - Enterprise Funds Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 5,599,898.98
Payments to Employees	(1,724,839.45)
Payments for Employee Benefits	(831,409.16)
Payments to Suppliers	<u>(2,397,333.91)</u>
Net Cash Provided by Operating Activities	<u>646,316.46</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Customer Deposits	31,334.77
Customer Refunds	<u>(21,506.82)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>9,827.95</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Compliance Reserve	10,000.00
Connection Fees	893,800.00
Purchase of Capital Assets	(2,900,185.55)
Principal Paid on Capital Debt	(226,494.68)
Interest Paid on Capital Debt	(23,461.25)
Loan Proceeds	<u>-</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,246,341.48)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and Dividends	<u>14,256.59</u>
Net Cash Provided by Investing Activities	<u>14,256.59</u>
Net Increase in Cash and Cash Equivalents	(1,575,940.48)
Balances—Beginning of Year	<u>4,843,780.15</u>
Balances—End of Year	<u>\$ 3,267,839.67</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$ 143,102.37
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,074,973.09
(Increase) in Accounts Receivable, Net	(160,065.72)
(Increase) in Prepaid Expenses	(208.98)
(Decrease) in Accounts Payable	(420,883.71)
Increase in Prepaid Revenue	<u>9,399.41</u>
Total Adjustments	<u>503,214.09</u>
Net Cash Provided by Operating Activities	<u>\$ 646,316.46</u>

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

**FIDUCIARY FUNDS**

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY  
( A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER )  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED NOVEMBER 30, 2013

	<b>Unemployment Compensation Trust</b>
<b>ASSETS</b>	
Cash and Cash Equivalents	<u>\$ 68,417.48</u>
Total Assets	<u>\$ 68,417.48</u>
<b>NET POSITION</b>	
Held in Trust for Unemployment Claims and Other Purposes	<u>\$ 68,417.48</u>

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

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY  
 ( A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER )  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED NOVEMBER 30, 2013**

	Unemployment Compensation <u>Trust</u>
<b>ADDITIONS</b>	
Contributions:	
Plan Member	\$ 2,002.48
Other	-
Total Contributions	<u>2,002.48</u>
Investment Earnings:	
Interest	<u>99.26</u>
Net Investment Earnings	<u>99.26</u>
Total Additions	<u>2,101.74</u>
<b>DEDUCTIONS</b>	
Unemployment Claims	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Position	<u>2,101.74</u>
Net Position—Beginning	<u>66,315.74</u>
Net Position—Ending	<u>\$ 68,417.48</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

E. Budgets/Budgetary Control

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

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

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

F. Assets, Liabilities and Fund Equity

1. Deposits and Investments

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

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

2. Short – term Interfund Receivables/Payables

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

3. Inventories

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

4. Receivables

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

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

5. Capital Assets

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

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

Land and Construction in Progress are not depreciated.

6. Restricted Assets

Restricted assets include cash and investments of the 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

9. Equity Classifications

Fund Statements

Equity is classified as net 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

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

H. Recent Accounting Pronouncements

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The statement amends and supersedes several previously issued GASB statements to incorporate guidance that had been included in AICPA and FASB guidance. The Authority is in the process of reviewing its obligations under GASB 62, as the reporting requirements are effective for periods beginning after December 15, 2011.

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority does not believe this Statement will materially affect its financial reporting. This Statement is effective for periods beginning after December 15, 2012.

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 66, "Technical Corrections-2012, an Amendment of GASB Statements 10 & 62." The purpose of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The Authority does not believe this Statement will materially affect its financial reporting. This Statement is effective for periods beginning after December 15, 2012.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67, "Financial Reporting for Pension Plans, an Amendment of GASB 25." This statement will be effective for periods beginning with the year ending June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and No. 50, "Pension Disclosures." The Authority is in the process of reviewing its obligations under GASB 67, and its potential impact on the financial statements.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, "Accounting and Financial Reporting for Pensions." This statement will be effective for periods beginning with the year ending June 15, 2014. This Statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," as well as the requirements of Statement No. 50, "Pension Disclosures." This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The Authority is in the process of reviewing its obligations under GASB 68, and its potential impact on the financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

H. Recent Accounting Pronouncements (Continued)

In January 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 69, "Government Combinations and Disposals of Government Operations." The provisions of this statement are effective for government combinations and disposals of government operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. This Statement is effective for periods beginning after December 15, 2013. This Statement is not anticipated to have any effect on the Authority's financial reporting.

In April 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for reporting beginning after June 15, 2013 with earlier application encouraged. This Statement is not anticipated to have any effect on the Authority's financial reporting.

In November 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68." The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68 "Accounting and Financial Reporting for Pensions." The provisions of this Statement should be applied simultaneously with the provisions of Statement 68. The Authority is in the process of reviewing its obligations under GASB 71, and its potential impact on the financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note II: Stewardship, Compliance and Accountability

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

A. Revenue and Plant Expansion Funds

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

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

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

1. Customer deposits accounts for monies required from customers or vendors to assure payment or performance. Deposits are retained in the account until all outstanding debts to the Authority have been satisfied or all contracts satisfactorily concluded.
2. 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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THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY  
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

Deposits

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

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

At November 30, 2013 the Authority's cash and cash equivalent's amounted to \$3,851,317.64. Of this amount, \$500,000.00 was covered by federal depository insurance (F.D.I.C.) and \$2,378,563.68 was covered by a collateral pool maintained by the banks as required by GUDPA.

At November 30, 2013 the Authority's participation in the State of New Jersey Cash Management Fund amounted to \$972,753.96.

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, 2013, \$972,753.96 of the Authority's cash and cash equivalents of \$3,851,317.64 was exposed to custodial credit risk as follows:

Uninsured and collateral held by public depository or by its' trust department not in the Township of Hanover Sewerage Authority's name	<u>\$972,753.96</u>
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THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY  
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

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

A. Deposits and Investments (Continued)

Investments

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

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

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the Authority or bonds or other obligations of local unit or units within which the Authority is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by Authority;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or
- (8) Agreements for the repurchase of fully collateralized securities, if:
  - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;
  - (b) the custody of collateral is transferred to a third party;
  - (c) the maturity of the agreement is not more than 30 days;
  - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

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, 2013.

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, 2013.

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, 2013.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

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, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustment</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 381,455.00	\$ -	\$ -	\$ 381,455.00
Construction in Progress	9,599,037.89	7,958,599.68	(348,901.26)	17,208,736.31
Total Capital Assets Not Being Depreciated	<u>9,980,492.89</u>	<u>7,958,599.68</u>	<u>(348,901.26)</u>	<u>17,590,191.31</u>
<b>Other Capital Assets:</b>				
Distribution & Collection System	9,302,183.33	225,433.60	-	9,527,616.93
Buildings & Improvements	35,130,695.79	12,610.06	-	35,143,305.85
Machinery & Equipment	1,639,260.27	60,583.76	-	1,699,844.03
	<u>46,072,139.39</u>	<u>298,627.42</u>	<u>-</u>	<u>46,370,766.81</u>
<b>Less Accumulated Depreciation for:</b>				
Distribution & Collection System	5,450,559.20	117,849.31	-	5,568,408.51
Buildings and Improvements	16,932,989.62	856,914.84	-	17,789,904.46
Machinery and Equipment	1,230,332.08	100,208.94	-	1,330,541.02
Total Accumulated Depreciation	<u>23,613,880.90</u>	<u>1,074,973.09</u> (1)	<u>-</u>	<u>24,688,853.99</u>
Net Capital Assets Being Depreciated	<u>22,458,258.49</u>	<u>(776,345.67)</u>	<u>-</u>	<u>21,681,912.82</u>
Business-Type Activities Capital Assets, Net	<u>\$ 32,438,751.38</u>	<u>\$ 7,182,254.01</u>	<u>\$ (348,901.26)</u>	<u>\$ 39,272,104.13</u>

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

Sewer	<u>\$ 1,074,973.09</u>
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TOWNSHIP OF HANOVER SEWERAGE AUTHORITY  
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Accounts Payable

Accounts payable are composed of payables to vendors.

B. Long - Term Liabilities

Long - Term liability activity for the year ended November 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
Long - Term Debt:					
Loan Payable	\$ 4,678,399.21	\$ -	\$ 226,494.68	\$ 4,451,904.53	\$ 226,494.68
Total Debt Payable	<u>4,678,399.21</u>	<u>-</u>	<u>226,494.68</u>	<u>4,451,904.53</u>	<u>226,494.68</u>
Other Liabilities:					
Compensated Absences	<u>37,586.00</u>	<u>2,561.00</u>	<u>-</u>	<u>40,147.00</u>	
Total Other Liabilities	<u>37,586.00</u>	<u>2,561.00</u>	<u>-</u>	<u>40,147.00</u>	<u>-</u>
Business-Type Activities					
Long - Term Liabilities	<u>\$ 4,715,985.21</u>	<u>\$ 2,561.00</u>	<u>\$ 226,494.68</u>	<u>\$ 4,492,051.53</u>	<u>\$ 226,494.68</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

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, the Authority has borrowed the following:

	<u>Amount of Loan (1)</u>	<u>Amount Outstanding November 30, 2013</u>
Loan	\$ 3,667,729.00	\$3,356,904.53
Trust	<u>1,135,000.00</u>	<u>1,095,000.00</u>
	<u>\$ 4,802,729.00</u>	<u>\$4,451,904.53</u>

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

2. Bonds Authorized But Not Issued

As of November 30, 2013 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	\$2,466,654.60
Fiduciary Fund:	
Restricted for:	
Unemployment Claims	\$ 68,417.48

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note VI: Pension Plans

Description of Systems

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

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

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

Significant Legislation

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

Chapter 78, P.L. 2011, effective June 28, 2011 implements changes to the PERS. PERS employee pension contribution rates will increase from 5.5% to 6.5% of salary

The second phase of the contribution rate increase from 6.5% to 7.5% is to be phased in equally over a 7 year period beginning July 2012. The contribution rate will increase by 0.14% each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018.

The increase in the PERS employee contribution rate will also increase the minimum repayment amount for pension loans or the cost for a purchase of service credit if certified after the employee's increased contribution becomes effective.

Under a provision of Chapter 78, P.L. 2011, Cost of Living Adjustments (COLA) are suspended for all current and future retirees of all retirement systems. There is no reduction to any COLA increases that were already added to retiree benefits prior to the effective date of the law.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note VI: Pension Plans

Contribution Requirements (Continued)

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The PERS pension fund provides for employee contribution rate of 6.64 percent of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS.

During the year ended June 30, 2013, 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, 2013 was \$1,757,096.84 and covered payroll was \$1,555,252.00 for PERS. Contributions to PERS for the last three years made by the employees and the Authority were as follows:

		<u>PERS</u>	<u>Percent of Covered Payroll</u>
Employees	11/30/11	88,561.75	5.67%
	11/30/12	103,155.09	6.56%
	11/30/13	104,623.59	6.73%
Authority	11/30/11	170,987.00	10.93%
	11/30/12	176,492.00	11.22%
	11/30/13	173,475.00	11.15%

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

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

Note VIII: Risk Management (Continued)

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

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

<u>Fiscal Year</u>	<u>Authority Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2012-2013	\$ 0.00	\$2,101.74	\$ 0.00	\$68,417.48
2011-2012	\$ 0.00	\$1,938.36	\$ 0.00	\$66,315.74
2010-2011	\$ 0.00	\$1,975.99	\$ 0.00	\$64,289.66

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, 2013 is \$40,147.00.

Note X: Contingent Liabilities

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

Note XI Subsequent Events

The Authority'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

<u>Name</u>	<u>Title</u>
Joseph Schleifer	Chairman
Walter B. Galacki	Vice-Chairman
Robert E. O'Hare	Secretary
John L. O'Brien, Jr.	Assistant Secretary
Dennis Dittrick	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, 2013

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>2012-2013 Actual</u>
Operating Revenues:			
Sewer Charges	\$ 5,332,215.00	\$ 5,332,215.00	\$ 5,316,813.66
Delinquent Penalties	22,000.00	22,000.00	45,133.67
Interest Income	1,000.00	1,000.00	13,778.50
Pretreatment Fees	316,000.00	316,000.00	312,498.46
Application Fees	25,000.00	25,000.00	21,324.40
Inspection Fees	20,000.00	20,000.00	17,046.58
Miscellaneous	<u>1,000.00</u>	<u>1,000.00</u>	<u>76,512.64</u>
Total Operating Fees	<u>5,717,215.00</u>	<u>5,717,215.00</u>	<u>5,803,107.91</u>
Non-Operating Revenues:			
Connection Fees	<u>300,000.00</u>	<u>300,000.00</u>	<u>893,800.00</u>
Total Revenues	<u>\$ 6,017,215.00</u>	<u>\$ 6,017,215.00</u>	<u>\$ 6,696,907.91</u>

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

STATEMENT OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013  
(CONTINUED)

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>2012-2013 Actual</u>
Expenses:			
Operating Appropriations:			
Personnel Services (Salaries and Wages):			
Administrative	\$ 202,000.00	\$ 207,000.00	\$ 206,974.78
Plant	1,562,000.00	1,562,000.00	1,517,864.67
Employee Benefits:			
Public Employees' Retirement System	191,000.00	191,000.00	173,475.00
Social Security Tax	135,000.00	135,000.00	126,375.61
Workmens' Compensation Insurance	67,500.00	67,500.00	62,374.03
Dental Insurance	23,400.00	23,400.00	21,252.00
Health Insurance	468,000.00	468,000.00	445,325.94
Administration Expenses:			
Other Expenses	66,000.00	62,900.00	60,403.52
Professional Services	361,500.00	403,600.00	403,502.22
Other Insurance	10,000.00	10,000.00	10,000.00
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	239,493.66
Sludge Removal	162,000.00	164,000.00	163,579.74
Fuel, Lubricants, Water	166,500.00	166,500.00	155,770.87
Maintenance Supplies	72,000.00	125,000.00	124,973.05
Maintenance Services	155,600.00	155,600.00	149,766.51
Plant Equipment	20,000.00	20,000.00	8,575.57
Chemicals	93,200.00	93,200.00	74,763.79
Vehicle Expense	30,500.00	35,500.00	35,372.21
Collection System	348,600.00	243,600.00	173,868.86
Permits	20,800.00	20,800.00	18,346.33
Plant Supplies	13,200.00	14,200.00	13,673.83
Laboratory Expense	107,300.00	107,300.00	83,601.72
Pretreatment Expense	146,400.00	146,400.00	142,412.20
Safety	19,700.00	19,700.00	16,754.16
Other Insurance	81,000.00	81,000.00	78,738.68
Total Operating Appropriations	<u>4,867,215.00</u>	<u>4,867,215.00</u>	<u>4,571,253.95</u>
Other Appropriations:			
Reserve for Plant Expansion	550,000.00	550,000.00	550,000.00
Loan Principal and Interest	600,000.00	600,000.00	289,047.94
Total Other Appropriations	<u>1,150,000.00</u>	<u>1,150,000.00</u>	<u>839,047.94</u>
Total Appropriations	<u>\$ 6,017,215.00</u>	<u>\$ 6,017,215.00</u>	<u>\$ 5,410,301.89</u>

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

SCHEDULE OF NET POSITION

	<u>Reserved</u>			
	<u>Unreserved</u>	<u>Plant Expansion</u>	<u>Customer Deposits</u>	<u>Totals 2012-2013</u>
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 2,850,534.52	\$ 273,325.49	\$ 143,979.66	\$ 3,267,839.67
Accounts Receivable:				
Sewer Charges	466,478.66			466,478.66
Pretreatment Fees	12,254.88			12,254.88
Other		3,348,157.00		3,348,157.00
Prepaid Expenses	12,565.01			12,565.01
Noncurrent Assets:				
Land	381,455.00			381,455.00
Construction in Progress	17,208,736.31			17,208,736.31
Capital Assets, Net	<u>21,681,912.82</u>	-	-	<u>21,681,912.82</u>
<b>TOTAL ASSETS</b>	<u>42,613,937.20</u>	<u>3,621,482.49</u>	<u>143,979.66</u>	<u>46,379,399.35</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	245,684.36			245,684.36
Prepaid Revenue	31,661.03			31,661.03
Other	6,070.61			6,070.61
Contracts Payable	6,855,516.33	1,154,827.89		8,010,344.22
Customer Deposits			143,979.66	143,979.66
Noncurrent Liabilities:				
Loans Payable	4,451,904.53			4,451,904.53
Compensated Absences	<u>40,147.00</u>	-	-	<u>40,147.00</u>
<b>TOTAL LIABILITIES</b>	<u>11,630,983.86</u>	<u>1,154,827.89</u>	<u>143,979.66</u>	<u>12,929,791.41</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	34,820,199.60			34,820,199.60
Restricted/Assigned for:				
Plant Expansion		2,280,342.94		2,280,342.94
Encroachment Agreement - Hanover Renaissance		176,305.81		176,305.81
Woodmont Environmental Compliance		10,005.85		10,005.85
Unrestricted/Unassigned	<u>(3,837,246.26)</u>	-	-	<u>(3,837,246.26)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 30,982,953.34</u>	<u>\$ 2,466,654.60</u>	<u>\$ -</u>	<u>\$ 33,449,607.94</u>

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			Totals 2012-2013
	Unreserved/ Unassigned	Encroachment Agreement	Plant Expansion	
Operating Revenues:				
Sewer Charges	\$ 5,316,813.66	\$ -	\$ -	\$ 5,316,813.66
Delinquent Penalties	45,133.67			45,133.67
Interest Income	13,778.50			13,778.50
Pretreatment Fees	312,498.46			312,498.46
Application Fees	21,324.40			21,324.40
Inspection Fees	17,046.58			17,046.58
Miscellaneous	76,512.64			76,512.64
	<u>5,803,107.91</u>			<u>5,803,107.91</u>
Operating Expenses:				
Operating Appropriations	4,571,253.95			4,571,253.95
Depreciation	1,074,973.09			1,074,973.09
	<u>5,646,227.04</u>			<u>5,646,227.04</u>
Operating Income	156,880.87			156,880.87
Non Operating Revenues and (Expenses):				
Interest Income		176.07	296.17	478.09
Connection Fees	893,800.00			893,800.00
Noncapitalized Expenses	(238,043.66)			(238,043.66)
Compensated Absences Accrued	(2,561.00)			(2,561.00)
New Jersey Wastewater Treatment Financing Program Interest Expense:				
Budget Interest	(23,461.25)			(23,461.25)
Additions to Capital Assets				
Paid From Budget	60,583.76			60,583.76
Miscellaneous	17,807.62			17,807.62
Developer Contributions			10,000.00	10,000.00
Contracts Payable Canceled	110,857.60			110,857.60
Accounts Payable Canceled	98,686.00			98,686.00
	<u>1,074,549.94</u>	<u>176.07</u>	<u>296.17</u>	<u>1,085,028.03</u>
Net Income (Deficit) Before Transfers				
Transfers:				
Other	566,141.53		(566,141.53)	-
Budget Reserve	(550,000.00)		550,000.00	-
Increase in Net Position	1,090,691.47	176.07	(15,845.36)	1,085,028.03
Net Position December 1	29,892,251.87	176,129.74	2,296,188.30	32,364,579.91
Net Position November 30	<u>\$ 30,982,953.34</u>	<u>\$ 176,305.81</u>	<u>\$ 2,280,342.94</u>	<u>\$ 33,449,607.94</u>

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

**SCHEDULE OF CONTRACTS PAYABLE**

Balance December 1, 2012		\$ 2,992,710.24
Increased by:		
Contracts Awarded in 2012-2013	\$ 6,694,000.00	
Change Orders Awarded in 2012-2013	<u>116,307.51</u>	
		<u>6,810,307.51</u>
		9,803,017.75
Decreased by:		
Paid in 2012-2013	1,681,815.93	
Canceled in 2012-2013	<u>110,857.60</u>	
		<u>1,792,673.53</u>
Balance November 30, 2013		<u>\$ 8,010,344.22</u>
 <u>Analysis of Balance November 30, 2013</u>		
GDS Mechanical (Contract #36)		\$ 217,451.00
RML Construction Co. (Contract #24)		1,210,893.22
Spectraserv (Contract #38)		<u>6,582,000.00</u>
		<u>\$ 8,010,344.22</u>

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

**SCHEDULE OF CONSTRUCTION IN PROGRESS**

Balance December 1, 2012		\$ 9,599,037.89
Increased by:		
Contracts Awarded in 2012-2013	\$ 6,694,000.00	
Payments in 2012-2013	<u>1,264,599.68</u>	
		<u>7,958,599.68</u>
		17,557,637.57
Decreased by:		
Transferred to Capital Assets 2012-2013	238,043.66	
Canceled in 2012-2013	<u>110,857.60</u>	
		<u>348,901.26</u>
Balance November 30, 2013		<u>\$ 17,208,736.31</u>

Analysis of Balance November 30, 2013

Pond Liner (#24)		\$ 5,431,577.73
GDS Mechanical HVAC Upgrades (#36)		4,109,573.91
Oil Tank Replacement		17,906.08
Sewer Repairs (#3-2012)		-
PLC Upgrade		14,775.00
Primary Digester Rehab (#38)		7,624,210.02
Sewer Repairs		<u>10,693.57</u>
		<u>\$ 17,208,736.31</u>

**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, 2012	\$ 4,678,399.21
Decreased by:	
Paid in 2012-2013	<u>226,494.68</u>
Balance November 30, 2013	<u>\$ 4,451,904.53</u>

Analysis of Loan Payable November 30, 2013

<u>Date</u>	<u>Fund Loan Program</u>	<u>Trust Loan Program</u>	<u>Total</u>
2/1/2014	\$ 62,164.89	\$ -	\$ 62,164.89
8/1/2014	124,329.79	40,000.00	164,329.79
2/1/2015	62,164.89		62,164.89
8/1/2015	124,329.79	40,000.00	164,329.79
2/1/2016	62,164.89		62,164.89
8/1/2016	124,329.79	45,000.00	169,329.79
2/1/2017	62,164.89		62,164.89
8/1/2017	124,329.79	45,000.00	169,329.79
2/1/2018	62,164.89		62,164.89
8/1/2018	124,329.79	50,000.00	174,329.79
2/1/2019	62,164.89		62,164.89
8/1/2019	124,329.79	50,000.00	174,329.79
2/1/2020	62,164.89		62,164.89
8/1/2020	124,329.79	55,000.00	179,329.79
2/1/2021	62,164.89		62,164.89
8/1/2021	124,329.79	55,000.00	179,329.79
2/1/2022	62,164.89		62,164.89
8/1/2022	124,329.79	60,000.00	184,329.79
2/1/2023	62,164.89		62,164.89
8/1/2023	124,329.79	60,000.00	184,329.79
2/1/2024	62,164.89		62,164.89
8/1/2024	124,329.79	65,000.00	189,329.79
2/1/2025	62,164.89		62,164.89
8/1/2025	124,329.79	65,000.00	189,329.79
2/1/2026	62,164.89		62,164.89
8/1/2026	124,329.79	70,000.00	194,329.79
2/1/2027	62,164.89		62,164.89
8/1/2027	124,329.79	75,000.00	199,329.79
2/1/2028	62,164.89		62,164.89
8/1/2028	124,329.79	75,000.00	199,329.79
2/1/2029	62,164.89		62,164.89
8/1/2029	124,329.79	80,000.00	204,329.79
2/1/2030	62,164.89		62,164.89
8/1/2030	124,329.79	80,000.00	204,329.79
2/1/2031	62,164.89		62,164.89
8/1/2031	<u>124,330.08</u>	<u>85,000.00</u>	<u>209,330.08</u>
	<u>\$ 3,356,904.53</u>	<u>\$ 1,095,000.00</u>	<u>\$ 4,451,904.53</u>

**SINGLE AUDIT SECTION**



# 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, 2013, and have issued our report thereon dated March 28, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

### **Internal Control Over Financial Reporting**

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

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

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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  
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March 28, 2014



# VM ASSOCIATES, INC.

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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 04-04

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 that could have a direct and material effect on each of its major federal and state programs for the year ended November 30, 2013. 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 04-04 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 04-04 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, 2013.

### 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 NJOMB 04-04, 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.

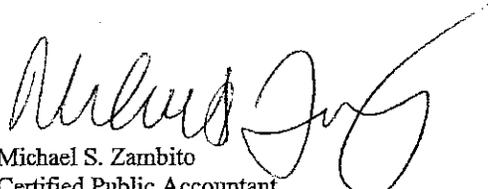
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results that the testing based on the requirements of OMB A-133 and NJOMB 04-04. Accordingly, this report is not suitable for any other purpose.

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 04-04

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, 2013 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 March 28, 2014, 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 04-04 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.



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March 28, 2014

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED NOVEMBER 30, 2013

Funding Department	Program	CFDA or State Account Number	Grant/Loan Number	Grant/Loan Approval Amount	Grant/Loan Period From To	Amount of Receipts		Amount of Expenditures		Balance Receivable 11/30/2013
						Prior Year	Current Year	Prior Year	Current Year (1)	
Environmental Protection	Wastewater Treatment Fund-2011	66.458	S340388-04	\$3,667,729.00	3/1/2012 2/28/2013	\$ 1,090,929.00		\$ 3,288,822.23		\$ 2,576,800.00
Environmental Protection	Wastewater Treatment Trust-2011	T02282011-2	S340388-04	1,135,000.00	3/1/2012 2/28/2013	363,643.00		1,017,745.10		771,357.00

FEDERAL:

STATE:

(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, 2013

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, 2013

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:

<u>Grant/CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66-458	Environmental Infrastructure Fund - 2011



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, 2013  
(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, 2013  
(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 04-04.

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, 2013

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 04-04.

Not Applicable

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

**PART II**

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**GENERAL COMMENTS AND RECOMMENDATIONS  
YEAR ENDED NOVEMBER 30, 2013**

## GENERAL COMMENTS

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

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

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

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

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

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

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

Inasmuch as the system of records did not provide for an accumulation of payments by categories for the performance of any work or the furnishings or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed. None were disclosed.

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

### EXAMINATION OF CLAIMS

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

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

RECOMMENDATION

NONE

Status of Prior Years' Audit Findings/Recommendations:

In accordance with government auditing standards, our procedures included a review of prior year recommendations including findings. Corrective action was taken on all prior year findings.

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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.



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March 28, 2014