

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

**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017**

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

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	
Independent Auditor’s Report	1-3
REQUIRED SUPPLEMENTARY INFORMATION – PART I	
Management’s Discussion and Analysis (Unaudited)	4-9
BASIC FINANCIAL STATEMENTS	
Entity Wide Financial Statements:	
Business-Type Funds:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Fund Net Position	12
Statement of Cash Flows	13
Fiduciary Funds:	
Statement of Net Position	14
Statement of Changes in Net Position	15
NOTES TO BASIC FINANCIAL STATEMENTS	16-37
OFFICIALS IN OFFICE	38

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

TABLE OF CONTENTS
CONTINUED

	<u>Page</u>
REQUIRED SUPPLEMENTARY SCHEDULES	
Schedule of the Authority’s Share of the Net Pension Liability-PERS	39
Schedule of the Authority’s Contributions-PERS	40
Notes to Required Supplementary Information-PERS	41
OTHER SUPPLEMENTARY SCHEDULES	
Statement of Operating Revenues and Costs Funded by Operating Revenues Compared to the Budget for the Fiscal Year Ended November 30, 2017	42-44
Schedule of Net Position	45
Schedule of Revenues, Expenses and Changes in Fund Balance – Reserved and Unreserved	46
Schedule of Contracts Payable	47
Schedule of Construction in Progress	48
Schedule of New Jersey Wastewater Treatment Financing Fund and Trust Program – Loans Payable	49
SINGLE AUDIT SECTION	
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”	50-51
Independent Auditor’s Report on Compliance for Each Major Program and Report on Internal Control over Compliance as Required by the Uniform Guidance	52-54
Schedule of Expenditures of Federal Awards - Schedule A	55
Schedule of Expenditures of State Financial Assistance - Schedule B	56
Notes to Schedule of Expenditures of Federal and State Awards	57
Schedule of Findings and Questioned Costs	58

Summary Schedule of Prior Audit Findings	61
GENERAL COMMENTS AND RECOMMENDATIONS	
General Comments	62
Comments and Recommendations	63
Status of Prior Years' Audit Findings	64
APPRECIATION	64

Financial Section

Ferraioli, Wielkottz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkottz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
Newton, N.J. 07860
973-579-3212
Fax 973-579-7128

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, 2017, 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 an opinion 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 audit opinion.

Opinion

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, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, schedule of the Authority's proportionate share of the net pension liability-PERS and schedule of the Authority's contributions-PERS, as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Hanover Sewerage Authority's basic financial statements. The supplementary information listed in the table of contents and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Chairman and Members
Township of Hanover Sewerage Authority
Page 3.

The supplemental information listed in the table of contents and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 supplemental information listed in the table of contents, schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the schedule of expenditures of state financial assistance as required by NJ OMB 15-08 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Governmental Auditing Standards, we have also issued our report dated June 11, 2018 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.

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Newton, New Jersey

June 11, 2018

Required Supplementary Information - Part I

Management Discussion and Analysis

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Township of Hanover Sewerage Authority’s (A Component Unit of the Township of Hanover) financial activities for the fiscal year ended November 30, 2017. Please read it in conjunction with the Authority’s financial statements.

FINANCIAL HIGHLIGHTS

- The Authority’s net position increased \$1,145,193.13 as a result of this year’s operations, or 3.53 percent.
- Total cost of all of the Authority’s programs was \$5,939,154.86 in 2016-2017 compared to \$6,717,365.41 in 2015-2016.
- During the year, the Authority had expenses for business-type activities that were \$1,145,193.13 less than the \$7,084,347.99 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 TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

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.

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Financial Analysis of the District as a Whole

The Authority's *combined* net position changed from a year ago, *increasing* from \$32,447,344.68 to \$33,592,537.81. 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>2017</u>	<u>2016</u>
Current and Other Assets	\$ 11,165,198.65	\$ 11,413,902.01
Capital Assets	<u>42,280,975.77</u>	<u>42,461,765.31</u>
Total Assets	<u>53,446,174.42</u>	<u>53,875,667.32</u>
Deferred Outflows of Resources	<u>1,389,645.00</u>	<u>2,010,347.00</u>
Current Liabilities	2,801,548.62	4,446,499.37
Non Current Liabilities	<u>17,300,155.99</u>	<u>19,573,954.27</u>
Total Liabilities	<u>20,101,704.61</u>	<u>24,020,453.64</u>
Deferred Inflows of Resources	<u>1,141,577.00</u>	<u>23,932.00</u>
Net Position:		
Net Investment in Capital Assets	29,841,484.50	29,288,562.76
Restricted	5,016,711.05	3,671,187.69
Unrestricted	<u>(1,265,657.74)</u>	<u>(512,405.77)</u>
Total Net Position	<u>\$ 33,592,537.81</u>	<u>\$ 32,447,344.68</u>

- Net Position of the Authority's business-type activities *increased* 3.53 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* \$753,251.97.
- Restricted net position, those restricted mainly for capital projects, *increased* by \$1,345,523.36.
- The Net investment in capital assets category *increased* \$552,921.74.

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

**Table 2
Changes in Net Position**

	Business-type Activities	
	2017	2016
<u>Revenues</u>		
Operating Revenues:		
Charges for Services	\$6,853,341.47	\$ 6,631,271.79
Nonoperating Revenues:		
Interest and Investment Earnings	26,830.19	26,865.60
Connection Fees	163,200.00	925,400.00
Other General Revenues	40,976.33	358,920.48
Total Revenues	7,084,347.99	7,942,457.87
<u>Program Expenses including Indirect Expenses</u>		
Business-type Activities:		
Sewer	5,939,154.86	6,717,365.41
Total Expenses	5,939,154.86	6,717,365.41
Increase in Net Position	\$ 1,145,193.13	\$ 1,225,092.46

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	\$ 53,446,174.42
Net Position	\$ 33,592,537.81
Change in Net Position	\$ 1,145,193.13
Return on Ending Total Assets	2.14%
Return on Ending Net Net Position	3.41%

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets
Table 4**

Capital Assets at Year-end

	Business-type <u>Activities</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 381,455.00	\$ 381,455.00
Distribution and Collection System	9,542,391.93	9,542,391.93
Buildings and Improvements	35,143,305.85	35,143,305.85
Machinery and Equipment	1,864,108.73	1,823,132.40
Construction-In-Progress	<u>24,258,294.01</u>	<u>23,439,620.21</u>
Subtotal	71,189,555.52	70,329,905.39
Accumulated Depreciation	<u>(28,908,579.75)</u>	<u>(27,868,140.08)</u>
Totals	<u>\$ 42,280,975.77</u>	<u>\$ 42,461,765.31</u>

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

Continued construction on a contract to rehabilitate the equalization ponds and related equipment. Funding was through the NJEIT Program (Contract 24).

Continued construction on a contract for rehabilitating Primary Digester No. 2, combined heat and power, electrical distribution improvements, influent screening replacement and de-chlorination replacement. Funding was through the NJEIT program (Contract 38).

Continued the design on a clarifier replacement project (Contract 42).

Continued the construction of a fuel source reliability and diversification project (Contract 40). Funding was through the NJEIT Program.

Continued construction on the replacement of the fire alarm system (Contract 41).

The Authority's 2017-2018 capital budget anticipates a spending level of \$6,160,000.00 for capital projects. More detailed information about the Authority's capital assets is presented in the notes to the basic financial statements

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

DEBT

At year – end the Authority had total debt of \$18,043,867.27 outstanding versus \$20,307,665.55 last year. The Authority continued to pay down its debt as scheduled, retiring \$733,711.28 of its outstanding loan balance with the New Jersey Wastewater Treatment Trust Financing Program. The Authority's Net Pension Liability continues to increase as shown below.

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

	<u>Activities</u>	
	<u>2017</u>	<u>2016</u>
Loans	\$ 12,439,491.27	\$ 13,173,202.55
Net Pension Liability	5,529,465.00	7,059,552.00
Compensated Absences	74,911.00	74,911.00
	<u>\$ 18,043,867.27</u>	<u>\$ 20,307,665.55</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

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
STATEMENT OF NET POSITION
BUSINESS-TYPE ACTIVITIES
NOVEMBER 30, 2017

	Business-type Activities - Enterprise Funds Sewer
ASSETS	
Current Assets:	
Unrestricted Current Assets:	
Cash and Cash Equivalents	\$ 4,128,130.77
Accounts Receivable:	
Sewer Charges	356,944.76
Pretreatment Fees	6,261.20
Prepaid Expenses	<u>12,432.16</u>
Total Unrestricted Current Assets	<u>4,503,768.89</u>
Restricted Current Assets:	
Cash Restricted - Plant Expansion	2,465,791.64
Cash Restricted - Customer Deposits	150,589.12
Accounts Receivable:	
Wastewater Treatment Loans	<u>4,045,049.00</u>
Total Restricted Current Assets	<u>6,661,429.76</u>
Total Current Assets	<u>11,165,198.65</u>
Noncurrent Assets:	
Capital Assets Not Being Depreciated:	
Land	381,455.00
Construction in Progress	<u>24,258,294.01</u>
	<u>24,639,749.01</u>
Capital Assets Being Depreciated:	
Capital Assets	46,549,806.51
Less: Accumulated Depreciation	<u>(28,908,579.75)</u>
	<u>17,641,226.76</u>
Total Noncurrent Assets	<u>42,280,975.77</u>
Total Assets	<u>53,446,174.42</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Deferred Outflows	<u>1,389,645.00</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 NET POSITION
BUSINESS-TYPE ACTIVITIES
NOVEMBER 30, 2017

**Business-type
Activities -
Enterprise Funds
Sewer**

LIABILITIES

Current Liabilities:

Payable from Unrestricted Assets:

Accounts Payable	369,215.34
Accrued Interest Payable	22,072.50
Prepaid Revenue	13,636.54
Other Liabilities	8,194.25
Loans Payable	<u>743,711.28</u>

Total Current Liabilities Payable from Unrestricted Assets 1,156,829.91

Payable from Restricted Assets:

Contracts Payable	1,494,129.59
Customer Deposits	<u>150,589.12</u>

Total Current Liabilities Payable from Restricted Assets 1,644,718.71

Total Current Liabilities 2,801,548.62

Noncurrent Liabilities:

Loans Payable	11,695,779.99
Net Pension Liability	5,529,465.00
Compensated Absences	<u>74,911.00</u>

Total Noncurrent Liabilities 17,300,155.99

Total Liabilities 20,101,704.61

DEFERRED INFLOWS OF RESOURCES

Pension Deferred Inflows 1,141,577.00

NET POSITION

Net Investment in Capital Assets 29,841,484.50

Restricted for:

Plant Expansion 5,016,711.05

Unrestricted:

Designated 1,000,000.00

Undesignated (2,265,657.74)

Total Net Position \$33,592,537.81

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, 2017**

	<u>Business-type Activities - Enterprise Funds</u>
	<u>Sewer</u>
Operating Revenues:	
Service Charges	\$ 6,395,954.58
Other Operating Revenues	<u>457,386.89</u>
Total Operating Revenues	<u>6,853,341.47</u>
 Operating Expenses:	
Salaries and Wages	1,702,496.05
Fringe Benefits	1,166,507.55
Other Expenses	1,778,329.48
Depreciation	<u>1,040,439.67</u>
Total Operating Expenses	<u>5,687,772.75</u>
Operating Income	<u>1,165,568.72</u>
 Nonoperating Revenues (Expenses):	
Connection Fees	163,200.00
Additions to Capital Assets Paid From Budget	40,976.33
Miscellaneous Non-Operating Expense	(50,729.72)
Debt Service Interest	(200,652.39)
Interest on Investments	<u>26,830.19</u>
Total Nonoperating Revenues (Expenses)	<u>(20,375.59)</u>
Change in Net Position	1,145,193.13
Total Net Position—Beginning	<u>32,447,344.68</u>
Total Net Position—Ending	<u>\$ 33,592,537.81</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, 2017**

	Business-type Activities - Enterprise Funds <u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 6,741,664.26
Payments to Employees	(1,702,496.05)
Payments for Employee Benefits	(949,951.55)
Payments to Suppliers	<u>(1,992,093.82)</u>
Net Cash Provided by Operating Activities	<u>2,097,122.84</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Customer Deposits	56,500.00
Customer Refunds	<u>(46,725.47)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>9,774.53</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Connection Fees	163,200.00
Receipts from NJWWT	2,130,307.00
Purchase of Capital Assets	(2,339,591.50)
Principal Paid on Capital Debt	(733,711.28)
Interest Paid on Capital Debt	<u>(178,579.89)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(958,375.67)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends	<u>26,830.19</u>
Net Cash Provided by Investing Activities	<u>26,830.19</u>
Net Increase in Cash and Cash Equivalents	1,175,351.89
Balances—Beginning of Year	<u>5,569,159.64</u>
Balances—End of Year	<u>\$ 6,744,511.53</u>
<u>BALANCE REPORTED AS:</u>	
Unrestricted	\$ 4,128,130.77
Restricted	<u>2,616,380.76</u>
	<u>\$ 6,744,511.53</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 1,165,568.72
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,040,439.67
Other Non-Operating Expenses	(50,729.72)
Increase in Accounts Receivable, Net	(100,894.88)
Decrease in Prepaid Expenses	359.13
Decrease in Accounts Payable	(163,782.77)
Increase in Net Pension Adjustment	216,556.00
Decrease in Prepaid Revenue	(10,782.33)
Increase in Other Liabilities	<u>389.02</u>
Total Adjustments	<u>931,554.12</u>
Net Cash Provided by Operating Activities	<u>\$ 2,097,122.84</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 FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED NOVEMBER 30, 2017

	Unemployment Compensation <u>Trust</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 77,584.02</u>
Total Assets	<u>\$ 77,584.02</u>
NET POSITION	
Held in Trust for Unemployment Claims and Other Purposes	<u>\$ 77,584.02</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, 2017**

	Unemployment Compensation <u>Trust</u>
ADDITIONS	
Contributions:	
Plan Member	\$ 1,989.84
Other	<u>-</u>
Total Contributions	<u>1,989.84</u>
Investment Earnings:	
Interest	<u>309.25</u>
Net Investment Earnings	<u>309.25</u>
Total Additions	<u>2,299.09</u>
DEDUCTIONS	
Unemployment Claims	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Position	<u>2,299.09</u>
Net Position—Beginning	<u>75,284.93</u>
Net Position—Ending	<u>\$ 77,584.02</u>

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

Notes to 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, 2017

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). GASB has issued Statement’s No. 39 and 61 which amends GASB 14 and requires the financial reporting entity to include both the primary government and those component units. Component units are legally separate organizations for which the Authority is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The Authority is financially accountable to the Township of Hanover (the “Township”) since the Township appoints a voting majority of the Authority’s board, and (1) the Township is able to significantly influence the programs and services performed or provided by the Authority; or (2) the Township is legally entitled to or can otherwise access the Authority’s resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the Authority; or the Township is obligated for the debt of the Authority. Component units may also include organizations that are fiscally dependent on the Township in that the Township approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Authority is a component unit of 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.

THIS SPACE INTENTIONALLY LEFT BLANK

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(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.

THIS SPACE INTENTIONALLY LEFT BLANK

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(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

Land and Construction in Progress are not depreciated.

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.

THIS SPACE INTENTIONALLY LEFT BLANK

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(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 net position to balance their budget; however, the maximum amount which can be utilized is the lesser of (a) the estimated year-end balance of unreserved net position 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 Net Position 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 Net Position

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, 2017
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Net Position (Continued)

5. 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.

6. 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.

7. 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.

8. Net Position Classifications

Fund Statements

Net Position is calculated as total assets plus deferred outflows minus total liabilities minus deferred inflows 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.”

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Net Position (Continued)

9. 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. The items where estimates would occur are for depreciation of fixed assets and their useful lives.

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

H. Recent Accounting Pronouncements

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

GASB 82, “Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, will be effective for entities with fiscal years beginning after June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to the aforementioned Statements and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

H. Recent Accounting Pronouncements (Continued)

GASB 83, "Certain Asset Retirement Obligations" will be effective for reporting periods beginning after June 15, 2018 and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. The Authority does not believe this Statement will have any effect on future financial statements.

GASB 84, "Fiduciary Activities" will be effective for reporting periods beginning after December 15, 2018 and establishes criteria for identifying fiduciary activities of all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify component units and postemployment benefit arrangements that are fiduciary activities. The Authority does not believe this Statement will have any effect on future financial statements.

GASB 85, "Omnibus 2017" will be effective for reporting periods beginning after June 15, 2017 and addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

In May 2017, the Government Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

In June 2017, the Government Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the fundamental principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently reviewing what effect, if any, this Statement may have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement*. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement is effective for reporting periods beginning after June 15, 2018. The Authority believes this may impact the disclosures relating to debt in the notes to 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, 2017
(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.

THIS SPACE INTENTIONALLY LEFT BLANK

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(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, 2017 the Authority's cash and cash equivalents amounted to \$7,130,171.93. Of this amount, \$250,000.00 was covered by federal depository insurance (F.D.I.C.) and \$6,876,464.15 was covered by a collateral pool maintained by the banks as required by GUDPA.

At November 30, 2017 the Authority's participation in the State of New Jersey Cash Management Fund amounted to \$3,707.78.

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.

At November 30, 2017 the Authority's book balance was \$6,822,095.55 with the difference of \$308,076.38 from the bank balance being outstanding checks and withdrawals in transit.

As of November 30, 2017, \$3,707.78 of the Authority's cash and cash equivalents of \$7,130,171.93 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>\$3,707.78</u>
---	-------------------

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(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, 2017.

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, 2017.

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, 2017.

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

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

B. Accounts Receivable

Accounts receivable for the year ended November 30, 2017 consisted mainly of user charges and IPP fee.

C. Capital Assets

Capital asset activity for the year ended November 30, 2017 was as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$381,455.00	\$	\$	\$381,455.00
Construction in Progress	<u>23,439,620.21</u>	<u>818,673.80</u>	<u> </u>	<u>24,258,294.01</u>
	<u>23,821,075.21</u>	<u>818,673.80</u>	<u> </u>	<u>24,639,749.01</u>
Other Capital Assets:				
Distribution & Collection System	9,542,391.93			9,542,391.93
Buildings & Improvements	35,143,305.85			35,143,305.85
Machinery & Equipment	<u>1,823,132.40</u>	<u>40,976.33</u>	<u> </u>	<u>1,864,108.73</u>
	<u>46,508,830.18</u>	<u>40,976.33</u>	<u> </u>	<u>46,549,806.51</u>
Less Accumulated Depreciation for:				
Distribution & Collection System	5,929,511.96	120,490.94		6,050,002.90
Buildings & Improvements	20,360,648.97	856,914.83		21,217,563.80
Machinery & Equipment	<u>1,577,979.15</u>	<u>63,033.90</u>	<u> </u>	<u>1,641,013.05</u>
Total Accumulated Depreciation	<u>27,868,140.08</u>	<u>1,040,439.67(1)</u>	<u> </u>	<u>28,908,579.75</u>
Net Capital Assets Being Depreciated	<u>18,640,690.10</u>	<u>(999,463.34)</u>	<u> </u>	<u>17,641,226.76</u>
Business-Type Activities Capital Assets, Net	<u>\$42,461,765.31</u>	<u>\$(180,789.54)</u>	<u>\$ </u>	<u>\$42,280,975.77</u>

Depreciation expense was charged to governmental function as follows:

Sewer	<u>\$1,040,439.67</u>
-------	-----------------------

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note IV: Detailed Disclosure 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, 2017 were as follows:

	<u>Restated 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	\$13,173,202.55	\$ _____	\$733,711.28	\$12,439,491.27	\$743,711.28
Total Debt Payable	<u>\$13,173,202.55</u>	_____	<u>733,711.28</u>	<u>12,439,491.27</u>	<u>743,711.28</u>
Other Liabilities:					
Net Pension Liability	7,059,552.00		1,530,087.00	5,529,465.00	
Compensated Absences	74,911.00			74,911.00	
Total Other Liabilities	<u>7,134,463.00</u>		<u>1,530,087.00</u>	<u>5,604,376.00</u>	
Business-Type Activities:					
Long-Term Liabilities	<u>\$20,307,665.55</u>	<u>\$ _____</u>	<u>\$2,263,798.28</u>	<u>\$18,043,867.27</u>	<u>\$743,711.28</u>

1. Loans Payable

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

	<u>Amount of Loans (1)</u>	<u>Amount Outstanding November 30, 2017</u>
Loan	\$11,577,989.00	\$ 9,109,491.27
Trust	<u>3,815,000.00</u>	<u>3,330,000.00</u>
	<u>\$15,392,989.00</u>	<u>\$12,439,491.27</u>

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

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

B. Long-Term Liabilities (Continued)

2. Bonds Authorized But Not Issued

As of November 30, 2017, the Authority had no authorized but not issued bonds.

Principal and interest due on the loans outstanding are as follows:

Year ending <u>November 30,</u>	Trust & Fund - Series 2012A		Trust & Fund - Series 2014A		Trust & Fund - Series 2015A		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	\$ 236,494.68	\$ 38,822.50	\$ 424,116.94	\$ 72,312.50	\$ 83,099.66	\$ 21,300.00	\$ 876,146.28
2019	236,494.68	36,322.50	429,116.94	68,062.50	83,099.66	20,300.00	873,396.28
2020	241,494.68	33,822.50	434,116.94	63,562.50	83,099.66	19,300.00	875,396.28
2021	241,494.68	31,072.50	439,116.94	58,812.50	83,099.66	18,300.00	871,896.28
2022	246,494.68	28,322.50	444,116.94	53,812.50	88,099.66	17,300.00	878,146.28
2023	246,494.68	25,322.50	449,116.94	48,562.50	88,099.66	16,050.00	873,646.28
2024	251,494.68	22,322.50	454,116.94	43,062.50	88,099.66	14,800.00	873,896.28
2025	251,494.68	19,072.50	459,116.94	37,312.50	88,099.66	13,550.00	868,646.28
2026	256,494.68	15,822.50	464,116.94	33,712.50	93,099.66	12,300.00	875,546.28
2027	261,494.68	12,322.50	469,116.94	29,962.50	93,099.66	10,800.00	876,796.28
2028	261,494.68	10,072.50	469,116.94	26,062.50	93,099.66	9,600.00	869,446.28
2029	266,494.68	7,823.00	474,116.94	22,162.50	93,099.66	8,400.00	872,096.78
2030	266,494.68	5,322.50	479,116.94	18,112.50	98,099.66	7,200.00	874,346.28
2031	271,494.97	2,762.50	484,116.94	13,912.50	98,099.66	5,800.00	876,186.57
2032	-	-	489,116.94	9,562.50	98,099.66	4,400.00	601,179.10
2033	-	-	489,117.12	4,875.00	98,099.66	3,000.00	595,091.78
2034	-	-	-	-	103,099.68	1,600.00	104,699.68
	<u>\$3,535,925.81</u>	<u>\$ 289,205.50</u>	<u>\$ 7,350,871.22</u>	<u>\$ 603,862.50</u>	<u>\$ 1,552,694.24</u>	<u>\$ 204,000.00</u>	<u>\$ 13,536,559.27</u>

Note V: Detailed Disclosure Regarding Fund Equity

A. Restricted Net Position

Enterprise Fund:

 Restricted for:

 Plant Expansion

\$5,016,711.05

Fiduciary Fund:

 Restricted for:

 Unemployment Claims

\$77,584.02

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note V: Detailed Disclosure Regarding Fund Equity (Continued)

B. Designation of Unrestricted Net Position

The Authority's revenue and operating accounts maintain funds that, although may be spent for any lawful purposes by the Authority, have been designated by the Board as follows:

Appropriated in Subsequent Year's Budget	<u>\$1,000,000.00</u>
--	-----------------------

At November 30, 2017, the Authority reports a total amount of \$1,000,000.00 of Unrestricted Net Position – Designated for the purpose described above.

The remaining undesignated portion of the Authority's net position is comprised of the following at November 30, 2017:

Pension Related Items	\$(5,501,449.00)
Available for Use in Future Budgets	<u>3,235,791.26</u>
	<u>\$(2,265,657.74)</u>

THIS SPACE INTENTIONALLY LEFT BLANK

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(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.

According to the state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement systems terminate. The State of New Jersey, Department of Treasury, Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information of each of the above systems. These reports 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.

Public Employees' Retirement System (PERS)

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

Summary of Significant Accounting Policies-

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

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

At November 30, 2017, the Authority reported a liability of \$5,529,465 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability is based on a projection of the Authority's long term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2017, the Authority's proportion was .0237536286%, which was a decrease of .0000824142% from its proportion measured as of June 30, 2016.

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note VI: Pension Plans (Continued)

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

For the year ended November 30, 2017, the Authority recognized pension expense of \$428,312.00. At November 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$130,200.00	\$
Changes of Assumptions	1,113,997.00	1,109,913.00
Net difference between Projected and Actual Earnings on Pension Plan Investments	37,652.00	
Changes in proportion and differences between Authority Contributions and Proportionate Share of Contributions	<u>107,796.00</u>	<u>31,664.00</u>
Total	<u>\$1,389,645.00</u>	<u>\$1,141,577.00</u>

Amounts reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date (i.e. for the fiscal year ending November 30, 2017, the plan measurement date is June 30, 2017) will be recognized as a reduction of the net position liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2018	\$130,169.00
2019	196,428.00
2020	119,025.00
2021	(158,304.00)
2022	(115,382.00)

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note VI: Pension Plans (Continued)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.48, 5.57, 5.72 and 6.44 years for 2017, 2016, 2015 and 2014 amounts respectively.

Additional Information

Local Group Collective balances at June 30, 2017 and June 30, 2016 are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Collective Deferred Outflows of Resources	\$6,424,455,842	\$8,685,338,380
Collective Deferred Inflows of Resources	\$5,700,625,981	\$870,133,595
Collective Net Pension Liability	\$23,278,401,588	\$29,617,131,759
Authority's Proportion	0.0237536286%	0.0238360428%

Actuarial Assumptions

The collective total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

Inflation	2.25%
Salary Increases:	
Through 2026	1.65%-4.15% based on age
Thereafter	2.65%-5.15% based on age
Investment Rate of Return	7.00%

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note VI: Pension Plans (Continued)

Mortality Rates

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plans actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note VI: Pension Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability measured as of June 30, 2017, calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	1% Decrease <u>(4.00%)</u>	Current Discount Rate <u>(5.00%)</u>	1% Increase <u>(6.00%)</u>
Authority's proportionate share of the net pension liability	\$6,859,677	\$5,529,465	\$4,421,234

Pension Plan Fiduciary Net Position

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

During the year ended June 30, 2017, 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.

Significant Legislation

PERS employee contribution rates will increase from 5.5% to 6.5% of salary effective October 2011. 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 TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note VI: Pension Plans (Continued)

Significant Legislation (Continued)

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.

Contribution Requirements – Requirements

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contribution employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 6.50 percent for PERS 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.

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2017, for PERS, the annual pension cost equals the annual required contribution made.

Contributions – Actual

The Authority's total payroll for the fiscal year ended November 30, 2017 was \$1,702,496.05 and covered payroll was \$1,584,912.00 for PERS. Contributions to PERS for the last three years made by the employees and the Authority were as follows:

		<u>PERS</u>	Percent of Covered <u>Payroll</u>
Employees	11/30/15	114,107.78	7.08%
	11/30/16	115,510.22	7.14%
	11/30/17	115,211.49	7.27%
Authority	11/30/15	187,352.00	11.63%
	11/30/16	202,974.00	12.55%
	11/30/17	211,756.00	13.36%

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

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2017
(CONTINUED)

Note VII: Post Retirement Medical Benefits

The Authority contributes to the State Health Benefits Program (SHBP) a cost sharing, multi-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, dental, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 1986, the Authority authorized participation in the SHBP's post retirement benefit program through a resolution number 23-86, which was added to in 2003 by resolution number 36-03. Under these resolutions adopted by the Authority, members enrolled in the New Jersey State Health Benefits Program who retire from the Authority with a minimum of 20 years consecutive employment or service with the Authority and with 25 years or more of service in the State of New Jersey pension system are eligible to participate in the SHBP's post-retirement benefit program, which includes surviving spouses and dependents. In accordance with N.J.S.A. 40A:10-23 all Authority retirees are exempt from the health benefits contribution required by Chapter 78.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions/pdf/financial/2016pers.pdf>

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as you-go basis since 1986.

Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Authority on a monthly basis.

The Authority's contributions for nine retirees to health benefits for the years ended November 30, 2017 and 2016 were \$171,363.24 and \$159,157.15, respectively, which equaled the required contributions for each year.

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, 2017
(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 Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State.

<u>Fiscal Year</u>	<u>Authority Contributions</u>	<u>Employee Contributions</u>	<u>Interest</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2016-2017	\$ 0.00	\$1,989.84	\$309.25	\$ 0.00	\$77,584.02
2015-2016	\$ 0.00	\$2,068.25	\$296.29	\$ 0.00	\$75,284.93
2014-2015	\$ 0.00	\$2,077.81	\$233.77	\$ 0.00	\$72,920.39

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, 2017 is \$74,911.00.

Note X: Contingent Liabilities

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

Note XI: 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 June 11, 2018, the date of audit.

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

OFFICIALS IN OFFICE

YEAR ENDED NOVEMBER 30, 2017

<u>Name</u>	<u>Title</u>
Dennis Dittrick	Chairman
Bill Kuehner	Vice-Chairman
William Byrne	Secretary
John Corona	Assistant Secretary
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.

Required Supplementary Information - Part II

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
Schedule of the Authority's Share of the Net Pension Liability-PERS
Last Ten Fiscal Years***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability (Asset)**	0.023754%	0.023836%	0.023609%	0.022726%
Authority's Proportionate Share of the Net Pension Liability (Asset)**	\$ 5,529,465.00	\$ 7,059,552.00	\$ 5,299,745.00	\$ 4,254,977.00
Authority's Covered Payroll-PERS	\$ 1,584,912.00	\$ 1,617,520.33	\$ 1,610,962.67	\$ 1,598,165.67
Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	348.88%	436.44%	328.98%	266.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.10%	40.13%	47.93%	52.08%

** GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

**THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
Schedule of Authority's Contributions- PERS
Last Ten Fiscal Years***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 211,756.00	\$ 202,974.00	\$ 187,352.00	\$ 173,004.00
Contributions in Relation to the Contractually Required Contribution	<u>(211,756.00)</u>	<u>(202,974.00)</u>	<u>(187,352.00)</u>	<u>(173,004.00)</u>
Contribution Deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered Payroll-PERS	\$ 1,584,912.00	\$ 1,617,520.33	\$ 1,610,962.67	\$ 1,598,165.67
Contributions as a Percentage of Covered Payroll	13.36%	12.55%	11.63%	10.83%

** GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PART III
FOR THE YEAR ENDED NOVEMBER 30, 2017

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Changes of Benefit Terms

None

Change in Assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date to the current measurement date, resulting in a change in the discount rate from 3.98% to 5.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

Supplemental Schedules

**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, 2017**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>2016-2017 Actual</u>	<u>2015-2016 Actual</u>
Operating Revenues:				
Sewer Charges	\$ 6,383,915.00	\$ 6,383,915.00	\$ 6,395,954.58	\$ 6,192,119.74
Delinquent Penalties	27,500.00	27,500.00	62,403.25	48,685.71
Interest Income	1,000.00	1,000.00	26,830.19	26,865.60
Pretreatment Fees	372,000.00	372,000.00	279,527.42	279,984.11
Application Fees	25,000.00	25,000.00	35,847.50	42,615.00
Inspection Fees	20,000.00	20,000.00	21,934.44	16,888.75
Miscellaneous	<u>6,000.00</u>	<u>6,000.00</u>	<u>57,674.28</u>	<u>50,978.48</u>
Total Operating Fees	<u>6,835,415.00</u>	<u>6,835,415.00</u>	<u>6,880,171.66</u>	<u>6,658,137.39</u>
Non-Operating Revenues:				
Net Position Appropriated	500,000.00	500,000.00	500,000.00	500,000.00
Connection Fees	<u>200,000.00</u>	<u>200,000.00</u>	<u>163,200.00</u>	<u>925,400.00</u>
Total Revenues	<u>\$ 7,535,415.00</u>	<u>\$ 7,535,415.00</u>	<u>\$ 7,543,371.66</u>	<u>\$ 8,083,537.39</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, 2017
(CONTINUED)

	Original <u>Budget</u>	Modified <u>Budget</u>	2016-2017 <u>Actual</u>	2015-2016 <u>Actual</u>
Expenses:				
Operating Appropriations:				
Personnel Services (Salaries and Wages):				
Administrative	\$ 231,000.00	\$ 231,000.00	\$ 223,007.93	\$ 222,721.65
Plant	1,646,000.00	1,646,000.00	1,479,488.12	1,555,150.26
Employee Benefits:				
Public Employees' Retirement System	209,000.00	209,000.00	212,922.89	415,731.94
Social Security Tax	143,700.00	143,700.00	120,848.02	126,599.69
Workmens' Compensation Insurance	65,000.00	65,000.00	48,348.31	56,558.30
Dental Insurance	22,200.00	22,200.00	20,416.00	20,912.00
Health Insurance	609,000.00	609,000.00	547,416.33	515,901.20
Administration Expenses:				
Other Expenses	65,500.00	65,500.00	55,266.53	65,224.07
Professional Services	372,500.00	372,500.00	286,457.14	310,521.35
Other Insurance	12,500.00	12,500.00	12,027.70	12,000.00
Reimbursement to the Township of Hanover	69,015.00	69,015.00	69,015.00	64,015.00
Operations and Maintenance:				
Electricity	260,000.00	260,000.00	251,276.19	245,017.63
Sludge Removal	170,000.00	170,000.00	155,070.57	139,054.21
Fuel, Lubricants, Water	180,500.00	180,500.00	108,138.73	83,063.40
Maintenance Supplies	77,000.00	77,000.00	65,343.52	90,499.92
Maintenance Services	172,500.00	172,500.00	128,101.00	170,796.64
Plant Equipment	55,000.00	55,000.00	27,403.88	16,162.17
Chemicals	99,000.00	99,000.00	81,345.77	74,864.30
Vehicle Expense	31,000.00	31,000.00	36,030.97	17,239.92
Collection System	348,100.00	348,100.00	167,698.78	238,027.27
Permits	26,400.00	26,400.00	22,493.20	23,061.56
Plant Supplies	14,400.00	14,400.00	6,801.13	8,948.30
Laboratory Expense	95,500.00	95,500.00	67,588.63	72,295.53
Pretreatment Expense	197,400.00	197,400.00	136,006.51	163,077.49
Safety	19,700.00	19,700.00	11,962.24	9,210.07
Other Insurance	93,500.00	93,500.00	90,301.99	86,124.50
Total Operating Appropriations	<u>5,285,415.00</u>	<u>5,285,415.00</u>	<u>4,430,777.08</u>	<u>4,802,778.37</u>
Other Appropriations:				
Reserve for Plant Expansion	1,325,000.00	1,325,000.00	1,325,000.00	1,150,000.00
Loan Principal and Interest	925,000.00	925,000.00	934,363.67	919,006.35
Total Other Appropriations	<u>2,250,000.00</u>	<u>2,250,000.00</u>	<u>2,259,363.67</u>	<u>2,069,006.35</u>
 Total Appropriations	 <u>\$ 7,535,415.00</u>	 <u>\$ 7,535,415.00</u>	 <u>\$ 6,690,140.75</u>	 <u>\$ 6,871,784.72</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, 2017**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>2016-2017 Actual</u>	<u>2015-2016 Actual</u>
Excess (Deficit) of Revenues over Expenses	\$ -	\$ -	\$ 853,230.91	\$ 1,211,752.67
Reconciliation of Budgetary Basis to GAAP:				
Net Position Appropriated:				
Unrestricted Accounts			(500,000.00)	(500,000.00)
Depreciation Expense			(1,040,439.67)	(1,028,224.97)
Net Adjustment for Pension Expense			(216,556.00)	(696,067.00)
Debt Service Principal			733,711.28	728,711.28
Accounts Payable Cancelled				273,417.48
Other Non-Operating Expenses			(50,729.72)	
Reserve for Plant Expansion			1,325,000.00	1,150,000.00
Capital Asset Additions			<u>40,976.33</u>	<u>85,503.00</u>
Total Adjustments			<u>291,962.22</u>	<u>13,339.79</u>
Change in Net Position			<u>\$1,145,193.13</u>	<u>\$1,225,092.46</u>

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

SCHEDULE OF NET POSITION

	Restricted			
ASSETS	Unrestricted	Plant Expansion	Customer Deposits	Totals 2016-2017
Current Assets:				
Cash	\$ 4,128,130.77	\$ 2,465,791.64	\$ 150,589.12	\$ 6,744,511.53
Accounts Receivable:				
Sewer Charges	356,944.76			356,944.76
Pretreatment Fees	6,261.20			6,261.20
Other		4,045,049.00		4,045,049.00
Prepaid Expenses	12,432.16			12,432.16
Noncurrent Assets:				
Land	381,455.00			381,455.00
Construction in Progress	24,258,294.01			24,258,294.01
Capital Assets, Net	17,641,226.76	-	-	17,641,226.76
TOTAL ASSETS	46,784,744.66	6,510,840.64	150,589.12	53,446,174.42
DEFERRED OUTFLOWS OF RESOURCES				
Pension Deferred Outflows	1,389,645.00			1,389,645.00
LIABILITIES				
Current Liabilities:				
Accounts Payable	369,215.34			369,215.34
Accrued Interest Payable	22,072.50			22,072.50
Prepaid Revenue	13,636.54			13,636.54
Other	8,194.25			8,194.25
Contracts Payable		1,494,129.59		1,494,129.59
Customer Deposits			150,589.12	150,589.12
Noncurrent Liabilities:				
Loans Payable	12,439,491.27	-		12,439,491.27
Net Pension Liability	5,529,465.00			5,529,465.00
Compensated Absences	74,911.00	-	-	74,911.00
TOTAL LIABILITIES	18,456,985.90	1,494,129.59	150,589.12	20,101,704.61
DEFERRED INFLOWS OF RESOURCES				
Pension Deferred Inflows	1,141,577.00			1,141,577.00
NET POSITION				
Net Investment in Capital Assets	29,841,484.50			29,841,484.50
Restricted for:				
Plant Expansion		4,829,232.55		4,829,232.55
Encroachment Agreement - Hanover Renaissance		177,410.00		177,410.00
Woodmont Environmental Compliance		10,068.50		10,068.50
Unrestricted:				
Designated	1,000,000.00			1,000,000.00
Undesignated	(2,265,657.74)	-	-	(2,265,657.74)
TOTAL NET POSITION	\$ 28,575,826.76	\$ 5,016,711.05	\$ -	\$ 33,592,537.81

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

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Restricted			Totals 2016-2017
	Unrestricted	Encroachment Agreement	Plant Expansion	
Operating Revenues:				
Sewer Charges	\$ 6,395,954.58	\$ -	\$ -	\$ 6,395,954.58
Delinquent Penalties	62,403.25			62,403.25
Interest Income	26,155.56			26,155.56
Pretreatment Fees	279,527.42			279,527.42
Application Fees	35,847.50			35,847.50
Inspection Fees	21,934.44			21,934.44
Miscellaneous	57,674.28			57,674.28
	<u>6,879,497.03</u>			<u>6,879,497.03</u>
Operating Expenses:				
Operating Appropriations	4,430,777.08			4,430,777.08
Depreciation	1,040,439.67			1,040,439.67
	<u>5,471,216.75</u>			<u>5,471,216.75</u>
Operating Income	1,408,280.28			1,408,280.28
Non Operating Revenues and (Expenses):				
Interest Income		574.48	67.54	674.63
Connection Fees	163,200.00			163,200.00
Adjustment for Net Pension Liability	(216,556.00)			(216,556.00)
New Jersey Wastewater Treatment Financing Program Interest Expense:				
Budget Interest	(200,652.39)			(200,652.39)
Additions to Capital Assets				
Paid From Budget	40,976.33			40,976.33
Other Non-Operating Expense	(50,729.72)			(50,729.72)
Net Income (Deficit) Before Transfers	1,144,518.50	574.48	67.54	1,145,193.13
Transfers:				
Other	(19,848.73)		19,848.73	-
Budget Reserve	(1,325,000.00)		1,325,000.00	-
Increase in Net Position	(200,330.23)	574.48	1,344,916.27	1,145,193.13
Net Position December 1, 2016	28,776,156.99	176,835.52	3,484,316.28	32,447,344.68
Net Position November 30, 2017	<u>\$ 28,575,826.76</u>	<u>\$ 177,410.00</u>	<u>\$ 4,829,232.55</u>	<u>\$ 33,592,537.81</u>

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

SCHEDULE OF CONTRACTS PAYABLE

Balance December 1, 2016	\$ 3,015,047.29
Decreased by:	
Paid in 2016-2017	<u>1,520,917.70</u>
Balance November 30, 2017	<u>\$ 1,494,129.59</u>
 <u>Analysis of Balance November 30, 2017</u>	
GDS Mechanical (Contract #36)	\$ 217,451.00
RML Construction Co. (Contract #24)	4,110.00
Meridian (Fire Alarm Upgrade)	1,670.37
Spectraserv (Contract #40)	867,824.89
Spectraserv (Contract #38)	<u>403,073.33</u>
	<u>\$ 1,494,129.59</u>

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

SCHEDULE OF CONSTRUCTION IN PROGRESS

Balance December 1, 2016	\$ 23,439,620.21
Increased by:	
Payments in 2016-2017	<u>818,673.80</u>
 Balance November 30, 2017	 <u>\$ 24,258,294.01</u>
 <u>Analysis of Balance November 30, 2017</u>	
Pond Liner (#24)	\$ 6,082,428.65
GDS Mechanical HVAC Upgrades (#36)	4,109,573.91
Oil Tank Replacement	37,344.75
Fuel Source (#40)	2,753,739.84
County Bridge-Ridgedale	27,401.13
Primary Digester Rehab (#38)	10,127,576.20
Fire Alarm Upgrade (#41)	503,069.36
HJ Pump Station	7,407.88
PACL Enclosure	58,196.34
Aeration System Study	75,587.69
River Crossing (2015-2)	195,953.28
Settling Tank Rehabilitation (#42)	140,172.57
Sewer Repairs	106,830.69
Aeration System	<u>33,011.72</u>
	 <u>\$ 24,258,294.01</u>

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

Schedule 6

**SCHEDULE OF NEW JERSEY WASTEWATER TREATMENT FINANCING
FUND AND TRUST PROGRAM LOANS PAYABLE**

Balance December 1, 2016	\$ 13,173,202.55
Decreased by:	
Paid in 2016-2017	733,711.28
Balance November 30, 2017	\$ 12,439,491.27

Analysis of Loan Payable November 30, 2017

<u>Date</u>	<u>Fund Loan Program</u>	<u>Trust Loan Program</u>	<u>Total</u>
2/1/2018	\$ 196,237.09	\$ -	\$ 196,237.09
8/1/2018	392,474.19	155,000.00	547,474.19
2/1/2019	196,237.09		196,237.09
8/1/2019	392,474.19	160,000.00	552,474.19
2/1/2020	196,237.09		196,237.09
8/1/2020	392,474.19	170,000.00	562,474.19
2/1/2021	196,237.09		196,237.09
8/1/2021	392,474.19	175,000.00	567,474.19
2/1/2022	196,237.09		196,237.09
8/1/2022	392,474.19	190,000.00	582,474.19
2/1/2023	196,237.09		196,237.09
8/1/2023	392,474.19	195,000.00	587,474.19
2/1/2024	196,237.09		196,237.09
8/1/2024	392,474.19	205,000.00	597,474.19
2/1/2025	196,237.09		196,237.09
8/1/2025	392,474.19	210,000.00	602,474.19
2/1/2026	196,237.09		196,237.09
8/1/2026	392,474.19	225,000.00	617,474.19
2/1/2027	196,237.09		196,237.09
8/1/2027	392,474.19	235,000.00	627,474.19
2/1/2028	196,237.09		196,237.09
8/1/2028	392,474.19	235,000.00	627,474.19
2/1/2029	196,237.09		196,237.09
8/1/2029	392,474.19	245,000.00	637,474.19
2/1/2030	196,237.09		196,237.09
8/1/2030	392,474.19	255,000.00	647,474.19
2/1/2031	196,237.09		196,237.09
8/1/2031	392,474.48	265,000.00	657,474.48
2/1/2032	134,072.20		134,072.20
8/1/2032	268,144.40	185,000.00	453,144.40
2/1/2033	134,072.20		134,072.20
8/1/2033	268,144.58	185,000.00	453,144.58
2/1/2034	21,033.22		21,033.22
8/1/2034	42,066.46	40,000.00	82,066.46
	\$ 9,109,491.27	\$ 3,330,000.00	\$ 12,439,491.27

Single Audit Section

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
Newton, N.J. 07860
973-579-3212
Fax 973-579-7128

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, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Township of Hanover Sewerage Authority, as of and for the year ended November 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township of Hanover Sewerage Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Hanover Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township of Hanover Sewerage Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Honorable Chairman and Members
Township of Hanover Sewerage Authority
Page 2.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Hanover Sewerage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ferraioli, Wielkocz, Cerullo & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Pompton Lakes, New Jersey

June 11, 2018

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
Newton, N.J. 07860
973-579-3212
Fax 973-579-7128

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Township of Hanover Sewerage Authority's compliance with the types of compliance requirements described in the Office of Management and Budget (OMB)'s Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2017. The Township of Hanover Sewerage Authority's major federal 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Township of Hanover Sewerage Authority's major federal 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 program occurred. An audit includes examining, on a test basis, evidence about the Township of Hanover Sewerage Authority'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 program. However, our audit does not provide a legal determination on the Township of Hanover Sewerage Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Township of Hanover Sewerage Authority 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 programs for the year ended November 30, 2017.

Report on Internal Control Over Compliance

Management of the Township of Hanover Sewerage Authority 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 the Township of Hanover Sewerage Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Township of Hanover Sewerage Authority's 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 federal 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 material noncompliance with a type of compliance requirement of a federal 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Chairman and Members
Township of Hanover Sewerage Authority
Page 3.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Township of Hanover Sewerage Authority as of and for the year ended November 30, 2017, and have issued our report thereon dated June 11, 2018, which contained a modified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 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 financial statements or to the 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ferraioli, Wielkatz, Cerullo & Cova, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Pompton Lakes, New Jersey

June 11, 2018

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
 (A Component Unit of the Township of Hanover)
 Schedule of Expenditures of Federal Awards
 Fiscal Year Ended November 30, 2017

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	State Agency Account Number	Program Amount	Grant/Loan Period		Cash Received		Program Expenditures		(MEMO) Cumulative Expenditures
				From	To	Prior Years	Current Year	Prior Years	Current Year	
U.S. Department of Environmental Protection:										
<i>Pass Through New Jersey Department of Environmental Protection:</i>										
Capitalization Grants for Clean Water State Revolving Funds:										
NJDEP Loan - 2011	66.458	042-4860-510-009	\$ 3,667,729	3/1/2012	11/30/2017	3,336,998	183,773	3,336,998	330,731	3,667,729
NJDEP Loan - 2014	66.458	042-4860-510-009	\$ 6,669,300	7/11/2013	11/30/2017	4,030,514	-	5,162,980	882,409	6,045,389
NJDEP Loan - 2015	66.458	042-4860-510-009	\$ 1,662,000	6/1/2015	11/30/2017	-	910,238	489,198	421,040	910,238
Subtotal						7,367,512	1,094,011	8,989,176	1,634,180	10,623,356
Total Federal Financial Assistance						7,367,512	1,094,011	8,989,176	1,634,180	10,623,356

See accompanying Notes to the Schedules of Expenditures of Awards and Financial Assistance.

THE TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
 (A Component Unit of the Township of Hanover)
 Schedule of Expenditures of State Financial Assistance
 Fiscal Year Ended November 30, 2017

State Grantor/Pass-Through Grantor/Program	State Agency Account Number	Program Amount	Grant Period		Cash Received		Program Expenditures		(MEMO) Cumulative Expenditures
			From	To	Prior Years	Current Year	Prior Years	Current Year	
<u>New Jersey Department of Environmental Protection:</u>									
NJ Environmental Infrastructure Trust - Trust Loan - 2011	042-4860-510-009	\$ 1,222,576	3/1/2012	11/30/2017	1,112,332	61,258	1,112,332	110,244	1,222,576
Trust Loan - 2014	042-4860-510-009	\$ 2,223,100	7/11/2013	11/30/2017	1,343,505	671,625	1,719,020	296,110	2,015,130
Trust Loan - 2015	042-4860-510-009	\$ 554,000	6/1/2015	11/30/2017	-	303,413	-	303,413	303,413
Total State Financial Assistance					<u>2,455,837</u>	<u>1,036,296</u>	<u>2,831,352</u>	<u>709,767</u>	<u>3,541,119</u>

NOTE: This schedule is not subject to an audit in accordance with State of New Jersey OMB Circular 15-08.

See accompanying Notes to the Schedules of Awards and Financial Assistance.

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

NOTES TO THE SCHEDULES OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
NOVEMBER 30, 2017

NOTE 1. GENERAL

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance present the activity of all federal and state award programs of the Township of Hanover Sewerage Authority. The Authority is defined in Note 1 to the Authority's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state financial assistance passed through other government agencies is included on the Schedule of Expenditures of Federal Awards and State Financial Assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance are presented on the accrual basis of accounting. This basis of accounting is described in Note 2(A) to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations and Single Audit Policy for Recipients of Grants, State Grants, and State Aid.*

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Awards and financial assistance revenues are reported in the Authority's basic financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Enterprise Fund	<u>\$1,634,180</u>	<u>\$709,767</u>	<u>\$2,343,947</u>

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.

NOTE 5. INDIRECT COST RATE

The Township of Hanover Sewerage Authority has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED NOVEMBER 30, 2017**

Section I--Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

2) Significant deficiency(ies) identified that are not considered to be material weaknesses reported? _____ yes X none

Noncompliance material to general-purpose financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

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

2) Significant deficiencies identified that are not considered to be material weaknesses reported? _____ yes X none

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ yes X no

TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED NOVEMBER 30, 2017

Section I--Summary of Auditor's Results (continued)

State Awards

NOT APPLICABLE

**TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED NOVEMBER 30, 2017**

Section II--Financial Statement Findings

No matters were reported.

Section III--Federal Awards and State Financial Assistance Findings and Questioned Costs

No matters were reported.

**TOWNSHIP OF HANOVER SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF HANOVER)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED NOVEMBER 30, 2017**

Status of Prior Year Findings

No matters were reported.

Comments and Recommendations

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:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term ‘competitive contracting’, which is defined as “the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors, formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received”.

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. “When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the sum of \$40,000, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations’.

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. “Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months

Effective July 1, 2015 and thereafter the bid threshold for the Authority in accordance with N.J.S.A. 40A:11-3 (as amended) is \$40,000.00.

The governing body of the Authority 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, the Attorney’s opinion should be sought before a commitment is made.

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. No violations were discovered.

The results of our examination of expenditures did not reveal any 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.

Resolutions were adopted authorizing the awarding of contracts or agreements for “Professional Services” per N.J.S.A. 40A:11-5.

COMMENTS AND RECOMMENDATIONS

COMMENTS

1. The Authority had encumbrances that were not liquidated within 90 days of year end.

RECOMMENDATIONS

1. That outstanding encumbrances be liquidated within 90 days of year end.

Status of Prior Years' Audit Findings/Recommendations:

NOT APPLICABLE

* * * * *

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

APPRECIATION

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

Respectfully submitted,

Ferraioli, Wielkocz, Cerullo & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Newton, New Jersey

June 11, 2018