

**TOWNSHIP OF HANOVER**  
NORTHAMPTON COUNTY, PENNSYLVANIA

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

AS OF AND FOR THE YEAR ENDED  
**DECEMBER 31, 2010**

# **TOWNSHIP OF HANOVER**

## **CONTENTS**

---

### **AUDITOR'S REPORT**

<b>INDEPENDENT AUDITORS' REPORT</b>	2-3
-------------------------------------	-----

<b>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</b>	4-5
---	-----

<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	6-15
---	------

### **GOVERNMENT WIDE FINANCIAL STATEMENTS**

Statement of Net Assets – Modified Cash Basis	16
Statement of Activities – Modified Cash Basis	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Activities	18
Reconciliation of the Statement of Revenue, Expenditure and Changes in Fund Balance to the Statement of Activities	19

### **FINANCIAL STATEMENTS**

Statements of Assets, Liabilities and Fund Equity - Cash Basis - Governmental Fund Types	20
Statements of Revenues, Expenditures and Changes in Fund Balances - Cash Basis - Governmental Fund Types	21
Statements of Net Assets - Cash Basis - Fiduciary Fund Types	22
Statements of Changes in Net Assets - Cash Basis - Fiduciary Fund Types	23

<b>NOTES TO FINANCIAL STATEMENTS</b>	24-34
--------------------------------------	-------

<b>BUDGETARY STATEMENTS</b>	35-37
-----------------------------	-------

<b>COMBINING STATEMENTS</b>	38-41
-----------------------------	-------

# *Gneiding, DeSanctis, Blizzard & Company, LLP*

## Certified Public Accountants

Howard D. Gneiding, CPA

Vincent H. DeSanctis, CPA, CVA

Robert E. Blizzard, Jr., CPA

Todd J. Bushta, CPA

### INDEPENDENT AUDITORS' REPORT

TOWNSHIP OF HANOVER, NORTHAMPTON COUNTY

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Hanover as of and for the year ended December 31, 2010, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Hanover's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with *U.S. generally accepted auditing standards* and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, The Township of Hanover prepares its financial statements on a modified cash and cash basis of accounting, which are a comprehensive basis of accounting other than *U.S. generally accepted accounting principles*. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with *U.S. generally accepted accounting principles*.

The management's discussion and analysis and budgetary comparison information, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2011 on our consideration of Township of Hanover's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Hanover's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Smeiling, DeArmitt, Blizard & Company, LLP*

# *Gneiding, DeSanctis, Blizzard & Company, LLP*

## Certified Public Accountants

Howard D. Gneiding, CPA

Vincent H. DeSanctis, CPA, CVA

Robert E. Blizzard, Jr., CPA

Todd J. Bushta, CPA

### **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**

#### TOWNSHIP OF HANOVER

We have audited the financial statements of the Township of Hanover, as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Township of Hanover'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 Standard*.

### AUDITOR REPORTING AND OTHER COMMUNICATION CONSIDERATIONS

This report is intended solely for the information and use of management and that of government oversight bodies and is not intended to be and should not be used by anyone other than these specified parties.

*Smeiling, DeArmitt, Blizard, & Company, LLP*

ALLENTOWN, PENNSYLVANIA  
MARCH 31, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# **TOWNSHIP OF HANOVER**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2010

---

The discussion and analysis of Township of Hanover's financial performance provides an overall review of the Township's financial activities for the fiscal year ended December 31, 2010. The intent of this discussion and analysis is to look at the Township's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Township's financial performance. Township of Hanover, Northampton County, was incorporated in 1798. The Township of the Second Class operates under an elected Board of Supervisors, and provides the following services to its residents: public safety, highways and streets, sanitation, culture-recreation, planning and zoning, and general administrative services.

### **FINANCIAL HIGHLIGHTS**

*Key government-wide financial highlights for 2010 are as follows:*

- In total, net assets were \$21,073,821 at the end of the year.
- General revenues accounted for \$4,732,531 in 2010 or 56% of all revenues.
- Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$3,695,338 or 44% of total revenues of \$8,427,869.
- Total assets of governmental activities were 24,330,769 of which \$6,204,995 represents unrestricted cash and investments.
- Fixed assets, net of accumulated depreciation were \$13,520,326.
- The Township had \$7,811,964 in expenses, only \$3,695,338 of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes) of \$4,732,531 were adequate to provide for these programs.
- Expenses, after program revenue was \$4,116,626 for the year.
- Federal and state intergovernmental revenues were \$954,312, which includes allocations from the Commonwealth for pension funding and liquid fuels tax.
- Real Estate Tax millage was unchanged from previous years at 3.90 mills, which included a 0.5 mill tax for fire protection services.
- In 2009 the Township began separately collecting fees for residual municipal waste from it's residents. Revenue for Solid waste collection was \$966,568 in 2010.



# **TOWNSHIP OF HANOVER**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

DECEMBER 31, 2010

---

### **USING THIS GENERAL ACCEPTED ACCOUNTING PRINCIPALS REPORT (GAAP)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Township of Hanover as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Township's most significant funds with all other non-major funds. In the case of Township of Hanover, the General Fund is by far the most significant fund.

### **REPORTING THE TOWNSHIP AS A WHOLE**

#### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the Township to provide programs and activities, the view of the Township as a whole looks at all financial transactions and asks the question, "How did we do financially during the year?" The Statement of Net Assets and the Statement of Activities answer this question. The basis of accounting is that of modified cash. Which means, the financial information is reported on the cash basis and also include outstanding debt and fixed assets.

These two statements report the Township's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Township as a whole, the financial position of the Township has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the Township's property tax base, current property tax laws in Pennsylvania restricting revenue growth, facility condition, required public works and public safety activities, and other factors.

# TOWNSHIP OF HANOVER

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2010

### REPORTING THE TOWNSHIP AS A WHOLE

#### *Statement of Net Assets and the Statement of Activities (continued)*

In the Statement of Net Assets and the Statement of Activities, the Township reports governmental activities. Governmental activities are the activities where most of the Township's programs and services are reported including, but not limited to, general government, public works, public safety, and recreation.

*Table 1 provides a summary of the Township's net assets:*

**Table 1**

#### **Net Assets**

	2010	2009	2008	2007	2006	2005
<b>Assets</b>						
Current and Other Assets	\$ 10,810,443	\$ 10,985,770	\$ 11,798,259	\$ 10,874,111	\$ 11,262,757	\$ 9,745,273
Capital Assets,						
Net of accumulated depreciation	<u>13,520,326</u>	<u>13,516,943</u>	<u>12,693,596</u>	<u>12,408,319</u>	<u>10,898,440</u>	<u>9,399,650</u>
	<u>24,330,769</u>	<u>24,502,713</u>	<u>24,491,855</u>	<u>23,282,430</u>	<u>22,161,197</u>	<u>19,144,923</u>
<b>Liabilities</b>						
Current Liabilities	366,000	595,890	576,172	697,477	664,686	870,034
Long-Term Liabilities	<u>2,260,948</u>	<u>2,818,907</u>	<u>3,914,031</u>	<u>4,930,031</u>	<u>5,668,711</u>	<u>3,239,965</u>
	<u>2,626,948</u>	<u>3,414,797</u>	<u>5,627,508</u>	<u>5,627,508</u>	<u>6,333,397</u>	<u>4,109,999</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Debt	10,893,378	10,102,146	8,203,393	6,780,811	4,565,043	5,289,651
Restricted	6,648,551	6,337,355	7,439,323	7,034,588	7,757,567	7,295,655
Unrestricted	<u>4,161,892</u>	<u>4,648,215</u>	<u>4,358,936</u>	<u>3,839,922</u>	<u>3,505,190</u>	<u>2,449,618</u>
	<u>\$ 21,703,821</u>	<u>\$ 21,087,916</u>	<u>\$ 20,001,652</u>	<u>\$ 17,654,922</u>	<u>\$ 15,827,800</u>	<u>\$ 15,034,924</u>

Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, decreased by \$486,323. You will note that the majority of the Township's net assets are "locked up" in fixed assets and restricted uses.

# TOWNSHIP OF HANOVER

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2010

*Table 2 provides a summary of the Township's statement of activities:*

**Table 2**  
**Statement of Activities**

	2010	2009	2008	2007	2006	2005
<b><i>Program Revenues</i></b>						
Charges for Services	\$ 3,039,231	\$ 2,901,666	\$ 2,806,477	\$ 1,344,571	\$ 1,483,258	\$ 1,150,013
Operating Grants and Contributions	656,107	645,737	1,575,084	1,565,250	1,467,842	1,053,891
Capital Grants and Contributions	0	0	0	0	0	0
<b><i>General Revenues</i></b>						
Taxes	4,681,731	4,882,517	5,184,761	5,375,726	5,242,466	4,569,477
Investment Earnings	<u>50,800</u>	<u>129,228</u>	<u>389,461</u>	<u>518,703</u>	<u>458,429</u>	<u>241,309</u>
<b><i>Total Revenues</i></b>	<u>8,427,869</u>	<u>8,559,148</u>	<u>9,955,783</u>	<u>8,804,250</u>	<u>8,651,995</u>	<u>7,014,690</u>
<b><i>Program Expenses</i></b>						
General Government	1,089,102	834,905	824,549	478,340	478,263	650,541
Public Safety	1,994,804	1,967,643	1,864,552	2,032,541	1,889,577	1,622,214
Public Works	2,220,378	2,118,992	2,119,662	2,127,818	3,340,344	2,265,532
Cultural and Recreation	1,144,016	1,214,138	1,196,706	1,013,911	832,453	838,456
Other	972,346	912,074	1,127,326	840,603	825,365	797,398
Interest on Long-Term Debt	135,361	169,175	220,301	227,958	237,160	196,618
Unallocated Depreciation	<u>255,957</u>	<u>255,957</u>	<u>255,957</u>	<u>255,957</u>	<u>255,957</u>	<u>255,957</u>
<b><i>Total Expenses</i></b>	<u>7,811,964</u>	<u>7,472,884</u>	<u>7,609,053</u>	<u>6,977,128</u>	<u>7,859,119</u>	<u>6,626,716</u>
<b><i>Increase in Net Assets</i></b>	<u>\$ 615,905</u>	<u>\$ 1,086,264</u>	<u>\$ 2,346,730</u>	<u>\$ 1,827,122</u>	<u>\$ 792,876</u>	<u>\$ 387,974</u>

# TOWNSHIP OF HANOVER

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2010

### *Governmental Activities*

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

*Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue.*

**Table 3 Net Cost of Services**

	2010	2009	2008	2007	2006	2005
General Government	\$ 122,549	\$ (25,290)	\$ (116,441)	\$ 352,439	\$ 480,849	\$ 69,197
Public Safety	(1,866,347)	(1,578,056)	(1,255,802)	(1,497,603)	(1,764,387)	(1,579,106)
Public Works	(506,438)	(387,397)	(455,679)	(1,192,515)	(2,028,653)	(1,336,172)
Cultural and Recreation	(502,726)	(597,532)	(591,556)	(418,634)	(286,146)	(357,767)
Other	(972,346)	(912,074)	(331,756)	(827,079)	(816,565)	(766,389)
Interest on Long-Term Debt	(135,361)	(169,175)	(220,301)	(227,958)	(237,160)	(196,618)
Unallocated Depreciation	<u>(255,957)</u>	<u>(255,957)</u>	<u>(255,952)</u>	<u>(255,952)</u>	<u>(255,952)</u>	<u>(255,952)</u>
	<u><u>\$ ( 4,116,626)</u></u>	<u><u>\$ ( 3,925,481)</u></u>	<u><u>\$ ( 3,227,487)</u></u>	<u><u>\$ ( 4,067,302)</u></u>	<u><u>\$ ( 4,908,014)</u></u>	<u><u>\$ ( 4,422,807)</u></u>

### *Defining the Classifications of Expenditure:*

- General Government activities includes the activities of the legislative board of Supervisors, the Township manager's office, financial administration, legal counsel, insurance, and physical plant.
- Public safety activities includes police protection, code enforcement, fire protection, and planning.
- Public Works includes general services, servicing of streets and storm sewers, and snow and ice removal.
- Cultural and recreation includes the community center, library, and parks.
- Other includes insurance and employee benefits
- Interest on long-term debt and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the Township.

# **TOWNSHIP OF HANOVER**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

DECEMBER 31, 2010

---

### ***Governmental Activities***

The dependence upon real estate tax revenues is apparent. For all activities, general revenue support is 56% for 2010. The community, as a whole, is the primary support for the Township of Hanover. The real estate taxes for the Township are collected from township residents. The tax on real estate, as levied by the Board. Taxable assessed valuation is \$ 493,315,600 as of December 20, 2010 at 3.9 mills (\$3.90 per \$1,000 of assessed valuation), 3.4 mills for general purposes and 0.5 mills for fire protection. Assessed valuations of property are determined by Northampton County and the collectors are responsible for collection.

### **REPORTING THE TOWNSHIP'S MOST SIGNIFICANT FUNDS**

#### ***Fund Financial Statements***

Fund financial reports provide detailed information about the Township's major funds. The Township uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Township's most significant funds.

#### ***Governmental Funds***

Most of the Township's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called cash basis, which measures cash receipts and disbursements. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

# **TOWNSHIP OF HANOVER**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

DECEMBER 31, 2010

---

### **REPORTING THE TOWNSHIP'S MOST SIGNIFICANT FUNDS**

#### ***Governmental Activities***

The following are the Township's governmental funds:

##### **General Fund (Major Fund)**

The general fund is the operating fund of the Township and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of The Commonwealth.

**Capital Projects Funds (Major Fund)** account for financial resources to be used for the acquisition or construction of certain major capital facilities which are not financed by the Proprietary and General Funds.

##### **Special Revenue Fund (Non-major Fund)**

The Special Revenue Fund accounts for specific revenue sources which are legally restricted to expenditures for specified purposes. The Township accounts for the liquid fuels tax and fire tax in this fund.

##### **Debt Service Fund (Non-major Fund)**

The Debt Service Fund accounts for resources accumulated for the purpose of funding general long-term debt obligations.

The following are the Township's other funds:

**Trust Funds** are used to account for assets held by the Township in a trustee capacity. This includes the Pension Trust Fund. The Pension Trust Fund is used to account for the four retirement pension plans. The Pension Trust Fund is accounted for in essentially the same manner as the Proprietary Fund since capital maintenance is critical.

# TOWNSHIP OF HANOVER

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2010

### THE TOWNSHIP'S FUNDS

As indicated above, these funds are accounted for using the cash basis of accounting. All governmental funds had total revenues of \$8,427,869 with expenditures of \$8,603,196. Other financing sources and uses include transfers between the funds and net out to \$0. The net change in fund balance for the year was an decreased of \$175,327.

### GENERAL FUND BUDGETING HIGHLIGHTS

The Township's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

### CAPITAL ASSETS

At the end of the fiscal year, the Township had the following invested in land, buildings, furniture and equipment, and vehicles.

**Table 4 Capital Assets**

	Balance, Beginning	Additions	Disposals	Balance, Ending
CAPITAL ASSETS				
Land and Land Improvements	\$ 4,809,659	\$ 71,640	\$	\$ 4,881,299
Infrastructure	1,406,475			1,406,475
Building & Improvements	9,386,462	36,880		9,423,342
Furniture and Equipment	2,144,002	150,820		2,294,822
	\$ 17,746,598	\$ 259,340	\$ 0	\$ 18,005,938
ACCUMULATED DEPRECIATION				
Building & Improvements	3,568,482	\$ 201,077		3,769,559
Furniture and Equipment	661,173	54,880		716,053
	\$ 4,229,655	\$ 255,957	\$ 0	\$ 4,485,612

#### *Description of the years Capital Asset Activity:*

- Capital purchases were \$259,340.
- Depreciation for the year was \$255,957.

# TOWNSHIP OF HANOVER

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2010

### DEBT SERVICE

*Table 5 summarizes Long Term Debt:*

	Balance, Beginning	Proceeds	Repayments	Balance, Ending
Notes – 2006	\$ 1,254,948	\$	\$ 100,000	\$ 1,154,948
Notes – 2006 A	200,835		200,835	0
Notes – 2004	234,014		234,014	0
Notes – 1998	1,725,000		253,000	1,472,000
Notes – 1997	0		0	0
	<u>\$ 3,414,797</u>	<u>\$ 0</u>	<u>\$ 787,849</u>	<u>\$ 2,626,948</u>

During 2010, the Township made advanced payments to satisfy the full outstanding principal for its 2006 A and 2004 general obligation notes.

*Table 6 summarizes  
Debt Service to Maturity:*

	<u>Debt Service</u>
2011	509,086
2012	505,403
2013	501,013
2014	495,986
2015	492,113
2016	147,500
2017	143,250
2018	139,000
2019	134,750
2020	130,500
2021	126,250
2022	56,126
Total	<u>3,380,977</u>
Interest Portion	<u>754,029</u>
Outstanding Principal	<u>\$ 2,626,948</u>



# **TOWNSHIP OF HANOVER**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

DECEMBER 31, 2010

---

### **CURRENT FINANCIAL ISSUES AND CONCERNS**

In conclusion, The Township of Hanover continues to be financially sound. The Township of Hanover has committed itself to being fiscally responsible over the years and appropriately addressing Township needs. In addition, the Township's system of financial planning, budgeting, and internal financial controls are well regarded, as official audits have demonstrated. The Township plans to continue its sound fiscal management to meet the challenges of the future.

#### *Contacting the Township's Financial Management*

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Township offices.

**G O V E R N M E N T   W I D E   F I N A N C I A L   S T A T E M E N T S**

**TOWNSHIP OF HANOVER**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**  
DECEMBER 31, 2010

---

	<b>Governmental</b>	
	<b>Activities</b>	
	<u>2010</u>	<u>2009</u>
<i>ASSETS</i>		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 932,547	\$ 1,453,991
Investments	<u>5,272,448</u>	<u>4,887,071</u>
	<u>6,204,995</u>	<u>6,341,062</u>
<i>Noncurrent Assets</i>		
General Fixed Assets		
Land	4,881,299	4,809,659
Infrastructure	1,406,475	1,406,475
Building & Building Improvements	9,423,342	9,386,462
Equipment	<u>2,294,822</u>	<u>2,144,002</u>
	18,005,938	17,746,598
Accumulated Depreciation	<u>(4,485,612)</u>	<u>(4,229,655)</u>
Net General Fixed Assets	13,520,326	13,516,943
Restricted Cash and Cash Equivalents	<u>4,605,448</u>	<u>4,644,708</u>
	<u>18,125,774</u>	<u>18,161,651</u>
	<u>24,330,769</u>	<u>24,502,713</u>
<i>LIABILITIES</i>		
<i>Current Liabilities</i>		
Current Portion of LT Debt - notes payable	366,000	595,890
<i>Noncurrent Liabilities</i>		
Notes Payable - Long term	<u>2,260,948</u>	<u>2,818,907</u>
	<u>2,626,948</u>	<u>3,414,797</u>
<i>NET ASSETS</i>		
Investment in Capital Assets Net of Related Debt	10,893,378	10,102,146
Restricted for:		
Capital Projects	3,656,467	3,500,944
Specified Projects	2,226,720	2,056,038
Specified use	765,364	780,573
Unrestricted	<u>4,161,892</u>	<u>4,648,215</u>
	<u>\$ 21,703,821</u>	<u>\$ 21,087,916</u>

**TOWNSHIP OF HANOVER**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**YEAR ENDED DECEMBER 31, 2010**

2010						
Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	2009
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	
			Grants and Contributions	Grants and Contributions		
Memorandum Total						
<b>Governmental activities:</b>						
General government	\$ 1,089,102	\$ 910,191	\$ 301,460	\$	\$ 122,549	\$ (25,290)
Public safety	1,994,804	17,088	111,369		(1,866,347)	(1,578,056)
Public works	2,220,378	1,470,662	243,278		(506,438)	(387,397)
Recreation	1,144,016	641,290			(502,726)	(597,532)
Other	972,346				(972,346)	(912,074)
Interest on Long-Term debt	135,361				(135,361)	(169,175)
Unallocated Depreciation	255,957				(255,957)	(255,957)
	<u>\$ 7,811,964</u>	<u>\$ 3,039,231</u>	<u>\$ 656,107</u>	<u>\$ 0</u>	(4,116,626)	(3,925,481)
<b>General revenues:</b>						
Taxes:						
					1,875,477	1,963,480
					241,935	238,056
					467,169	460,327
					406,238	527,751
					1,690,912	1,692,903
					50,800	129,228
					<u>4,732,531</u>	<u>5,011,745</u>
<b>Change in Net Assets</b>					615,905	1,086,264
Net Assets—beginning					<u>21,087,916</u>	<u>20,001,652</u>
Net Assets—ending					\$ 21,703,821	\$ 21,087,916

# TOWNSHIP OF HANOVER

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

DECEMBER 31, 2010

---

***Total Fund Balances - Governmental Funds (CASH BASIS)***                      \$ 10,810,443

*Amounts reported for governmental activities in the statement of  
net assets are different because:*

Capital Assets used in governmental activities are not financial  
resources and therefore are not reported as assets in funds.

<i>Capital Assets</i>	18,005,938
<i>Accumulated Depreciation</i>	(4,485,612)

Long-term liabilities, including notes payable, are not due and payable  
in the current period, and therefore are not reported as liabilities  
in the funds. Long-term liabilities at year end consist of:

<i>Notes Payable</i>	(2,626,948)
----------------------	-------------

***Total Net Assets - Governmental Activities (MODIFIED CASH BASIS)***                      \$ 21,703,821

# TOWNSHIP OF HANOVER

## RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2010

---

***Total net change in fund balances - governmental funds (CASH BASIS)*** \$ (175,327)

*Amounts reported for governmental activities in the statement  
of activities are different because:*

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.

<i>Depreciation</i>	(255,957)
<i>Capital Outlay</i>	259,340

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

787,849

Proceeds from issuing debt is an other financing use the governmental funds, but an increase in debt liabilities on the statement of net assets

0

***Change in net assets of governmental activities (MODIFIED CASH BASIS)*** \$ 615,905

# **F U N D S   F I N A N C I A L   S T A T E M E N T S**

# TOWNSHIP OF HANOVER

## COMBINED STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS

### GOVERNMENTAL FUNDS

DECEMBER 31, 2010

	2010					
	Major Funds			Non-Major Funds	Total	2009
	General	Capital Projects	Total	Special Revenue	Governmental Funds	Memorandum Total
<b>ASSETS</b>						
Cash - unrestricted	\$ 491,899	\$ 33,155	\$ 525,054	\$ 407,493	\$ 932,547	\$ 1,453,991
Cash - restricted	2,226,720	1,860,674	4,087,394		4,087,394	4,191,158
Due from other funds	49,900		49,900		49,900	49,900
Investments - unrestricted	3,620,093	1,294,484	4,914,577	357,871	5,272,448	4,887,071
Investments - restricted		518,054	518,054		518,054	453,550
	<u>\$ 6,388,612</u>	<u>\$ 3,706,367</u>	<u>\$ 10,094,979</u>	<u>\$ 765,364</u>	<u>\$ 10,860,343</u>	<u>\$ 11,035,670</u>
<b>LIABILITIES</b>						
Due to other funds	0	49,900	49,900		49,900	49,900
	<u>0</u>	<u>49,900</u>	<u>49,900</u>	<u>0</u>	<u>49,900</u>	<u>49,900</u>
<b>FUND BALANCE</b>						
Designated for specified projects	2,226,720	2,378,728	4,605,448		4,605,448	4,292,126
Unreserved and undesignated	4,161,892	1,277,739	5,439,631	765,364	6,204,995	6,693,644
	<u>6,388,612</u>	<u>3,656,467</u>	<u>10,045,079</u>	<u>765,364</u>	<u>10,810,443</u>	<u>10,985,770</u>
	<u>\$ 6,388,612</u>	<u>\$ 3,706,367</u>	<u>\$ 10,094,979</u>	<u>\$ 765,364</u>	<u>\$ 10,860,343</u>	<u>\$ 11,035,670</u>



**TOWNSHIP OF HANOVER**  
**COMBINED STATEMENTS OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - CASH BASIS**  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2010

	<b>2010</b>							<b>2009</b>
	<b>Major Funds</b>			<b>Non-Major Funds</b>			<b>Total Governmental Funds</b>	<b>Memorandum</b>
	General	Capital Projects	Total	Special Revenue	Debt Service	Total		Total
<b>REVENUES</b>								
Taxes	\$ 4,439,796	\$	\$ 4,439,796	\$ 241,935	\$	\$ 241,935	\$ 4,681,731	\$ 4,882,517
Licenses and permits	375,985		375,985			0	375,985	348,733
Fines and forfeitures	205,706		205,706			0	205,706	61,753
Interest income	24,989	18,988	43,977	6,823		6,823	50,800	129,228
Intergovernmental revenue	711,034		711,034	243,278		243,278	954,312	939,615
Charges for services								
Other	851,878	14,192	866,070			0	866,070	862,116
Solid waste collection and disposal	970,878		970,878			0	970,878	975,201
Other	20,927	301,460	322,387			0	322,387	359,985
	<u>7,601,193</u>	<u>334,640</u>	<u>7,935,833</u>	<u>492,036</u>	<u>0</u>	<u>492,036</u>	<u>8,427,869</u>	<u>8,559,148</u>
<b>EXPENDITURES</b>								
Current								
General government	752,301	336,801	1,089,102			0	1,089,102	1,087,056
Public safety	1,776,239		1,776,239	218,565		218,565	1,994,804	2,484,026
Public works	1,952,046	154,452	2,106,498	288,680		288,680	2,395,178	2,354,438
Recreation	1,130,768	97,788	1,228,556			0	1,228,556	1,289,462
Other	972,346		972,346			0	972,346	912,074
Debt Service								
Principal			0		787,849	787,849	787,849	1,075,406
Interest			0		135,361	135,361	135,361	169,175
	<u>6,583,700</u>	<u>589,041</u>	<u>7,172,741</u>	<u>507,245</u>	<u>923,210</u>	<u>1,430,455</u>	<u>8,603,196</u>	<u>9,371,637</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,017,493</u>	<u>(254,401)</u>	<u>763,092</u>	<u>(15,209)</u>	<u>(923,210)</u>	<u>(938,419)</u>	<u>(175,327)</u>	<u>(812,489)</u>
<b>OTHER FINANCING (USES) SOURCES</b>								
Proceeds from issuing general obligation notes			0			0	0	0
Operating transfers in		1,103,310	1,103,310		923,210	923,210	2,026,520	2,371,122
Operating transfers out	(1,103,310)	(923,210)	(2,026,520)			0	(2,026,520)	(2,371,122)
	<u>(1,103,310)</u>	<u>180,100</u>	<u>(923,210)</u>	<u>0</u>	<u>923,210</u>	<u>923,210</u>	<u>0</u>	<u>0</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES) SOURCES</b>	<u>(85,817)</u>	<u>(74,301)</u>	<u>(160,118)</u>	<u>(15,209)</u>	<u>0</u>	<u>(15,209)</u>	<u>(175,327)</u>	<u>(812,489)</u>
<b>FUND BALANCES, JANUARY 1</b>	<u>6,474,429</u>	<u>3,730,768</u>	<u>10,205,197</u>	<u>780,573</u>	<u>0</u>	<u>780,573</u>	<u>10,985,770</u>	<u>11,798,259</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 6,388,612</u>	<u>\$ 3,656,467</u>	<u>\$ 10,045,079</u>	<u>\$ 765,364</u>	<u>\$ 0</u>	<u>\$ 765,364</u>	<u>\$ 10,810,443</u>	<u>\$ 10,985,770</u>

**TOWNSHIP OF HANOVER**  
**STATEMENT OF NET ASSETS - CASH BASIS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2010**

---

	Pension Trust	
	2010	2009
<b>ASSETS</b>		
Investments - restricted	<u>\$ 4,948,699</u>	<u>\$ 4,306,447</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>	<u>\$ 0</u>	<u>\$ 0</u>
<b>NET ASSETS</b>		
Reserved for retirement benefits	<u>4,948,699</u>	<u>4,306,447</u>
	<u>\$ 4,948,699</u>	<u>\$ 4,306,447</u>

# TOWNSHIP OF HANOVER

## STATEMENT OF CHANGES IN NET ASSETS - CASH BASIS

### FIDUCIARY FUND TYPES

YEAR ENDED DECEMBER 31, 2010

---

	Pension Trust	
	2010	2009
<b>ADDITIONS</b>		
Township Contributions	\$ 374,389	\$ 330,304
Interest, dividends, and net unrealized gains/losses	543,245	669,960
	<u>917,634</u>	<u>1,000,264</u>
<b>DEDUCTIONS</b>		
Administrative expenses	27,627	24,338
Pension benefits	247,755	228,326
	<u>275,382</u>	<u>252,664</u>
CHANGE IN NET ASSETS	642,252	747,600
<b>NET ASSETS, JANUARY 1</b>	<u>4,306,447</u>	<u>3,558,847</u>
<b>NET ASSETS, DECEMBER 31</b>	<u><u>\$ 4,948,699</u></u>	<u><u>\$ 4,306,447</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

**TOWNSHIP OF HANOVER**  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2010

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Township of Hanover, Northampton County, was incorporated in 1798. The second class Township operates under an elected Board of Supervisors, and provides the following services to its residents: public safety, highways and streets, sanitation, culture-recreation, planning and zoning, and general administrative services.

**Principles Determining Scope of Reporting Entity**

The financial statements of the Township consist only of the funds and account groups of the Township. The Township has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Township. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

**Basis of Accounting**

The Township's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the modified cash basis of accounting. Governmental funds use the cash basis of accounting. Fiduciary funds also use the cash basis of accounting. Differences in the modified cash and the cash basis of accounting arise in the recognition fixed assets and debt.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the Primary government, except for fiduciary funds. The statement of net assets presents the financial condition of the governmental activities of the Township at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Township. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Township.

# TOWNSHIP OF HANOVER

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2010

---

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting (continued)**

##### FUND FINANCIAL STATEMENTS:

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported separately by type.

All funds of the Township are accounted for using the cash basis. As such, revenues are recognized when cash is received, and expenses are recognized when they are paid. The accounts of the Township are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenditures.

##### GOVERNMENTAL FUNDS:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following funds are used by the Township.

#### **GOVERNMENTAL FUND TYPES**

**General Fund (Major Fund)** is the general operating fund of the Township. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

**Capital Projects Funds (Major Fund)** account for financial resources to be used for the acquisition or construction of certain major capital facilities which are not financed by the Proprietary and General Funds.

**Special Revenue Funds (Non-major Fund)** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Included in these funds is State Liquid Fuels Highway Aid.

# TOWNSHIP OF HANOVER

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2010

---

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting (continued)**

#### **Debt Service Fund (Non-major Fund)**

The Debt Service Fund accounts for resources accumulated for the purpose of funding general long-term debt obligations.

#### ***PROPRIETARY FUND TYPES***

**Enterprise** Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing services to the general public on a continuing basis are financed through user charges. The Township does not currently engage in activities which would require reporting in an Enterprise Fund.

#### ***FIDUCIARY FUND TYPES***

Trust Fund is used to account for assets held by the Township in a trustee capacity. This includes the Pension Trust Fund. The Pension Trust Fund is used to account for the four retirement pension plans. The Pension Trust Fund is accounted for in essentially the same manner as the Proprietary Fund since capital maintenance is critical.

#### **MEASUREMENT FOCUS:**

#### **Government-wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Township are included on the Statement of Net Assets.

#### **Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The private purpose trust fund is reported using the economic resources measurement focus.

# **TOWNSHIP OF HANOVER**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

DECEMBER 31, 2010

---

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Accounting (continued)**

##### **Cash and Investments**

The Township maintains all its cash in checking and savings accounts which are covered by federal depository insurance or by collateral held by the Township's custodial bank. The Second Class Township Code authorizes the Township to invest its funds in savings accounts and certificates of deposit or time deposits provided that these deposits are insured or collateralized by a pledge or assignment of assets of the depository. In addition, the Township may invest its funds in obligations of the United States of America or the Commonwealth of Pennsylvania, including their agencies or instrumentalities, political subdivisions of the Commonwealth of Pennsylvania, and United States Treasury Bills.

##### **Capital Assets**

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction costs are reflected as expenditures in governmental funds. In the government wide financial statements, these assets are capitalized and depreciated using the straight-line method over the estimated useful life. Fixed assets in the Enterprise Fund are stated at cost. Depreciation of equipment in the Enterprise Fund is computed using the straight-line method over the estimated useful life of the equipment.

General Fixed Assets purchased are recorded as expenditures at the time of purchase. General Fixed Assets are stated at cost when determinable, or estimated historical cost based on appraisals or other acceptable methods when historical cost is not available. Donated fixed assets are stated at their fair market value as of the date of gift.

##### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



# **TOWNSHIP OF HANOVER**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

DECEMBER 31, 2010

---

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Basis of Accounting (continued)**

##### **Budgets and Budgetary Accounting**

The Township adopts annual budgets for all funds in accordance with the Second Class Township Code. All budgets are adopted on a cash basis, which is not consistent with U.S. generally accepted accounting principles. All budget amounts included in the accompanying financial statements and supplementary information are as originally adopted or as amended by the Board of Supervisors. Appropriations not expended lapse at the end of each fiscal year. The Township uses traditional, program and performance budgeting methods to develop the operating budget, which includes proposed expenditures and the means to finance them. The budget is adopted by ordinance and subject to change only by ordinance. The Township utilizes the cash basis of accounting for budgetary purposes. Once adopted, the budget is not revised or amended.

##### **Debt and Debt Service**

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt of the Township not accounted for in other funds.

##### **Pension Plan**

The Township has one defined benefit pension plan. Pension costs for the plan includes current service costs, which are accrued and funded on a current basis, and prior costs which are amortized over 30 years.

##### **Transfers**

Legally authorized payments or authorizations to make payments from a fund receiving revenue to a fund through which the resources are to be expended are reported as operating transfers. Transfers to the pension funds are quasi-external transactions and are not treated as operating transfers.

##### **Fund Equity**

The unreserved fund balances for governmental funds represent the amounts available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.

# TOWNSHIP OF HANOVER

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2010

---

### NOTE 2 INVESTMENTS AND DEPOSITS WITH FINANCIAL INSTITUTIONS

The Township, under the Pennsylvania Second Class Township Code Act of 1933, as amended, is authorized to invest in direct obligations of the United States government, obligations guaranteed by the United States government, obligations of the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth of Pennsylvania, savings or time deposits and time certificates of deposit. The deposit and investment policy of the Township adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Township. To the extent the Township's deposits with financial institutions are not insured by the Federal Deposit Insurance Corporation, assets have been pledged by the financial institutions. The fair market value of pledged assets exceeded the carrying amount of deposits in the pools at year end.

***Credit risk*** The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The majority of the Township's investments are in U.S. Government Obligations and are therefore not exposed to this type of risk.

***Custodial credit risk –deposits*** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At year end, the bank balance of the Township's deposits with financial institutions including cash equivalent investments was \$5,537,995. The remaining balances was collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. The total amount of investments not secured by federal depository insurance was collateralized by securities pledged by the financial institution for such funds, but not in the Township's name. Investments in PLGIT have received an AAAM rating from Standards & Poors with \$5,272,448

***Custodial credit risk investments*** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pennsylvania Local Government Investment Trust were established as common law trusts organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The Township's deposits in these pooled funds are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are reflected as cash and cash equivalents on the balance sheet. The fair value of the Township's position in the external investment pools is the same as the value of the pool shares. All investments in an external investment pools that are not SEC registered are subject to oversight by the Commonwealth of Pennsylvania with \$4,948,699.

# TOWNSHIP OF HANOVER

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2010

### NOTE 3 PROPERTY TAXES

Property taxes are levied on a calendar year basis, and are assessed on February 1. The taxes are due May 31. A discount of 2% is available through March 31, and a penalty of 10% is charged on payments after May 31. Taxable assessed valuation is \$ 493,315,600 at 3.4 mills for general purposes and 0.5 mills for fire protection.

### NOTE 4 CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Balance, Beginning	Additions	Disposals	Balance, Ending
CAPITAL ASSETS				
	\$ 4,809,659	\$ 71,640	\$	\$ 4,881,299
Land and Land Improvements				
Infrastructure	1,406,475			1,406,475
Building & Improvements	9,386,462	36,880		9,423,342
Furniture and Equipment	2,144,002	150,820		2,294,822
	<u>\$ 17,746,598</u>	<u>\$ 259,340</u>	<u>\$ 0</u>	<u>\$ 18,005,938</u>
ACCUMULATED DEPRECIATION				
Building & Improvements	3,568,482	\$ 201,077		3,769,559
Furniture and Equipment	661,173	54,880		716,053
	<u>\$ 4,229,655</u>	<u>\$ 255,957</u>	<u>\$ 0</u>	<u>\$ 4,485,612</u>

### NOTE 5 DEBT AND DEBT SERVICE

The following is a summary of the Township's long-term debt activity for the year:

	Balance, Beginning	Proceeds	Repayments	Balance, Ending
Notes – 2006	\$ 1,254,948	\$	\$ 100,000	\$ 1,154,948
Notes – 2006 A	200,835		200,835	0
Notes – 2004	234,014		234,014	0
Notes – 1998	1,725,000		253,000	1,472,000
Notes – 1997	0		0	0
	<u>\$ 3,414,797</u>	<u>\$ 0</u>	<u>\$ 787,849</u>	<u>\$ 2,626,948</u>

# TOWNSHIP OF HANOVER

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2010

---

### NOTE 5 DEBT AND DEBT SERVICE (CONTINUED)

#### Series 2006A General Obligation Notes

Original issue of \$435,000 for purchase of a Fire Truck due in monthly installments of \$ 93,856; interest is payable at a fixed (tax free) rate of 4.05% per annum, maturing March 2012

\$ 0

#### Series 2006 General Obligation Notes

Original issue of \$2,500,000 for the purchase of a new building; due in monthly installments of varying amounts; interest is payable at a fixed (tax free) rate of 4.25% per annum, maturing December 2031

\$ 1,154,948

#### Series 2004 General Obligation Notes

Original issue of \$1,000,000 for the construction and completion of various public works renovation and expansion projects; due in monthly installments of \$ 40,564; interest is payable at a fixed (tax free) rate of 3.55% per annum, maturing September 2011

\$ 0

#### Series 1998 General Obligation Notes

Original issues of \$3,948,000 for the advanced refunding of the General Obligation Bonds of 1995 and to provide for construction of a community center; due in semiannual installments each on June 1 and December 1; interest is payable at a fixed (tax free) rate of 5.05% per annum maturing December 2015

\$ 1,472,000

#### Series 1997 General Obligation Notes

Original issue of \$1,290,000 for the construction and completion of various storm sewer products; due in monthly installments of \$12,706; interest is payable at a fixed (tax free) rate of 4.9% per annum, maturing December 2008

\$ 0

# TOWNSHIP OF HANOVER

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2010

---

### NOTE 5 DEBT AND DEBT SERVICE (CONTINUED)

The Township's debt service to maturity at year end is as follows:

	<u>Debt Service</u>
2011	\$ 509,086
2012	505,403
2013	501,013
2014	495,986
2015	492,113
2016	147,500
2017	143,250
2018	139,000
2019	134,750
2020	130,500
2021	126,250
2022	<u>56,126</u>
Total	3,380,977
Interest Portion	<u>754,029</u>
Outstanding Principal	<u>\$ 2,626,948</u>

### NOTE 6 DESIGNATION OF FUND BALANCES

Designations indicate tentative management plans for future use of certain financial resources that may or may not be ultimately approved or result in expenditure. Generally, designations are supported by definitive plans approved by the Township.

### NOTE 7 LITIGATION

The Township is a defendant in lawsuits concerning various matters. Although the outcome of the lawsuits is not presently determinable, in the opinion of Township legal counsel, resolution of these matters will not have a material adverse effect on the financial condition of the Township.

# **TOWNSHIP OF HANOVER**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

DECEMBER 31, 2010

---

### **NOTE 8     DEFINED BENEFIT PENSION PLAN**

#### **Funding Status and Progress of the Plan**

The pension benefit obligations were computed as part of an actuarial valuation performed as of January 1, 2009.

Because the standardized measure is used only for disclosure purposes by the Township of Hanover, Northampton County's plans, the measurement is independent of the actuarial computation made to determine contributions to the Plan. The actuarial funding method used to determine contributions to the Plan is explained later in this note. A variety of significant actuarial assumptions are used to determine the standardized measure of the pension benefit obligation and these assumptions are summarized below. The present value of future pension payments was computed by using a discount rate of 8%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan. Future pension payments reflect an assumption of a 5% (compounded annually) salary increase as a result of inflation and merit (seniority). Future pension payments reflect no post-retirement benefit increases, which is consistent with the terms of the pension agreement.

#### **Plan Description**

The pension plan provides pension and death benefits. A member may retire after reaching the age of 62 and accumulating 7 years of service. Benefits vest after 10 years of service. Employees who retire at or after age 62 with 10 or more years of service are entitled to pension payments for the remainder of their lives equal to 3% (pre 2001 or 2.25% post 2001) of their final, five-year average salary. Pension provisions include death benefits. The surviving spouse receives 100% of the amount otherwise payable to the participant. The Township pays the full cost of the Plan. Member contributions are not required.

#### **Reporting Entity**

The Township maintains one single-employer, defined benefit pension plan which covers all full-time classed employees. The Plan is part of the Township's financial reporting entity and is included in the Township's financial statements as a Pension Trust Fund.

#### **Plan Valuation**

The pension plan descriptions and actuarial valuations are available at the Township offices.

#### **Schedule of Contributions from Employers and Other Contributing Entities**

The contributions made to the fund were \$374,389 and \$330,304 in 2010 and 2009, respectively.

# TOWNSHIP OF HANOVER

## NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2010

---

### NOTE 9 EMERGING ACCOUNTING PRONOUNCEMENTS

#### **GASB 51, Accounting and Financial Reporting for Intangible Assets**

Governments possess many different types of assets that may be considered intangible assets, including right-of-way easements, water rights, land or property use rights, and computer software (purchased, licensed, or internally generated). Although GASB Statement 34 included intangible assets within the scope of the term capital assets, such reference had created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes.

GASB 51 clarifies the accounting and financial reporting requirements for intangible assets in order to reduce these inconsistencies. When implementing GASB 51, the Township will determine whether it has made any significant expenditures to purchase something that will provide value to your citizens over an extended period of time. Even if the underlying asset is not owned by the government (roads, for example, which may be partially paid for by a Township). ***Exceptions to the retroactive capitalization requirement are governments classified as phase 3 implementers under GASB 34***, any internally generated computer software, and intangibles with indefinite useful lives. This pronouncement is effective **beginning with June 30, 2010** fiscal year-ends. The Township is a phase 3 implementer.

#### **GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions**

GASB 54 is intended to improve the usefulness of the amounts reported in fund balance by providing more structured classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. It moves the Township from the current standard of reporting three main classifications of fund balance (*reserved, designated, and unreserved/undesignated*) to five new fund balance classifications (*nonspendable, restricted, committed, assigned, and unassigned*). The statement also modifies the definition of existing governmental fund types. The changes to the general fund, debt service fund, and capital project fund definitions are minor and, in most cases, will not result in any changes to the fund types utilized. On the contrary, the changes to the special revenue fund definition included additional guidance on when resources should be reported in this fund type. It is expected in some cases to result in existing special revenue funds no longer meeting the criteria and therefore, resulting in fund reclassifications. Specifically, any fund that does not have an external revenue source as its foundation will likely no longer meet the definition of a special revenue fund.

GASB 54 is required to be implemented for financial statements for periods **beginning after June 15, 2010**. Retroactive restatement are required for all periods presented.

**DETAIL SCHEDULES OF REVENUE  
AND EXPENDITURES**



**TOWNSHIP OF HANOVER**  
**SCHEDULE OF BUDGET AND ACTUAL - CASH BASIS**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2010**

	Budget	Actual	Variance Favorable (Unfavorable)
<b><i>REVENUES:</i></b>			
<i>TAXES</i>			
Real Estate	\$ 1,659,180	\$ 1,645,024	\$ (14,156)
Real Estate Transfer	346,407	230,453	(115,954)
Local Services Tax	432,195	467,169	34,974
Mercantile	743,940	406,238	(337,702)
Earned Income Tax	1,765,255	1,690,912	(74,343)
	<u>4,946,977</u>	<u>4,439,796</u>	<u>(507,181)</u>
<i>LICENSES AND PERMITS</i>			
Cable television licenses	85,000	95,248	10,248
Permits	256,952	280,737	23,785
	<u>341,952</u>	<u>375,985</u>	<u>34,033</u>
<i>FINES AND FORFEITURES</i>			
Forfeitures	0	146,013	146,013
Fines and Code Violations	58,445	59,693	1,248
	<u>58,445</u>	<u>205,706</u>	<u>147,261</u>
<i>INTEREST AND RENTS</i>			
Interest on investments	21,781	24,989	3,208
Rents	7,000	7,900	900
	<u>28,781</u>	<u>32,889</u>	<u>4,108</u>
<i>INTERGOVERNMENTAL REVENUE</i>			
State public utility tax	7,802	7,001	(801)
Local government	0	0	0
Alcoholic beverage taxes	1,000	1,200	200
Foreign fire insurance premium tax	98,945	111,369	12,424
Recycling	108,400	110,343	1,943
Reimbursements from regional police	231,057	315,394	84,337
Pension fund state aid	160,904	165,727	4,823
	<u>608,108</u>	<u>711,034</u>	<u>102,926</u>
<i>CHARGES FOR SERVICES</i>			
General Government	0	1,210	1,210
Solid waste collection and disposal	973,445	970,878	(2,567)
Sanitary sewer fee	206,891	184,390	(22,501)
Public Safety	27,459	17,088	(10,371)
Recreation & Community Center	761,293	641,290	(120,003)
	<u>1,969,088</u>	<u>1,814,856</u>	<u>(154,232)</u>
<i>OTHER</i>			
Proceeds from sale of fixed assets			0
Other	22,374	20,927	(1,447)
	<u>22,374</u>	<u>20,927</u>	<u>(1,447)</u>
<b><i>TOTAL REVENUES</i></b>	<u>\$ 7,975,725</u>	<u>\$ 7,601,193</u>	<u>\$ (374,532)</u>

**TOWNSHIP OF HANOVER**  
**SCHEDULE OF BUDGET AND ACTUAL - CASH BASIS**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2010**

	Budget	Actual	Variance Favorable (Unfavorable)
<b><i>EXPENDITURES:</i></b>			
<i>GENERAL GOVERNMENT</i>			
Legislative and Governing Body	\$ 137,411	\$ 111,057	\$ 26,354
Executive / Manager	99,534	99,534	0
Financial services	16,089	12,589	3,500
Tax Collection	71,720	69,017	2,703
Legal services	31,400	31,370	30
Treasurer, Secretary and Clerk	183,767	179,896	3,871
Engineering services	16,020	14,645	1,375
Buildings and Plant	244,543	234,193	10,350
	<u>800,484</u>	<u>752,301</u>	<u>48,183</u>
<i>PUBLIC SAFETY</i>			
Police	1,468,476	1,468,476	0
Fire	111,369	111,369	0
Crossing Guards	13,200	11,248	1,952
Emergency Management	4,000	2,713	1,287
Animal Control	1,500	300	1,200
Protective Inspection	105,058	102,643	2,415
Planning and Zoning	82,048	79,490	2,558
	<u>1,785,651</u>	<u>1,776,239</u>	<u>9,412</u>
<i>PUBLIC WORKS</i>			
Recycling	11,000	6,382	4,618
Solid waste collection and disposal	1,004,174	996,522	7,652
Wastewater and sewage collection and disposal	72,416	72,359	57
Highways, Streets and General services	593,430	584,854	8,576
Winter maintenance	36,000	23,859	12,141
Traffic control	46,891	45,292	1,599
Street Lighting	123,000	122,798	202
Repairs of tools and machinery	50,480	45,025	5,455
Construction and Rebuilding	57,851	51,947	5,904
Other public works	3,700	3,008	692
	<u>1,998,942</u>	<u>1,952,046</u>	<u>46,896</u>

**TOWNSHIP OF HANOVER**  
**SCHEDULE OF BUDGET AND ACTUAL - CASH BASIS**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2010**

	Budget	Actual	Variance Favorable (Unfavorable)
<b><i>EXPENDITURES (continued):</i></b>			
<i>RECREATION AND COMMUNITY</i>			
Libraries	167,831	163,049	4,782
Shade Tree	9,500	2,344	7,156
Open space			0
Recreation & Community Center	956,814	931,546	25,268
Community development	34,524	33,829	695
	<u>1,168,669</u>	<u>1,130,768</u>	<u>37,901</u>
<i>MISCELLANEOUS</i>			
Pension contributions	534,276	533,690	586
Workers compensation	5,525	4,833	692
Unemployment compensation	5,083	5,083	0
Employee Benefits	295,018	271,450	23,568
Insurance premiums	46,558	40,659	5,899
Social Security	85,207	85,207	0
Refund of prior year tax			0
Other	61,150	31,424	29,726
	<u>1,032,817</u>	<u>972,346</u>	<u>60,471</u>
<b><i>TOTAL EXPENDITURES</i></b>	<u>\$ 6,786,563</u>	<u>\$ 6,583,700</u>	<u>\$ 202,863</u>

## **C O M B I N I N G   S C H E D U L E S**

**TOWNSHIP OF HANOVER****COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS****CAPITAL PROJECTS FUNDS - MAJOR FUNDS**DECEMBER 31, 2010

---

	Capital Reserve	Plans & Appeals	Impact Fees	Total
<b>ASSETS</b>				
Cash - unrestricted	\$ 5,236	\$ 24,289	\$ 3,630	\$ 33,155
Cash - restricted	854,270	66,099	940,305	1,860,674
Investments - unrestricted	1,101,371		193,113	1,294,484
Investments - restricted	<u>417,857</u>	<u>100,197</u>		<u>518,054</u>
	<u>\$ 2,378,734</u>	<u>\$ 190,585</u>	<u>\$ 1,137,048</u>	<u>\$ 3,706,367</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Due to other funds	<u>49,900</u>			<u>49,900</u>
	49,900	0	0	49,900
<b>Fund balances:</b>				
Designated for specified projects	1,272,127	166,296	940,305	2,378,728
Unreserved and undesignated	<u>1,056,707</u>	<u>24,289</u>	<u>196,743</u>	<u>1,277,739</u>
	<u>\$ 2,378,734</u>	<u>\$ 190,585</u>	<u>\$ 1,137,048</u>	<u>\$ 3,706,367</u>

**TOWNSHIP OF HANOVER****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND****CHANGES IN FUND BALANCES - CASH BASIS****CAPITAL PROJECTS FUNDS - MAJOR FUNDS**

YEAR ENDED DECEMBER 31, 2010

	Capital Reserve	Plans & Appeals	Impact Fees	Total
<b>REVENUES</b>				
Interest income	\$ 14,119	\$ 464	\$ 4,405	\$ 18,988
Charges for Service		14,192		14,192
Intergovernmental revenue				0
Developer contributions	<u>7,256</u>	<u>276,116</u>	<u>18,088</u>	<u>301,460</u>
	<u>21,375</u>	<u>290,772</u>	<u>22,493</u>	<u>334,640</u>
<b>EXPENDITURES</b>				
Current				
General Government	60,017	260,755	16,029	336,801
Public Safety				0
Public works	154,452			154,452
Cultural and recreation	<u>97,788</u>			<u>97,788</u>
	<u>312,257</u>	<u>260,755</u>	<u>16,029</u>	<u>589,041</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(290,882)</u>	<u>30,017</u>	<u>6,464</u>	<u>(254,401)</u>
<b>OTHER FINANCING (USES) SOURCES</b>				
Proceeds from issuing general obligation notes				0
Operating transfers in	1,103,310			1,103,310
Operating transfers out	<u>(923,210)</u>			<u>(923,210)</u>
	<u>180,100</u>	<u>0</u>	<u>0</u>	<u>180,100</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND AND FINANCING (USES) SOURCES</b>	<u>(110,782)</u>	<u>30,017</u>	<u>6,464</u>	<u>(74,301)</u>
<b>FUND BALANCES, JANUARY 1</b>	<u>2,439,616</u>	<u>160,568</u>	<u>1,130,584</u>	<u>3,730,768</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 2,328,834</u>	<u>\$ 190,585</u>	<u>\$ 1,137,048</u>	<u>\$ 3,656,467</u>

# TOWNSHIP OF HANOVER

## COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS

### SPECIAL REVENUE FUNDS - NONMAJOR FUNDS

DECEMBER 31, 2010

---

	Liquid Fuels	Fire Tax	Total
<b>ASSETS</b>			
Cash - unrestricted	\$ 384,123	\$ 23,370	\$ 407,493
Investments - unrestricted	<u>357,871</u>	<u></u>	<u>357,871</u>
	<u>\$ 741,994</u>	<u>\$ 23,370</u>	<u>\$ 765,364</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Due to other funds	<u></u>	<u></u>	<u></u>
	0	0	0
<b>Fund balances:</b>			
Unreserved and undesignated	<u>741,994</u>	<u>23,370</u>	<u>765,364</u>
	<u>\$ 741,994</u>	<u>\$ 23,370</u>	<u>\$ 765,364</u>

**TOWNSHIP OF HANOVER****COMBINING STATEMENT OF REVENUES, EXPENDITURES AND****CHANGES IN FUND BALANCES - CASH BASIS****SPECIAL REVENUE FUNDS - NONMAJOR FUNDS**YEAR ENDED DECEMBER 31, 2010

---

	Liquid Fuels	Fire Tax	Total
<b>REVENUES</b>			
Taxes	\$	\$ 241,935	\$ 241,935
Interest income	6,823		6,823
Intergovernmental revenue	<u>243,278</u>		<u>243,278</u>
	<u>250,101</u>	<u>241,935</u>	<u>492,036</u>
<b>EXPENDITURES</b>			
Current			
Public Safety		218,565	218,565
Public works	<u>288,680</u>		<u>288,680</u>
	<u>288,680</u>	<u>218,565</u>	<u>507,245</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(38,579)</u>	<u>23,370</u>	<u>(15,209)</u>
<b>OTHER FINANCING (USES) SOURCES</b>			
Operating transfers in			
Operating transfers out			
	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND AND FINANCING (USES) SOURCES</b>	<u>(38,579)</u>	<u>23,370</u>	<u>(15,209)</u>
<b>FUND BALANCES, JANUARY 1</b>	<u>780,573</u>	<u>0</u>	<u>780,573</u>
<b>FUND BALANCES, DECEMBER 31</b>	<u>\$ 741,994</u>	<u>\$ 23,370</u>	<u>\$ 765,364</u>