

TOWNSHIP OF HANOVER
NORTHAMPTON COUNTY, PENNSYLVANIA



**FINANCIAL STATEMENTS
AND AUDITORS' REPORTS**

AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2013





TOWNSHIP OF HANOVER

CONTENTS

AUDITORS' REPORTS

INDEPENDENT AUDITORS' REPORT	2-3
-------------------------------------	-----

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	4-5
---	-----

MANAGEMENT'S DISCUSSION AND ANALYSIS	6-16
---	------

GOVERNMENT WIDE FINANCIAL STATEMENTS

Statement of Net Position – Modified Cash Basis	17
Statement of Activities – Modified Cash Basis	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Reconciliation of the Statement of Revenue, Expenditure and Changes in Fund Balance to the Statement of Activities	20

FINANCIAL STATEMENTS

Statements of Assets, Liabilities and Fund Equity - Cash Basis - Governmental Fund Types	21
Statements of Revenues, Expenditures and Changes in Fund Balances - Cash Basis - Governmental Fund Types	22
Statements of Net Assets - Cash Basis - Fiduciary Fund Types	23
Statements of Changes in Net Assets - Cash Basis - Fiduciary Fund Types	24

NOTES TO FINANCIAL STATEMENTS	25-35
--------------------------------------	-------

BUDGETARY STATEMENTS	36-38
-----------------------------	-------

COMBINING STATEMENTS	39-42
-----------------------------	-------



TODD J. BUSHTA, CPA

C E R T I F I E D P U B L I C A C C O U N T A N T

INDEPENDENT AUDITORS' REPORT

TOWNSHIP OF HANOVER, NORTHAMPTON COUNTY

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Township of Hanover, Northampton County, Pennsylvania**, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the Township's 2012 financial statements and in our report dated March 31, 2013, we expressed unmodified (Modified Cash Basis) opinions on the respective financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

TELE: 610.625.1490
WWW.BUSHTA.COM
BETHLEHEM, PENNSYLVANIA

LEHIGH VALLEY AND POCONO MOUNTAINS

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

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.

OTHER MATTERS

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Required Supplementary Information, 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 of 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.

OTHER INFORMATION

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township'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 are the responsibility of management and were derived from and relate 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 combining and individual non-major fund financial statements 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 Government Auditing Standards, we have also issued our report dated March 31, 2014, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Township's internal control over financial reporting and compliance.

Bushta & Company

BETHLEHEM, PENNSYLVANIA

MARCH 31, 2014



TODD J. BUSHTA, CPA

C E R T I F I E D P U B L I C A C C O U N T A N T

INDEPENDENT AUDITORS' 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, NORTHAMPTON COUNTY

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Township of Hanover, Northampton County, Pennsylvania** as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Township's basic financial statements and have issued our report thereon dated March 31, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Township'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township'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.

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.

TELE : 610.625.1490
WWW.BUSHTA.COM
BETHLEHEM, PENNSYLVANIA

LEHIGH VALLEY AND POCONO MOUNTAINS

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Township'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.

Bushta & Company

BETHLEHEM, PENNSYLVANIA

MARCH 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS



TOWNSHIP OF HANOVER

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013

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, 2013. 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 2013 are as follows:

- In total, net position were \$25,811,709 at the end of the year.
- General revenues accounted for \$5,608,678 in 2013 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 \$4,490,753 or 44% of total revenues of \$10,099,431.
- Total assets of governmental activities were \$27,298,657 of which \$5,779,503 represents unrestricted cash and investments.
- Fixed assets, net of accumulated depreciation, were \$13,991,724.
- The Township had \$8,109,536 in expenses, only \$4,490,753 of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes) of \$5,608,678 were adequate to provide for these programs.
- Expenses, after program revenue was \$3,618,783 for the year.
- Federal and state intergovernmental revenues were \$1,733,058, 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 includes a 0.5 mill tax for fire protection services.

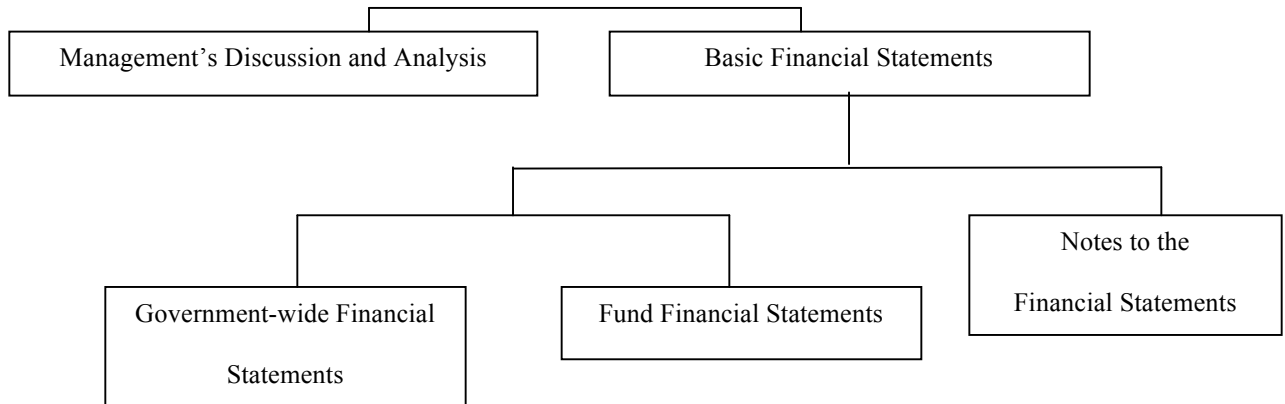
TOWNSHIP OF HANOVER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2013

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 Position 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 Position 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 Position 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.

TOWNSHIP OF HANOVER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2013

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net Position and the Statement of Activities (continued)

These two statements report the Township's Net Position and changes in those assets. This change in Net Position 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. In the Statement of Net Position 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 Position:

Table 1

Net Position

	2013	2012	2011	2010	2009
Assets					
Current and Other Assets	\$ 13,306,933	\$ 11,801,688	\$ 11,710,339	\$ 10,810,443	\$ 10,985,770
Capital Assets,					
Net of accumulated depreciation	<u>13,991,724</u>	<u>13,900,074</u>	<u>13,438,757</u>	<u>13,520,326</u>	<u>13,516,943</u>
	<u>27,298,657</u>	<u>25,701,762</u>	<u>25,149,096</u>	<u>24,330,769</u>	<u>24,502,713</u>
Liabilities					
Current Liabilities	408,000	394,000	380,000	366,000	595,890
Long-Term Liabilities	<u>1,078,948</u>	<u>1,486,948</u>	<u>1,880,948</u>	<u>2,260,948</u>	<u>2,818,907</u>
	<u>1,486,948</u>	<u>1,880,948</u>	<u>2,260,948</u>	<u>2,626,948</u>	<u>3,414,797</u>
Net Position					
Invested in Capital Assets, Net of Debt	12,504,776	12,019,126	11,177,809	10,893,378	10,102,146
Restricted	8,846,665	7,848,682	7,151,321	6,648,551	6,337,355
Unrestricted	<u>4,460,268</u>	<u>3,953,006</u>	<u>4,559,018</u>	<u>4,161,892</u>	<u>4,648,215</u>
	<u>\$ 25,811,709</u>	<u>\$ 23,820,814</u>	<u>\$ 22,888,148</u>	<u>\$ 21,703,821</u>	<u>\$ 21,087,916</u>

TOWNSHIP OF HANOVER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2013

Unrestricted Net Position, the part of Net Position 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 Position are "locked up" in fixed assets and restricted uses.

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

Table 2

Statement of Activities

	2013	2012	2011	2010	2009
Program Revenues					
Charges for Services	\$ 2,757,695	\$ 2,682,568	\$ 3,123,447	\$ 3,039,231	\$ 2,901,666
Operating Grants and Contributions	1,733,058	1,048,799	701,581	656,107	645,737
Capital Grants and Contributions	0	0	179,000	0	0
General Revenues					
Taxes	5,595,698	5,090,316	5,284,650	4,681,731	4,882,517
Investment Earnings	<u>12,980</u>	<u>19,154</u>	<u>31,709</u>	<u>50,800</u>	<u>129,228</u>
Total Revenues	<u>10,099,431</u>	<u>8,840,837</u>	<u>9,320,387</u>	<u>8,427,869</u>	<u>8,559,148</u>
Program Expenses					
General Government	936,706	1,117,778	974,898	1,089,102	834,905
Public Safety	2,150,769	2,318,199	2,115,809	1,994,804	1,967,643
Public Works	2,549,632	2,013,786	2,488,093	2,220,378	2,118,992
Cultural and Recreation	1,136,483	1,147,055	985,236	1,144,016	1,214,138
Other	1,074,132	1,010,841	1,228,493	972,346	912,074
Interest on Long-Term Debt	53,893	75,579	103,586	135,361	169,175
Unallocated Depreciation	<u>207,921</u>	<u>223,933</u>	<u>239,945</u>	<u>255,957</u>	<u>255,957</u>
Total Expenses	<u>8,109,536</u>	<u>7,907,171</u>	<u>8,136,060</u>	<u>7,811,964</u>	<u>7,472,884</u>
Increase in Net Position	<u>\$ 1,989,895</u>	<u>\$ 933,666</u>	<u>\$ 1,184,327</u>	<u>\$ 615,905</u>	<u>\$ 1,086,264</u>

TOWNSHIP OF HANOVER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2013

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

	2013	2012	2011	2010	2009
General Government	\$ 907,525	\$ 159,444	\$ 154,239	\$ 122,549	\$ (25,290)
Public Safety	(1,481,224)	(1,804,995)	(1,724,255)	(1,866,347)	(1,578,056)
Public Works	(1,182,382)	(701,056)	(634,029)	(506,438)	(387,397)
Cultural and Recreation	(527,227)	(518,844)	(385,963)	(502,726)	(597,532)
Other	(1,073,661)	(1,010,841)	(1,198,493)	(972,346)	(912,074)
Interest on Long-Term Debt	(53,893)	(75,579)	(103,586)	(135,361)	(169,175)
Unallocated Depreciation	(207,921)	(223,933)	(239,945)	(255,957)	(255,957)
	<u>\$ (3,618,783)</u>	<u>\$ (4,175,804)</u>	<u>\$ (4,132,032)</u>	<u>\$ (4,116,626)</u>	<u>\$ (3,925,481)</u>

Defining the Classifications of Expenditure:

- General Government activities includes the activities of the legislative board of Supervisors, the Office of Township Manager, 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, snow and ice removal, and maintenance of public facilities.
- Cultural and recreation includes the community center, library, parks, and special events.
- 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, 2013

Governmental Activities

The dependence upon real estate tax revenues is apparent. For all activities, general revenue support is 56% for 2013. 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 \$ 506,071,100 as of December 2013 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 Position 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, 2013

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, 2013

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 \$10,099,431 with expenditures of \$8,595,186. 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 increased of only \$582,760 for governmental funds.

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	\$ 4,881,299	\$	\$	\$ 4,881,299
Infrastructure	1,730,687			1,730,687
Building & Improvements	9,454,181			9,454,181
Furniture and Equipment	2,654,694	299,571		2,954,265
	<u>\$ 18,720,861</u>	<u>\$ 299,571</u>	<u>\$ 0</u>	<u>\$ 19,020,432</u>
ACCUMULATED DEPRECIATION				
Building & Improvements	\$ 4,171,713	\$ 201,077	\$	\$ 4,372,790
Furniture and Equipment	649,074	6,844		655,918
	<u>\$ 4,820,787</u>	<u>\$ 207,921</u>	<u>\$ 0</u>	<u>\$ 5,028,708</u>

Description of the years Capital Asset Activity:

- Capital purchases were \$299,571 with disposals of \$0.
- Depreciation for the year was \$207,921.

TOWNSHIP OF HANOVER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2013

DEBT SERVICE

Table 5 summarizes Long Term Debt:

	Balance, Beginning	Proceeds	Repayments	Balance, Ending
Notes – 2006	\$ 954,948	\$	\$ 100,000	\$ 854,948
Notes – 1998	926,000		294,000	632,000
	<u>\$ 1,880,948</u>	<u>\$ 0</u>	<u>\$ 394,000</u>	<u>\$ 1,486,948</u>

*Table 6 summarizes
Debt Service to Maturity:*

	Debt Service
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>1,865,475</u>
Less: Interest Portion	<u>378,527</u>
Outstanding Principal	<u>\$ 1,486,948</u>

TOWNSHIP OF HANOVER

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2013

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's ongoing needs. Over the past few years the Township has evaluated operations, consolidated three full-time positions, while increasing services to its residents, business community and visitors.

The Township implemented a Defined Contribution Plan for new hires thereby insuring the liquidity of the Defined Benefit Plan. New hires are also required to contribute to the health benefits their dependants receive.

The Board of Supervisors and appointed staff have been forward thinking in the operations and financing of the Township. The Township is also fortunate to have a dedicated staff committed to providing "best in class" services. 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 financial 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 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 POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2013

		Governmental Activities	
		2013	2012
<i>ASSETS</i>			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$	1,339,889	\$ 875,913
Investments		4,439,614	4,951,511
		<u>5,779,503</u>	<u>5,827,424</u>
<i>Noncurrent Assets</i>			
General Fixed Assets			
Land		4,881,299	4,881,299
Infrastructure		1,730,687	1,730,687
Building & Building Improvements		9,454,181	9,454,181
Equipment		2,654,694	2,654,694
		<u>18,720,861</u>	<u>18,720,861</u>
Accumulated Depreciation		<u>(5,028,708)</u>	<u>(4,820,787)</u>
Net General Fixed Assets		13,692,153	13,900,074
Restricted Cash and Cash Equivalents		<u>7,527,430</u>	<u>5,974,264</u>
		<u>21,219,583</u>	<u>19,874,338</u>
		<u>26,999,086</u>	<u>25,701,762</u>
<i>LIABILITIES</i>			
<i>Current Liabilities</i>			
Current Portion of LT Debt - notes payable		394,000	394,000
<i>Noncurrent Liabilities</i>			
Notes Payable - Long term		<u>1,092,948</u>	<u>1,486,948</u>
		<u>1,486,948</u>	<u>1,880,948</u>
<i>NET POSITION</i>			
Investment in Capital Assets Net of Related Debt		12,205,205	12,019,126
Restricted for:			
Capital Projects		4,217,598	3,689,939
Specified Projects		3,263,820	3,187,322
Specified use		1,365,247	971,421
Unrestricted		<u>4,460,268</u>	<u>3,953,006</u>
	\$	<u>25,512,138</u>	<u>\$ 23,820,814</u>

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF HANOVER
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2013

2013									
Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		2012		
	Expenses	Operating		Capital	Governmental Activities	Memorandum Total			
		Charges for Services	Grants and Contributions						
Governmental activities:									
General government	\$ 936,706	\$ 498,841	\$ 1,345,390	\$	\$ 907,525	\$ 159,444			
Public safety	2,150,769	553,555	115,990		(1,481,224)	(1,804,995)			
Public works	2,849,203	1,095,572	271,678		(1,481,953)	(701,056)			
Recreation	1,136,483	609,256			(527,227)	(518,844)			
Other	1,074,132	471			(1,073,661)	(1,011,841)			
Interest on Long-Term debt	53,893				(53,893)	(75,579)			
Unallocated Depreciation	207,921				(207,921)	(223,933)			
	<u>\$ 8,409,107</u>	<u>\$ 2,757,695</u>	<u>\$ 1,733,058</u>	<u>\$ 0</u>	<u>(3,918,354)</u>	<u>(4,176,804)</u>			
General revenues:									
Taxes:									
Property Taxes, levied for general purposes					1,669,552	1,736,543			
Property Taxes, levied for fire protection					374,931	280,689			
Real Estate Transfer Taxes					408,671	296,458			
Local Services Taxes					509,644	427,640			
Mercantile Taxes					501,080	478,787			
Earned Income Taxes					2,131,820	1,870,199			
Interest Income					12,980	20,154			
					<u>5,608,678</u>	<u>5,110,470</u>			
<i>Total general revenues, special items, and transfers</i>									
					1,690,324	933,666			
Change in Net Position									
<i>Net Position—beginning</i>					23,821,814	22,889,148			
<i>Net Position—ending</i>					<u>\$ 25,512,138</u>	<u>\$ 23,821,814</u>			

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF HANOVER

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2013

Total Fund Balances - Governmental Funds (CASH BASIS) \$ 13,306,933

*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>	18,720,861
<i>Accumulated Depreciation</i>	(5,028,708)

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>	(1,486,948)
----------------------	-------------

Total Net Position - Governmental Activities (MODIFIED CASH BASIS) \$ 25,512,138

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, 2013

Total net change in fund balances - governmental funds (CASH BASIS) \$ 1,504,245

*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>	(207,921)
<i>Capital Outlay</i>	-

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

394,000

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 position of governmental activities (MODIFIED CASH BASIS) \$ 1,690,324

FUNDS FINANCIAL STATEMENTS



TOWNSHIP OF HANOVER
COMBINED STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	2013						2012
	Major Funds			Non-Major Funds		Total	
	General	Capital Projects	Total	Special Revenue	Governmental Funds		Memorandum Total
ASSETS							
Cash - unrestricted	\$ 336,002	\$ 3,888	\$ 339,890	\$ 999,999	\$ 1,339,889	\$ 876,913	
Cash - restricted	3,263,820	1,716,074	4,979,894		4,979,894	5,233,811	
Due from other funds	49,900		49,900		49,900	49,900	
Investments - unrestricted	4,074,366		4,074,366	365,248	4,439,614	4,951,511	
Investments - restricted		2,547,536	2,547,536		2,547,536	740,453	
	<u>\$ 7,724,088</u>	<u>\$ 4,267,498</u>	<u>\$ 11,991,586</u>	<u>\$ 1,365,247</u>	<u>\$ 13,356,833</u>	<u>\$ 11,852,588</u>	
LIABILITIES							
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>	
FUND BALANCE							
Assigned	3,263,820	4,217,598	7,481,418		7,481,418	5,779,065	
Unassigned	4,460,268	0	4,460,268	1,365,247	5,825,515	6,023,623	
	<u>7,724,088</u>	<u>4,217,598</u>	<u>11,941,686</u>	<u>1,365,247</u>	<u>13,306,933</u>	<u>11,802,688</u>	
	<u>\$ 7,724,088</u>	<u>\$ 4,267,498</u>	<u>\$ 11,991,586</u>	<u>\$ 1,365,247</u>	<u>\$ 13,356,833</u>	<u>\$ 11,852,588</u>	

TOWNSHIP OF HANOVER
COMBINED STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	2013							
	Major Funds			Non-Major Funds			Total	Memorandum Total
	General	Capital Projects	Total	Special Revenue	Debt Service	Total	Governmental Funds	
REVENUES								
Taxes	\$ 5,220,767	\$	\$ 5,220,767	\$ 374,931	\$	\$ 374,931	\$ 5,595,698	\$ 5,090,316
Licenses and permits	149,051		149,051			0	149,051	469,858
Fines and forfeitures	101,896		101,896			0	101,896	50,886
Interest income	6,402	4,938	11,340	1,640		1,640	12,980	19,154
Intergovernmental revenue	815,175		815,175	271,678		271,678	1,086,853	964,493
Charges for services -								
Other	1,157,474	8,250	1,165,724			0	1,165,724	916,519
Solid waste collection and disposal	848,759		848,759			0	848,759	822,281
Other	51,174	1,087,296	1,138,470			0	1,138,470	507,330
	8,350,698	1,100,484	9,451,182	648,249	0	648,249	10,099,431	8,840,837
EXPENDITURES								
Current								
General government	909,805	26,901	936,706			0	936,706	1,117,778
Public safety	2,141,916	8,853	2,150,769			0	2,150,769	2,469,443
Public works	1,895,503	699,277	2,594,780	254,423		254,423	2,849,203	2,449,777
Recreation	1,083,834	52,649	1,136,483			0	1,136,483	1,244,070
Other	1,074,132		1,074,132			0	1,074,132	1,011,841
Debt Service								
Principal			0		394,000	394,000	394,000	380,000
Interest	7,105,190	787,680	7,892,870	254,423	447,893	702,316	53,893	75,579
							8,595,186	8,748,488
	1,245,508	312,804	1,558,312	393,826	(447,893)	(54,067)	1,504,245	92,349
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES								
OTHER FINANCING (USES) SOURCES								
Proceeds from issuing general obligation notes			0			0	0	0
Operating transfers in		857,756	857,756		447,893	447,893	1,305,649	1,337,963
Operating transfers out	(662,748)	(642,901)	(1,305,649)			0	(1,305,649)	(1,337,963)
	(662,748)	214,855	(447,893)	0	447,893	447,893	0	0
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES) SOURCES	582,760	527,659	1,110,419	393,826	0	393,826	1,504,245	92,349
FUND BALANCES, JANUARY 1	7,141,328	3,689,939	10,831,267	971,421	0	971,421	11,802,688	11,710,339
FUND BALANCES, DECEMBER 31	\$ 7,724,088	\$ 4,217,598	\$ 11,941,686	\$ 1,365,247	\$ 0	\$ 1,365,247	\$ 13,306,933	\$ 11,802,688

TOWNSHIP OF HANOVER
STATEMENT OF NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2013

	Pension Trust	
	2013	2012
ASSETS		
Investments - restricted	<u>\$ 6,662,128</u>	<u>\$ 5,989,788</u>
LIABILITIES AND NET ASSETS		
LIABILITIES	<u>\$ 0</u>	<u>\$ 0</u>
NET ASSETS		
Reserved for retirement benefits	<u>6,662,128</u>	<u>5,989,787</u>
	<u><u>\$ 6,662,128</u></u>	<u><u>\$ 5,989,787</u></u>

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF HANOVER

STATEMENT OF CHANGES IN NET ASSETS - CASH BASIS

FIDUCIARY FUND TYPES

YEAR ENDED DECEMBER 31, 2013

	Pension Trust	
	2013	2012
ADDITIONS		
Township Contributions	\$ 510,980	\$ 495,279
Interest, dividends, and net unrealized gains/losses	481,375	404,289
	<u>992,355</u>	<u>899,568</u>
DEDUCTIONS		
Administrative expenses	53,720	28,938
Pension benefits	<u>266,294</u>	<u>256,192</u>
	<u>320,014</u>	<u>285,130</u>
CHANGE IN NET ASSETS	672,341	614,438
NET ASSETS, JANUARY 1	<u>5,989,787</u>	<u>5,375,349</u>
NET ASSETS, DECEMBER 31	<u><u>\$ 6,662,128</u></u>	<u><u>\$ 5,989,787</u></u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS



TOWNSHIP OF HANOVER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

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 Position 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 Position 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 Position 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, 2013

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, 2013

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 Position.

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, 2013

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, 2013

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 Position available for future operations or distributions. Reserved retained earnings for proprietary funds represent the Net Position that have been legally identified for specific purposes.

TOWNSHIP OF HANOVER

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

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 \$5,779,503. 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 have received an AAAM rating from Standards & Poors with \$7,527,430.

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 \$6,662,128.

TOWNSHIP OF HANOVER

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

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 \$ 506,071,100 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				
Land and Land Improvements	\$ 4,881,299	\$	\$	\$ 4,881,299
Infrastructure	1,730,687			1,730,687
Building & Improvements	9,454,181			9,454,181
Furniture and Equipment	2,654,694	299,571		2,954,265
	<u>\$ 18,720,861</u>	<u>\$ 299,571</u>	<u>\$ 0</u>	<u>\$ 19,020,432</u>
ACCUMULATED DEPRECIATION				
Building & Improvements	\$ 4,171,713	\$ 201,077	\$	\$ 4,372,790
Furniture and Equipment	649,074	6,844		655,918
	<u>\$ 4,820,787</u>	<u>\$ 207,921</u>	<u>\$ 0</u>	<u>\$ 5,028,708</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	\$ 954,948	\$	\$ 100,000	\$ 854,948
Notes – 1998	926,000		294,000	632,000
	<u>\$ 1,880,948</u>	<u>\$ 0</u>	<u>\$ 394,000</u>	<u>\$ 1,486,948</u>

TOWNSHIP OF HANOVER

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

NOTE 5 DEBT AND DEBT SERVICE (CONTINUED)

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

\$ 854,948

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

\$ 632,000

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

	<u>Debt Service</u>
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	1,865,475
Less: Interest Portion	<u>378,527</u>
Outstanding Principal	<u>\$ 1,486,948</u>

TOWNSHIP OF HANOVER

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

NOTE 6 ASSIGNMENTS 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.

NOTE 8 FUND BALANCE REPORTING

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 hierarchy of five possible classifications of fund balance is:

Nonspendable Fund Balance

- Amounts that cannot be spent due to form; for example, inventories and prepaid amounts. Also, long-term loan and notes receivables, and property held for resale would be reported here unless the proceeds are restricted, committed or assigned.
- Amounts that must be maintained intact legally or contractually.

Restricted Fund Balance

- Amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation.

Committed Fund Balance

- Amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources.
- Action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

NOTE 8 FUND BALANCE REPORTING (CONTINUED)

Assigned Fund Balance

- For all governmental funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed.
- For the general fund, amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. Amount reported as assigned should not result in a deficit in unassigned fund balance.

Unassigned Fund Balance

- For the general fund, amounts not classified as nonspendable, restricted, committed or assigned. The general fund is the only fund that would report a positive amount in unassigned fund balance.

NOTE 9 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, 2013.

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.

TOWNSHIP OF HANOVER

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2013

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

NOTE 10 IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

During the current year, the Township implemented GASB Statement No. 61, The Financial Reporting Entity: Omnibus. This new guidance affects the treatment of component units within the financial statements. The implementation of this new statement did not have an effect on the Township's current financial statements.

The Township has implemented the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which revises the hierarchy of applying accounting standards to certain defined transactions, and the provisions of GASB statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

The District has also early implemented the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenue).

The Township has early implemented GASB Statement No. 66, Technical Corrections, an Amendment of GASB Statements No.10 and 62. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

**DETAIL SCHEDULES OF REVENUE
AND EXPENDITURES**



TOWNSHIP OF HANOVER
SCHEDULE OF BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
<i>REVENUES:</i>			
<i>TAXES</i>			
Real Estate	\$ 1,644,636	\$ 1,669,552	\$ 24,916
Real Estate Transfer	230,000	408,671	178,671
Local Services Tax	490,000	509,644	19,644
Mercantile	662,169	501,080	(161,089)
Earned Income Tax	1,850,000	2,131,820	281,820
	<u>4,876,805</u>	<u>5,220,767</u>	<u>343,962</u>
<i>LICENSES AND PERMITS</i>			
Cable television licenses	136,937	147,471	10,534
Permits	500	1,580	1,080
	<u>137,437</u>	<u>149,051</u>	<u>11,614</u>
<i>FINES AND FORFEITURES</i>			
Forfeitures	25,000	50,128	(25,000)
Fines and Code Violations	41,017	51,768	10,751
	<u>66,017</u>	<u>101,896</u>	<u>(14,249)</u>
<i>INTEREST AND RENTS</i>			
Interest on investments	10,000	6,402	(3,598)
Rents	287,600	259,351	(28,249)
	<u>297,600</u>	<u>265,753</u>	<u>(31,847)</u>
<i>INTERGOVERNMENTAL REVENUE</i>			
State public utility tax	6,000	6,469	469
Other governments	2,042	2,589	547
Alcoholic beverage taxes	3,000	1,800	(1,200)
Foreign fire insurance premium tax	103,444	115,990	12,546
Recycling	65,000	53,290	(11,710)
Reimbursements from regional police		181,740	181,740
Pension fund state aid	196,975	193,946	(3,029)
	<u>376,461</u>	<u>555,824</u>	<u>179,363</u>
<i>CHARGES FOR SERVICES</i>			
General Government	32,265	31,486	(779)
Solid waste collection and disposal	800,904	848,759	47,855
Sanitary sewer fee	183,440	246,813	63,373
Public Safety	226,739	269,919	43,180
Recreation & Community Center	674,873	609,256	(65,617)
	<u>1,918,221</u>	<u>2,006,233</u>	<u>88,012</u>
<i>OTHER</i>			
Proceeds from sale of fixed assets		471	471
Other	11,225	50,703	39,478
	<u>11,225</u>	<u>51,174</u>	<u>39,949</u>
<i>TOTAL REVENUES</i>	<u>\$ 7,683,766</u>	<u>\$ 8,350,698</u>	<u>\$ 616,804</u>

TOWNSHIP OF HANOVER
SCHEDULE OF BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
<i>EXPENDITURES:</i>			
<i>GENERAL GOVERNMENT</i>			
Legislative and Governing Body	\$ 121,800	\$ 108,047	\$ 13,753
Executive / Manager	109,026	108,697	329
Financial services	14,680	12,720	1,960
Tax Collection	46,574	37,146	9,428
Legal services	38,000	36,533	1,467
Treasurer, Secretary and Clerk	199,874	193,282	6,592
Engineering services	29,520	17,266	12,254
Buildings and Plant	105,100	396,114	(291,014)
	<u>664,574</u>	<u>909,805</u>	<u>(245,231)</u>
<i>PUBLIC SAFETY</i>			
Police	1,592,958	1,585,447	7,511
Fire	305,099	317,715	(12,616)
Ambulance			0
Crossing Guards	12,200	12,638	(438)
Emergency Management	8,000	2,080	5,920
Animal Control	25		25
Protective Inspection	184,927	188,321	(3,394)
Planning and Zoning	43,500	35,715	7,785
	<u>2,146,709</u>	<u>2,141,916</u>	<u>4,793</u>
<i>PUBLIC WORKS</i>			
Recycling	31,400	45,099	(13,699)
Solid waste collection and disposal	775,641	742,064	33,577
Wastewater and sewage collection and disposal	75,000	136,827	(61,827)
Highways, Streets and General services	700,354	645,651	54,703
Winter maintenance	24,800	23,928	872
Traffic control	63,910	37,031	26,879
Street Lighting	115,000	125,477	(10,477)
Repairs of tools and machinery	63,897	56,450	7,447
Construction and Rebuilding	79,875	67,201	12,674
Other public works	9,700	15,775	(6,075)
	<u>1,939,577</u>	<u>1,895,503</u>	<u>44,074</u>

TOWNSHIP OF HANOVER
SCHEDULE OF BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
<i>EXPENDITURES (continued):</i>			
<i>RECREATION AND COMMUNITY</i>			
Libraries	185,067	185,067	0
Shade Tree	7,000	2,845	4,155
Open space			0
Recreation & Community Center	909,611	895,922	13,689
Community development			0
	<u>1,101,678</u>	<u>1,083,834</u>	<u>17,844</u>
<i>MISCELLANEOUS</i>			
Pension contributions	573,475	600,433	(26,958)
Workers compensation	23,528	22,364	1,164
Unemployment compensation	9,600	10,439	(839)
Employee Benefits	348,375	312,905	35,470
Insurance premiums	35,239	34,355	884
Social Security	83,852	86,622	(2,770)
Refund of prior year tax			0
Other	7,000	7,014	(14)
	<u>1,081,069</u>	<u>1,074,132</u>	<u>6,937</u>
<i>TOTAL EXPENDITURES</i>	<u>\$ 6,933,607</u>	<u>\$ 7,105,190</u>	<u>\$ (171,583)</u>

COMBINING SCHEDULES



TOWNSHIP OF HANOVER**COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS****CAPITAL PROJECTS FUNDS - MAJOR FUNDS**DECEMBER 31, 2013

	Capital Reserve	Plans & Appeals	Impact Fees	Total
ASSETS				
Cash - unrestricted	\$ 1,260	\$	\$ 2,628	\$ 3,888
Cash - restricted	1,541,952	174,122		1,716,074
Investments - unrestricted				0
Investments - restricted	<u>1,330,677</u>	<u>215,164</u>	<u>1,001,695</u>	<u>2,547,536</u>
	<u>\$ 2,873,889</u>	<u>\$ 389,286</u>	<u>\$ 1,004,323</u>	<u>\$ 4,267,498</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Due to other funds	<u>49,900</u>	<u></u>	<u></u>	<u>49,900</u>
	49,900	0	0	49,900
Fund balances:				
Assigned	2,823,989	389,286	1,004,323	4,217,598
Unassigned				0
	<u>\$ 2,873,889</u>	<u>\$ 389,286</u>	<u>\$ 1,004,323</u>	<u>\$ 4,267,498</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, 2013

	Capital Reserve	Plans & Appeals	Impact Fees	Total
REVENUES				
Interest income	\$ 3,873	\$ 264	\$ 801	\$ 4,938
Charges for Service		8,250		8,250
Intergovernmental revenue				0
Developer contributions	400,586	659,392	27,318	1,087,296
	<u>404,459</u>	<u>667,906</u>	<u>28,119</u>	<u>1,100,484</u>
EXPENDITURES				
Current				
General Government	26,901			26,901
Public Safety	8,853			8,853
Public works	186,803	510,150	2,324	699,277
Cultural and recreation	52,649			52,649
	<u>275,206</u>	<u>510,150</u>	<u>2,324</u>	<u>787,680</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>129,253</u>	<u>157,756</u>	<u>25,795</u>	<u>312,804</u>
OTHER FINANCING (USES) SOURCES				
Proceeds from issuing general obligation notes				0
Operating transfers in	857,756			857,756
Operating transfers out	(447,892)		(195,009)	(642,901)
	<u>409,864</u>	<u>0</u>	<u>(195,009)</u>	<u>214,855</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND AND FINANCING (USES) SOURCES	<u>539,117</u>	<u>157,756</u>	<u>(169,214)</u>	<u>527,659</u>
FUND BALANCES, JANUARY 1	<u>2,284,872</u>	<u>231,530</u>	<u>1,173,537</u>	<u>3,689,939</u>
FUND BALANCES, DECEMBER 31	<u>\$ 2,823,989</u>	<u>\$ 389,286</u>	<u>\$ 1,004,323</u>	<u>\$ 4,217,598</u>

TOWNSHIP OF HANOVER

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

SPECIAL REVENUE FUNDS - NONMAJOR FUNDS

DECEMBER 31, 2013

	Liquid Fuels	Fire Tax	Total
ASSETS			
Cash - unrestricted	\$ 289,624	\$ 710,375	\$ 999,999
Investments - unrestricted	<u>365,248</u>	<u></u>	<u>365,248</u>
	<u>\$ 654,872</u>	<u>\$ 710,375</u>	<u>\$ 1,365,247</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Due to other funds	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances:			
Unassigned	<u>654,872</u>	<u>710,375</u>	<u>1,365,247</u>
	<u>\$ 654,872</u>	<u>\$ 710,375</u>	<u>\$ 1,365,247</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, 2013

	Liquid Fuels	Fire Tax	Total
REVENUES			
Taxes	\$	\$ 374,931	\$ 374,931
Interest income	1,640		1,640
Intergovernmental revenue	<u>271,678</u>	<u></u>	<u>271,678</u>
	<u>273,318</u>	<u>374,931</u>	<u>648,249</u>
EXPENDITURES			
Current			
Public Safety			0
Public works	<u>254,423</u>	<u></u>	<u>254,423</u>
	<u>254,423</u>	<u>0</u>	<u>254,423</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>18,895</u>	<u>374,931</u>	<u>393,826</u>
OTHER FINANCING (USES) SOURCES			
Operating transfers in			0
Operating transfers out	<u></u>	<u></u>	<u>0</u>
	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND AND FINANCING (USES) SOURCES	<u>18,895</u>	<u>374,931</u>	<u>393,826</u>
FUND BALANCES, JANUARY 1	<u>635,977</u>	<u>335,444</u>	<u>971,421</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 654,872</u></u>	<u><u>\$ 710,375</u></u>	<u><u>\$ 1,365,247</u></u>