

**THE BOROUGH OF HANOVER, PENNSYLVANIA**

**BASIC FINANCIAL STATEMENTS  
AND REQUIRED AND OTHER  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2015**



**RLH**

**CPAs &  
BUSINESS  
ADVISORS**

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## INDEPENDENT AUDITORS' REPORT

March 23, 2016

Borough Council  
The Borough of Hanover, Pennsylvania  
Hanover, Pennsylvania

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 Borough of Hanover, Pennsylvania (the "Borough"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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. 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 auditors' 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.

## **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 Borough of Hanover, Pennsylvania, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information - general fund, schedule of changes in the Borough's net pension liability (asset) and related ratios - pension plans, schedules of Borough contributions, and investment returns - pension plans, and schedule of funding progress - other postemployment benefits (*OPEB*) plan on pages 4 through 19, 82, 83 through 84, 85 through 87, and 88, respectively, 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 Borough of Hanover, Pennsylvania's basic financial statements. The other information, included in *Schedules "5" and "6"*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules comprising the other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*RLH CPAs & Business Advisors, LLC*

Hanover, Pennsylvania

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**UNAUDITED**

**INTRODUCTION**

The following discussion and analysis of The Borough of Hanover's (the "Borough") financial statements provides a narrative overview and analysis of the financial activities of the Borough for the fiscal year ended December 31, 2015. Readers are encouraged to consider the information presented here in conjunction with the year-end financial statements and accompanying notes following this analysis.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999. Certain comparative information between the current year and prior year is required to be presented in this section.

**FINANCIAL HIGHLIGHTS OF 2015**

- The assets and deferred outflows of resources of the Borough exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended December 31, 2015 by \$61,647,116 (net position). The Borough's net position value increased \$3,774,727 from 2014's total of \$57,872,389, primarily due to various tax revenues higher than budgeted expectations and increase in water services charges during 2015 to rebuild Water Fund's financial reserves and plan for additional operating and capital projects. The majority of the Borough's net position (\$46,439,883, or 75.33%) is invested in capital assets and is not available for future spending.
- Fund balances increased in the General Fund by \$240,610 from \$7,142,835 to \$7,383,445, primarily due to various tax revenues higher than budgeted expectations.
- The Borough's bond rating was reaffirmed as AA- with a "stable outlook" as issued by Standard & Poor's, denoting a very strong capacity to meet financial commitments.
- The Borough had \$53,610,000 in general obligation debt outstanding as of December 31, 2015. This represents a net increase of \$7,675,000 from 2014, resulting from the issuance of \$10,000,000 in new debt for water projects, and three current refunding issuances for interest savings. The Non-Electoral Debt Capacity remaining is \$29,912,077 and Non-Electoral Debt and Lease Rental Debt Capacity remaining is \$44,660,907.

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- Overall, the Borough's pension plans' funded ratio is 97.77%, which significantly outpaces the total funded ratio of all Commonwealth of Pennsylvania local government defined benefit self-insured pension plans (63.75%), based on January 2013 actuarial data analyzed by the Public Employee Retirement Commission (PERC).

**NEW ACCOUNTING PRONOUNCEMENTS**

The following GASB Statements were implemented by the Borough during the year ended December 31, 2015:

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* - The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this statement are effective for periods beginning after June 15, 2015, and were early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - The objective of this statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP) to improve financial reporting and usefulness of financial statement information. The provisions of this statement are effective for periods beginning after June 15, 2015, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 77, *Tax Abatement Disclosures* - The objective of this statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public concerning nature and magnitude of tax abatements. The provisions of this statement are effective for periods beginning after December 15, 2015, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

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GASB Statement No. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans* - The objective of this statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of this statement are effective for periods beginning after December 15, 2015, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 79, *Certain Investment Pools and Pool Participants* - The objective of this statement is to improve accounting and financial reporting for external investment pools and their participants resulting from changes in the regulatory provisions significantly amended in 2014 by the Securities and Exchange Commission, particularly those in relation to the Investment Company Act of 1940, Rule 2a7. The provisions of this statement are effective for periods beginning after December 15, 2015, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14* - The objective of this statement is to improve accounting and financial reporting by clarifying the financial statement presentation requirements for certain component units, specifically blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this statement are effective for periods beginning after June 15, 2016, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

The following GASB Statements have not yet been implemented by the Borough since they are not yet effective as of December 31, 2015:

GASB Statement No. 72, *Fair Value Measurement and Application* - The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purpose, and guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this statement are effective for periods beginning after June 15, 2015, and will result in enhanced disclosures for reporting fair value measurements of investments.

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GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this statement are effective for periods beginning after June 15, 2016. The implementation of this statement is expected to have significant effect on the government-wide financial statements of the Borough in the year of implementation; however, the effects of said implementation are not yet quantifiable.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of this statement are effective for periods beginning after June 15, 2017. The implementation of this statement is expected to have significant effect on the government-wide financial statements of the Borough in the year of implementation; however, the effects of said implementation are not yet quantifiable.

**OVERVIEW OF FINANCIAL STATEMENTS**

This MD&A section is intended to serve as an introduction to the Borough's basic financial statements and provides an overview of the Borough's financial activities. The basic financial statements include three (3) parts: 1) government-wide financial statements; 2) individual fund statements; and 3) notes to basic financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** - The Statement of Net Position presents information of all of the Borough's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. The statements are designed to provide readers with a broad overview of the Borough's finances in a manner similar to a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Borough is improving or deteriorating.

The Statement of Activities presents information showing the how the Borough's net position changed during the fiscal year. All changes in net position (revenues and expenses) are reported when the underlying event giving rise to the change occurs regardless of the timing

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of cash flows. Thus, revenues and expenses are reporting in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but unused, compensated absences). The focus of this statement is on the net cost of providing various activities to the citizens of the Borough.

Both the Statement of Net Position and the Statement of Activities have separate sections for the two different types of primary government activities. These two types of primary government activities are:

- Governmental Activities - The activities reflected in this section are general government; public safety (police, fire, and emergency management); roads; health and sanitation; cultural and recreation; and other departments and programs. These activities are primarily supported by operating grants and contributions, charges for services, real estate taxes, and departmental revenues.
- Business-Type Activities - The activities reflected in this section are water works; regional wastewater; sanitary sewer; and market house. These activities are intended to recover their cost of operation, including depreciation, primarily through user charges.

**Fund Financial Statements** - The fund financial statements provide more detailed information about the Borough's funds with an emphasis on major funds, not the Borough as a whole. Funds are accounting groups that the Borough uses to keep track of specific sources of funding and related spending for particular purposes. State law requires some funds be segregated, while other funds are established to control and manage resources designated for specific purposes.

The Borough has three types of funds:

- Governmental Funds - Most of the Borough's basic services are included in governmental funds, which focus on: 1) the flow of cash and other financial assets that can readily be converted into cash, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed near-term view that helps determine the financial requirements for current Borough's programs. The Borough's major governmental fund is the General Fund. The Capital Projects, Highway Liquid Fuels, Recreation, Recreation Endowment, and Library Endowment Funds are non-major governmental funds of the Borough.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Borough's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The Borough adopts an annual appropriated budget for its General and Highway Liquid Fuels Funds. A budgetary comparison statement for the General Fund has been provided as required supplementary information for this major fund to demonstrate compliance with its budgets.

- Enterprise Funds - Used to report the same functions presented as business-type activities in the government-wide financial statements, which provide services for the Borough's other programs and activities, in more detail. The Borough reports four enterprise funds: the Water, Regional Wastewater, and Sanitary Sewer Funds, which are reported as major funds, and the Market House Fund, which is presented as non-major.
- Fiduciary Funds - The Borough is the trustee, or fiduciary, for its three separate employees' pension plans for police, fire drivers, and non-uniformed employees, collectively reported as the Borough's Pension Trust Funds. The Borough is responsible for ensuring that the assets reported in the funds are used for the intended purposes. All of the Borough's fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources balances are reported in the Statement of Fiduciary Net Position. A Statement of Changes in Fiduciary Net Position is presented for the Pension Trust Funds only. All fiduciary activities are excluded from the Borough's government-wide financial statements because the Borough cannot use these assets to finance its operations.

**Notes to Basic Financial Statements and Other Information** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Borough's progress in funding its obligation to provide pension and other postemployment benefits to its employees, and combining schedules of net position and activities for the individual Pension Trust Funds of the Borough.

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**GOVERNMENT WIDE FINANCIAL ANALYSIS**

***Net Position*** - The following is a condensed presentation of the Borough's net position as of December 31, 2015 and 2014:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Assets:						
Current and Other Assets	\$ 10,327,858	\$ 11,142,645	\$ 19,581,616	\$ 14,692,848	\$ 29,909,474	\$ 25,835,493
Capital Assets, Net	<u>17,489,989</u>	<u>15,832,055</u>	<u>73,392,168</u>	<u>68,013,277</u>	<u>90,882,157</u>	<u>83,845,332</u>
Total Assets	<u>27,817,847</u>	<u>26,974,700</u>	<u>92,973,784</u>	<u>82,706,125</u>	<u>120,791,631</u>	<u>109,680,825</u>
Deferred Outflows of Resources	<u>3,919,609</u>	<u>1,263,532</u>	<u>612,320</u>	<u>494,513</u>	<u>4,531,929</u>	<u>1,758,045</u>
Liabilities:						
Current Liabilities	959,602	1,211,297	3,499,156	2,779,748	4,458,758	3,991,045
Long-Term Liabilities	<u>10,824,737</u>	<u>10,055,576</u>	<u>47,182,421</u>	<u>39,469,283</u>	<u>58,007,158</u>	<u>49,524,859</u>
Total Liabilities	<u>11,784,339</u>	<u>11,266,873</u>	<u>50,681,577</u>	<u>42,249,031</u>	<u>62,465,916</u>	<u>53,515,904</u>
Deferred Inflows of Resources	<u>1,210,528</u>	<u>50,577</u>	-----	-----	<u>1,210,528</u>	<u>50,577</u>
Net Position:						
Net Investment in Capital Assets						
Assets	9,517,702	7,404,194	36,922,181	36,866,696	46,439,883	44,270,890
Restricted	2,470,008	2,463,611	-	-	2,470,008	2,463,611
Unrestricted	<u>6,754,879</u>	<u>7,052,977</u>	<u>5,982,346</u>	<u>4,084,911</u>	<u>12,737,225</u>	<u>11,137,888</u>
Total Net Position	<u>\$ 18,742,589</u>	<u>\$ 16,920,782</u>	<u>\$ 42,904,527</u>	<u>\$ 40,951,607</u>	<u>\$ 61,647,116</u>	<u>\$ 57,872,389</u>

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the Borough, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$61,647,116 at the close of the fiscal year.

The largest portion of the Borough's combined net position (75.33%) reflects its investments in capital assets (e.g. land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that are still outstanding. The Borough uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position is positive (20.67%).

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**Changes in Net Position** - The following is a condensed presentation of the Borough's changes in net position for the years ended December 31, 2015 and 2014:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,737,114	\$ 4,603,745	\$ 13,694,165	\$ 12,679,270	\$ 18,431,279	\$ 17,283,015
Operating Grants and Contributions	1,960,615	2,016,571	11,577	29,899	1,972,192	2,046,470
Capital Grants and Contributions	1,718,703	362,927	458,322	20,227	2,177,025	383,154
General Revenues:						
Taxes:						
Real Estate Property Taxes	5,709,152	5,597,724	-	-	5,709,152	5,597,724
Income Taxes	1,457,279	1,549,319	-	-	1,457,279	1,549,319
Business Privilege Taxes	606,468	381,348	-	-	606,468	381,348
Local Services Taxes	579,480	598,900	-	-	579,480	598,900
Other Taxes	49,672	61,341	-	-	49,672	61,341
Interest and Investment Earnings	43,120	29,198	121,238	47,872	164,358	77,070
Contributions to Permanent Endowments	23,025	-	-	-	23,025	-
Transfers	64,969	47,888	(64,969)	(47,888)	-	-
Total Revenues	<u>16,949,597</u>	<u>15,248,961</u>	<u>14,220,333</u>	<u>12,729,380</u>	<u>31,169,930</u>	<u>27,978,341</u>
Expenses:						
Governmental Activities:						
General Government	1,205,738	1,045,884	-	-	1,205,738	1,045,884
Public Safety	6,097,138	5,446,963	-	-	6,097,138	5,446,963
Health and Sanitation	3,972,355	3,751,891	-	-	3,972,355	3,751,891
Highway	1,832,226	1,700,535	-	-	1,832,226	1,700,535
Culture and Recreation	1,666,302	1,800,956	-	-	1,666,302	1,800,956
Interest on Long-Term Debt	354,031	289,111	-	-	354,031	289,111
Business-Type Activities:						
Water Services	-	-	5,287,034	5,942,280	5,287,034	5,942,280
Regional Wastewater Services	-	-	4,160,379	4,143,055	4,160,379	4,143,055
Sewer Services	-	-	2,781,723	2,738,679	2,781,723	2,738,679
Market House Services	-	-	38,277	41,267	38,277	41,267
Total Expenses	<u>15,127,790</u>	<u>14,035,340</u>	<u>12,267,413</u>	<u>12,865,281</u>	<u>27,395,203</u>	<u>26,900,621</u>

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Changes in Net Position	1,821,807	1,213,621	1,952,920	(135,901)	3,774,727	1,077,720
Net Position - Beginning	<u>16,920,782</u>	<u>15,707,161</u>	<u>40,951,607</u>	<u>41,087,508</u>	<u>57,872,389</u>	<u>56,794,669</u>
Net Position - Ending	<u>\$ 18,742,589</u>	<u>\$ 16,920,782</u>	<u>\$ 42,904,527</u>	<u>\$ 40,951,607</u>	<u>\$ 61,647,116</u>	<u>\$ 57,872,389</u>

During the current fiscal year, net position for governmental activities increased \$1,821,807, primarily the result of growth in property and business privilege taxes in 2015 and public infrastructure (capital) contributions relative to the Cherry Tree development more than offsetting an overall increase in expenses. The net position of the business-type activities increased \$1,952,920, primarily related to growth in water service consumption charges coupled with a modest overall reduction in expenses.

**FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS**

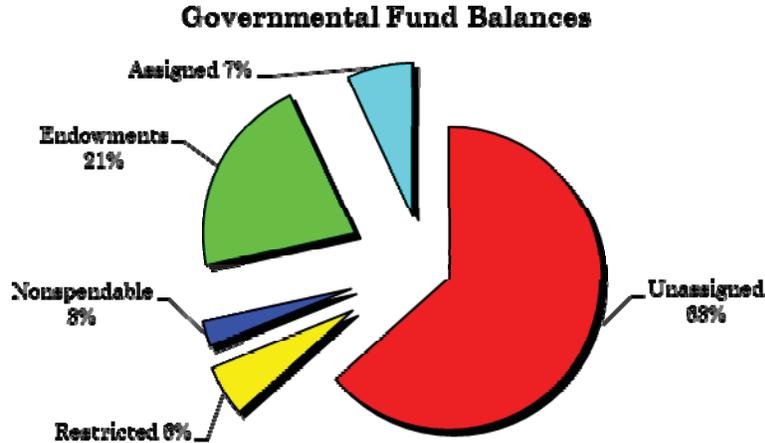
The Borough uses fund accounting to assure and demonstrate compliance with local government regulations.

*Governmental Funds* - The focus of the Borough's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Borough's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net spendable, "available" resources at the end of the fiscal year.

At the end of the current fiscal year, the Borough's governmental funds reported combined ending fund balances of \$9,803,407, of which \$539,035 was externally restricted, such as by legal restrictions or intention of grantors, donors, or trustees, \$262,740 was in nonspendable form (e.g. inventory, deposits and prepaid expenses), \$2,100,263 was held in endowment funds for recreation purposes, and \$684,228 was assigned, primarily for 2016 budgetary reserve needs. The remaining \$6,217,141 is unassigned and can be used for any lawful purpose.

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The following graphic summarizes fund balances by relative percentage:



The General Fund is the Borough's primary operating fund. It tracks services of administration, police, fire, emergency management, planning, health and sanitation, highways, library, recreation and parks, shade trees, public events, and insurance costs. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,217,141 and total fund balance was \$7,383,445, reflecting a \$240,610 (3.37%) increase over the prior year. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned General Fund balance to General Fund expenditures. Unassigned General Fund balance represents 41.08% of total General Fund expenditures.

The condensed changes in fund balance for the General Fund were as follows for the years ended December 31:

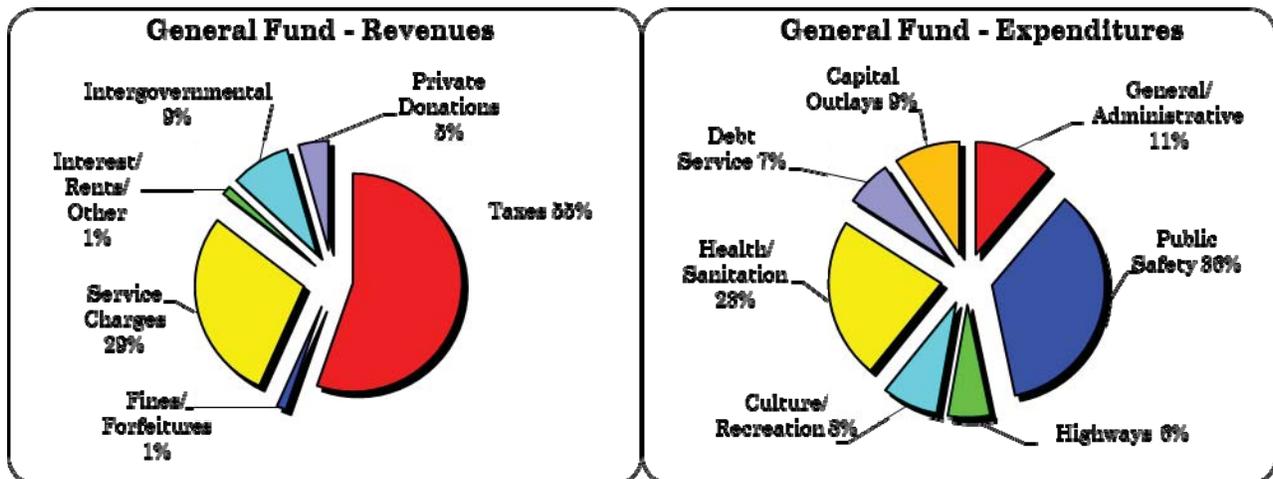
	<u>2015</u>	<u>2014</u>
Revenues	\$ 15,154,863	\$ 14,854,939
Expenses	15,134,024	13,073,131
Net Other Financing Sources (Uses)	<u>219,771</u>	<u>1,319,179</u>
Changes in Fund Balance	<u>\$ 240,610</u>	<u>\$ 3,100,987</u>

Increases in property and other taxes (\$195,630) and charges for services (\$195,494) from transfer station tipping charges were significant factors in the increase of revenues by \$299,924 over 2014 results. Recognition of the capital outlay for the 2015 Aerial Ladder truck acquired for the Fire Department (\$1,183,206), increase in refuse hauling and disposal fees

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
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(\$213,156) due to increase tonnage, and increases in personnel costs and related benefits (\$430,486), including several retirement payouts, increased overall General Fund spending by \$2,060,893 over 2014 results. Net other financing sources (uses) were significant in 2015 due to the current refunding of the 2009 Series General Obligation Debt for debt savings (net sources [uses] of \$166,461, further discussed in the notes to financial statements), and in 2014 due to issuance of capital lease proceeds for a construction deposit for a new Aerial Ladder Truck for the fire department (\$1,153,541).

The following charts summarizes revenues and expenditures by major source for the General Fund by relative percentage for the year ended December 31, 2015:



*Enterprise Funds* - The Borough's enterprise funds provide the same type of information found in the government-wide financial statements.

As of December 31, 2015, the net position of the Borough's Water Fund totaled \$22,785,046; the Regional Wastewater Treatment Plant Fund totaled \$14,764,406; the Sanitary Sewer Fund totaled \$5,257,184; and the Market House totaled \$97,891. The following summarizes the significant changes to net position for the Borough's major Enterprise Funds during the current fiscal year:

- Water operating revenues increased \$1,166,389 over 2014 results of \$6,008,710, relating to increased consumption water rates effective April 9, 2015. Operating expenses decreased \$319,526 (from \$5,218,841 to \$4,899,315) in 2015, primarily due to 2014 costs incurred to prepare rate case study for the Pennsylvania Utilities Commission for the proposed water rate increases (\$345,096). Total change in net position for 2015 was an increase of \$1,863,405.

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- Regional Wastewater operating revenues decreased by \$223,415 from 2014 to 2015 due to reduced treatment charges to participating municipalities. Operating expenses decreased by \$66,832 (from \$3,378,024 to \$3,311,192) in 2015, primarily due to changing the Borough's sludge hauler in 2015 (reduction of \$62,921). Total change in net position for 2015 was a decrease of \$583,204.
- Sewer operating revenues increased \$239,570 from 2014 to 2015, primarily due to service charges computed on increased water consumption and flow exchange with Penn Township. Operating expenses decreased by \$192,462 (from \$2,714,089 to \$2,521,627 in 2015), primarily due to reduced treatment charges from the Regional Wastewater Fund (\$102,614). Total change in net position for 2015 was an increase of \$673,540.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original budget for the General Fund was amended once by Borough Council during 2015 for \$25,000 for unanticipated equipment repairs (balanced with additional earned income tax revenues). The final budgeted change in fund balance for 2015 was a reduction of \$1,102,219. Actual results for 2015 were an increase to fund balance of \$240,610, resulting in a positive budget-actual variance of \$1,342,829.

Overall, actual operating revenues during the current fiscal year bested budget expectations by \$971,759. Tax revenue exceeded the budgeted amounts by \$719,796 for earned income, real estate transfer, and business privilege tax in excess of budget, and a 0.15-mill real estate tax increase. Intergovernmental revenue from State grants and State aid for pensions amounted to deficit revenues under expectations of \$261,142, primarily related to grant programs extended to future periods. Charges for services revenues exceeded the budgeted amount by \$306,941, primarily due to increased use of the Transfer Station facilities. Finally, donations from private sources generated revenues of \$153,544 in excess of budget, primarily due to contributions for public safety purchases and programs.

Expenditures were \$234,090 lower than planned. This primarily consisted of the following: budgeted payroll and related benefits were \$661,821 higher than actual results for 2015, allocated amongst the relating functions and Miscellaneous expense categories; and Capital Outlays expenditures over budgeted expectations by \$586,814, primarily due to the lease-financed acquisition of the 2015 Aerial Ladder truck (\$1,153,541 actual, \$0 budget) partially offset by limited project activity for storm sewer projects funded under Community Development Block Grants (CDBG) (\$18,439 actual, \$440,000 budget).

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
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**FOR THE YEAR ENDED DECEMBER 31, 2015**  
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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets*** - The Borough's investment in capital assets, net of accumulated depreciation, totaled \$90,882,157 at the end of 2015. Capital assets consist of land and improvements, infrastructure, buildings and improvements, machinery & equipment and construction in progress.

A summary of the capital assets, net of accumulated depreciation, follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land and Land Rights	\$ 580,279	\$ 580,279	\$ 865,558	\$ 894,011
Inactive Wells	-	-	137,044	137,044
Construction in Progress	221,557	5,813	8,081,560	1,484,308
Improvements Other Than Buildings	15,236	23,335	15,135	5,948
Machinery and Equipment	1,982,744	1,156,584	1,183,841	1,273,305
Other Buildings and Related Improvements	9,631,470	9,925,212	531,023	465,198
Plant and Infrastructure	<u>5,058,703</u>	<u>4,140,832</u>	<u>62,578,007</u>	<u>63,753,463</u>
	<u>\$ 17,489,989</u>	<u>\$ 15,832,055</u>	<u>\$ 73,392,168</u>	<u>\$ 68,013,277</u>

Significant capital investments in 2015 related to the acquisition of the 2015 Aerial Ladder truck (\$1,153,541), contributed infrastructure related to Cherry Tree Phase I and II developments (\$1,667,298), rehabilitation study costs for the Lawrence Baker Sheppard dam (\$238,293), and engineering and construction costs for Water Filtration Plant Improvements Phase I and II (\$6,034,694). Additional information on the Borough's capital assets can be found in the notes to basic financial statements (Capital Assets note).

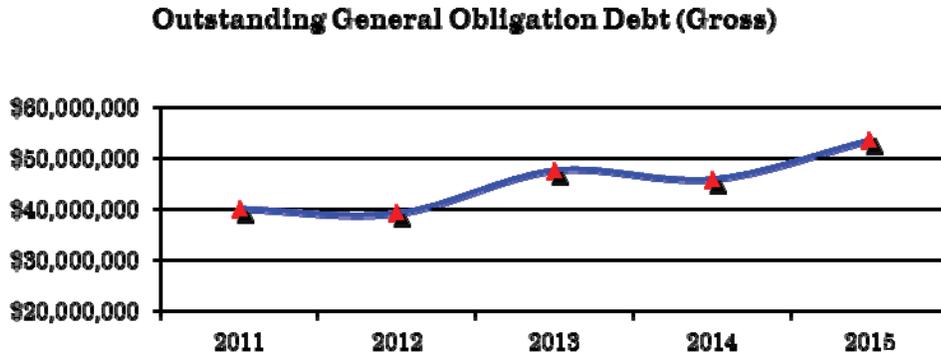
The Borough is committed under the following contracts for purchases and construction projects as of December 31, 2015:

<u>Project</u>	<u>Contract Amount</u>	<u>Contract Amount Outstanding</u>
General Fund		
Storm Water Systems Improvements		
Engineering	\$ 82,415	\$ 63,976

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
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Water Fund		
Filter Plant Improvements - Phase 1		
Engineering	\$ 665,000	\$ 117,431
Construction	\$ 6,167,282	\$ 1,156,393
Filter Plant Improvements - Phase 2		
Engineering	\$ 1,084,000	\$ 636,550
Lawrence Baker Dam Assessment		
Engineering	\$ 378,480	\$ 146,584

***Long-Term Debt*** - On December 31, 2015, the Borough's general obligation debt (gross) outstanding totaled \$53,610,000, all related to capital purchases and projects. All debt is backed by the full faith and credit of the Borough, and all business-type debt has been certified as self-liquidating in the respective funds. This was a net increase of \$7,675,000 (16.7%) from 2014, primarily due to issuance of \$10,000,000 in self-liquidating Water Fund general obligation bonds for water system capital projects. No revenue bond debt exists. The following represents the growth of the Borough's general obligation debt (gross) over the past five fiscal years:



All bonds issued are rated AA- by Standard & Poor's with a "stable outlook", denoting a very strong capacity to meet financial commitments. **The Borough of Hanover has never failed to meet any bond payment obligations.** The Borough continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs, which has resulted in significant savings for the Borough over the past several years. There were no debt limitations, restrictions, or commitments during the year ended December 31, 2015 that may affect the Borough's plans during the fiscal year ending December 31, 2016.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
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The following is a summary of outstanding long-term debt for the year ended December 31, 2015:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General Obligation Bonds Payable, Net	\$ 7,066,398	\$ 7,359,614	\$ 46,462,697	\$ 38,326,831
Accrued Compensated Absences	1,617,037	1,536,576	1,098,012	1,108,974
Consumer Deposits	-	-	1,260,297	1,478,751
Capital Lease Obligations	<u>1,147,145</u>	<u>1,310,449</u>	-	<u>30,966</u>
	<u>\$ 9,830,580</u>	<u>\$ 10,206,639</u>	<u>\$ 48,821,006</u>	<u>\$ 40,945,522</u>

Additional information on the Borough's long-term debt can be found in the notes to basic financial statements (Long-Term Debt note).

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The fiscal year 2016 budget has been constructed to take advantage of positive economic trends, and it emphasizes investment in infrastructure and equipment as discussed below. The local economy has provided for a stable environment, though growth is limited. The Borough will continue to face the challenges of meeting a balanced budget, particularly in the General Fund, as fixed expenditures continue to rise and tax revenues are limited by State law, coupled with the need to fund and improve infrastructure. Key economic factors and trends affecting the Borough in 2016 and future years include the following items:

- **General Fund** - There were no changes to the Borough's tax rates for the 2016 budget as adopted. Property taxes are the single largest source of revenue for the Borough, representing 37.06% of total General Fund budgeted revenue; however, growth in the assessable base of the Borough has been limited to 0.17%. Collections of the current levy, and agency collection on delinquent taxes, have remained strong, resulting in historical collection rate of 97% on the current levy.
  - **Tax Outsourcing** - in 2015, the Borough outsourced the collection and administrative functions of the Business Privilege Taxes to the York Adams Tax Bureau (YATB), and will do the same for Local Service Taxes in 2016. Through regional collection of these taxes for several municipalities and County governments, coupled with collection and administration of Earned Income Taxes for the entire region, YATB has robust cross-referencing abilities that will considerably improve the management of these programs for the Borough.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
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- 2016 Budget - Continued analysis and review of personnel allocations across all funds and departments and historical trends for revenue sources resulted in several significant changes in the budget presentation for 2016, most notably tax revenues tied to recent activity and benefit allocations amongst departments based on time distributions.
- Water and Sewer Fund Operations and Improvements - There were no changes to the Water or Sewer Funds' charges for services for the 2016 budget as adopted. The Borough will continue to address upgrades and maintenance to the Borough's Water and Sewer infrastructure systems over the next several fiscal years, including Phase II of the Water Treatment Plant facility upgrades, assessing future project work necessary on the Sheppard Myers and Long Arm Dams, and grant-supported sewer main lining projects. Service charges will be reviewed moving forward to ensure adequate funding to support the infrastructure needs of the systems.
- Bonds - Provided the municipal interest rate climate remain favorable, there will be option to refund the GOB Series of 2011 debt for interest savings. Borough staff have continued to review and implement internal policies to strengthen financial review and oversight as well as long-range planning in efforts to continuously improve climate for bond rating increase.
- Minimum Municipal Obligation for Borough Pension Plans and Funding Progress - Pension funds budgeted for 2016 total \$699,893 for the minimum municipal obligation to the pension plans as set forth by Conrad Siegel, Inc., the Borough's pension plan actuary. **The Borough of Hanover has never failed to make the required minimum municipal obligation to the pension plans.** The Borough's three pension plans' (Police, Fire Drivers', and Hanover Employees' Pension Trust Funds) funded ratios were estimated at 88.56%, 100.76%, and 101.10%, respectively, as of December 31, 2015, exemplifying sound investment, management, and performance.

The above significant economic factors and trends, amongst others, were considered in preparation of the 2016 operating budgets for all funds. Based on anticipated results of operations for the Borough, projected cash carry-in for 2017, excluding restricted Consumer Deposit Agreement escrows, is \$9,783,070, or 15.87% of net position as of December 31, 2015.

**CONTACTING THE BOROUGH'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Borough's finances. Questions about this report or requests for additional information can be directed to The Borough of Hanover, Attn: Florence Ford, Borough Manager at The Borough of Hanover, 44 Frederick Street, Hanover, PA 17331.

## **BASIC FINANCIAL STATEMENTS**

**THE BOROUGH OF HANOVER, PENNSYLVANIA**

**STATEMENT OF NET POSITION**

**DECEMBER 31, 2015**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents			
Unrestricted	\$ 6,215,296	\$ 4,092,075	\$ 10,307,371
Restricted	369,985	215,857	585,842
Accounts Receivable	153,504	1,047,114	1,200,618
Taxes Receivable	790,936	-	790,936
Grants Receivable	126,174	-	126,174
Due from Other Governments	-	422,999	422,999
Unbilled Services	92,580	969,279	1,061,859
Pledges Receivable	46,600	-	46,600
Inventory	47,452	536,459	583,911
Accrued Interest Receivable	490	23,189	23,679
Prepaid Expenses and Deposits	215,288	393,978	609,266
<b>TOTAL CURRENT ASSETS</b>	<b>8,058,305</b>	<b>7,700,950</b>	<b>15,759,255</b>
<b>NON-CURRENT ASSETS</b>			
Cash and Cash Equivalents - Restricted	1,519,053	7,405,353	8,924,406
Certificates of Deposit			
Unrestricted	-	10,000	10,000
Restricted	750,000	4,000,000	4,750,000
	750,000	4,010,000	4,760,000
Investments - Restricted	500	-	500
Due from Other Governments	-	465,313	465,313
Property and Equipment			
Land and Land Rights	580,279	865,558	1,445,837
Inactive Wells	-	137,044	137,044
Construction in Progress	221,557	8,081,560	8,303,117
Improvements Other than Buildings	231,428	62,168	293,596
Machinery and Equipment	8,153,736	3,222,408	11,376,144
Other Buildings and Related Improvements	13,855,796	768,934	14,624,730
Plant and Infrastructure	12,946,721	93,497,511	106,444,232
	35,989,517	106,635,183	142,624,700
Less: Accumulated Depreciation	18,499,528	33,243,015	51,742,543
Net Property and Equipment	17,489,989	73,392,168	90,882,157
<b>TOTAL NON-CURRENT ASSETS</b>	<b>19,759,542</b>	<b>85,272,834</b>	<b>105,032,376</b>
<b>TOTAL ASSETS</b>	<b>27,817,847</b>	<b>92,973,784</b>	<b>120,791,631</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Amounts from Pensions	3,847,643	-	3,847,643
Deferred Amounts on Refunding	71,966	612,320	684,286
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>3,919,609</b>	<b>612,320</b>	<b>4,531,929</b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**

**STATEMENT OF NET POSITION**

**DECEMBER 31, 2015**

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable and Accrued Expenses	155,774	104,382	260,156
Accrued Wages	22,902	29,811	52,713
Accrued Compensated Absences	47,000	-	47,000
Unearned Revenue	15,439	373,095	388,534
Accrued Interest Payable	54,731	256,537	311,268
Capital Lease Obligations	152,047	-	152,047
Bonds Payable (Net of Discounts/Premiums)	511,469	1,538,951	2,050,420
Payable from Restricted Assets			
Accounts Payable and Accrued Expenses	240	980,523	980,763
Consumer Deposits	-	215,857	215,857
<b>TOTAL CURRENT LIABILITIES</b>	<b>959,602</b>	<b>3,499,156</b>	<b>4,458,758</b>
<b>NON-CURRENT LIABILITIES</b>			
Accrued Compensated Absences	1,570,037	1,098,012	2,668,049
Accrued Other Postemployment Benefits	691,004	116,223	807,227
Net Pension Liability	1,013,669	-	1,013,669
Capital Lease Obligations	995,098	-	995,098
Bonds Payable (Net of Discounts/Premiums)	6,554,929	44,923,746	51,478,675
Payable from Restricted Assets			
Consumer Deposits	-	1,044,440	1,044,440
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>10,824,737</b>	<b>47,182,421</b>	<b>58,007,158</b>
<b>TOTAL LIABILITIES</b>	<b>11,784,339</b>	<b>50,681,577</b>	<b>62,465,916</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Amounts from Pensions	1,210,528	-	1,210,528
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,210,528</b>	<b>-</b>	<b>1,210,528</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,517,702	36,922,181	46,439,883
Restricted			
Expendable	369,745	-	369,745
Nonexpendable	2,100,263	-	2,100,263
Unrestricted	6,754,879	5,982,346	12,737,225
<b>TOTAL NET POSITION</b>	<b>\$ 18,742,589</b>	<b>\$ 42,904,527</b>	<b>\$ 61,647,116</b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>PRIMARY GOVERNMENT</b>							
<b>Governmental Activities</b>							
General Government	\$ 1,205,738	\$ 156,851	\$ 41,391	\$ -	\$ (1,007,496)	\$ -	\$ (1,007,496)
Public Safety	6,097,138	323,386	523,437	198,984	(5,051,331)	-	(5,051,331)
Health and Sanitation	3,972,355	4,129,688	162,725	56,009	376,067	-	376,067
Highways	1,832,226	25	461,353	1,250,272	(120,576)	-	(120,576)
Culture and Recreation	1,666,302	127,164	771,709	213,438	(553,991)	-	(553,991)
Interest on Long-Term Debt	354,031	-	-	-	(354,031)	-	(354,031)
<b>Total Governmental Activities</b>	<b>15,127,790</b>	<b>4,737,114</b>	<b>1,960,615</b>	<b>1,718,703</b>	<b>(6,711,358)</b>	<b>-</b>	<b>(6,711,358)</b>
<b>Business-Type Activities</b>							
Water	5,287,034	7,260,383	11,577	19,635	-	2,004,561	2,004,561
Regional Wastewater	4,160,379	1,995,938	-	-	-	(2,164,441)	(2,164,441)
Sanitary Sewer	2,781,723	4,400,511	-	438,687	-	2,057,475	2,057,475
Market House	38,277	37,333	-	-	-	(944)	(944)
<b>Total Business-Type Activities</b>	<b>12,267,413</b>	<b>13,694,165</b>	<b>11,577</b>	<b>458,322</b>	<b>-</b>	<b>1,896,651</b>	<b>1,896,651</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 27,395,203</b>	<b>\$ 18,431,279</b>	<b>\$ 1,972,192</b>	<b>\$ 2,177,025</b>	<b>(6,711,358)</b>	<b>1,896,651</b>	<b>(4,814,707)</b>
<b>GENERAL REVENUES</b>							
Taxes							
					5,709,152	-	5,709,152
					1,457,279	-	1,457,279
					606,468	-	606,468
					579,480	-	579,480
					49,672	-	49,672
					43,120	121,238	164,358
					23,025	-	23,025
					64,969	(64,969)	-
<b>TOTAL GENERAL REVENUES</b>					<b>8,533,165</b>	<b>56,269</b>	<b>8,589,434</b>
<b>CHANGES IN NET POSITION</b>							
					<b>1,821,807</b>	<b>1,952,920</b>	<b>3,774,727</b>
					16,920,782	40,951,607	57,872,389
<b>NET POSITION - END OF YEAR</b>					<b>\$ 18,742,589</b>	<b>\$ 42,904,527</b>	<b>\$ 61,647,116</b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>ASSETS</b>			
Cash and Cash Equivalents			
Unrestricted	\$ 6,150,725	\$ 64,571	\$ 6,215,296
Restricted	285,958	1,603,080	1,889,038
Certificates of Deposit - Restricted	-	750,000	750,000
Investments - Restricted	-	500	500
Accounts Receivable	150,346	3,158	153,504
Taxes Receivable	790,936	-	790,936
Grants Receivable	126,174	-	126,174
Unbilled Services	92,580	-	92,580
Pledges Receivable	46,600	-	46,600
Accrued Interest Receivable	490	-	490
Inventory	47,452	-	47,452
Prepaid Expenses and Deposits	215,288	-	215,288
<b>TOTAL ASSETS</b>	<u><b>7,906,549</b></u>	<u><b>2,421,309</b></u>	<u><b>10,327,858</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	-	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>\$ 7,906,549</b></u>	<u><b>\$ 2,421,309</b></u>	<u><b>\$ 10,327,858</b></u>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2015**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	\$ 155,292	\$ 482	\$ 155,774
Accrued Wages	22,902	-	22,902
Accrued Compensated Absences	47,000	-	47,000
Unearned Revenue	14,814	625	15,439
Payable from Restricted Assets			
Accounts Payable and Accrued Expenses	-	240	240
<b>TOTAL LIABILITIES</b>	<b>240,008</b>	<b>1,347</b>	<b>241,355</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Revenue	283,096	-	283,096
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>283,096</b>	<b>-</b>	<b>283,096</b>
<b>FUND BALANCES</b>			
Nonspendable			
Not in Spendable Form			
Inventory	47,452	-	47,452
Prepaid Expenses and Deposits	215,288	-	215,288
Legally/Contractually Required to be Maintained Intact			
Recreation Purposes	-	2,100,263	2,100,263
Restricted			
Capital Projects	-	169,290	169,290
Public Safety Purposes	190,251	-	190,251
Recreation Purposes	95,707	20,627	116,334
Roads and Bridges	-	63,160	63,160
Assigned			
Budgetary Reserve	617,606	-	617,606
Capital Projects	-	25,300	25,300
Recreation Purposes	-	41,322	41,322
Unassigned	6,217,141	-	6,217,141
<b>TOTAL FUND BALANCES</b>	<b>7,383,445</b>	<b>2,419,962</b>	<b>9,803,407</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 7,906,549</b>	<b>\$ 2,421,309</b>	<b>\$ 10,327,858</b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**RECONCILIATION OF THE BALANCE SHEET -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2015**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 9,803,407</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension liability (asset) and related deferred amounts in governmental activities are not current financial resource and, therefore, are not reported in the governmental funds.	1,623,446
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	17,489,989
Deferred amounts on refunding in governmental activities is not a current financial resource and, therefore, is not reported in the governmental funds.	71,966
Long-term accrued compensated absences and other postemployment benefits are not payable in the current period and, therefore, are reported as wages and insurance expenses in the period during which the absence and service occurs in the governmental funds.	(2,261,041)
Long-term liabilities, including capital lease obligations, bonds payable and related unamortized discounts, and premiums, and accrued interest are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(8,268,274)
Property and other tax revenues are recognized in the period for which levied, rather than when "available." A portion of the property and other tax revenues are not available and, therefore, are deferred revenue in the governmental funds.	<u>283,096</u>
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 18,742,589</u></u></b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Taxes	\$ 8,387,046	\$ -	\$ 8,387,046
Licenses and Permits	34,134	-	34,134
Fines and Forfeitures	208,826	-	208,826
Interest and Rents	171,211	5,881	177,092
Intergovernmental	1,335,358	355,413	1,690,771
Charges for Services	4,347,351	4,633	4,351,984
Donations from Private Sources	670,214	24,835	695,049
Miscellaneous	723	-	723
<b>TOTAL REVENUES</b>	<u><b>15,154,863</b></u>	<u><b>390,762</b></u>	<u><b>15,545,625</b></u>
<b>EXPENDITURES</b>			
General Government	973,271	-	973,271
Public Safety	5,386,658	-	5,386,658
Health and Sanitation	3,507,764	-	3,507,764
Highways	913,553	289,007	1,202,560
Culture and Recreation	1,215,614	23,102	1,238,716
Debt Service	996,590	-	996,590
Capital Outlays	1,427,159	45,195	1,472,354
Miscellaneous	713,415	-	713,415
<b>TOTAL EXPENDITURES</b>	<u><b>15,134,024</b></u>	<u><b>357,304</b></u>	<u><b>15,491,328</b></u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u><b>20,839</b></u>	<u><b>33,458</b></u>	<u><b>54,297</b></u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Sale of Capital Assets	130	-	130
Interfund Transfers	53,180	10,130	63,310
Proceeds from Bond Issuance	4,311,461	-	4,311,461
Refunded Debt Service - Principal	(4,145,000)	-	(4,145,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u><b>219,771</b></u>	<u><b>10,130</b></u>	<u><b>229,901</b></u>
<b>CHANGES IN FUND BALANCES</b>	<u><b>240,610</b></u>	<u><b>43,588</b></u>	<u><b>284,198</b></u>
Fund Balances - Beginning of Year	7,142,835	2,376,374	9,519,209
<b>FUND BALANCES - END OF YEAR</b>	<u><u><b>\$ 7,383,445</b></u></u>	<u><u><b>\$ 2,419,962</b></u></u>	<u><u><b>\$ 9,803,407</b></u></u>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 284,198</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>	
Add: Capital Outlays	1,472,354
Less: Depreciation Expense	(1,134,439)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt and lease financing increases long-term liabilities in the statement of net position. Repayment of debt and capital lease obligations principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Other costs related to debt issuance and retirement use governmental fund resources, but recognition of expense is deferred and reported as amortization on the statement of net position.</p>	
Amortization of Deferred Amounts	(2,025)
Payments on Capital Lease Obligations	163,304
Payments on Bonds Payable	465,000
Net Payments on Refunded Debt Service	4,048,539
Proceeds of Refunding Bonds	(4,215,000)
<p>Property and other tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>	
	15,005
<p>Capital asset contributions are revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the governmental funds.</p>	
	1,323,998
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, interfund transfers, trade-ins) is to decrease net position.</p>	
	(3,979)
<p>In the statement of activities, certain expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses include the changes in:</p>	
Net Pension Liability (Asset)	(379,355)
Accrued Interest Payable	16,280
Accrued Compensated Absences (Non-Current Portion)	(81,461)
Accrued Other Postemployment Benefits	(150,612)
<b>CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 1,821,807</b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**DECEMBER 31, 2015**

	Water Fund	Regional Wastewater Fund	Sanitary Sewer Fund	Non-Major Proprietary Fund	Total Proprietary Funds
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents					
Unrestricted	\$ 2,144,330	\$ 352,454	\$ 1,567,614	\$ 27,677	\$ 4,092,075
Restricted	215,857	-	-	-	215,857
Accounts Receivable	676,235	6,796	363,886	197	1,047,114
Due from Other Governments	-	100,000	322,999	-	422,999
Unbilled Services	426,392	16,637	526,250	-	969,279
Inventory	466,393	48,726	21,340	-	536,459
Accrued Interest Receivable	3,382	19,786	21	-	23,189
Prepaid Expenses	60,216	24,993	308,641	128	393,978
<b>TOTAL CURRENT ASSETS</b>	<b>3,992,805</b>	<b>569,392</b>	<b>3,110,751</b>	<b>28,002</b>	<b>7,700,950</b>
<b>NON-CURRENT ASSETS</b>					
Cash and Cash Equivalents - Restricted	7,287,391	-	117,962	-	7,405,353
Certificates of Deposit					
Unrestricted	-	-	10,000	-	10,000
Restricted	4,000,000	-	-	-	4,000,000
	4,000,000	-	10,000	-	4,010,000
Due from Other Governments	-	465,313	-	-	465,313
Property and Equipment					
Land and Land Rights	841,777	-	23,781	-	865,558
Inactive Wells	137,044	-	-	-	137,044
Construction in Progress	8,080,187	-	1,373	-	8,081,560
Improvements Other than Buildings	39,139	-	-	23,029	62,168
Machinery and Equipment	1,895,438	672,481	652,989	1,500	3,222,408
Other Buildings and Related Improvements	407,916	39,090	146,444	175,484	768,934
Plant and Infrastructure	33,637,951	53,595,882	6,254,979	8,699	93,497,511
	45,039,452	54,307,453	7,079,566	208,712	106,635,183
Less: Accumulated Depreciation	13,145,718	17,135,567	2,824,157	137,573	33,243,015
Net Property and Equipment	31,893,734	37,171,886	4,255,409	71,139	73,392,168
<b>TOTAL NON-CURRENT ASSETS</b>	<b>43,181,125</b>	<b>37,637,199</b>	<b>4,383,371</b>	<b>71,139</b>	<b>85,272,834</b>
<b>TOTAL ASSETS</b>	<b>47,173,930</b>	<b>38,206,591</b>	<b>7,494,122</b>	<b>99,141</b>	<b>92,973,784</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred Amounts on Refunding	13,787	598,533	-	-	612,320
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>13,787</b>	<b>598,533</b>	<b>-</b>	<b>-</b>	<b>612,320</b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**DECEMBER 31, 2015**

	Water Fund	Regional Wastewater Fund	Sanitary Sewer Fund	Non-Major Proprietary Fund	Total Proprietary Funds
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts Payable and Accrued Expenses	58,127	16,454	29,596	205	104,382
Accrued Wages	18,178	7,182	4,419	32	29,811
Accrued Interest Payable	141,631	95,831	19,075	-	256,537
Unearned Revenue	20,663	352,432	-	-	373,095
Bonds Payable (Net of Discounts/Premiums)	525,121	1,014,897	(1,067)	-	1,538,951
Payable from Restricted Assets					
Accounts Payable and Accrued Expenses	980,523	-	-	-	980,523
Consumer Deposits	215,857	-	-	-	215,857
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,960,100</b>	<b>1,486,796</b>	<b>52,023</b>	<b>237</b>	<b>3,499,156</b>
<b>NON-CURRENT LIABILITIES</b>					
Accrued Compensated Absences	638,393	255,018	203,588	1,013	1,098,012
Accrued Other Postemployment Benefits	116,223	-	-	-	116,223
Bonds Payable (Net of Discounts/Premiums)	20,643,515	22,298,904	1,981,327	-	44,923,746
Payable from Restricted Assets					
Consumer Deposits	1,044,440	-	-	-	1,044,440
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>22,442,571</b>	<b>22,553,922</b>	<b>2,184,915</b>	<b>1,013</b>	<b>47,182,421</b>
<b>TOTAL LIABILITIES</b>	<b>24,402,671</b>	<b>24,040,718</b>	<b>2,236,938</b>	<b>1,250</b>	<b>50,681,577</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-	-	-	-
<b>NET POSITION</b>					
Net Investment in Capital Assets	20,001,313	14,456,618	2,393,111	71,139	36,922,181
Unrestricted	2,783,733	307,788	2,864,073	26,752	5,982,346
<b>TOTAL NET POSITION</b>	<b>\$ 22,785,046</b>	<b>\$ 14,764,406</b>	<b>\$ 5,257,184</b>	<b>\$ 97,891</b>	<b>\$ 42,904,527</b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Regional Wastewater Fund	Sanitary Sewer Fund	Non-Major Proprietary Fund	Total Proprietary Funds
<b>OPERATING REVENUES</b>					
Water and Sewer Fees	\$ 6,938,610	\$ -	\$ 4,399,902	\$ -	\$ 11,338,512
Wastewater Treatment Charges	-	1,995,688	-	-	1,995,688
Market Stall Rents	-	-	-	34,828	34,828
Other Revenues	236,489	-	-	-	236,489
<b>TOTAL OPERATING REVENUES</b>	<b><u>7,175,099</u></b>	<b><u>1,995,688</u></b>	<b><u>4,399,902</u></b>	<b><u>34,828</u></b>	<b><u>13,605,517</u></b>
<b>OPERATING EXPENSES</b>					
Administrative and General	212,156	54,704	107,102	1,288	375,250
Contractual Services	-	127,375	-	-	127,375
Depreciation	627,544	1,370,976	198,535	7,747	2,204,802
Materials and Supplies	466,581	186,662	48,640	1,028	702,911
Personnel Services	2,932,151	1,047,880	596,885	14,207	4,591,123
Repairs and Maintenance	124,629	178,140	41,629	2,952	347,350
Treatment	19,235	-	1,526,852	-	1,546,087
Utilities	517,019	345,455	1,984	11,055	875,513
<b>TOTAL OPERATING EXPENSES</b>	<b><u>4,899,315</u></b>	<b><u>3,311,192</u></b>	<b><u>2,521,627</u></b>	<b><u>38,277</u></b>	<b><u>10,770,411</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b><u>2,275,784</u></b>	<b><u>(1,315,504)</u></b>	<b><u>1,878,275</u></b>	<b><u>(3,449)</u></b>	<b><u>2,835,106</u></b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Gain (Loss) on Disposition of Assets	31,842	-	(279)	-	31,563
Interest and Rents	173,269	23,687	7,331	123	204,410
Other Revenues	14,298	250	-	2,505	17,053
Interest Expense	(604,113)	(849,187)	(75,265)	-	(1,528,565)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b><u>(384,704)</u></b>	<b><u>(825,250)</u></b>	<b><u>(68,213)</u></b>	<b><u>2,628</u></b>	<b><u>(1,275,539)</u></b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b><u>1,891,080</u></b>	<b><u>(2,140,754)</u></b>	<b><u>1,810,062</u></b>	<b><u>(821)</u></b>	<b><u>1,559,567</u></b>
Capital Contributions	19,635	-	438,687	-	458,322
Interfund Transfers	(47,310)	1,557,550	(1,575,209)	-	(64,969)
<b>CHANGES IN NET POSITION</b>	<b><u>1,863,405</u></b>	<b><u>(583,204)</u></b>	<b><u>673,540</u></b>	<b><u>(821)</u></b>	<b><u>1,952,920</u></b>
Net Position - Beginning of Year	20,921,641	15,347,610	4,583,644	98,712	40,951,607
<b>NET POSITION - END OF YEAR</b>	<b><u>\$ 22,785,046</u></b>	<b><u>\$ 14,764,406</u></b>	<b><u>\$ 5,257,184</u></b>	<b><u>\$ 97,891</u></b>	<b><u>\$ 42,904,527</u></b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Regional Wastewater Fund	Sanitary Sewer Fund	Non-Major Proprietary Fund	Total Proprietary Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Inflows					
Cash Received from Customers	\$ 7,016,324	\$ 311,855	\$ 4,257,515	\$ 35,003	\$ 11,620,697
Cash Received for Interfund Services	12,703	1,857,531	68,749	-	1,938,983
	<u>7,029,027</u>	<u>2,169,386</u>	<u>4,326,264</u>	<u>35,003</u>	<u>13,559,680</u>
Outflows					
Cash Paid to Suppliers	991,224	920,628	359,428	28,220	2,299,500
Cash Paid for Interfund Services	282,250	9,868	1,650,156	1,029	1,943,303
Cash Paid to Employees	2,935,630	1,045,999	648,057	1,582	4,631,268
	<u>4,209,104</u>	<u>1,976,495</u>	<u>2,657,641</u>	<u>30,831</u>	<u>8,874,071</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>2,819,923</u></b>	<b><u>192,891</u></b>	<b><u>1,668,623</u></b>	<b><u>4,172</u></b>	<b><u>4,685,609</u></b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Inflows					
Net Cash Received from Other Funds	-	-	88,620	-	88,620
Outflows					
Net Cash Paid to Other Funds	25,317	126,613	-	-	151,930
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b><u>(25,317)</u></b>	<b><u>(126,613)</u></b>	<b><u>88,620</u></b>	<b><u>-</u></b>	<b><u>(63,310)</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Inflows					
Proceeds from Sale of Capital Assets	33,415	-	-	-	33,415
Proceeds from Long-Term Debt	13,982,522	11,355,763	-	-	25,338,285
Receipt of Consumer Deposits	8,018	-	-	-	8,018
Receipt of Contributed Capital and Development Charges	23,933	100,000	3,222	-	127,155
	<u>14,047,888</u>	<u>11,455,763</u>	<u>3,222</u>	<u>-</u>	<u>25,506,873</u>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Regional Wastewater Fund	Sanitary Sewer Fund	Non-Major Proprietary Fund	Total Proprietary Funds
Outflows					
Interest Paid	774,691	285,763	671,628	-	1,732,082
Purchase of Capital Assets	6,185,706	33,366	89,231	-	6,308,303
Payments on Long-Term Debt	5,253,796	11,070,000	1,082,170	-	17,405,966
Repayment of Consumer Deposits	226,472	-	-	-	226,472
	<u>12,440,665</u>	<u>11,389,129</u>	<u>1,843,029</u>	<u>-</u>	<u>25,672,823</u>
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>1,607,223</u></b>	<b><u>66,634</u></b>	<b><u>(1,839,807)</u></b>	<b><u>-</u></b>	<b><u>(165,950)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Inflows					
Proceeds from Maturity of Certificates of Deposit	2,000,000	-	-	-	2,000,000
Miscellaneous Income Received	14,298	250	-	2,505	17,053
Rent Income Received	82,563	-	-	-	82,563
Interest Received	87,324	27,187	7,331	123	121,965
	<u>2,184,185</u>	<u>27,437</u>	<u>7,331</u>	<u>2,628</u>	<u>2,221,581</u>
Outflows					
Purchase of Certificates of Deposit	6,000,000	-	-	-	6,000,000
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b><u>(3,815,815)</u></b>	<b><u>27,437</u></b>	<b><u>7,331</u></b>	<b><u>2,628</u></b>	<b><u>(3,778,419)</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b><u>586,014</u></b>	<b><u>160,349</u></b>	<b><u>(75,233)</u></b>	<b><u>6,800</u></b>	<b><u>677,930</u></b>
Cash and Cash Equivalents - Beginning of Year	9,061,564	192,105	1,760,809	20,877	11,035,355
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 9,647,578</u></b>	<b><u>\$ 352,454</u></b>	<b><u>\$ 1,685,576</u></b>	<b><u>\$ 27,677</u></b>	<b><u>\$ 11,713,285</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents					
Unrestricted	\$ 2,144,330	\$ 352,454	\$ 1,567,614	\$ 27,677	\$ 4,092,075
Restricted	215,857	-	-	-	215,857
<b>NON-CURRENT ASSETS</b>					
Cash and Cash Equivalents - Restricted	7,287,391	-	117,962	-	7,405,353
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u>\$ 9,647,578</u></b>	<b><u>\$ 352,454</u></b>	<b><u>\$ 1,685,576</u></b>	<b><u>\$ 27,677</u></b>	<b><u>\$ 11,713,285</u></b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**DECEMBER 31, 2015**

	<u>Pension Trust Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,914,889
Contributions Receivable	27,062
Accrued Interest Receivable	57,773
Investments	<u>42,515,189</u>
<b>TOTAL ASSETS</b>	<b><u>44,514,913</u></b>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	 ..... -
 <b>LIABILITIES</b>	 ..... -
 <b>DEFERRED INFLOWS OF RESOURCES</b>	 ..... -
 <b>NET POSITION</b>	
Restricted for Pension Benefits	<u>44,514,913</u>
<b>TOTAL NET POSITION</b>	<b><u><u>\$ 44,514,913</u></u></b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Pension Trust Funds</u>
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 245,087
Commonwealth	721,434
Plan Members	258,333
Total Contributions	<u>1,224,854</u>
Investment Earnings	
Interest Income	568,296
Dividends	290,196
	<u>858,492</u>
Less: Investment Expense	165,663
Net Investment Earnings	<u>692,829</u>
<b>TOTAL ADDITIONS</b>	<b><u>1,917,683</u></b>
<b>DEDUCTIONS</b>	
Benefits	1,714,964
Administrative Expense	24,700
<b>TOTAL DEDUCTIONS</b>	<b><u>1,739,664</u></b>
<b>NET DEPRECIATION IN FAIR VALUE OF INVESTMENTS</b>	<b><u>(1,256,120)</u></b>
<b>CHANGES IN NET POSITION</b>	<b>(1,078,101)</b>
Net Position - Beginning of Year	<u>45,593,014</u>
<b>NET POSITION - END OF YEAR</b>	<b><u>\$ 44,514,913</u></b>

See Accompanying Notes

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

Reporting Entity

The Borough of Hanover, Pennsylvania (the “Borough”) operates under a Council-manager form of government and provides the following services as authorized by the Borough Code: Public Safety - Police and Fire, Highways and Streets, Sanitation, Public Service, Health and Social Services, Culture and Recreation, Public Improvements, Planning and Zoning, Water, Sanitary Sewer, Market House Rentals, and General Administrative Services.

The Borough’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In evaluating how to define the Borough for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Borough is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units of the Borough.

New Accounting Pronouncements Adopted

The following summarizes GASB Statements implemented by the Borough during the year ended December 31, 2015, and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 - The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this statement are effective for periods beginning after June 15, 2015, and were early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - The objective of this statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP) to improve financial reporting and usefulness of financial statement information. The provisions of this statement are effective for periods beginning after June 15, 2015, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 77, *Tax Abatement Disclosures* - The objective of this statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public concerning nature and magnitude of tax abatements. The provisions of this statement are effective for periods beginning after December 15, 2015, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans* - The objective of this statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of this statement are effective for periods beginning after December 15, 2015, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 79, *Certain Investment Pools and Pool Participants* - The objective of this statement is to improve accounting and financial reporting for external investment pools and their participants resulting from changes in the regulatory provisions significantly amended in 2014 by the Securities and Exchange Commission, particularly those in relation to the Investment Company Act of 1940, Rule 2a7. The provisions of this statement are effective for periods beginning after December 15, 2015, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14* - The objective of this statement is to improve accounting and financial reporting by clarifying the financial statement presentation requirements for certain component units, specifically blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this statement are effective for periods beginning

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

after June 15, 2016, and was early implemented by the Borough as of January 1, 2015 with no effect on financial statements presentation or disclosure with no effect on financial statements presentation or disclosure.

*Basic Financial Statements - Government-Wide Financial Statements*

The Borough's basic financial statements include both the government-wide (reporting the Borough as a whole) and fund financial statements (reporting the Borough's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

The Borough's general administrative, public safety, health and sanitation, highways, and culture and recreation services are classified as governmental activities. The Borough's water, regional wastewater, sanitary sewer, and market house services are classified as business-type activities. Administrative overhead charges are made to funds and programs and are thereby included in the direct expenses of those funds and programs.

This government-wide focus is more on the sustainability of the Borough as an entity and the change in the Borough's net position resulting from the current year's activities.

In the government-wide statement of net position, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables, and deferred outflows of resources as well as long-term debt and obligations and deferred inflows of resources. Fiduciary funds are not included in the government-wide financial statements. The Borough's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. The Borough first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost per functional category (public safety, highways, etc.), which are otherwise being supported by general government revenues (property and income taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function or business-type activity. Program revenues include revenues from licenses and permit fees, fines and forfeitures, and charges for services. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grant column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenues (property and income taxes, certain intergovernmental revenues, interest income, etc.) The Borough does not allocate indirect costs.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Borough are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The Borough utilizes various criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

Governmental Funds

Governmental funds are those through which most governmental functions of the Borough are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets and deferred outflows of resources are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities and deferred inflows of resources are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following is a description of the Borough's major governmental fund:

General Fund - The General Fund accounts for all financial resources, except those required to be accounted for in another fund. The General Fund consists of the following internal reporting funds: General Operating, Local Services Tax, Business Privilege Tax, Equipment, Hanover Leisure Services, and Guthrie Memorial Library Funds.

The following is a description of the Borough's Non-Major Governmental Funds:

Capital Projects Fund - The Capital Projects Fund accounts for financial resources used for the acquisition and construction of major capital facilities that are not financed by proprietary funds. This fund includes certain road improvement and construction projects related to the Guthrie Memorial Library, and general obligation bond issuances for governmental fund purposes. Fund balance has been specifically restricted or assigned, as applicable, for these purposes.

Highway Liquid Fuels Fund - The Highway Liquid Fuels Fund accounts for legally restricted revenues derived from Commonwealth gasoline taxes. Expenditures are restricted by Commonwealth law to Borough road and bridge repairs, maintenance,

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

and improvement programs. Fund balance has been specifically restricted for these purposes.

Recreation Fund - The Recreation Fund accounts for donations and recreation activities charges to benefit the Borough's recreation facilities and operations, and related earnings are held until they are authorized for expenditure or transfer by the Hanover Recreation Board.

Recreation Endowment Fund - The Recreation Endowment Fund accounts for contributions to a permanent endowment for benefit of the Borough's recreation facilities and operations and related earnings until they are authorized for expenditure or transfer by the Hanover Recreation Board.

Library Endowment Fund - The Library Endowment Fund accounts for contributions to a permanent endowment for benefit of the Guthrie Memorial Library facilities and operations and related earnings until they are authorized for expenditure or transfer by the Borough.

*Proprietary Funds*

The focus of proprietary fund measurement is upon determination of operating income, change in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues for the Borough's proprietary funds are charges for water, sewer, and wastewater treatment services and market stall rentals. Operating expenses for the Borough's proprietary funds include administrative and general costs, contractual services, depreciation on capital assets, materials and supplies, personnel services, transmission and distribution repairs and maintenance, water and sewer treatment costs, and utilities. All revenues or expenses not meeting this definition are reported as non-operating revenues/expenses.

The Borough's proprietary funds are all classified as enterprise funds. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The following is a description of the Borough's major enterprise funds:

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
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Water Fund - The Water Fund is used to account for the revenues generated from the charges for distribution of water to residential and commercial users of the Borough.

Regional Wastewater Fund - The Regional Wastewater Fund is used to account for the revenues generated from the charges for sanitary sewer services provided for residential and commercial users located outside of the Borough limits on behalf of regional municipalities participating in regional wastewater treatment plant use governed by intermunicipal agreements, and for interfund charges for sanitary sewer usage.

Sanitary Sewer Fund - The Sanitary Sewer Fund is used to account for the revenues generated from the charges for sanitary sewer services provided for the residential and commercial users of the Borough.

The following is a description of the Borough's Non-Major Proprietary Fund:

Market House Fund - The Market House Fund is used to account for the revenues generated from vendors renting space for a farmers market.

*Fiduciary Funds*

Fiduciary funds are used to account for resources held by the Borough in a trustee capacity for individuals, private organizations, or other governments and therefore are not available to support the Borough's own programs. The fiduciary funds of the Borough are the Pension Trust Funds.

For accounting measurement purposes, the Pension Trust Funds are accounted for in essentially the same manner as proprietary funds. The Pension Trust Funds account for resources of the Borough's Police, Fire Drivers' and Hanover Employees' Pension Funds Plans.

*Basis of Accounting*

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual - Both governmental and business-type activities in the government-wide, proprietary funds, and fiduciary funds financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property and other taxes are recognized as revenues in the year for which they are levied. Grants and similar items are

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**NOTES TO BASIC FINANCIAL STATEMENTS**

recognized as revenues as soon as all eligible requirements imposed by the provider have been met.

Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met.

Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and as unearned revenue or a deferred inflows of resources by the recipient.

Cash and Cash Equivalents and Depository Pool

For purposes of the statement of cash flows, the Borough considers all highly liquid certificates of deposit and investments purchased with a maturity of three months or less to be cash equivalents, and the carrying amount approximates estimated fair value because of the short maturity of those instruments. The majority of the Borough's cash deposits are pooled into a common pooled account in order to maximize investment opportunity. Each fund whose monies are deposited in the pooled account has equity therein, and interest earned on the account is allocated based upon relative equity at month-end.

Investments

Investments, including those reported in Pension Trust Funds, are recorded at fair value based on quoted market prices, which approximates the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the Borough, with the assistance of various valuation services. Unrealized appreciation or depreciation due to changes in fair values of such investments is recognized annually.

Inventory

Inventories of materials and supplies are maintained in the General, Water, Regional Wastewater, and Sanitary Sewer Funds.

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Materials and supplies maintained in the General, Regional Wastewater, and Sanitary Sewer Funds are carried in an inventory account at cost using the first-in, first-out method. Materials and supplies maintained in the Water Fund are carried in an inventory account at cost using an average costing method. All funds subsequently charge inventory to expenditures when consumed.

All other fund types expense inventoriable items when purchased.

Capital Assets

Capital assets used in governmental fund type operations are accounted for in the government-wide financial statements, rather than in governmental funds.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital assets with a value of \$5,000 or more are capitalized by the Borough except for Water Fund additions, which are capitalized if their estimated useful lives exceed one year regardless of value. The cost of interest incurred during the construction of capital assets, in an enterprise fund when that fund will retire the debt, is capitalized and will be depreciated over the useful life of the asset beginning on the date on which the asset is placed in service. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Improvements Other than Buildings	5-20 years
Machinery and Equipment	5-20 years
Other Buildings and Related Improvements	5-50 years
Plant and Infrastructure	20-125 years

Government-Wide Financial Statements - In the government-wide financial statements, fixed assets are accounted for as capital assets. The Borough elected to retroactively report all general infrastructure assets in a prior year, which includes roads, bridges, traffic signals, utility facilities, and storm sewers and drains. The Borough elected not to retroactively report intangible assets identified as having indefinite useful lives or being internally generated. All intangible assets identified as having indefinite useful lives acquired or being internally generated after December 31, 2009 are reported at historical cost.

Depreciation of all exhaustible fixed assets will be recorded as a direct expense in the statement of activities, with accumulated depreciation reflected in the statement of net position.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Additions are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenditures/expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Fund Financial Statements - In the fund financial statements, fixed assets used in governmental funds operations are accounted for as capital outlay expenditures of the governmental funds upon acquisition. Fixed assets used in proprietary funds operations are accounted for in the same manner as in the government-wide financial statements.

Deferred Revenue and Unearned Revenue

In the governmental funds financial statements, taxes receivable that are not expected to be collected within the available period are recorded as deferred revenue as a deferred inflow of resources. Charges for services collected in advance are recorded as unearned revenue as a current liability.

Interfund Activity

Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another, without a requirement for repayment, are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after non-operating revenues/expenses in proprietary funds.

The Borough has no interfund balances outstanding as of December 31, 2015.

The Borough allocates to several funds a percentage of the salaries and wages and related costs of personnel who perform general and administrative services for such funds but are paid through the General Fund. Health and life insurance costs are allocated based on the respective employees' primary fund and function.

Accrued Compensated Absences

The Borough's policy permits employees of the Water Department to accumulate unlimited amounts of sick leave, of which 300 days are available for use, and are paid upon termination for a maximum of 85 sick days, which have been earned but not taken. Vacation days can accumulate up to a maximum of 22 days, which will be paid to employees upon termination of employment.

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Employees of the Police Department accumulate unlimited amounts of sick leave and are paid upon termination for a maximum of 75 sick days, which have been earned but not taken. Vacation days can accumulate up to a maximum of 60 days, which will be paid to employees upon termination of employment.

Fire Department employees accumulate unlimited amounts of sick leave and are paid upon termination for a maximum of one-half day for each unused day of sick leave, up to a maximum of 60 days, which have been earned but not taken. The Borough permits a partial unused vacation day to be carried over to the following calendar year, or supplement with holiday pay, which is payable upon termination.

The Borough's policy permits other municipal employees to accumulate unlimited amounts of sick leave and they are paid upon termination for a maximum of 75 sick days for those hired before March 1, 2014 and 30 days for those hired after February 28, 2014, which have been earned but not taken. Vacation days can accumulate up to a maximum of 45 days for those hired before March 1, 2014 and 30 days for those hired after February 28, 2014, which will be paid to employees upon termination of employment.

The salary-related payments representing the employer's share of Social Security and Medicare taxes have been accrued. The vested annual leave is expensed as incurred in the appropriate funds.

The Borough estimates the current portion of accrued compensated absences based on known or anticipated retirements for the forthcoming calendar year. The remainder of the obligation for accrued compensated absences is reported as a long-term liability in the government-wide and proprietary funds financial statements.

*Bond Discounts, Premiums, Deferred Amounts on Refunding, and Issuance Costs*

In the government-wide and proprietary funds financial statements, bond discounts, premiums, and deferred amounts on refunding are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. Unamortized bond discounts and premiums are netted against bonds payable for presentation, and unamortized deferred amounts on refunding are presented as deferred outflows of resources. Bond issuance costs, excluding amounts prepaid for bond insurance, are expensed as incurred.

In the governmental funds financial statements, bond discounts, premiums, and issuance costs are expensed in the year of the bond issuance. Bond discounts and premiums are netted against bond proceeds and reported as "Other Financing Sources." Bond issuance costs are expensed as "Debt Service."

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Net Position and Fund Balances

In the government-wide, proprietary funds, and fiduciary funds financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors (including those who have donated to the Guthrie Memorial Library and recreation endowments, in both expendable and nonexpendable forms) or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category represents the net position of the Borough that is not restricted for any project or other purpose. However, these funds may be constrained for specific projects or purposes in the fund financial statements.

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable Fund Balance - This category represents amounts that are not in spendable form (such as inventory and long-term receivables) or are required to be maintained intact (such as permanent endowments).

Restricted Fund Balance - This category represents amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance - This category represents amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned Fund Balance - This category represents amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned Fund Balance - This category represents amounts that are available for any purpose.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
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For the classification of fund balances, the Borough considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. When an expense is incurred for purposes for which both restricted and unrestricted fund balances are available, restricted resources are applied first. Also for the classification of fund balances, the Borough considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used.

For committed fund balance, the Borough's highest level of decision-making authority is the Borough Council. The formal action that is required to be taken to establish and modify or rescind a fund balance commitment is an ordinance.

For assigned fund balance, the Borough Council is authorized to assign amounts to a specific purpose. The authorization policy is a formal motion.

*Budgets and Budgetary Accounting*

The Borough adopts an annual operating budget for the General, Highway Liquid Fuels, Water, Regional Wastewater, Sanitary Sewer, and Non-Major Proprietary Fund. Each budget is presented on a basis consistent with the modified accrual basis of accounting. All appropriations lapse at the end of each year and must be reappropriated.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Beginning at least 30 days prior to the adoption of the budget, a proposed budget for the ensuing year shall be prepared in the manner designated by the Borough Council. This budget shall be kept on file for public inspection for a period of ten days.
2. After the ten-day period has expired, Borough Council shall make such revisions in the budget as shall be deemed advisable.
3. Upon completion of the budget, which shall be no later than December 31<sup>st</sup>, it shall be the duty of the Borough Council to adopt an ordinance, levying the taxes referred to in this act for the fiscal year, for approval of the Mayor or passage over his/her veto.

The budget is prepared by fund and department, and is approved at the department level. The department level presented in the Budgetary Comparison Schedule, included as required supplementary information, represents the legal level of budgetary control. Once a budget is approved, it can be amended by the Borough Council with reasonable discretion. There were

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

two budget revisions approved by the Borough Council during the year ended December 31, 2015.

Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with GAAP. Those estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingencies, and the reported revenues and expenditures/expenses. Actual results could vary from the estimates that were used.

Subsequent Events

In preparing these financial statements, the Borough has evaluated events and transactions for potential recognition or disclosure through March 23, 2016, the date the financial statements were available to be issued.

**Note 2. Deposits and Investments**

The Borough is governed by the deposit and investment limitations of Commonwealth of Pennsylvania (Commonwealth) law. The Commonwealth requires the Borough to adopt an investment policy. The Borough's investment policy follows those requirements set forth by the Commonwealth. The Borough does not invest in any securities not approved by the Commonwealth.

Commonwealth statutes require that any depository holding public funds maintain investment securities in amounts equal to the total of all public funds on deposit. The securities may be held in the name of the depository, but must be pledged as collateral for those public funds.

Section 1316 of the Pennsylvania Borough Code authorizes the types of investments boroughs may have as follows:

- United States (U.S.) Treasury bills.
- Short-term obligations (less than 13 months) of the U.S. Government or its agencies or instrumentalities.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Insurance Corporation, or the National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and, for any amounts above the insured

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
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maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

- Obligations of the United States of America (U.S.A.) or any of its agencies or instrumentalities backed by the full faith and credit of the U.S.A, the Commonwealth or any of its agencies or instrumentalities. These investments include any bonds issued by the Commonwealth or any municipality, authority, or school district carrying the backing of the taxation powers of the governmental unit issuing the debt.
- Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 provided that the following are met:
  - Only investments of that company that are in the authorized investments for Borough funds listed in the categories above, and repurchase agreements fully collateralized by such investments.
  - The investment company is managed so as to maintain its shares as a constant net position value in accordance with 17 CFR 270 2a-7 (relating to money market funds).
  - The investment company is rated in the highest category by a nationally recognized rating agency.

This classification includes pooled investments such as the Pennsylvania Local Government Investment Trust and the Pennsylvania State Treasurer’s Invest Program.

The Municipal Codes authorize additional investment options for pension funds as indicated in the Pennsylvania Uniform Trust Act (20 PA C.S.).

Deposits and Cash on Hand

The deposits held as of December 31, 2015 were as follows:

<u>Type</u>	<u>Maturities</u>	<u>Carrying Value</u>
Demand Deposits		\$ 3,077,368
Money Market Deposits		16,714,262
Certificates of Deposit, 0.80% to 2.47%	02/2016 - 10/2020	4,760,000
Cash on Hand		<u>5,390</u>
		<u>\$ 24,557,020</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
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Reconciliation to Financial Statements  
Statement of Net Position

Current Assets	
Cash and Cash Equivalents	
Unrestricted	\$ 10,307,371
Restricted	577,412
Non-Current Assets	
Cash and Cash Equivalents - Restricted	8,912,237
Certificates of Deposit	
Unrestricted	10,000
Restricted	<u>4,750,000</u>
	<u>\$ 24,557,020</u>

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a written policy for custodial credit risk. As of December 31, 2015, deposits in financial institutions had a bank balance of \$25,300,784, of which \$24,300,784 was exposed to custodial credit risk and was unsecured and collateralized by securities pledged and held by the financial institutions' trust departments or agents, not in the Borough's name.

Investments

The investments held as of December 31, 2015, reported at fair value, were as follows:

<u>Type and Ratings*</u>	<u>Interest Maturities (in Years) (Unaudited)</u>				<u>Fair Value</u>
	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>	
Corporate Bonds - AA+ to BBB- Equities, Equity Mutual Funds, and Real Estate - N/A	\$ 485,970	\$ 1,646,025	\$ 1,194,394	\$ 228,389	\$ 3,554,778
Fixed Income Mutual Funds - AAA to Below B, or Not Rated	-	-	-	-	31,677,492
Money Market Investments - AAA, or Not Rated	-	1,335,668	2,513,281	-	3,848,949
U.S. Agencies - Bonds - AAA or AGY	1,935,488	-	-	-	1,935,488
U.S. Agencies - Pools - AA+ or AGY	104,070	328,268	-	-	432,338
U.S. Treasury Obligations - N/A	-	664,734	369,508	-	1,034,242
	<u>-</u>	<u>679,318</u>	<u>1,020,045</u>	<u>268,527</u>	<u>1,967,890</u>
	<u>\$ 2,525,528</u>	<u>\$ 4,654,013</u>	<u>\$ 5,097,228</u>	<u>\$ 496,916</u>	<u>\$ 44,451,177</u>

\* Ratings are unaudited; information from Standard and Poor's (S&P). U.S. Treasury Obligations issued are explicitly guaranteed by the U.S. Government.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Reconciliation to Financial Statements  
Statement of Net Position

Current Assets		
Cash and Cash Equivalents - Restricted	\$	8,430
Non-Current Assets		
Cash and Cash Equivalents - Restricted		12,169
Investments - Restricted		500

Statement of Fiduciary Net Position

Pension Funds		
Cash and Cash Equivalents		1,914,889
Investments		<u>42,515,189</u>
		<u>\$ 44,451,177</u>

Custodial Credit Risk - Investment custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Borough does not have a formal investment policy for any fund for investment custodial credit risk. All of the Borough's investments are held by the financial institutions' trust departments or agents, not in the Borough's name.

The institutions holding the Borough's investments are members of the Securities Investor Protection Corporation (SIPC). SIPC insures the cash and securities in each investor's account up to \$500,000 against loss in the case of a failed brokerage firm or misappropriation of assets by the broker, however only up to \$250,000 for cash. The Borough has over \$500,000 in investments at each of the institutions, thus would be insured \$500,000 at each institution by the SIPC in the event such failure or misappropriation occurs.

Interest Rate Risk - The Hanover Employees' Pension Plan has a formal investment policy, which states that at the time of purchase, the maximum final maturity for any single issue will not exceed 100 years and the portfolio average effective duration will not exceed seven years and will be within +/- 20% of the specified performance benchmark. Apart from the Hanover Employees' Pension Fund plan, the Borough does not have formal investment policies that limit exposure to fair value losses arising from increasing interest rates. Maturities of investments held as of December 31, 2015 are provided in the previous schedule.

Credit Risk and Concentration of Credit Risk - Investments in entities that are subject to credit risk are limited to those held by the Pension Trust and Non-Major Governmental Funds. The ratings for all investments currently held by the Pension Trust and Non-Major Governmental Funds are summarized in the previous schedule. The investment policies

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

for the Borough's Pension Trust Funds limit its investment choices and maximum investment in any one fixed income security issuer as follows:

	<u>Pension Plans</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Prohibited Investments	None	Non-"traditional asset classes"	Non-U.S. dollar-denominated securities, and non-"traditional asset classes"
Maximum Concentration for Any Single Issue at Time of Purchase	None	None	Five percent, except for U.S. Treasuries, Government Agencies, Asset-Backed Securities (ABS), and Municipal Securities (limited to five percent of portfolio)

The Hanover Employees' Pension Plan investment policy also addresses the eligible fixed income investments permitted and their respective ratings, based on one or more nationally recognized statistical rating organizations, and portfolio limits, and all Pension Trust Fund investment policies provide asset allocation guidelines for minimum, maximum, and benchmark levels of investment holdings of the respective plans.

Apart from the Pension Trust Fund plans, the Borough does not have formal investment policies to address investment credit and concentration of credit risks.

The composition of Non-Major Governmental Funds' investments at fair value as of December 31, 2015 was limited to \$20,599 in money market investments through the York County Community Foundation and a \$500 U.S. Treasury Obligation (presented at face value). The composition of Pension Trust Funds investments at fair value as of December 31, 2015 was as follows:

	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>	<u>Total</u>
Corporate Bonds	\$ 1,918,126	\$ -	\$ 1,636,652	\$ 3,554,778
Equities, Equity Mutual Funds, and Real Estate	7,573,082	4,373,654	19,730,756	31,677,492
Fixed Income Mutual Funds	-	1,492,713	2,356,236	3,848,949
Money Market Investments	396,494	335,215	1,183,180	1,914,889
U.S. Agencies - Bonds	432,338	-	-	432,338
U.S. Agencies - Pools	-	-	1,034,242	1,034,242
U.S. Treasury Obligations	<u>196,796</u>	<u>-</u>	<u>1,770,594</u>	<u>1,967,390</u>
Total Pension Investments	<u>\$ 10,516,836</u>	<u>\$ 6,201,582</u>	<u>\$ 27,711,660</u>	<u>\$ 44,430,078</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

There were no investments that exceeded five percent of plan net position for these funds as of December 31, 2015.

Restrictions

Restricted deposits and investments of governmental funds as of December 31, 2015 are comprised of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Current Assets			
Cash and Cash Equivalents			
Funds Held for Future Public Safety Purposes	\$ 190,251	\$ -	\$ 190,251
Funds Held for Future Recreation Purposes	95,707	20,627	116,334
Funds Held for Roads and Bridges	-	63,400	63,400
Non-Current Assets			
Cash and Cash Equivalents			
Funds Held for Future Capital Expansion	-	169,290	169,290
Funds Held for Future Recreation Purposes	-	1,349,763	1,349,763
Certificates of Deposit			
Funds Held for Future Recreation Purposes	-	750,000	750,000
Investments			
Funds Held for Future Recreation Purposes	-	500	500
Total Restricted Deposits and Investments	<u>\$ 285,958</u>	<u>\$ 2,353,580</u>	<u>\$ 2,639,538</u>

Restricted deposits and investments of proprietary funds as of December 31, 2015 are comprised of the following:

	<u>Water Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Total Proprietary Funds</u>
Current Assets			
Cash and Cash Equivalents			
Consumer Deposit Agreement Refunds	\$ 215,857	\$ -	\$ 215,857
Non-Current Assets			
Cash and Cash Equivalents			
Consumer Deposit Agreement Refunds	1,044,440	-	1,044,440
Funds Held for Future Capital Expansion	6,242,951	117,962	6,360,913
Certificates of Deposit			
Funds Held for Future Capital Expansion	<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>
Total Restricted Cash and Cash Equivalents	<u>\$ 11,503,248</u>	<u>\$ 117,962</u>	<u>\$ 11,621,210</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

The Borough is required to refund the majority of consumer deposit agreements over a straight-line ten-year period following the year of receipt. A corresponding liability for consumer deposits has been recognized (see Note 8 for inclusion in other long-term debt).

**Note 3. Donor-Restricted Endowments**

The Borough maintains donor-restricted permanent endowments with principal balances of \$287,567 and \$1,814,277 reported within the Non-Major Governmental Funds (Recreation Endowment and Library Endowment Funds, respectively). Financial Commissions for each fund are authorized to supervise the endowment investments and recommend to the Borough Council for authorization and spending of earnings in relation the respective endowment purposes.

The Borough does not have a formal policy related to spending rate or total return in relation to the respective endowment funds, but follows the provisions of the Pennsylvania Uniform Trust Act (20 PA C.S.), which defines prudent investor requirements (appropriate degree of care and “special skills” as an investor) and overall investment strategy reasonably suited to the endowments.

Net appreciation on the donor-restricted endowments that was available for authorization for expenditure by the Borough as of December 31, 2015 was \$12,187 and \$8,440 reported within the Non-Major Governmental Funds (Recreation Endowment and Library Endowment Funds, respectively) as cash and cash equivalents.

**Note 4. Property and Other Taxes**

The Borough's ad valorem property tax is levied each year on the assessed value listed as of the prior year for all real property located in the Borough. The assessed value of the duplicate tax roll for which the 2015 tax levy was based was \$974,414,225. The property tax rate for 2015 was 5.65 mills.

From the effective date of the budget, the amount stated thereon as the amount to be raised by the property tax shall constitute a determination of the amount of the tax levy in the corresponding tax year. Taxpayers receive a two-percent discount if paid by the 15<sup>th</sup> day of April. For the year ended December 31, 2015, \$96,744 in discounts were netted with tax revenues reported. Taxes shall be due and payable on the 15<sup>th</sup> day of June in the year for which they are levied. Taxpayers will owe an additional 10% penalty if paid after the 15<sup>th</sup> day of June. Taxes shall be overdue and in arrears on the 30<sup>th</sup> day of the following April.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Taxes are recorded in the funds as revenue by the Borough when received from the tax collectors, and accruals are recorded at year-end for taxes expected to be received within 60 days of December 31, 2015 in accordance with the modified accrual basis of accounting. Taxes receivable and deferred tax revenue as of December 31, 2015 and related tax revenues for the year then ended for the General Fund were as follows:

	<u>Taxes Receivable</u>	<u>Deferred Tax Revenue</u>	<u>Tax Revenues</u>
Property Taxes	\$ 291,820	\$ 184,228	\$ 5,690,518
Income Taxes	223,381	-	1,457,279
Business Privilege Taxes	21,551	-	606,468
Local Services Taxes	152,724	-	579,480
Other Taxes	<u>101,460</u>	<u>98,868</u>	<u>53,301</u>
	<u>\$ 790,936</u>	<u>\$ 283,096</u>	<u>\$ 8,387,046</u>

**Note 5. Due from Other Governments**

In 1982, the Borough entered into an agreement with two local municipalities to jointly share the costs of constructing a regional wastewater treatment plant and related infrastructure. Under the agreement, the Borough operates the facilities, and charges the local municipalities quarterly service charges through the Regional Wastewater Fund for their allocated share of costs based on flow usage for the entire system. Any charges received in excess of costs or deficit amounts are accounted for in subsequent budgets as an adjustment to the quarterly service charges to the participating municipalities. The contract also stipulates that the municipalities will share in the costs of facilities additions and upgrades as required by other authorized agencies.

Due to revised environmental compliance standards, the Borough was compelled to perform substantial improvements to the treatment plant and related infrastructure, and has recognized the local municipalities' share of these costs through December 31, 2015 as amounts due from other governments in the Regional Wastewater Fund.

Beginning in 2011, one of the local municipalities agreed on repayment terms for their share of costs as follows: \$395,000 due February 15, 2012, and annual payments due February 15<sup>th</sup> thereafter of \$100,000 plus interest accrued on the outstanding principal balance at four percent per annum until fully repaid. Interest income recognized under the agreement totaled \$23,113 for the year ended December 31, 2015, and \$19,786 was accrued as of December 31, 2015.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

As of December 31, 2015, \$565,313 has been incurred by the Borough and is unpaid by the municipality in relation to improvements relating to the local municipality's share, and future minimum payments from the agreement based on costs incurred through December 31, 2015 is as follows for the years ending December 31:

	Regional Wastewater <u>Fund</u>
2016	\$ 100,000
2017	100,000
2018	100,000
2019	100,000
2020	100,000
Thereafter	<u>65,313</u>
	<u>\$ 565,313</u>

The Borough also has a flow exchange agreement with another municipality from 1983 for sewer treatment services charged through the Sanitary Sewer Fund, and \$322,999 was due and payable from the municipality for flow exchange services through December 31, 2015.

**Note 6. Capital Assets**

A summary of governmental activities follows:

	<u>Balance</u> <u>12/31/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/15</u>
<b>Capital Assets</b>					
<b>Non-Depreciable Assets</b>					
Land and Land Rights	\$ 580,279	\$ -	\$ -	\$ -	\$ 580,279
Construction in Progress	<u>5,813</u>	<u>215,744</u>	<u>-</u>	<u>-</u>	<u>221,557</u>
Total Non-Depreciable Assets	..... <u>586,092</u>	.... <u>215,744</u>	.....:-	.....:-	..... <u>801,836</u>
<b>Depreciable Assets</b>					
Improvements Other than Buildings	231,428	-	-	-	231,428
Machinery and Equipment	6,963,930	1,292,128	106,162	3,840	8,153,736
Other Buildings and Improvements	13,885,686	20,366	50,256	-	13,855,796
Plant and Infrastructure	<u>11,673,936</u>	<u>1,272,785</u>	<u>-</u>	<u>-</u>	<u>12,946,721</u>
Total Depreciable Assets	... <u>32,754,980</u>	... <u>2,585,279</u>	... <u>156,418</u>	... <u>3,840</u>	... <u>35,187,681</u>
Total Capital Assets	... <u>33,341,072</u>	... <u>2,801,023</u>	... <u>156,418</u>	... <u>3,840</u>	... <u>35,989,517</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Accumulated Depreciation					
Improvements Other than Buildings	208,093	8,099	-	-	216,192
Machinery and Equipment	5,807,346	462,956	101,491	2,181	6,170,992
Other Buildings and Improvements	3,960,474	308,470	44,618	-	4,224,326
Plant and Infrastructure	<u>7,533,104</u>	<u>354,914</u>	<u>-</u>	<u>-</u>	<u>7,888,018</u>
Total Accumulated Depreciation	<u>17,509,017</u>	<u>1,134,439</u>	<u>146,109</u>	<u>2,181</u>	<u>18,499,528</u>
Total Capital Assets, Net	<u>\$ 15,832,055</u>	<u>\$ 1,666,584</u>	<u>\$ 10,309</u>	<u>\$ 1,659</u>	<u>\$ 17,489,989</u>

Accumulated costs attributed to projects included in construction in progress as of December 31, 2015 were as follows:

Design and Extension/Rehabilitation of Storm Sewer Drainage	\$ 18,439
Salt Shed Construction	77,601
Transfer Station Improvements and Enhancements	10,057
Utz Multi-Purpose Field Construction	<u>115,460</u>
	<u>\$ 221,557</u>

On December 30, 1997, the Borough purchased land on behalf of the YMCA for use as a public park for \$500,000. The Borough contributed \$100,000 towards the purchase of the land in 1998, and the remaining \$400,000 was financed through a financial institution, which was paid off in 2011. While the loan was in the Borough's name, the YMCA was making all loan payments directly. As part of the agreement, once the loan was paid in full by the YMCA, the Borough would transfer the title of the property for \$1, which is expected to occur within the coming year. While the Borough has maintained title over the property since 1997, the land has not been recorded as an asset of the Borough due to the conduit nature of the agreement and is pending transfer to the YMCA.

Depreciation expense, including amortization expense on assets under capital lease, was charged to governmental functions for the year ended December 31, 2015:

General Government	\$ 36,772
Public Safety	233,499
Health and Sanitation	151,289
Highways	454,068
Culture and Recreation	<u>258,811</u>
	<u>\$ 1,134,439</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

A summary of business-type activities follows:

	<u>Balance</u> <u>12/31/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/15</u>
<b>Capital Assets</b>					
<b>Non-Depreciable Assets</b>					
Land and Land Rights	\$ 894,011	\$ 6,222	\$ 34,675	\$ -	\$ 865,558
Inactive Wells	137,044	-	-	-	137,044
Construction in Progress	<u>1,484,308</u>	<u>6,728,729</u>	<u>22</u>	<u>(131,455)</u>	<u>8,081,560</u>
Total Non-Depreciable Assets	<u>2,515,363</u>	<u>6,734,951</u>	<u>34,697</u>	<u>(131,455)</u>	<u>9,084,162</u>
<b>Depreciable Assets</b>					
Improvements Other than Buildings	51,426	10,742	-	-	62,168
Machinery and Equipment	3,137,362	101,843	13,004	(3,793)	3,222,408
Other Buildings and Improvements	683,641	85,293	-	-	768,934
Plant and Infrastructure	<u>92,711,708</u>	<u>686,249</u>	<u>31,853</u>	<u>131,407</u>	<u>93,497,511</u>
Total Depreciable Assets	<u>96,584,137</u>	<u>884,127</u>	<u>44,857</u>	<u>127,614</u>	<u>97,551,021</u>
Total Capital Assets	<u>99,099,500</u>	<u>7,619,078</u>	<u>79,554</u>	<u>(3,841)</u>	<u>106,635,183</u>
<b>Accumulated Depreciation</b>					
Improvements Other than Buildings	45,478	1,555	-	-	47,033
Machinery and Equipment	1,864,057	187,797	9,558	(3,729)	2,038,567
Other Buildings and Improvements	218,443	19,468	-	-	237,911
Plant and Infrastructure	<u>28,958,245</u>	<u>1,995,982</u>	<u>34,675</u>	<u>(48)</u>	<u>30,919,504</u>
Total Accumulated Depreciation	<u>31,086,223</u>	<u>2,204,802</u>	<u>44,233</u>	<u>(3,777)</u>	<u>33,243,015</u>
Total Capital Assets, Net	<u>\$ 68,013,277</u>	<u>\$ 5,414,276</u>	<u>\$ 35,321</u>	<u>\$ (64)</u>	<u>\$ 73,392,168</u>

Accumulated costs attributed to projects included in construction in progress as of December 31, 2015 in the Sanitary Sewer Fund were limited to \$1,373 for Tanger property gas station removal, and in the Water Fund as of December 31, 2015 were as follows:

<b>Water Fund</b>	
Dam Rehabilitation Studies	\$ 332,544
Filter Plant Improvements - Phase I and II	7,032,780
Hydraulic Mapping and Model	406,668
Tanger Property Gas Station Removal	3,143
Water Mains and Water Laterals	<u>305,052</u>
	<u>\$ 8,080,187</u>

Depreciation expense, including amortization expense on assets under capital lease, was charged to business-type functions as follows for the year ended December 31, 2015:

Water Fund	\$ 627,544
Regional Wastewater Fund	1,370,976
Sanitary Sewer Fund	198,535
Non-Major Proprietary Fund	<u>7,747</u>
	<u>\$ 2,204,802</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 7. Capital Leases**

The Borough is party to two lease agreements for vehicles as of December 31, 2015. The leases bear stated or implicit interest rates ranging from 2.64% to 2.95%, and each lease is secured by the capital asset under the respective lease.

Vehicles under capital lease included in capital assets as of December 31, 2015 were as follows:

	<u>Governmental Activities</u>
Machinery and Equipment	\$ 1,423,423
Less: Accumulated Depreciation	<u>167,556</u>
	<u>\$ 1,255,867</u>

As of December 31, 2015, future minimum payments required under the leases and the present values of minimum capital lease payments are as follows:

	<u>Governmental Activities</u>
2016	\$ 182,999
2017	182,997
2018	132,998
2019	132,999
2020	132,999
2021-2024	<u>531,994</u>
Total Minimum Lease Payments	1,296,986
Less: Amount Representing Interest	<u>149,841</u>
Present Values of Minimum Lease Payments Due Under Capital Leases Included in General Long-Term Debt	1,147,145
Less: Current Portion	<u>152,047</u>
Long-Term Portion	<u>\$ 995,098</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 8. Long-Term Debt**

Amounts outstanding under bonds payable as of December 31, 2015 consisted of the following:

<p>\$7,230,000 2011 Series - \$5,425,000 Serial and \$1,805,000 Term Bonds; serial bonds due in annual principal installments ranging from \$375,000 to \$1,120,000 through October 1, 2018 with remaining interest rates ranging from 2.25% to 3.00%; term bonds divided into three lots with \$245,000 paying 3.25% due October 1, 2021, \$285,000 paying 3.75% due October 1, 2024, and \$1,275,000 paying 4.00% due October 1, 2026; all term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates; bonds are secured by the credit and taxing power of the Borough</p>	<p>\$ 4,650,000</p>
<p>\$9,770,000 2012 Series - \$9,520,000 Serial and \$250,000 Term Bonds; serial bonds due in remaining annual principal installments ranging from \$235,000 to \$1,380,000 from October 1, 2017 through October 1, 2025 with remaining interest rates ranging from 2.00% to 2.125%; a single term bond with \$250,000 paying 2.00% due October 1, 2016, which is subject to mandatory redemption in prescribed amounts before the maturity date; bonds are secured by the credit and taxing power of the Borough</p>	<p>9,755,000</p>
<p>\$10,000,000 2013 Series - \$3,170,000 Serial and \$6,830,000 Term Bonds; serial bonds due in remaining annual principal installments ranging from \$115,000 to \$1,170,000 through October 1, 2025 and October 1, 2034 with remaining interest rates ranging from 0.85% to 4.00%; term bonds divided into three lots with \$720,000 paying 3.125% due October 1, 2027, \$3,245,000 paying 3.75% due October 1, 2033, and \$2,865,000 paying 4.00% due October 1, 2038; all term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates; bonds are secured by the credit and taxing power of the Borough</p>	<p>9,770,000</p>
<p>\$3,790,000 2015 A Series - Serial Term Bonds; due in remaining annual principal installments ranging from \$95,000 to \$505,000 through October 1, 2024 with remaining interest rates ranging from 0.70% to 3.50%; bonds are secured by the credit and taxing power of the Borough</p>	<p>3,715,000</p>
<p>\$9,100,000 2015 B Series - \$3,545,000 Serial and \$5,555,000 Term Bonds; serial bonds due in remaining annual principal installments ranging from \$140,000 to \$380,000 through October 1, 2027 with remaining interest rates ranging from 0.60% to 2.75%; term bonds divided into four lots with \$1,200,000 paying 3.00% due October 1, 2030, \$2,260,000 paying 3.25% due October 1, 2035, \$1,010,000 paying 3.50% due October 1, 2037, and \$1,085,000 paying 3.50% due October 1, 2039; all term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates; bonds are secured by the credit and taxing power of the Borough</p>	<p>9,100,000</p>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

<p>\$10,000,000 2015 C Series - \$3,890,000 Serial and \$6,110,000 Term Bonds; serial bonds due in remaining annual principal installments ranging from \$20,000 to \$2,025,000 through October 1, 2030 with remaining interest rates ranging from 2.00% to 3.45%; term bonds divided into four lots with \$780,000 paying 2.625% due October 1, 2025, \$1,915,000 paying 3.125% due October 1, 2028, \$3,000,000 paying 3.60% due October 1, 2032, and \$415,000 paying 3.50% due October 1, 2032; all term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates; bonds are secured by the credit and taxing power of the Borough</p>	9,850,000
<p>\$6,770,000 2015 D Series - \$5,270,000 Serial and \$1,500,000 Term Bonds; serial bonds due in remaining annual principal installments ranging from \$310,000 to \$1,815,000 through October 1, 2027 with remaining interest rates ranging from 2.00% to 2.75%; term bonds divided into three lots with \$20,000 paying 2.125% due October 1, 2022, \$30,000 paying 2.50% due October 1, 2025, and \$1,450,000 paying 2.95% due October 1, 2029; all term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates; bonds are secured by the credit and taxing power of the Borough</p>	<u>6,770,000</u>
<p>Total Bonds Payable</p>	<u>\$ 53,610,000</u>

In February 2015, the Borough issued \$3,790,000 in refunding bonds, titled 2015 A Series bonds, to currently refund \$3,735,000 of the outstanding 2009 A Series bonds to achieve economic savings. The current refunding reduced total debt service payments over the next ten years by \$307,092. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$298,848.

In August 2015, the Borough issued \$10,000,000 in refunding bonds, titled 2015 C Series bonds, to currently refund \$9,645,000 of the outstanding 2010 Series bonds to achieve economic savings. The current refunding reduced total debt service payments over the next 18 years by \$467,890. This resulted in an economic gain of \$357,966.

In October 2015, the Borough issued \$6,770,000 in refunding bonds, titled 2015 D Series bonds, to currently refund \$6,665,000 of the outstanding 2010 Series bonds to achieve economic savings. The current refunding reduced total debt service payments over the next 14 years by \$378,049. This resulted in an economic gain of \$320,813.

As of December 31, 2015, portions of the outstanding general obligation 2009 series are considered defeased. The outstanding principal of the defeased bonds was \$9,115,000 as of December 31, 2015.

Interest and related costs incurred for governmental activities for the year ended December 31, 2015 was \$354,031, of which all was expensed. Interest and related costs incurred for business-type activities for the year ended December 31, 2015 was \$1,742,467, of which \$1,528,565 was expensed and \$213,902 was capitalized as part of related project costs.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	<u>Balance</u> <u>12/31/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/15</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities</b>					
Bonds Payable					
2009 A Serial and Term Bonds	\$ 3,735,000	\$ -	\$ 3,735,000	\$ -	\$ -
2010 Serial and Term Bonds	440,000	-	440,000	-	-
2011 Serial and Term Bonds	2,685,000	-	350,000	2,335,000	370,000
2013 Serial and Term Bonds	495,000	-	5,000	490,000	5,000
2015 A Serial and Term Bonds	-	3,790,000	75,000	3,715,000	95,000
2015 C Serial and Term Bonds	-	205,000	5,000	200,000	-
2015 D Serial and Term Bonds	-	<u>220,000</u>	<u>-</u>	<u>220,000</u>	<u>30,000</u>
	<u>7,355,000</u>	<u>4,215,000</u>	<u>4,610,000</u>	<u>6,960,000</u>	<u>500,000</u>
Less: Bond Discounts and Premiums	<u>(4,614)</u>	<u>(96,461)</u>	<u>5,323</u>	<u>(106,398)</u>	<u>(11,469)</u>
Total Bonds Payable, Net	7,359,614	4,311,461	4,604,677	7,066,398	511,469
Accrued Compensated Absences	1,536,576	80,461	-	1,617,037	47,000
Capital Lease Obligations	<u>1,310,449</u>	<u>-</u>	<u>163,304</u>	<u>1,147,145</u>	<u>152,047</u>
Total Governmental Activities Debt	<u>\$ 10,206,639</u>	<u>\$ 4,391,922</u>	<u>\$ 4,767,981</u>	<u>\$ 9,830,580</u>	<u>\$ 710,516</u>
<b>Business-Type Activities</b>					
Bonds Payable					
2009 Serial and Term Bonds	\$ 225,000	\$ -	\$ 225,000	\$ -	\$ -
2010 Serial and Term Bonds	16,160,000	-	16,160,000	-	-
2011 Serial and Term Bonds	3,045,000	-	730,000	2,315,000	750,000
2012 Serial and Term Bonds	9,760,000	-	5,000	9,755,000	235,000
2013 Serial and Term Bonds	9,390,000	-	110,000	9,280,000	115,000
2015 B Serial and Term Bonds	-	9,100,000	-	9,100,000	140,000
2015 C Serial and Term Bonds	-	9,795,000	145,000	9,650,000	20,000
2015 D Serial and Term Bonds	-	<u>6,550,000</u>	<u>-</u>	<u>6,550,000</u>	<u>280,000</u>
	<u>38,580,000</u>	<u>25,445,000</u>	<u>17,375,000</u>	<u>46,650,000</u>	<u>1,540,000</u>
Less: Bond Discounts and Premiums	<u>253,169</u>	<u>106,715</u>	<u>172,581</u>	<u>187,303</u>	<u>1,049</u>
Total Bonds Payable, Net	38,326,831	25,338,285	17,202,419	46,462,697	1,538,951
Accrued Compensated Absences	1,108,974	-	10,962	1,098,012	-
Consumer Deposits	1,478,751	8,018	226,472	1,260,297	215,857
Capital Lease Obligations	<u>30,966</u>	<u>-</u>	<u>30,966</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities Debt	<u>\$ 40,945,522</u>	<u>\$ 25,346,303</u>	<u>\$ 17,470,819</u>	<u>\$ 48,821,006</u>	<u>\$ 1,754,808</u>

Other long-term liabilities in governmental activities are liquidated from general revenues in the General Fund. Accrued compensated absences in business-type activities are liquidated from general revenues in the respective Water, Sanitary Sewer, Regional Wastewater, and Non-Major Proprietary Fund. Capital lease obligations are liquidated from general revenues in the respective Water and Sanitary Sewer Funds, and consumer deposits are liquidated from general revenues in the Water Fund.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

The principal and interest requirements to maturity of the bonds payable debt of all funds are as follows for the years ending December 31:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 500,000	\$ 197,373	\$ 1,540,000	\$ 1,335,770
2017	520,000	184,950	1,570,000	1,300,280
2018	525,000	170,400	1,620,000	1,266,943
2019	540,000	154,238	1,890,000	1,228,618
2020	555,000	136,138	2,030,000	1,190,817
2021-2025	3,185,000	480,830	10,750,000	5,314,827
2026-2030	1,135,000	54,514	12,155,000	3,933,307
2031-2035	-	-	10,810,000	1,858,998
2036-2039	-	-	4,285,000	364,153
	<u>\$ 6,960,000</u>	<u>\$ 1,378,443</u>	<u>\$ 46,650,000</u>	<u>\$ 17,793,713</u>

**Note 9. Interfund Transactions**

Interfund transfers for the year ended December 31, 2015 on the fund financial statements were as follows:

<u>Transfers to</u>	<u>Transfers from</u>				<u>Total</u>
	<u>General Fund</u>	<u>Water Fund</u>	<u>Regional Wastewater Fund</u>	<u>Sanitary Sewer Fund</u>	
General Fund	\$ -	\$ 30,000	\$ -	\$ 40,000	\$ 70,000
Non-Major Governmental Funds	10,130	-	-	-	10,130
Water Revenue Fund	4,683	-	-	-	4,683
Regional Wastewater Fund	-	19,456	-	1,664,707	1,684,163
Sanitary Sewer Fund	<u>2,007</u>	<u>878</u>	<u>126,613</u>	<u>-</u>	<u>129,498</u>
Total	<u>\$ 16,820</u>	<u>\$ 50,334</u>	<u>\$ 126,613</u>	<u>\$ 1,704,707</u>	<u>\$ 1,898,474</u>

Transfers from business-type activities to governmental activities for the year ended December 31, 2015 on the government-wide financial statements totaled \$64,969.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) transfer capital assets from the fund that paid for the assets to the fund that will utilize them.

Significant interfund transfers for the year ended December 31, 2015 include the following: the Sanitary Sewer Fund transferred \$1,538,094 to the Regional Wastewater Fund to be used for debt service and reclassification of interfund debt, net of reimbursements of capital costs received from other municipalities for the shared regional wastewater treatment improvements disclosed above.

**Note 10. Lease Agreements**

The Borough has entered into communication tower lease agreements, which are expected to provide the following minimum annual rental income for the years ending December 31,

	<u>Water Fund</u>
2016	\$ 87,207
2017	75,258
2018	80,310
2019	49,044
2020	<u>44,288</u>
	<u>\$ 336,107</u>

All lease agreements have various consecutive renewal options at the lessee's discretion.

**Note 11. Defined Benefit Pension Plans**

The Borough offers three single-employer defined benefit pension plans: Police Pension Plan, Fire Drivers' Pension Plan, and Hanover Employees' Pension Plan. The plans do not issue stand-alone financial reports.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**A. Plan Descriptions and Funding Policies**

**Police Pension Plan**

Plan Administration - The plan is a single-employer defined benefit plan that covers all full-time members of the police force upon employment. The plan is established and administered by the Borough through a trust agent (local bank), and management of the plan is administered by the ten elected members of the Borough Council and the Police Pension Fund Committee, consisting of three voting members appointed by the Borough Council.

Benefits Provided - The plan provides monthly retirement benefits as well as death and disability benefits. A member is eligible for normal retirement after attainment of age 50 and completion of 25 years of vesting service; however, if the member continues working after their normal retirement date, their pension does not start until they actually retire. The normal retirement pension, payable monthly for the member's lifetime and continuing to the member's surviving spouse or eligible child for their respective lifetime, is equal to 50% of average monthly compensation (based on the last 36 months of employment preceding retirement), plus a service increment of \$100 per month for each completed year of benefit service in excess of 25 years. Disability benefits are available to a participant disabled in the line of duty. If a participant is eligible for retirement at the time of death, a monthly death benefit is payable.

Employees retiring after January 1, 1980 are entitled to an annual cost-of-living increase equal to six percent per year or the actual cost-of-living increase based on the Consumer Price Index, whichever is smaller. A member's benefits vest upon completion of 12 years of vesting service. The vested benefit is deferred monthly pension beginning at normal retirement equal to the benefit accrued to the date of termination.

Contributions - Plan members, pursuant to Borough Ordinance and plan agreement, are required to contribute three percent of their compensation per year. Member contributions are credited with interest at the rate of three percent per year. The Commonwealth is required, by Act 205 (Municipal Pension Plan Funding Standard and Recovery Act), to contribute at an actuarially determined rate. The Borough is responsible for contributing funds after accounting for the Commonwealth contribution in order to meet the minimum municipal obligation for each year as required by Act 205. The contribution requirements of the plan members and the Commonwealth may be amended by the Borough and Commonwealth legislature, respectively. Administrative costs of the Police Pension Plan are financed through investment earnings.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Fire Drivers' Pension Plan**

Plan Administration - The plan is a single-employer defined benefit plan that covers all full-time fire drivers on July 1<sup>st</sup> following the date of employment. The plan is established and administered by the Borough through a trust agent (local bank), and management of the plan is administered by the ten elected members of the Borough Council.

Benefits Provided - The plan provides monthly retirement benefits as well as death and disability benefits. The normal retirement date is the first day of the month following attainment of age 55 with completion of 25 years of vesting service, but not later than attainment of age 62 and completion of ten years of vesting service, if earlier. The normal retirement pension, payable monthly for life with payments ceasing upon death, is equal to 1.75% of average monthly compensation (highest consecutive 60 months of compensation out of the last 120 months preceding retirement) multiplied by the total number of complete years of benefit service.

Disability benefits are available to a participant who becomes totally and permanently disabled. The death benefit for a participant who has attained age 50 and has completed ten years of vesting service is a survivor pension. A monthly death benefit, payable to a surviving spouse, is also available if the participant is killed in the line of duty. A member's benefits vest upon completion of ten years of vesting service. The vested benefit is a deferred monthly pension beginning at the normal retirement date equal to the benefit accrued to the date of termination.

Contributions - Plan members, pursuant to Borough Ordinance and plan agreement, are required to contribute 3.7% of their annual covered salary up to attainment of age 62 and completion of ten years of vesting service. Member contributions are credited with interest at the rate of four percent per year. The Commonwealth is required, by Act 205 (Municipal Pension Plan Funding Standard and Recovery Act), to contribute at an actuarially determined rate. The Borough is responsible for contributing funds after accounting for the Commonwealth contribution in order to meet the minimum municipal obligation for each year as required by Act 205. The contribution requirements of the plan members and the Commonwealth may be amended by the Borough and Commonwealth legislature, respectively. Administrative costs of the Fire Drivers' Pension Plan are financed through investment earnings.

**Hanover Employees' Pension Plan**

Plan Administration - The plan is a single-employer defined benefit pension plan that covers all full-time employees of the Borough, excluding uniformed police officers and fire drivers, on July 1<sup>st</sup> following the date of employment. The plan is established and administered by the Borough through a trust agent (local bank), and management of the plan is administered by the ten elected members of the Borough Council.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Benefits Provided - The plan provides monthly retirement benefits as well as death and disability benefits. The normal retirement date is the first day of the month following attainment of age 55 (60 for non-union hires after July 1, 2014) and completion of 25 years of vesting service, but not later than attainment of age 62 (65 for non-union hires after July 1, 2014) and completion of ten years of vesting service, if earlier. The normal retirement pension, payable monthly for life with payments ceasing upon death, is equal to 1.5% (1.0% for non-union hires after July 1, 2014) of average monthly compensation (highest consecutive 36 months of compensation out of the last 60 months preceding retirement) multiplied by the total number of years of benefit service rounded to the nearest one-half year. The minimum monthly pension for employees with 30 or more years of vesting service is equal to 70% of average monthly compensation, less 100% of social security benefits received.

Disability benefits are available after attainment of age 45 and completion of 15 years of vesting service, following six months of permanent disability. The monthly death benefit for a participant who has attained 60 years (sum of member's age and years of vesting service) and has completed ten years of vesting service is a survivor pension. A member's benefits vest upon completion of ten years of vesting service. The vested benefit is a deferred monthly pension beginning at the normal retirement date equal to the benefit accrued to the date of termination.

Contributions - Plan members, pursuant to Borough Ordinance and plan agreement, are required to contribute three percent of their annual covered salary up to attainment of age 62 and completion of ten years of vesting service. Member contributions are credited with interest at the rate of four percent per year. The Commonwealth is required, by Act 205 (Municipal Pension Plan Funding Standard and Recovery Act), to contribute at an actuarially determined rate. The Borough is responsible for contributing funds after accounting for the Commonwealth contribution in order to meet the minimum municipal obligation for each year as required by Act 205. The contribution requirements of the plan members and the Commonwealth may be amended by the Borough and Commonwealth legislature, respectively. Administrative costs of the Hanover Employees' Pension Plan are financed through investment earnings.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Plan Membership**

Membership of the plans consisted of the following as of December 31, 2015:

	<u>Pension Plans</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Inactive Plan Members and Beneficiaries Currently Receiving Benefits	19	12	50
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	1	-	2
Active Plan Members	<u>27</u>	<u>15</u>	<u>109</u>
Totals	<u>47</u>	<u>27</u>	<u>161</u>

**Investment Policies, Concentrations, and Rates of Return**

Disclosures regarding investment policies and concentrations of the plans' investments are located in Note 2 to the financial statements. The annual money-weighted rates of return on plans' investments, net of plans' investment expenses, were as follows for the year ended December 31, 2015: (4.02)% for the Police, (0.39)% for the Fire Drivers', and (0.33)% for the Hanover Employees' Pension Funds' Plans. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**B. Net Pension Liability (Asset)**

The net pension liability (asset) was measured as of December 31, 2015, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2015. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Actuarial Assumptions - The total pension liability (asset) as determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Pension Plans</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Actuarial Assumptions:			
Inflation Assumption	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	3.0%	None	None
Projected Salary Increases	5.0%	5.0%	5.0%
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation	7.0%, net of pension plan investment expense, including inflation	7.0%, net of pension plan investment expense, including inflation
Disability Rates	SOA 1987 Group LTD Tables - Males, six-month elimination	SOA 1987 Group LTD Tables - Males, six-month elimination	SOA 1987 Group LTD Tables - Males, six-month elimination

Mortality rates were based on the RP-2000 Mortality Tables for Males and Females, as appropriate, with no adjustment for projected mortality improvements.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations and best estimates of arithmetic real rates of return for each major asset class as of January 1, 2015 are summarized in the following table:

	<u>Pension Plans - Target Allocations</u>		
<u>Asset Class</u>	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Corporate Bonds	0.00%	0.00%	6.80%
Equities, Equity Mutual Funds, and Real Estate	70.00%	65.00%	65.00%
Fixed Income Mutual Funds	30.00%	32.00%	10.00%
Money Markets	0.00%	3.00%	3.00%
U.S. Agencies - Bonds	0.00%	0.00%	0.60%
U.S. Agencies - Pools	0.00%	0.00%	6.50%
U.S. Treasuries	0.00%	0.00%	8.10%

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

<u>Asset Class</u>	<u>Pension Plans - Long-Term Expected Real Rates of Return</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Corporate Bonds	0.00%	0.00%	3.00% - 5.00%
Equities, Equity Mutual Funds, and Real Estate	5.00% - 7.00%	5.00% - 7.00%	5.00% - 7.00%
Fixed Income Mutual Funds	1.00% - 3.00%	1.00% - 3.00%	1.00% - 3.00%
Money Markets	0.00%	0.00% - 1.00%	0.00% - 1.00%
U.S. Agencies - Bonds	0.00%	0.00%	1.00% - 3.00%
U.S. Agencies - Pools	0.00%	0.00%	1.00% - 3.00%
U.S. Treasuries	0.00%	0.00%	1.00% - 3.00%

*Discount Rate* - The discount rate used to measure the total pension liability (asset) for all plans was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current respective contribution rates and that Borough contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the pension plans' fiduciary net position is projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Changes in the Net Pension Liability (Asset)

	<u>Police</u>		
	<u>Total Pension Liability (Asset)</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balances as of December 31, 2014	\$ 11,534,908	\$ 11,021,063	\$ 513,845
Service Cost	301,278	-	301,278
Interest Cost	797,720	-	797,720
Changes for Experience	(27,836)	-	(27,836)
Changes of Assumptions	(133,554)	-	(133,554)
Employer Contributions	-	478,308	(478,308)
Plan Member Contributions	-	64,012	(64,012)
Net Investment Income	-	(446,203)	446,203
Benefit Payments, Including Refunds of Plan Member Contributions	(557,605)	(557,605)	-
Administrative Expense	-	(7,600)	7,600
Net Changes	<u>380,003</u>	<u>(469,088)</u>	<u>849,091</u>
Balances as of December 31, 2015	<u>\$ 11,914,911</u>	<u>\$ 10,551,975</u>	<u>\$ 1,362,936</u>

	<u>Fire Drivers'</u>		
	<u>Total Pension Liability (Asset)</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balances as of December 31, 2014	\$ 6,110,128	\$ 6,493,999	\$ (383,871)
Service Cost	103,899	-	103,899
Interest Cost	414,642	-	414,642
Changes for Experience	(112,264)	-	(112,264)
Employer Contributions	-	64,277	(64,277)
Plan Member Contributions	-	36,883	(36,883)
Net Investment Income	-	(25,197)	25,197
Benefit Payments, Including Refunds of Plan Member Contributions	(356,611)	(356,611)	-
Administrative Expense	-	(6,500)	6,500
Net Changes	<u>49,666</u>	<u>(287,148)</u>	<u>336,814</u>
Balances as of December 31, 2015	<u>\$ 6,159,794</u>	<u>\$ 6,206,851</u>	<u>\$ (47,057)</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

	<u>Hanover Employees'</u>		
	<u>Total Pension</u> <u>Liability (Asset)</u>	<u>Plan Fiduciary</u> <u>Net Position</u>	<u>Net Pension</u> <u>Liability (Asset)</u>
Balances as of December 31, 2014	\$ 27,089,464	\$ 28,077,952	\$ (988,488)
Service Cost	503,375	-	503,375
Interest Cost	1,822,241	-	1,822,241
Changes for Experience	(1,160,455)	-	(1,160,455)
Employer Contributions	-	423,936	(423,936)
Plan Member Contributions	-	157,438	(157,438)
Net Investment Income	-	(91,891)	91,891
Benefit Payments, Including Refunds of Plan Member Contributions	(800,748)	(800,748)	-
Administrative Expense	-	(10,600)	10,600
Net Changes	..... 364,413	..... (321,865)	..... 686,278
Balances as of December 31, 2015	<u>\$ 27,453,877</u>	<u>\$ 27,756,087</u>	<u>\$ (302,210)</u>

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate* - The following presents the net pension liability (asset) of the Borough, calculated using the discount rate of seven percent, as well as what the Borough's net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (six percent) or one-percentage-point higher (eight percent) than the current rate (seven percent):

	<u>Pension Plans - Long-Term Expected Real Rates of Return</u>		
<u>Borough's Net Pension Liability (Asset)</u>	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
One-Percent Decrease (6.0%)	\$ 2,966,532	\$ 598,387	\$ 2,415,996
Current Discount Rate (7.0%)	\$ 1,362,936	\$ (47,057)	\$ (302,210)
One-Percent Increase (8.0%)	\$ 33,419	\$ (595,860)	\$ (2,622,296)

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* - For the year ended December 31, 2015, the Borough recognized pension expense totaling \$1,345,876, comprised of \$486,505, \$182,108, and \$677,263 from the Police, Fire Drivers', and Hanover Employees' pension plans, respectively.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

As of December 31, 2015, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions in governmental activities from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions		
Police	\$ -	\$ 120,199
Fire Drivers'	-	-
Hanover Employees'	<u>-</u>	<u>-</u>
	.....-	.....120,199
Differences Between Expected and Actual Experience		
Police	-	25,052
Fire Drivers'	-	98,231
Hanover Employees'	<u>-</u>	<u>967,046</u>
	.....-	...1,090,329
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		
Police	935,568	-
Fire Drivers'	554,308	-
Hanover Employees'	<u>2,357,767</u>	<u>-</u>
	...3,847,643	.....-
Total	<u>\$ 3,847,643</u>	<u>\$ 1,210,528</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense of governmental activities as follows for the years ending December 31:

2016		\$ 809,847
2017		809,847
2018		809,850
2019		523,775
2020		(223,582)
2021-2024		<u>(92,622)</u>
		<u>\$ 2,637,115</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 12. Defined Contribution Pension Plan**

The Borough, in accordance with Borough Council approval, offers a defined contribution plan created in accordance with Internal Revenue Code Section 457(b). The plan is available to all Borough employees. The plan had 20 active participants as of December 31, 2015.

The plan permits employees to defer a portion of their salary until future years, which the employees are fully vested in upon contribution. Employees can defer the lesser of \$18,000, and up to an additional \$5,500 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year. Employee contributions made to the 457(b) plan for the year ended December 31, 2015 were \$76,725. No Borough contributions were made to the 457(b) plan for the year ended December 31, 2015.

All amounts of compensation deferred under the plans and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The Plan Administrator, Oppenheimer Funds Service, is the trustee of the investments.

**Note 13. Defined Benefit Other Postemployment Benefits Plan**

The Borough offers a single-employer defined benefit healthcare plan for the police, fire drivers, and non-uniformed (Hanover) employees of the Borough, administered through Capital Blue Cross, which provides healthcare and life insurance benefits for active employees and other postemployment benefits (OPEB) for eligible retirees and their spouses. Upon attaining age 65, eligible retirees and their spouses are moved to a post-65 medical and post-65 prescription plan if they wish to continue coverage.

**A. Plan Description and Funding Policies**

The defined healthcare plan provides medical and hospitalization, prescription drug, dental, vision and life insurance benefits to eligible active plan members and retirees and their spouses, and is authorized by the Borough. The plan provisions, benefits available and required reimbursements are governed by the collective bargaining agreements between the Borough and the Hanover Borough Police Officer's Association for police; Hanover Professional Firefighters Association for fire; and United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC and American Federation of State, County, and Municipal Employees, AFL-CIO for Hanover employees.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Membership of the plan consisted of the following categories as of December 31, 2015:

	<u>OPEB Plan</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Retirees and Beneficiaries Receiving Benefits	3	8	18
Active Plan Members	<u>27</u>	<u>15</u>	<u>104</u>
Totals	<u>30</u>	<u>23</u>	<u>122</u>

The plan is unfunded, with premium payments made by the Borough on a pay-as-you-go basis. All eligible retirees and their spouses are required to reimburse the Borough for premiums paid for dental, vision and life insurance benefits elected as paid by the Borough. Eligible police retirees and their spouses, for a period of five years from the date of the employee's retirement and provided the spouse is not eligible for coverage in any other employer-sponsored healthcare plan, are not required to reimburse the Borough for premiums paid for basic medical and hospitalization coverage not to exceed \$600 per month. All other eligible retirees and their spouses are required to reimburse the Borough for the cost of medical and hospitalization premiums as paid. For the year ended December 31, 2015, the Borough paid premium costs of \$175,946 for retirees and their spouses, of which \$162,584 was reimbursed by plan members in accordance with their respective collective bargaining agreements.

**B. Annual OPEB Cost and Net OPEB Obligation**

The Borough's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), which is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Borough's annual OPEB cost for the year, the estimated actuarial amount contributed to the plan, and changes in the Borough's net OPEB obligation for the year ended December 31, 2015:

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

	<u>OPEB Plan</u>			
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>	<u>Total</u>
Annual Required Contribution	\$ 59,968	\$ 37,869	\$ 195,259	\$ 293,096
Interest on Net OPEB Obligation	4,142	2,790	21,478	28,410
Adjustment to Annual Required Contribution	<u>(5,651)</u>	<u>(3,807)</u>	<u>(29,301)</u>	<u>(38,759)</u>
Annual OPEB Cost	58,459	36,852	187,436	282,747
Estimated Contributions Made	<u>(7,796)</u>	<u>(16,322)</u>	<u>(82,740)</u>	<u>(106,858)</u>
Increase in Net OPEB Obligation	50,663	20,530	104,696	175,889
Net OPEB Obligation - Beginning of Year	<u>92,046</u>	<u>62,007</u>	<u>477,285</u>	<u>631,338</u>
Net OPEB Obligation - End of Year	<u>\$ 142,709</u>	<u>\$ 82,537</u>	<u>\$ 581,981</u>	<u>\$ 807,227</u>

The net OPEB obligation has been recognized in governmental activities and the Water Fund at \$691,004 and \$116,223, respectively, as of December 31, 2015. The Borough's OPEB plan trend information for the police, fire drivers', and Hanover employee's was as follows for the years ending December 31:

	<u>Police</u>		
	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 32,828	61%	\$ 39,978
2014	\$ 59,313	12%	\$ 92,046
2015	\$ 58,459	13%	\$ 142,709

	<u>Fire Drivers'</u>		
	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 18,920	72%	\$ 38,054
2014	\$ 37,245	36%	\$ 62,007
2015	\$ 36,852	44%	\$ 82,537

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

	<u>Hanover Employees'</u>		
	Annual OPEB Cost (AOC)	Percentage of AOC <u>Contributed</u>	Net OPEB <u>Obligation</u>
2013	\$ 98,930	45%	\$ 360,220
2014	\$ 189,354	38%	\$ 477,285
2015	\$ 187,436	44%	\$ 581,981

**C. Funded Status and Funding Progress**

As of the January 1, 2014 valuation, the actuarial accrued liability for benefits (of which all was unfunded), covered payroll (annual payroll of active employees covered by the plan), and ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll were as follows:

	<u>OPEB Plan</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Actuarial Accrued Liability	\$ 397,275	\$ 369,377	\$ 2,053,000
Covered Payroll	\$ 1,825,978	\$ 939,602	\$ 5,533,638
UAAL as a Percentage of Covered Payroll	21.8%	39.3%	37.1%

**D. Actuarial Assumptions and Methods**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Borough and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Borough and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

For the January 1, 2014 actuarial valuation, the entry age normal actuarial cost method was used, based on assumption that all employees will retire upon attainment of the eligibility requirements for retirement (police employees will retire at the latest of age 53, age at the completion of 25 years of service or age on the valuation date, and fire drivers and Hanover employees will retire at the earlier of the latest of age 55, age of completion of 25 years of service or age on the valuation date, or latest of age 62, age at completion of ten years of service or age on the valuation date). The valuation assumes that 60% of eligible retirees will elect coverage in the plan, and 25% of these retirees are assumed to be married and will have a spouse covered by the plan at retirement.

The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on Borough's General Fund assets, and an annual healthcare cost trend rate of 6.5% in 2014, reduced by 0.5% decrements to a rate of 5.5% in 2016 and further reduced by decrements based on the Society of Actuaries Long-Run Medical Cost Trend Model from 5.3% in 2017 to an ultimate rate of 4.2% in 2089. Both rates included a five percent salary increase assumption and no inflation or cost-of-living adjustment assumptions. Contributions by retirees are assumed to increase at the same rate as the Health Care Cost Trend Rate. The valuation also assumes dental and vision costs will not vary by age, and life insurance costs will vary by age based on the amount of coverage times the applicable mortality factor contained in the valuation mortality table. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period as of the January 1, 2014 valuation was 30 years.

**Note 14. Defined Contribution Other Postemployment Benefits Plan**

The Borough, in accordance with Borough Council approval, offers a defined contribution plan created in accordance with Internal Revenue Code Section 501(c)(9). The plan requires mandatory participation by all active members of the Hanover Professional Firefighters Local 2045 bargaining unit, and is not available to any other employees of the Borough. The plan had 14 active participants as of December 31, 2015.

The plan requires annual contributions by the Borough for each active participant (\$600 for 2015), and active participants employed before January 1, 2009 receive an additional Borough contribution (\$780 annually) in lieu of receiving Emergency Medical Technician/ Automated External Defibrillator (EMT/AED) pay. In addition, up to five days of accumulated sick leave is annually deposited per active participant at their current pay rate for those having been employed by the Borough for at least 10 years, and up to 60 days of accumulated sick leave (less those previously deposited) are contributed upon retirement. Borough contributions of \$20,881 were accrued for the 501(c)(9) plan for the year ended December 31, 2015.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

All amounts of compensation deferred under the plans and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The Plan Administrator, Nationwide Retirement Solutions, is the trustee of the investments.

**Note 15. Concentration of Credit Risk**

The Borough receives real estate and per capita taxes from residents within the Borough limits. The Borough uses a tax collector to collect all current real estate and per capita taxes. The Borough may lien any property associated with the real estate tax assessment, therefore an allowance for uncollectible taxes is not considered necessary. The Borough also provides water, sewer, and garbage service to customers within the Hanover area, and grants credit to its residents for these services. This area is located in York and Adams Counties, which are in south central Pennsylvania. The Borough may lien any property receiving service for uncollected bills, therefore an allowance for uncollectible services is not considered necessary.

**Note 16. Risk Management**

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Borough purchases commercial insurance coverage for these types of losses, including workers' compensation and employee health and accident insurance (excluding prescriptions). Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years, and there have been no significant reductions in insurance coverage.

The Borough also pays unemployment costs on a claims-made basis. Total unemployment expense for the year ended December 31, 2015 was \$7,674.

**Note 17. Environmental Concerns**

The Borough has underground storage tanks for fuel, and performs necessary testing in the surrounding land areas as necessary for leaks and potential contamination, and operates a wastewater facility. In addition, the Borough, as part of the closure plan for the Black Rock Landfill, performs well tests and water analysis in the landfill and surrounding areas. If a leak or contamination occurs, the Borough could become liable for the cost to remediate.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 18. Contingencies and Commitments**

The Borough participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by or for the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Borough may be required to reimburse the grantor government. The Borough believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Borough.

The Borough is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the Borough. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the Borough.

The Borough is involved with various lawsuits in the normal course of operations. In most cases, management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Management believes that losses resulting from these matters, if any, would be substantially covered under the Borough's professional liability insurance policy and would not have a material effect on the financial position of the Borough.

In February 2014, the Borough signed an agreement with the York County Library System (YCLS) for the provision of administration, management, and fund raising support for the Guthrie Memorial Library. The term of the agreement is from March 1, 2014 through December 31, 2016, and then extendable on an annual basis based on mutual agreement, and cancelable by either party at any time with minimum 90-day notice. The agreement's annual management fee of \$30,000 is payable in quarterly installments of \$7,500. In addition, the Borough agreed to pay YCLS monthly for the library director's salary, appointed by the YCLS as part of the agreement.

In addition, the Borough is committed under the following significant contracts for purchases and construction projects, less any accounts payable and accrued expenses on those contracts, as of December 31, 2015:

<u>Project</u>	<u>Contract Amount</u>	<u>Contract Amount Outstanding</u>
General Fund		
Storm Water Systems Improvements		
Engineering	\$ 82,415	\$ 63,976

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Water Fund		
Filter Plant Improvements - Phase 1		
Engineering	\$ 665,000	\$ 117,431
Construction	\$ 6,167,282	\$ 1,156,393
Filter Plant Improvements - Phase 2		
Engineering	\$ 1,084,000	\$ 636,550
Lawrence Baker Dam Assessment		
Engineering	\$ 378,480	\$ 146,584

**Note 19. Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities**

	Water <u>Fund</u>	Regional Wastewater <u>Fund</u>	Sanitary Sewer <u>Fund</u>	Non-Major Proprietary <u>Fund</u>	Total Proprietary <u>Funds</u>
Operating Income (Loss)	\$ 2,275,784	\$ (1,315,504)	\$ 1,878,275	\$ (3,449)	\$ 2,835,106
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities					
Depreciation	627,544	1,370,976	198,535	7,747	2,204,802
(Increase) Decrease in					
Accounts Receivable	(72,296)	29,986	18,425	175	(23,710)
Due from Other Governments	-	-	(60,664)	-	(60,664)
Unbilled Services	(73,776)	(16,637)	(31,399)	-	(121,812)
Inventory	88,358	3,374	(5,108)	-	86,624
Prepaid Expenses	(6,755)	1,890	(186,555)	26	(191,394)
Increase (Decrease) in					
Accounts Payable and					
Accrued Expenses	(15,457)	(43,424)	(91,714)	(33)	(150,628)
Accrued Wages	(40,481)	(12,992)	(13,506)	(400)	(67,379)
Accrued Compensated Absences	11,725	14,873	(37,666)	106	(10,962)
Unearned Revenue	-	160,349	-	-	160,349
Accrued Other Post- Employment Benefits	<u>25,277</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,277</u>
Net Cash Provided by Operating Activities	<u>\$ 2,819,923</u>	<u>\$ 192,891</u>	<u>\$ 1,668,623</u>	<u>\$ 4,172</u>	<u>\$ 4,685,609</u>

The Borough had the following significant non-cash capital, financing, and investing activities for the year ended December 31, 2015: the Sanitary Sewer Fund transferred \$1,664,707 to the Regional Wastewater Fund to pay for the Regional Wastewater Fund's debt and the projects fund debt, the Sanitary Sewer Fund recognized \$435,465 for contributed sewer laterals deeded to the Borough from a private developer.

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 20. New Governmental Accounting Standards Board Pronouncements**

The GASB has issued several pronouncements prior to the year ended December 31, 2015 and through the date the financial statements were available to be issued that have effective dates that may impact future financial presentations:

GASB Statement No. 72, *Fair Value Measurement and Application* - This statement will be effective for the Borough as of January 1, 2016. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purpose, and guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - This statement will be effective for the Borough as of January 1, 2017. The objective of this statement is to improve the usefulness of information about OPEB included in financial reports of state and local governmental OPEB plans for making decisions and assessing accountability where OPEB plans are administered through trusts. The implementation of this statement is expected to have significant effect on the government-wide financial statements of the Borough in the year of implementation; however, the effects of said implementation are not yet quantifiable.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - This statement will be effective for the Borough as of January 1, 2018. The objective of this statement is to improve the usefulness of information about OPEB included in financial reports of state and local governmental OPEB plans for making decisions and assessing accountability for all employers with OPEB plans. The implementation of this statement, in conjunction with GASB Statement No. 74 above, is expected to have significant effect on the government-wide financial statements of the Borough in the year of implementation; however, the effects of said implementation are not yet quantifiable.

**REQUIRED SUPPLEMENTARY INFORMATION**

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

**UNAUDITED**

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES</b>				
Taxes	\$ 7,642,250	\$ 7,667,250	\$ 8,387,046	\$ 719,796
Licenses and Permits	25,550	25,550	34,134	8,584
Fines and Forfeitures	184,000	184,000	208,826	24,826
Interest and Rents	152,074	152,074	171,211	19,137
Intergovernmental	1,596,500	1,596,500	1,335,358	(261,142)
Charges for Services	4,040,410	4,040,410	4,347,351	306,941
Donations from Private Sources	516,670	516,670	670,214	153,544
Miscellaneous	650	650	723	73
<b>TOTAL REVENUES</b>	<b>14,158,104</b>	<b>14,183,104</b>	<b>15,154,863</b>	<b>971,759</b>
<b>EXPENDITURES</b>				
General Government	1,129,305	1,129,305	973,271	156,034
Public Safety	5,778,257	5,778,257	5,386,658	391,599
Health and Sanitation	3,477,835	3,477,835	3,507,764	(29,929)
Highways	1,006,742	1,031,742	913,553	118,189
Culture and Recreation	1,346,434	1,346,434	1,215,614	130,820
Debt Service	944,396	944,396	996,590	(52,194)
Capital Outlays	840,345	840,345	1,427,159	(586,814)
Miscellaneous	819,800	819,800	713,415	106,385
<b>TOTAL EXPENDITURES</b>	<b>15,343,114</b>	<b>15,368,114</b>	<b>15,134,024</b>	<b>234,090</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,185,010)</b>	<b>(1,185,010)</b>	<b>20,839</b>	<b>1,205,849</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets	-	-	130	130
Interfund Transfers	82,791	82,791	53,180	(29,611)
Proceeds from Refunding Bonds	-	-	4,311,461	4,311,461
Refunded Debt Service - Principal	-	-	(4,145,000)	(4,145,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>82,791</b>	<b>82,791</b>	<b>219,771</b>	<b>136,980</b>
<b>CHANGES IN FUND BALANCE</b>	<b>(1,102,219)</b>	<b>(1,102,219)</b>	<b>240,610</b>	<b>1,342,829</b>
Fund Balance - Beginning of Year	7,142,835	7,142,835	7,142,835	-
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 6,040,616</b>	<b>\$ 6,040,616</b>	<b>\$ 7,383,445</b>	<b>\$ 1,342,829</b>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**LAST 10 FISCAL YEARS**  
**UNAUDITED**

	2015			
	Police Pension Fund	Fire Drivers' Pension Fund	Hanover Employees' Pension Fund	Total Pension Trust Funds
<b>TOTAL PENSION LIABILITY</b>				
Service Cost	\$ 301,278	\$ 103,899	\$ 503,375	\$ 908,552
Interest	797,720	414,642	1,822,241	3,034,603
Changes for Experience	(27,836)	(112,264)	(1,160,455)	(1,300,555)
Changes of Assumptions	(133,554)	-	-	(133,554)
Benefit Payments, Including Refunds of Plan Member Contributions	(557,605)	(356,611)	(800,748)	(1,714,964)
<b>NET CHANGES IN TOTAL PENSION LIABILITY</b>	<b>380,003</b>	<b>49,666</b>	<b>364,413</b>	<b>794,082</b>
Total Pension Liability - Beginning of Year	11,534,908	6,110,128	27,089,464	44,734,500
<b>TOTAL PENSION LIABILITY - END OF YEAR (A)</b>	<b>11,914,911</b>	<b>6,159,794</b>	<b>27,453,877</b>	<b>45,528,582</b>
<b>PLAN FIDUCIARY NET POSITION</b>				
Contributions - Employer	478,308	64,277	423,936	966,521
Contributions - Plan Members	64,012	36,883	157,438	258,333
Net Investment Income	(446,203)	(25,197)	(91,891)	(563,291)
Benefit Payments, Including Refunds of Plan Member Contributions	(557,605)	(356,611)	(800,748)	(1,714,964)
Administrative Expense	(7,600)	(6,500)	(10,600)	(24,700)
<b>NET CHANGES IN PLAN FIDUCIARY NET POSITION</b>	<b>(469,088)</b>	<b>(287,148)</b>	<b>(321,865)</b>	<b>(1,078,101)</b>
Plan Fiduciary Net Position - Beginning of Year	11,021,063	6,493,999	28,077,952	45,593,014
<b>PLAN FIDUCIARY NET POSITION - END OF YEAR (B)</b>	<b>10,551,975</b>	<b>6,206,851</b>	<b>27,756,087</b>	<b>44,514,913</b>
<b>BOROUGH'S NET PENSION LIABILITY (ASSET) (A-B)</b>	<b>\$ 1,362,936</b>	<b>\$ (47,057)</b>	<b>\$ (302,210)</b>	<b>\$ 1,013,669</b>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b>	88.56%	100.76%	101.10%	97.77%
<b>COVERED-EMPLOYEE PAYROLL</b>	2,160,409	1,020,433	5,586,454	8,767,296
<b>BOROUGH'S NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL</b>	63.09%	-4.61%	-5.41%	11.56%

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**LAST 10 FISCAL YEARS**  
**UNAUDITED**

	2014			
	Police Pension Fund	Fire Drivers' Pension Fund	Hanover Employees' Pension Fund	Total Pension Trust Funds
<b>TOTAL PENSION LIABILITY</b>				
Service Cost	\$ 264,674	\$ 92,224	\$ 551,759	\$ 908,657
Interest	773,726	410,195	1,795,624	2,979,545
Changes in Experience	-	-	-	-
Changes of Assumptions	-	-	-	-
Benefit Payments, Including Refunds of Plan Member Contributions	(584,107)	(319,985)	(715,865)	(1,619,957)
<b>NET CHANGES IN TOTAL PENSION LIABILITY</b>	<b>454,293</b>	<b>182,434</b>	<b>1,631,518</b>	<b>2,268,245</b>
Total Pension Liability - Beginning of Year	11,080,615	5,927,694	25,457,946	42,466,255
<b>TOTAL PENSION LIABILITY - END OF YEAR (A)</b>	<b>11,534,908</b>	<b>6,110,128</b>	<b>27,089,464</b>	<b>44,734,500</b>
<b>PLAN FIDUCIARY NET POSITION</b>				
Contributions - Employer	478,718	66,988	448,010	993,716
Contributions - Plan Members	61,406	37,484	160,897	259,787
Net Investment Income	781,847	155,116	722,392	1,659,355
Benefit Payments, Including Refunds of Plan Member Contributions	(584,107)	(319,985)	(715,865)	(1,619,957)
Administrative Expense	(2,700)	(1,800)	(7,900)	(12,400)
<b>NET CHANGES IN PLAN FIDUCIARY NET POSITION</b>	<b>735,164</b>	<b>(62,197)</b>	<b>607,534</b>	<b>1,280,501</b>
Plan Fiduciary Net Position - Beginning of Year	10,285,899	6,556,196	27,470,418	44,312,513
<b>PLAN FIDUCIARY NET POSITION - END OF YEAR (B)</b>	<b>11,021,063</b>	<b>6,493,999</b>	<b>28,077,952</b>	<b>45,593,014</b>
<b>BOROUGH'S NET PENSION LIABILITY (ASSET) (A-B)</b>	<b>\$ 513,845</b>	<b>\$ (383,871)</b>	<b>\$ (988,488)</b>	<b>\$ (858,514)</b>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b>	95.55%	106.28%	103.65%	101.92%
<b>COVERED-EMPLOYEE PAYROLL</b>	1,902,925	962,980	5,239,612	8,105,517
<b>BOROUGH'S NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL</b>	27.00%	-39.86%	-18.87%	-10.59%

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**SCHEDULES OF BOROUGH CONTRIBUTIONS, AND INVESTMENT RETURNS -**  
**PENSION PLANS**  
**LAST 10 FISCAL YEARS**  
**UNAUDITED**

**SCHEDULE OF BOROUGH CONTRIBUTIONS**

	<u>2015</u>			<u>2014</u>		
	<u>Pension Plans</u>			<u>Pension Plans</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Actuarially Determined Contribution	\$ 478,308	\$ 64,277	\$ 423,936	\$ 478,718	\$ 66,988	\$ 448,010
Contribution in Relation to the Actuarially Determined Contribution	<u>478,308</u>	<u>64,277</u>	<u>423,936</u>	<u>478,718</u>	<u>66,988</u>	<u>448,010</u>
Contribution Excess (Deficiency)	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
Covered-Employee Payroll	<u>\$ 2,160,409</u>	<u>\$ 1,020,433</u>	<u>\$ 5,586,454</u>	<u>\$ 1,902,925</u>	<u>\$ 962,980</u>	<u>\$ 5,239,612</u>
Borough's Contribution as a Percentage of Covered-Employee Payroll	<u>22.14%</u>	<u>6.30%</u>	<u>7.59%</u>	<u>25.16%</u>	<u>6.96%</u>	<u>8.55%</u>

**NOTES TO SCHEDULE:**

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, two years prior to the end of the fiscal year in which the contributions are reported (last performed January 1, 2015).

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**SCHEDULES OF BOROUGH CONTRIBUTIONS, AND INVESTMENT RETURNS -**  
**PENSION PLANS**  
**LAST 10 FISCAL YEARS**  
**UNAUDITED**

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal
Asset Valuation Method	Market value as determined by the trustee
Inflation Assumption	4.0%
Projected Salary Increases	5.0%
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation
Mortality	Based on the RP-2000 Mortality Tables for Males and Females, as appropriate, with no adjustment for projected mortality improvements

	<u>Pension Plans</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Amortization Method	Level dollar closed	None	None
Remaining Amortization Period	14 years	None	None
Retirement Age	Active members at age 53 and completion of 25 years of service or age on valuation date, if greater; vested former members at normal retirement age, or age of valuation date, if greater	Normal retirement age, or age of valuation date, if greater	Normal retirement age, or age of valuation date, if greater

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**SCHEDULES OF BOROUGH CONTRIBUTIONS, AND INVESTMENT RETURNS -**  
**PENSION PLANS**  
**LAST 10 FISCAL YEARS**  
**UNAUDITED**

Changes in Benefits Terms: For non-union, non-uniformed employees in the Hanover Employees' Pension Plan hired on or after July 1, 2014:

- 1) Normal Retirement Date is attained at age 60 and completion of 25 years of vesting service (previously age 55), or attainment of age 65 and completion of 10 years of vesting service (previously ae 62).
- 2) Normal Retirement Pension is one percent of average monthly compensation multiplied by the total number of years of benefit service rounded to the nearest one-half year (previously 1.5%).

Other Information: In 2015, the cost-of-living increase assumption for the Police Pension Plan was revised from 4.0% to 3.0% per year to reflect recent history of cost-of-living increases.

**SCHEDULE OF INVESTMENT RETURNS**  
**LAST 10 FISCAL YEARS**  
**UNAUDITED**

	<u>2015</u>			<u>2014</u>		
	<u>Pension Plans</u>			<u>Pension Plans</u>		
	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>	<u>Police</u>	<u>Fire Drivers'</u>	<u>Hanover Employees'</u>
Average Money-Weighted Rate of Return, Net of Investment Expense	<u>(4.02)%</u>	<u>(0.39)%</u>	<u>(0.33)%</u>	<u>6.41%</u>	<u>2.40%</u>	<u>2.38%</u>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT**  
**BENEFITS (OPEB) PLAN**

**UNAUDITED**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
<b><i>Police</i></b>						
1/1/08	\$ -	\$ 339,154	\$ 339,154	0.00%	\$ 1,275,592	26.6%
1/1/11	\$ -	\$ 269,303	\$ 269,303	0.00%	\$ 1,405,946	19.2%
1/1/14	\$ -	\$ 397,275	\$ 397,275	0.00%	\$ 1,825,978	21.8%
<b><i>Fire Drivers'</i></b>						
1/1/08	\$ -	\$ 217,876	\$ 217,876	0.00%	\$ 970,594	22.4%
1/1/11	\$ -	\$ 214,053	\$ 214,053	0.00%	\$ 983,929	21.8%
1/1/14	\$ -	\$ 369,377	\$ 369,377	0.00%	\$ 939,602	39.3%
<b><i>Hanover Employees'</i></b>						
1/1/08	\$ -	\$ 929,393	\$ 929,393	0.00%	\$ 4,792,577	19.4%
1/1/11	\$ -	\$ 1,081,455	\$ 1,081,455	0.00%	\$ 4,982,663	21.7%
1/1/14	\$ -	\$ 2,053,000	\$ 2,053,000	0.00%	\$ 5,533,638	37.1%

**OTHER SUPPLEMENTARY INFORMATION**

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**COMBINING SCHEDULE OF FIDUCIARY NET POSITION**  
**DECEMBER 31, 2015**

**UNAUDITED**

	Pension Trust Funds			Total Pension Trust Funds
	Police Pension Fund	Fire Drivers' Pension Fund	Hanover Employees' Pension Fund	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 396,494	\$ 335,215	\$ 1,183,180	\$ 1,914,889
Contributions Receivable	7,757	4,263	15,042	27,062
Accrued Interest Receivable	27,382	1,006	29,385	57,773
Investments	10,120,342	5,866,367	26,528,480	42,515,189
<b>TOTAL ASSETS</b>	<b>10,551,975</b>	<b>6,206,851</b>	<b>27,756,087</b>	<b>44,514,913</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	-	-	-	-
<b>LIABILITIES</b>	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-	-	-
<b>NET POSITION</b>				
Restricted for Pension Benefits	10,551,975	6,206,851	27,756,087	44,514,913
<b>TOTAL NET POSITION</b>	<b>\$ 10,551,975</b>	<b>\$ 6,206,851</b>	<b>\$ 27,756,087</b>	<b>\$ 44,514,913</b>

**THE BOROUGH OF HANOVER, PENNSYLVANIA**  
**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

**UNAUDITED**

	Pension Trust Funds			Total Pension Trust Funds
	Police Pension Fund	Fire Drivers' Pension Fund	Hanover Employees' Pension Fund	
<b>ADDITIONS</b>				
Contributions				
Employer	\$ 478,308	\$ 64,277	\$ 423,936	\$ 966,521
Plan Members	64,012	36,883	157,438	258,333
Total Contributions	<u>542,320</u>	<u>101,160</u>	<u>581,374</u>	<u>1,224,854</u>
Investment Earnings				
Interest Income	80,835	91,105	396,356	568,296
Dividends	187,912	19,124	83,160	290,196
	<u>268,747</u>	<u>110,229</u>	<u>479,516</u>	<u>858,492</u>
Less: Investment Expense	64,896	17,368	83,399	165,663
Net Investment Earnings	<u>203,851</u>	<u>92,861</u>	<u>396,117</u>	<u>692,829</u>
<b>TOTAL ADDITIONS</b>	<u><b>746,171</b></u>	<u><b>194,021</b></u>	<u><b>977,491</b></u>	<u><b>1,917,683</b></u>
<b>DEDUCTIONS</b>				
Benefits	557,605	356,611	800,748	1,714,964
Administrative Expense	7,600	6,500	10,600	24,700
<b>TOTAL DEDUCTIONS</b>	<u><b>565,205</b></u>	<u><b>363,111</b></u>	<u><b>811,348</b></u>	<u><b>1,739,664</b></u>
<b>NET DEPRECIATION IN FAIR VALUE OF INVESTMENTS</b>	<u><b>(650,054)</b></u>	<u><b>(118,058)</b></u>	<u><b>(488,008)</b></u>	<u><b>(1,256,120)</b></u>
<b>CHANGES IN NET POSITION</b>	<u><b>(469,088)</b></u>	<u><b>(287,148)</b></u>	<u><b>(321,865)</b></u>	<u><b>(1,078,101)</b></u>
Net Position - Beginning of Year	<u>11,021,063</u>	<u>6,493,999</u>	<u>28,077,952</u>	<u>45,593,014</u>
<b>NET POSITION - END OF YEAR</b>	<u><b>\$ 10,551,975</b></u>	<u><b>\$ 6,206,851</b></u>	<u><b>\$ 27,756,087</b></u>	<u><b>\$ 44,514,913</b></u>