

**HOPEWELL TOWNSHIP**  
**EARNED INCOME, MERCANTILE,**  
**AND LOCAL SERVICES TAX COLLECTOR**  
**DECEMBER 31, 2009**

**AUDIT REPORT**

**HOPEWELL TOWNSHIP**  
**EARNED INCOME, MERCANTILE, AND LOCAL SERVICES TAX COLLECTOR**  
**DECEMBER 31, 2009**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors,  
Hopewell Township, PA

We have audited the statement of Earned Income Tax receipts, disbursements and cash balance – cash basis, the statement of Refund Account receipts, disbursements and cash balance – cash basis, the statement of Local Services Tax receipts, disbursements and cash balance – cash basis and the statement of Mercantile Tax receipts, disbursements and cash balance – cash basis of the Hopewell Township Tax Office, as of and for the year ended December 31, 2009, as listed in the table of contents. The statement of Earned Income Tax receipts, disbursements and cash balance – cash basis, the statement of Refund Account receipts, disbursements and cash balance – cash basis, the statement of Local Services Tax receipts, disbursements and cash balance – cash basis and the statement of Mercantile Tax receipts, disbursements and cash balance – cash basis are the responsibility of the Hopewell Township Tax Office. Our responsibility is to express an opinion on the statement of Earned Income Tax receipts, disbursements and cash balance – cash basis, the statement of Refund Account receipts, disbursements and cash balance – cash basis, the statement of Local Services Tax receipts, disbursements and cash balance – cash basis and the statement of Mercantile Tax receipts, disbursements and cash balance – cash basis 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Hopewell Township Tax Office prepares the statement of Earned Income Tax receipts, disbursements and cash balance – cash basis, the statement of Refund Account receipts, disbursements and cash balance – cash basis, the statement of Local Services Tax receipts, disbursements and cash balance – cash basis and the statement of Mercantile Tax receipts, disbursements and cash balance – cash basis on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effect on the statement of Earned Income Tax receipts, disbursements and cash balance – cash basis, the statement of Refund Account receipts, disbursements and cash balance – cash basis, the statement of Local Services Tax receipts, disbursements and cash balance – cash basis and the statement of Mercantile Tax receipts, disbursements and cash balance – cash basis and the variances between these accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, the statement of Earned Income Tax receipts, disbursements and cash balance – cash basis, the statement of Refund Account receipts, disbursements and cash balance – cash basis, the statement of Local Services Tax receipts, disbursements and cash balance – cash basis and the statement of Mercantile Tax receipts, disbursements and cash balance – cash basis referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the

aforementioned taxes of the Hopewell Township Tax Office, as of December 31, 2009, and the revenues received and expenditures paid related to the aforementioned taxes for the year then ended in conformity with the basis of accounting described in Note 1.

**COTTRILL, ARBUTINA & ASSOCIATES, P.C.**

*Certified Public Accountants*

*Cottrill, Arbutina & Associates, P.C.*

New Brighton, PA 15066

February 8, 2010

**HOPEWELL TOWNSHIP**  
**STATEMENT OF EARNED INCOME TAX RECEIPTS, DISBURSEMENTS,**  
**AND CASH BALANCE - CASH BASIS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>CASH BALANCE, EARNED INCOME ACCOUNT - JANUARY 1, 2009</b>	<u>\$ 6,744</u>
<b>RECEIPTS</b>	
Earned Income Tax Collections	\$ 2,666,129
Transfer from Refund Account	30,000
Transfer from Mercantile Account	8,936
Interest Earned	<u>236</u>
Total Receipts	<u>\$ 2,705,301</u>
Total Receipts and Beginning Cash Balance	<u>\$ 2,712,045</u>
<b>DISBURSEMENTS</b>	
Hopewell Township	
Earned Income Tax Disbursements	\$ 1,260,441
Interest Earned Distributed to Hopewell Township	816
Miscellaneous Disbursements	
Disbursements to Other Governing Bodies	1,263,604
Transfer to Refund Account	<u>152,000</u>
Total Disbursements	<u>\$ 2,676,861</u>
<b>CASH BALANCE - DECEMBER 31, 2009</b>	<u>\$ 35,184</u>

**HOPEWELL TOWNSHIP**  
**STATEMENT OF REFUND ACCOUNT RECEIPTS, DISBURSEMENTS,**  
**AND CASH BALANCE - CASH BASIS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>CASH BALANCE, REFUND ACCOUNT - JANUARY 1, 2009</b>	<b>\$ <u>14,638</u></b>
 <b>RECEIPTS</b>	
Transfers from Earned Income Tax Account	\$ 152,000
Interest Earned	<u>116</u>
Total Receipts	<b>\$ <u>152,116</u></b>
Total Receipts and Beginning Cash Balance	<b>\$ <u>166,754</u></b>
 <b>DISBURSEMENTS</b>	
Transfers to Other Tax Collectors	\$ 94,070
Refunds Issued to Individuals	34,742
Transfers to Earned Income Account	<u>30,000</u>
Total Disbursements	<b>\$ <u>158,812</u></b>
CASH BALANCE - DECEMBER 31, 2009	<b>\$ <u>7,942</u></b>

**HOPEWELL TOWNSHIP**  
**STATEMENT OF LOCAL SERVICES TAX RECEIPTS, DISBURSEMENTS,**  
**AND CASH BALANCE - CASH BASIS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>CASH BALANCE, LOCAL SERVICES TAX ACCOUNT - JANUARY 1, 2009</b>	<b>\$ <u>57</u></b>
 <b>RECEIPTS</b>	
Local Services Tax Collections	\$ 202,003
Interest Earned	<u>13</u>
Total Receipts	<b>\$ <u>202,016</u></b>
Total Receipts and Beginning Cash Balance	<b>\$ <u>202,073</u></b>
 <b>DISBURSEMENTS</b>	
Hopewell Township	
Local Services Tax Disbursements	\$ 181,679
Interest Earned and Distributed to Hopewell Township	24
Miscellaneous Disbursements	
Local Services Tax Collection Disbursements to Other Governing Bodies	<u>20,274</u>
Total Disbursements	<b>\$ <u>201,977</u></b>
<b>CASH BALANCE - DECEMBER 31, 2009</b>	<b>\$ <u>96</u></b>

HOPEWELL TOWNSHIP

STATEMENT OF MERCANTILE TAX RECEIPTS, DISBURSEMENTS,

AND CASH BALANCE - CASH BASIS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

CASH BALANCE, MERCANTILE ACCOUNT - JANUARY 1, 2009	\$	<u>774</u>
<b>RECEIPTS</b>		
Mercantile Tax Collections	\$	162,357
Receipts for Other Accounts (Inadvertently posted to Mercantile Tax Accc		8,936
Interest Earned		<u>13</u>
Total Receipts	\$	<u>171,306</u>
Total Receipts and Beginning Cash Balance	\$	<u>172,080</u>
<b>DISBURSEMENTS</b>		
Hopewell Township		
Mercantile Tax Disbursements	\$	79,454
Interest Earned and Distributed to Hopewell Township		48
Miscellaneous Disbursements		
Mercantile Tax Collection Disbursements to Other Governing Bodies		82,480
Transfer to Earned Income Tax Account		8,936
NSF Check Charges		<u>416</u>
Total Disbursements	\$	<u>171,334</u>
CASH BALANCE - DECEMBER 31, 2009	\$	<u>746</u>

**HOPEWELL TOWNSHIP**  
**EARNED INCOME, MERCANTILE, AND LOCAL SERVICES TAX COLLECTOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

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

**Basis of Accounting**

The accounting records of the Hopewell Township Tax Office are maintained on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the cash basis of accounting, the statement of Earned Income Tax receipts, disbursements and cash balance – cash basis, the statement of Refund Account receipts, disbursements and cash balance – cash basis, the statement of Local Services Tax receipts, disbursements and cash balance – cash basis and the statement of Mercantile Tax receipts, disbursements and cash balance – cash basis reflect only cash received and disbursed as shown on the bank statements of the Hopewell Township Tax Office. Therefore, receivables and payables which may be material in amount are not reflected. In addition, because there is not a consistent, universal standard among tax collectors to determine the totality of the tax roll, this report does not draw any conclusions regarding the totality of the tax roll.

**NOTE 2 – TAXES COLLECTED**

**The Earned Income Tax**

*Background*

The Hopewell Area School District and Hopewell Township have appointed a Joint Earned Income Tax Collector, pursuant to the authority conferred by “The Local Tax Enabling Act” of the General Assembly of the Commonwealth of Pennsylvania. The earned income tax is a tax levied by the locality as a percentage of wages, salaries, net profits (for the self-employed), bonuses, commissions, incentive payments (including stock options), fees and tips. The (Township/School District) has a 1% earned income tax on all (Township/School District) residents who produce income consistent with aforementioned guidelines.

*Weaknesses with the current Earned Income Tax Collection System in Pennsylvania:*

There are currently many inherent weaknesses in The Local Tax Enabling Act (Act 511) as recently pointed out by the Governor’s Center for Local Government Services. Some of the weaknesses are as follows:

- Varying definitions of earned income among almost 2,900 local taxing jurisdictions
- Multiple tax collectors (ranging from municipal or school employees to nonprofit joint tax collection agencies to elected property tax collectors to private for-profit collectors)

**HOPEWELL TOWNSHIP**  
**EARNED INCOME, MERCANTILE, AND LOCAL SERVICES TAX COLLECTOR**  
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**NOTE 2 – TAXES COLLECTED – CONTINUED**

- Different earned income tax rates create withholding challenges for employers and distribution challenges for tax collectors, and complicate administration of the tax
- Different withholding requirements depending on the locality
- Disputes often arise over amounts owed by one jurisdiction to another
- Taxing jurisdictions, especially in Western Pennsylvania, do not receive tax monies that were withheld by employers from their residents but remitted to the jurisdiction where the residents work
- It is difficult for tax collectors to determine where nonresident tax monies should be distributed, because there is no requirement for an employee's address to be included with quarterly taxes withheld, remitted and reported by employers
- Because of vague and incomplete reporting requirements in Act 511, it is difficult for tax collectors to track where their residents' tax monies were remitted
- It is often impossible for auditors to investigate proper distribution of tax monies to other localities because oftentimes there is no audit trail to review
- Section 11 of Act 511, Audits of Earned Income Taxes, provides that "the governing body of each political subdivision shall provide for not less than one examination each year of the books, accounts and records of the income tax collector, by a certified public accountant appointed by the governing body; however, there are no statutory standards for the audit, or specifics provided on what is to audited...in addition, there are no standards for reporting by the tax collector or specifics on what is to be reported
- A major reason for the lack of uniformity in the earned income tax system is the ability of each taxing jurisdiction to create its own rules and regulations
- Inconsistent methods for determining the totality of the tax roll

**The Local Services Tax (LST)**

*Background*

The Hopewell Area School District and Hopewell Township have appointed a Joint Local Services Tax Collector, pursuant to the authority conferred by "The Local Tax Enabling Act" of the General Assembly of the Commonwealth of Pennsylvania. This tax in the amount of Fifty-two (\$52.00) Dollars was levied by this ordinance. Of the \$52 collected, \$47 will be paid to Hopewell Township and \$5 will be paid to the Hopewell Area School District. However, Act 7 of 2007 amended "The Local Tax Enabling Act," Act 511 of 1965 and became effective for taxes levied in calendar year 2008. The amendments included a change in the name from Emergency and Municipal Services Tax to the Local Services Tax. And a mandatory low-income exemption for any taxpayers that earn less than \$12,000

**HOPEWELL TOWNSHIP**  
**EARNED INCOME, MERCANTILE, EMERGENCY AND MUNICIPAL SERVICES AND**  
**LOCAL SERVICES TAX COLLECTOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**NOTE 2 – TAXES COLLECTED – CONTINUED**

**The Mercantile Tax**

*Background*

The Hopewell Area School District and the Townships of Hopewell and Raccoon have appointed a Joint Mercantile Tax Collector, pursuant to the authority conferred by “The Local Tax Enabling Act” of the General Assembly of the Commonwealth of Pennsylvania. Mercantile tax is assessed at a rate of 1.5 mills on retail sales and 1 mill on wholesale sales by each of the taxing bodies. In addition, Hopewell Township collects an annual Mercantile license fee of \$5 from each business establishment in which taxable activity is conducted. The Hopewell Area School District tax is assessed on sales of businesses operating within the boundaries of the District, which consists of Hopewell, Independence, and Raccoon Townships.

**Interest, NSF Fees and Refunds**

Interest earned and bank charges of the Earned Income, Refund, Mercantile, EMS and LST tax accounts are paid or charged to Hopewell Township.

NSF fees charged to tax payers, which are paid in the form of cash to the Hopewell Township Tax Office, are not deposited to a bank account, but are kept by the Hopewell Township Tax Office for petty cash.

The Hopewell Township Tax Office maintains a Refund Account which is used to pay out refunds to other tax collectors or individuals. Monies are transferred from the other tax accounts into the Refund account in order to make these payments.

**NOTE 3 – SUBSEQUENT EVENTS**

It was learned that the current Hopewell Tax Collector, Josephine Palsa, will no longer be responsible for collecting Earned Income, Mercantile, Emergency and Municipal Services and Local Services at the end of business December 31, 2009. At the date of this audit, the successor tax collector Berkheimer and Associates were in the process of taking over the tax collecting duties.

**NOTE 4 – DISBURSEMENT OF ENDING BALANCES**

At the end of business December 31, 2009, the following accounts had outstanding balances in the Earned Income, Refund, LST and Mercantile.

**HOPEWELL TOWNSHIP**  
**EARNED INCOME, MERCANTILE, AND LOCAL SERVICES TAX COLLECTOR**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

**NOTE 4 – DISBURSEMENT OF ENDING BALANCES – CONTINUED**

**The Earned Income Tax Account**

The Earned Income account had a balance of \$35,183.57 of which \$17,709.81 was remitted to Hopewell Township to reflect \$17,473.77 in collections and \$236.04 in interest from 2009 as well as another check to other governing bodies in the amount of \$17,473.76.

**The Refund Account**

The Refund account had a balance of \$15,659.11 of which \$5,591.55 is considered to be outstanding in the form of checks not cashed. The Tax Collector remitted \$3,500 from this account to Hopewell Township as well as a similar check to the other governing bodies.

**The Local Services Tax Account**

The LST account had a balance of \$96.70 of which \$55.04 was remitted to Hopewell Township to reflect \$41.67 in collections and \$13.37 in interest from 2009 as well as interest from the month of January 2010. As well another check was remitted to other governing bodies in the amount of \$41.67.

**The Mercantile Tax Account**

The Mercantile Account had a balance of \$746.22 of which \$379.59 was remitted to Hopewell Township to reflect \$366.74 in collections and \$12.85 in interest from 2009 as well as interest from the month of January 2010. As well another check was remitted to other governing bodies in the amount of \$366.73.