

**City of Hanover
Hennepin County and
Wright County, Minnesota**

Financial Statements

December 31, 2017



**City of Hanover
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**City of Hanover
Elected Officials and Administration
December 31, 2017**

| <u>Elected Officials</u> | <u>Position</u> | <u>Term Expires</u> |
|--------------------------|------------------------------------|---------------------|
| Chris Kauffman | Mayor | December 31, 2020 |
| Jim Zajicek | Council Member | December 31, 2018 |
| MaryAnn Hallstein | Council Member | December 31, 2020 |
| Ken Warpula | Council Member | December 31, 2018 |
| Doug Hammerseng | Council Member | December 31, 2020 |
| <u>Administration</u> | | |
| Brian Hagen | City Administrator/Clerk/Treasurer | Appointed |
| Jackie Heinz | Accountant/Deputy Clerk | Appointed |



Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Hanover
Hanover, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hanover, Minnesota, as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the City'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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.



Auditor's Responsibility (Continued)

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

Basis for Qualified Opinion

The City has not adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting, and Financial Reporting for Pensions* as it relates to the Hanover Fire Relief Association pension plan. Accounting principles generally accepted in the United States of America require the recognition of net pension assets or liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for pension plans that meet certain criteria. The Hanover Fire Relief Association pension plan meets the criteria to be reported in the Governmental Activities of the City. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, net position, and change in net position of the Governmental Activities has not been determined.

Qualified Opinions

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities of the City of Hanover, Minnesota, as of December 31, 2017, and the respective changes in the financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hanover, Minnesota, as of December 31, 2017, and the respective changes in the financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund 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 which follows this report letter and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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.



Other Matters (Continued)

Required Supplementary Information (Continued)

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 City of Hanover's basic financial statements. The combining and individual fund financial statements/schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements/schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements/schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2018, on our consideration of the City of Hanover's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hanover's internal control over financial reporting and compliance.

BergankDV, Ltd.

St. Cloud, Minnesota
May 7, 2018



Management's Discussion and Analysis December 31, 2017

As management of the City of Hanover (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2017.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,046,518 (net position). Of this amount, \$3,972,526 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$42,586.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$3,556,065, a decrease of \$1,547,285 in comparison with the prior year. Approximately 18% of this total amount, \$639,937 is available in the General Fund for spending at the City's discretion (unassigned fund balance).
- At the end of the current year, unassigned fund balance for the General Fund was \$639,937, or approximately 51%, of 2017 expenditures, excluding transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported 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 vacation leave).

**City of Hanover
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, parks and recreation and economic development. The business-type activities of the City include water, sewer, and storm water operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also an Economic Development Authority (EDA) for which the City is financially accountable. Financial information for this component unit is discretely presented in the financial information presented for the primary government.

The government-wide financial statements can be found on pages 18 and 19 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

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 by the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, G.O. Crossover Refunding Bonds of 2011A, City Hall Fund, and the Capital Improvement Fund. Other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

City of Hanover Management's Discussion and Analysis

FUND FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds (Continued)

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20 to 24 of this report.

Proprietary Fund

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and storm water operations.

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Storm Water Funds, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 25 to 27 of this report.

Fiduciary Funds

The City is the trustee, or fiduciary, for resources collected to make payment to developers for qualified improvements made to certain districts within the City. The resources held in a fiduciary capacity are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in the Developer Escrow Fund are used for their intended purpose.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows or resources exceeded liabilities and deferred inflows of resources by \$20,046,518 at the close of the most recent year.

A significant portion of the City's net position (62%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 the capital assets themselves cannot be used to liquidate these liabilities.

**City of Hanover
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

| | Net Position | | | | | |
|---------------------------------------|--------------------------------|----------------------|-----------------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-Type Transactions | | Total | |
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Assets | | | | | | |
| Current and other assets | \$ 4,105,168 | \$ 5,590,035 | \$ 4,071,859 | \$ 4,010,060 | \$ 8,177,027 | \$ 9,600,095 |
| Capital assets | <u>8,015,258</u> | <u>6,509,867</u> | <u>7,122,727</u> | <u>7,399,986</u> | <u>15,137,985</u> | <u>13,909,853</u> |
| Total assets | <u>\$ 12,120,426</u> | <u>\$ 12,099,902</u> | <u>\$ 11,194,586</u> | <u>\$ 11,410,046</u> | <u>\$ 23,315,012</u> | <u>\$ 23,509,948</u> |
| Deferred Outflows of Resources | <u>\$ 73,465</u> | <u>\$ 157,995</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 73,465</u> | <u>\$ 157,995</u> |
| Liabilities | | | | | | |
| Long-term liabilities outstanding | \$ 2,354,863 | \$ 2,781,479 | \$ 197,000 | \$ 297,000 | \$ 2,551,863 | \$ 3,078,479 |
| Other liabilities | <u>640,898</u> | <u>443,690</u> | <u>105,068</u> | <u>114,138</u> | <u>745,966</u> | <u>557,828</u> |
| Total liabilities | <u>\$ 2,995,761</u> | <u>\$ 3,225,169</u> | <u>\$ 302,068</u> | <u>\$ 411,138</u> | <u>\$ 3,297,829</u> | <u>\$ 3,636,307</u> |
| Deferred Inflows of Resources | <u>\$ 44,130</u> | <u>\$ 27,704</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 44,130</u> | <u>\$ 27,704</u> |
| Net Position | | | | | | |
| Net investment in capital assets | \$ 5,690,258 | \$ 5,416,017 | \$ 6,825,727 | \$ 7,004,986 | \$ 12,515,985 | \$ 12,421,003 |
| Restricted | 808,224 | 773,383 | 2,749,783 | 2,679,764 | 3,558,007 | 3,453,147 |
| Unrestricted | <u>2,655,518</u> | <u>2,815,624</u> | <u>1,317,008</u> | <u>1,314,158</u> | <u>3,972,526</u> | <u>4,129,782</u> |
| Total net position | <u>\$ 9,154,000</u> | <u>\$ 9,005,024</u> | <u>\$ 10,892,518</u> | <u>\$ 10,998,908</u> | <u>\$ 20,046,518</u> | <u>\$ 20,003,932</u> |

At the end of the current year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities increased the City's net position by \$148,976.

**City of Hanover
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

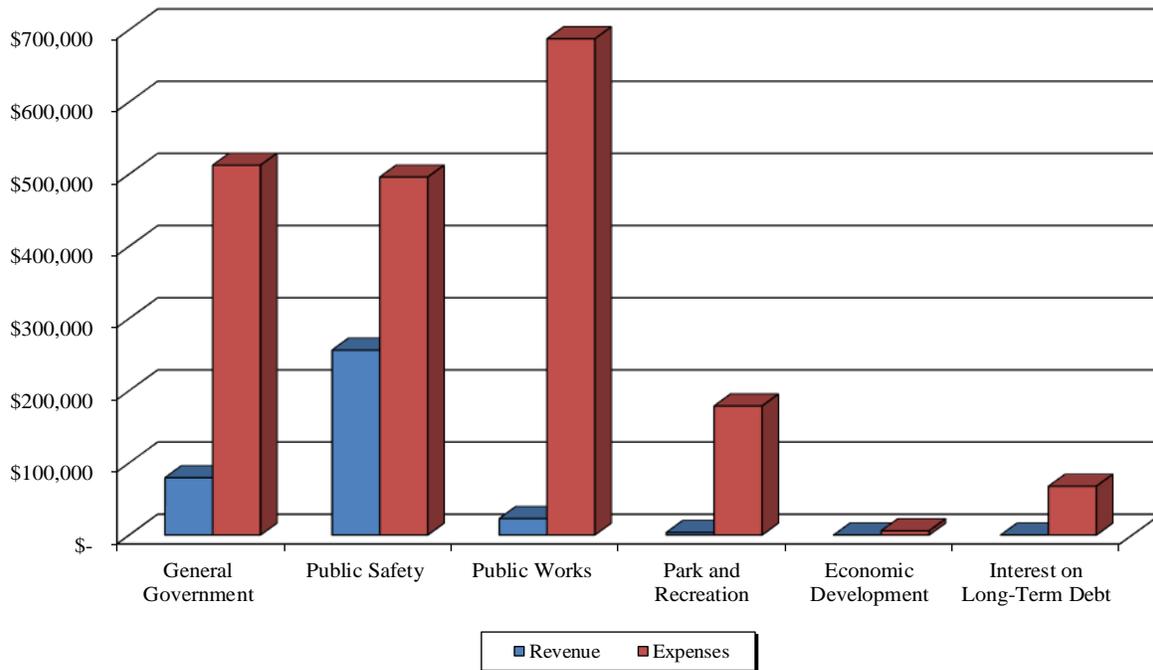
| | Changes in Net Position | | | | | |
|------------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 259,068 | \$ 353,004 | \$ 509,382 | \$ 705,140 | \$ 768,450 | \$ 1,058,144 |
| Operating grants and contributions | 89,417 | 100,081 | - | - | 89,417 | 100,081 |
| Capital grants and contributions | 13,623 | 29,978 | 3,374 | 38,320 | 16,997 | 68,298 |
| General revenues | | | | | | |
| Property taxes | 1,487,852 | 1,413,743 | - | - | 1,487,852 | 1,413,743 |
| State aid | 110,092 | 109,532 | - | - | 110,092 | 109,532 |
| Unrestricted investment earnings | 114,897 | 47,982 | 30,139 | 50,870 | 145,036 | 98,852 |
| Franchise tax | 15,759 | 14,500 | - | - | 15,759 | 14,500 |
| Tax increments | 6,560 | 6,952 | - | - | 6,560 | 6,952 |
| Gain on sale | - | 46,824 | - | - | - | 46,824 |
| Total revenues | <u>\$ 2,097,268</u> | <u>\$ 2,122,596</u> | <u>\$ 542,895</u> | <u>\$ 794,330</u> | <u>\$ 2,640,163</u> | <u>\$ 2,916,926</u> |
| Expenses | | | | | | |
| General government | \$512,433 | \$ 642,171 | \$ - | \$ - | \$ 512,433 | \$ 642,171 |
| Public safety | 495,979 | 459,466 | - | - | 495,979 | 459,466 |
| Public works | 687,582 | 651,052 | - | - | 687,582 | 651,052 |
| Parks and recreation | 178,795 | 346,760 | - | - | 178,795 | 346,760 |
| Economic | 5,904 | 6,256 | - | - | 5,904 | 6,256 |
| Interest on long-term debt | 67,599 | 68,885 | - | - | 67,599 | 68,885 |
| Water utility | - | - | 141,691 | 175,727 | 141,691 | 175,727 |
| Sewer utility | - | - | 408,477 | 505,696 | 408,477 | 505,696 |
| Storm water utility | - | - | 99,117 | 70,271 | 99,117 | 70,271 |
| Total expenses | <u>1,948,292</u> | <u>2,174,590</u> | <u>649,285</u> | <u>751,694</u> | <u>2,597,577</u> | <u>2,926,284</u> |
| Net change | <u>148,976</u> | <u>(51,994)</u> | <u>(106,390)</u> | <u>42,636</u> | <u>42,586</u> | <u>(9,358)</u> |
| Net position - beginning of year | <u>9,005,024</u> | <u>9,057,018</u> | <u>10,998,908</u> | <u>10,956,272</u> | <u>20,003,932</u> | <u>20,013,290</u> |
| Net position - end of year | <u>\$ 9,154,000</u> | <u>\$ 9,005,024</u> | <u>\$ 10,892,518</u> | <u>\$ 10,998,908</u> | <u>\$ 20,046,518</u> | <u>\$ 20,003,932</u> |

The financial position of business-type activities decreased during the year by \$106,390. The City's total net position increased by \$42,586.

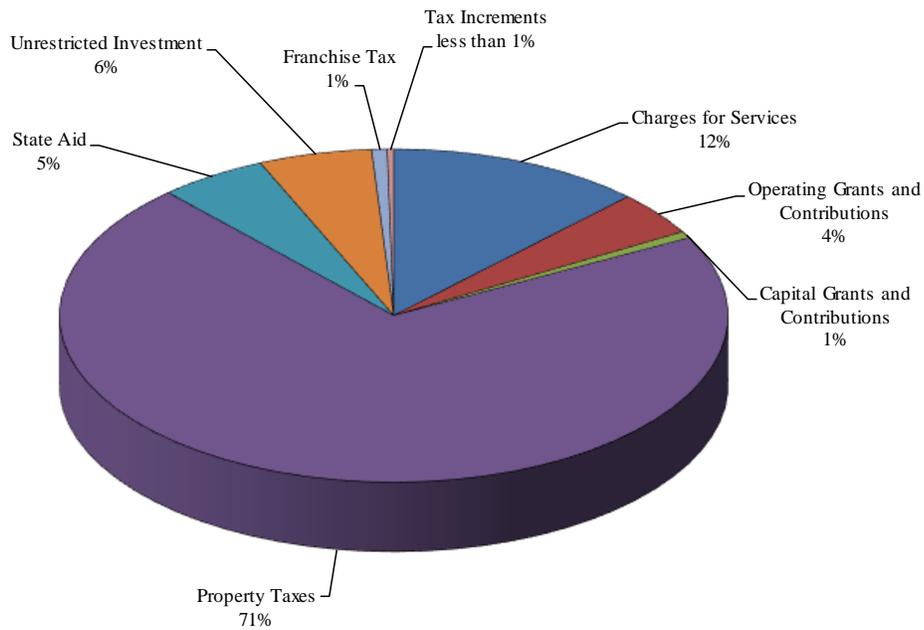
**City of Hanover
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Program Revenue and Expenses - Governmental Activities



Revenue By Source - Governmental Activities



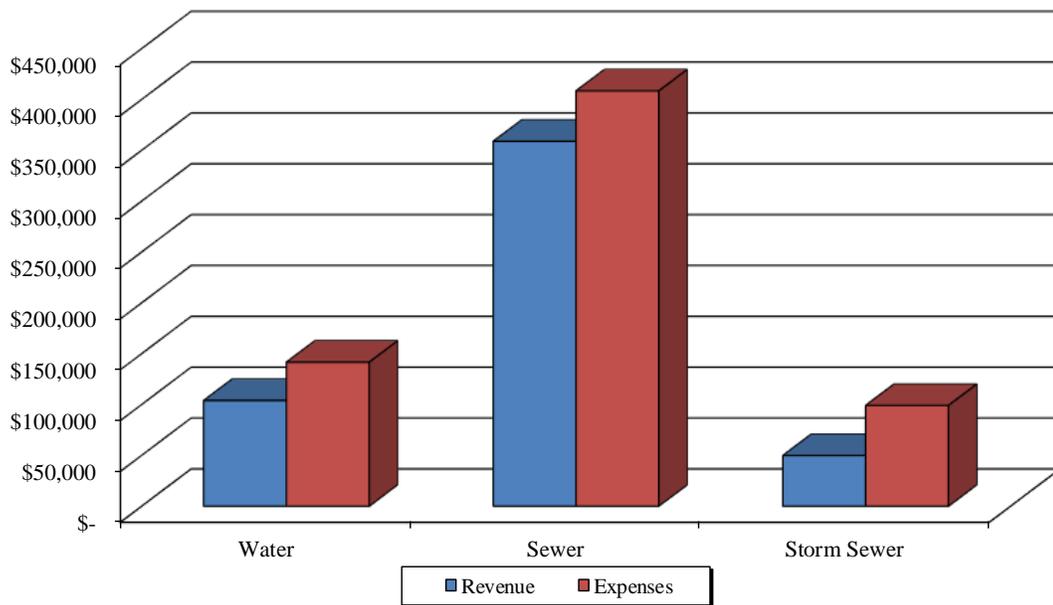
**City of Hanover
Management's Discussion And Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

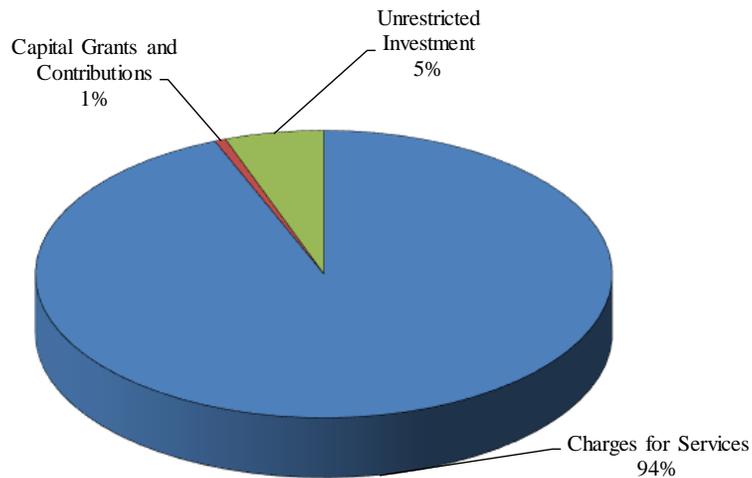
Business-Type Activities

Business-type activities decreased the City's net position by \$106,390.

**Expenses and Program Revenue -
Business-Type Activities**



Revenue By Source - Business-Type Activities



City of Hanover Management's Discussion And Analysis

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$3,556,065 a decrease of \$1,547,285 in comparison with the prior year. Of this total amount, 18% (\$639,937) constitutes the unassigned fund balance in the General Fund, which is available for spending at the City's discretion. The remainder of fund balance is nonspendable in the form of prepaid items (\$25,650) and long term receivables (\$72,042), restricted for debt service (\$607,208), restricted for park dedication (\$63,950), restricted for capital projects (\$17,333), and assigned to fund capital projects (\$2,470,285).

The General Fund is the chief operating fund of the City. At the end of the current year, fund balance of the General Fund was \$734,629. \$94,692 was nonspendable for prepaid items and long term receivable and the remainder is unassigned. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 51% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$54,609 during the current year. This decrease is the result of the City budgeting for a negative change in fund balance resulting from transfers out.

Proprietary Fund

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenue and expenditure budgets were approved by the City Council in December 2016. Revenues were \$31,531 over budget, due mainly because of budgeting conservatively for contributions and investment income. Expenditures were over budget by \$34,523, due to lower expenditures in several departments in both operating and capital type expenditures. These variances, less budgeted transfers of \$224,151 from the General Fund to the City's Capital Improvement Fund and other nonmajor governmental funds, plus proceeds of \$773 from the sale of capital assets resulted in a net decrease in fund balance of \$54,609.

**City of Hanover
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$15,137,985 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, and roads and bridges.

Capital Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 700,929 | \$ 700,929 | \$ 26,781 | \$ 26,781 | \$ 727,710 | \$ 727,710 |
| Construction in progress | 2,121,018 | 266,124 | - | - | 2,121,018 | 266,124 |
| Improvements other than building | 2,177,617 | 2,230,829 | 7,095,946 | 7,371,720 | 9,273,563 | 9,602,549 |
| Buildings and systems | 522,811 | 558,934 | - | - | 522,811 | 558,934 |
| Vehicles | 421,720 | 392,920 | - | 1,485 | 421,720 | 394,405 |
| Machinery and equipment | 97,551 | 98,755 | - | - | 97,551 | 98,755 |
| Infrastructure | 1,973,612 | 2,261,376 | - | - | 1,973,612 | 2,261,376 |
| Total | \$ 8,015,258 | \$ 6,509,867 | \$ 7,122,727 | \$ 7,399,986 | \$15,137,985 | \$13,909,853 |

Long Term Debt

At the end of the current year, the City had total long-term liabilities outstanding of \$2,924,652. Of this amount, \$2,150,000 is special assessment G.O. debt for which the City is liable in the event of default by the property owners subject to the assessment. The outstanding balance on the City's G.O. CIP Refunding Bonds, is \$175,000, which was issued to refinance previously issued EDA Revenue Bonds. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. Sewer Improvement Bonds) and compensated absences.

City Outstanding Debt G.O. and Revenue Bonds

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Special Assessment Debt With Governmental Commitment | \$ 2,150,000 | \$ 2,408,000 |
| PFA Water Revenue Bonds | 297,000 | 395,000 |
| G.O. CIP Refunding Bonds | 175,000 | 205,000 |
| Compensated Absences | 34,527 | 41,453 |
| Net Pension Liability | 268,125 | 341,019 |
| Total | \$ 2,924,652 | \$ 3,390,472 |

The City's total debt decreased by \$465,820 during 2017.

City of Hanover Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As predicted in 2017, the City of Hanover saw minimal new residential construction starts. The City did however, approve a preliminary/final plat of 30 new single family lots. The plat is an extension of an existing neighborhood, Crow River Heights. This new plat was completed by Backes Development LLC, with the developer anticipating the remaining 72 acres with 159 new lots to be preliminarily platted in 2018.

Another developer received concept plan approval from the City on an approximate 85 acre parcel. This developer, Paxmar Land Development, anticipates a preliminary plat approval of approximately 286 single family lots in 2018 as well. Between the 2017 final platting of 30 lots, the proposed preliminary plats from Backes Development LLC and Paxmar Land Development, the City could see approval of approximately 475 new single family lots. These developments are the first developments discussed by the City since the mid 2000's.

The City of Hanover also saw two industrial developments in 2017. JS Stewart Companies constructed an approximate 8,500 sq. ft. building and the City completed its new Public Works Facility. These two buildings are located on two adjacent 5 acre parcels which redeveloped a previous mine/dumping area on 5th St. NE. The City will also see the construction of a dental office in 2018 and may see an industrial business expansion.

In recent years the City has adjusted the budgeting process in order to better plan for future expenses. These expenses are related to capital improvement projects like the Public Works Facility and large road maintenance projects. The goal of the new budgeting process was to follow a funding plan, which in turn, would result in zero assessments on road maintenance projects and reduced debt. To date, the city has been able to fund approximately \$1.2 million in road projects without issuing new debt. This includes a \$500,000 project in 2016 and a \$700,000 project in 2018. Additionally, the City was able to fund \$1 million of the \$2.4 million Public Works facility with existing funds.

This adjustment to the budgeting process has required an increase in tax levy, however, by following the funding plan and seeing added property values, the City has witnessed a drop in tax rate for the first time in several years. The 2018 tax rate has been reduced to approximately 46%, down from its high of 53% in 2013 and 2014.

The City Council continues to work to control costs in the City. This fiscal restraint has resulted in maintaining a flat or reduced tax rate for several years. The City has worked with its neighboring cities and host Counties on the following cost savings service collaborations, which benefit all the participating parties:

1. St. Michael, Albertville and Hanover share a joint water system.
2. Hanover contracts with St. Michael for wastewater treatment services.
3. Hanover contracts with St. Michael for use of their Compost Facility
4. Hanover contracts with St. Michael for Library and Senior Services.
5. Hanover has informal equipment sharing agreements with its neighboring cities
6. Hanover contracts with both Hennepin and Wright Counties to provide police services.
7. Hanover contracts with both Hennepin and Wright Counties to provide assessing services.
8. Hanover is an entity included in the Wright County Area Transpiration Jt. Powers Agreement.

**City of Hanover
Management's Discussion and Analysis**

REQUESTS FOR INFORMATION

The City's EDA Fund is a component of the City. The statements for the EDA are found in this audit report. Separate statements are not issued.

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Hanover, 11250 5th Street NE, Hanover, Minnesota 55341.

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BASIC FINANCIAL STATEMENTS

City of Hanover
Statement of Net Position
December 31, 2017

| | Governmental Activities | Business-Type Activities | Total | Component Unit |
|---|----------------------------|-----------------------------|----------------------|-------------------|
| Assets | | | | |
| Cash and investments (including cash equivalents) | \$ 3,738,204 | \$ 3,895,986 | \$ 7,634,190 | \$ 318,897 |
| Taxes receivable | 20,394 | - | 20,394 | 518 |
| Accounts receivable | 77,834 | - | 77,834 | - |
| Interest receivable | 49,084 | - | 49,084 | - |
| Due from other governments | 8,981 | 32,547 | 41,528 | - |
| Other receivables | - | - | - | 14,812 |
| Special assessments receivable | | | | |
| Delinquent | 404 | 1,370 | 1,774 | - |
| Deferred | 187,617 | 141,014 | 328,631 | - |
| Prepaid items | 22,650 | 942 | 23,592 | - |
| Capital assets not being depreciated | | | | |
| Land | 700,929 | 26,781 | 727,710 | - |
| Construction in progress | 2,121,018 | - | 2,121,018 | - |
| Capital assets being depreciated | | | | |
| Infrastructure | 1,973,612 | - | 1,973,612 | - |
| Buildings | 522,811 | - | 522,811 | - |
| Improvements | 2,177,617 | 7,095,946 | 9,273,563 | - |
| Vehicles | 421,720 | - | 421,720 | - |
| Machinery and equipment | 97,551 | - | 97,551 | - |
| Total assets | 12,120,426 | 11,194,586 | 23,315,012 | 334,227 |
| Deferred Outflows of Resources | | | | |
| Deferred outflows of resources related to City pensions | 73,465 | - | 73,465 | - |
| Total assets and deferred outflows of resources | \$ 12,193,891 | \$ 11,194,586 | \$ 23,388,477 | \$ 334,227 |
| Liabilities | | | | |
| Accounts payable | \$ 229,959 | \$ 2,234 | \$ 232,193 | \$ 8,172 |
| Contracts payable | 62,380 | - | 62,380 | - |
| Due to other governments | 24,212 | - | 24,212 | - |
| Salaries and benefits payable | 30,376 | - | 30,376 | - |
| Interest payable | 21,182 | 2,834 | 24,016 | - |
| Unearned revenues | - | - | - | 313 |
| Bond and note principal payable | | | | |
| Payable within one year | 240,000 | 100,000 | 340,000 | - |
| Payable after one year | 2,085,000 | 197,000 | 2,282,000 | - |
| Net pension liability | 268,125 | - | 268,125 | - |
| Compensated absences payable | | | | |
| Payable within one year | 32,789 | - | 32,789 | - |
| Payable after one year | 1,738 | - | 1,738 | - |
| Total liabilities | 2,995,761 | 302,068 | 3,297,829 | 8,485 |
| Deferred Inflows of Resources | | | | |
| Deferred inflows related to City pensions | 44,130 | - | 44,130 | - |
| Net Position | | | | |
| Net investment in capital assets | 5,690,258 | 6,825,727 | 12,515,985 | - |
| Restricted for | | | | |
| Capital projects | 74,198 | 2,749,783 | 2,823,981 | - |
| Debt service | 726,941 | - | 726,941 | - |
| Tax increment | 7,085 | - | 7,085 | - |
| Other projects | - | - | - | 261,118 |
| Unrestricted | 2,655,518 | 1,317,008 | 3,972,526 | 64,624 |
| Total net position | 9,154,000 | 10,892,518 | 20,046,518 | 325,742 |
| Total liabilities and net position | \$ 12,193,891 | \$ 11,194,586 | \$ 23,388,477 | \$ 334,227 |

See notes to financial statements.

**City of Hanover
Statement of Activities
December 31, 2017**

| Functions/Programs | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Position | | | Component Unit |
|--|---------------------|-------------------------|--|--|--|-----------------------------|----------------------|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total | |
| Governmental activities | | | | | | | | |
| General government | \$ 512,433 | \$ 32,468 | \$ 46,078 | \$ 856 | \$ (433,031) | \$ - | \$ (433,031) | \$ - |
| Public safety | 495,979 | 212,884 | 43,339 | - | (239,756) | - | (239,756) | - |
| Public works | 687,582 | 11,496 | - | 11,397 | (664,689) | - | (664,689) | - |
| Parks and recreation | 178,795 | 2,220 | - | 1,370 | (175,205) | - | (175,205) | - |
| Economic development | 5,904 | - | - | - | (5,904) | - | (5,904) | - |
| Interest on long-term debt | 67,599 | - | - | - | (67,599) | - | (67,599) | - |
| Total governmental activities | <u>1,948,292</u> | <u>259,068</u> | <u>89,417</u> | <u>13,623</u> | <u>(1,586,184)</u> | <u>-</u> | <u>(1,586,184)</u> | <u>-</u> |
| Business-type activities | | | | | | | | |
| Water | 141,691 | 103,127 | - | 841 | - | (37,723) | (37,723) | - |
| Sewer | 408,477 | 357,476 | - | 1,419 | - | (49,582) | (49,582) | - |
| Storm water | 99,117 | 48,779 | - | 1,114 | - | (49,224) | (49,224) | - |
| Total business-type activities | <u>649,285</u> | <u>509,382</u> | <u>-</u> | <u>3,374</u> | <u>-</u> | <u>(136,529)</u> | <u>(136,529)</u> | <u>-</u> |
| Total governmental and Business-type activities | <u>\$ 2,597,577</u> | <u>\$ 768,450</u> | <u>\$ 89,417</u> | <u>\$ 16,997</u> | <u>(1,586,184)</u> | <u>(136,529)</u> | <u>(1,722,713)</u> | <u>-</u> |
| Component unit | | | | | | | | |
| Economic development authority | <u>\$ 129,198</u> | <u>\$ -</u> | <u>\$ 52</u> | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(129,146)</u> |
| | | General revenues | | | | | | |
| | | | | | 1,487,852 | - | 1,487,852 | 49,306 |
| | | | | | 15,759 | - | 15,759 | - |
| | | | | | 6,560 | - | 6,560 | - |
| | | | | | 110,092 | - | 110,092 | - |
| | | | | | 114,897 | 30,139 | 145,036 | 3,134 |
| | | | | | <u>1,735,160</u> | <u>30,139</u> | <u>1,765,299</u> | <u>52,440</u> |
| | | | | | | | | |
| | | | | | 148,976 | (106,390) | 42,586 | (76,706) |
| | | | | | | | | |
| | | | | | <u>9,005,024</u> | <u>10,998,908</u> | <u>20,003,932</u> | <u>402,448</u> |
| | | | | | | | | |
| | | | | | <u>\$ 9,154,000</u> | <u>\$ 10,892,518</u> | <u>\$ 20,046,518</u> | <u>\$ 325,742</u> |

City of Hanover
Balance Sheet - Governmental Funds
December 31, 2017

| | Debt Service | | Capital Projects | | | Total Governmental Funds |
|--|---------------------------|--|--------------------------------------|--------------------|--------------------------------|--------------------------------|
| | General Fund (100-110) | G.O. Crossover Refunding Bonds 2011A (314) | Capital Improvement Fund (401) | City Hall (411) | Other Governmental Funds | |
| Assets | | | | | | |
| Cash and investments | \$ 679,556 | \$ 437,636 | \$ 1,224,193 | \$ - | \$ 1,396,819 | \$ 3,738,204 |
| Taxes receivable | | | | | | |
| Current | 6,239 | - | - | - | - | 6,239 |
| Delinquent | 14,155 | - | - | - | - | 14,155 |
| Accounts receivable | 76,035 | - | - | - | 1,799 | 77,834 |
| Interest receivable | 49,084 | - | - | - | - | 49,084 |
| Due from other governments | 1,192 | - | - | - | 7,789 | 8,981 |
| Special assessments receivable | | | | | | |
| Delinquent | - | - | - | - | 404 | 404 |
| Deferred | - | 128,112 | 47,106 | - | 12,399 | 187,617 |
| Due from other funds | - | - | 122,781 | - | - | 122,781 |
| Prepaid items | 22,650 | - | - | - | - | 22,650 |
| Total assets | <u>\$ 848,911</u> | <u>\$ 565,748</u> | <u>\$ 1,394,080</u> | <u>\$ -</u> | <u>\$ 1,419,210</u> | <u>\$ 4,227,949</u> |
| Liabilities | | | | | | |
| Accounts payable | \$ 45,539 | \$ - | \$ - | \$ 152,179 | \$ 32,241 | \$ 229,959 |
| Contracts payable | - | - | - | 62,380 | - | 62,380 |
| Due to other funds | - | - | - | 122,781 | - | 122,781 |
| Due to other governments | 24,212 | - | - | - | - | 24,212 |
| Salaries and benefits payable | 30,376 | - | - | - | - | 30,376 |
| Total liabilities | <u>100,127</u> | <u>-</u> | <u>-</u> | <u>337,340</u> | <u>32,241</u> | <u>469,708</u> |
| Deferred Inflows of Resources | | | | | | |
| Unavailable revenue - property taxes | 14,155 | - | - | - | - | 14,155 |
| Unavailable revenue - special assessments | - | 128,112 | 47,106 | - | 12,803 | 188,021 |
| Total deferred inflows of resources | <u>14,155</u> | <u>128,112</u> | <u>47,106</u> | <u>-</u> | <u>12,803</u> | <u>202,176</u> |
| Fund Balances | | | | | | |
| Nonspendable | 94,692 | - | - | - | - | 94,692 |
| Restricted | - | 437,636 | - | - | 250,855 | 688,491 |
| Assigned | - | - | 1,346,974 | - | 1,123,311 | 2,470,285 |
| Unassigned | 639,937 | - | - | (337,340) | - | 302,597 |
| Total fund balances | <u>734,629</u> | <u>437,636</u> | <u>1,346,974</u> | <u>(337,340)</u> | <u>1,374,166</u> | <u>3,556,065</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 848,911</u> | <u>\$ 565,748</u> | <u>\$ 1,394,080</u> | <u>\$ -</u> | <u>\$ 1,419,210</u> | <u>\$ 4,227,949</u> |

City of Hanover
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2017

Total fund balances - governmental funds \$ 3,556,065

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

| | |
|-------------------------------|-------------|
| Cost of capital assets | 16,232,704 |
| Less accumulated depreciation | (8,217,446) |

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

| | |
|------------------------------|-------------|
| Bond principal payable | (2,325,000) |
| Compensated absences payable | (34,527) |
| Net pension liability | (268,125) |

Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

| | |
|--------------------------------|--------|
| Delinquent property taxes | 14,155 |
| Delinquent special assessments | 404 |

Deferred receivables are not available to pay for current expenditures and, therefore, are deferred in the funds.

| | |
|---|---------|
| Deferred special assessments receivable | 187,617 |
|---|---------|

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

| | |
|--|----------|
| Deferred inflows of resources related to pensions | (44,130) |
| Deferred outflows of resources related to pensions | 73,465 |

Governmental funds do not report a liability for accrued interest until due and payable.

(21,182)

Total net position - governmental activities

\$ 9,154,000

City of Hanover
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
December 31, 2017

| | Debt Service | | Capital Projects | | | Total Governmental Funds |
|---|---------------------------|---|--------------------------------------|---------------------|--------------------------------|--------------------------------|
| | General Fund (100-110) | G.O. Crossover Refunding Bonds 2011A (314) | Capital Improvement Fund (401) | City Hall (411) | Other Governmental Funds | |
| Revenues | | | | | | |
| Property taxes | \$ 953,344 | \$ 124,490 | \$ - | \$ - | \$ 420,072 | \$ 1,497,906 |
| Tax increments | - | - | - | - | 6,560 | 6,560 |
| Miscellaneous taxes | 15,759 | - | - | - | - | 15,759 |
| Special assessments | 856 | 43,450 | 14,160 | - | 5,242 | 63,708 |
| Licenses and permits | 97,168 | - | - | - | - | 97,168 |
| Intergovernmental | 184,203 | - | - | - | - | 184,203 |
| Charges for services | 145,056 | - | 1,250 | - | 10,246 | 156,552 |
| Fines and forfeitures | 5,167 | - | - | - | - | 5,167 |
| Miscellaneous | | | | | | |
| Investment income | 16,441 | 3,549 | 10,400 | 8,761 | 7,660 | 46,811 |
| Contributions and donations | 10,464 | - | - | - | 68,086 | 78,550 |
| Refunds and reimbursements | 181 | - | - | - | - | 181 |
| Other | 4,842 | - | - | - | 1,370 | 6,212 |
| Total revenues | <u>1,433,481</u> | <u>171,489</u> | <u>25,810</u> | <u>8,761</u> | <u>519,236</u> | <u>2,158,777</u> |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | 441,044 | - | - | - | - | 441,044 |
| Public safety | 406,390 | - | - | - | - | 406,390 |
| Public works | 318,128 | - | - | - | - | 318,128 |
| Parks and recreation | 33,463 | - | - | - | 4,412 | 37,875 |
| Economic development | - | - | - | - | 5,904 | 5,904 |
| Debt service | | | | | | |
| Principal | - | 140,000 | - | - | 148,000 | 288,000 |
| Interest and other charges | - | 18,470 | - | - | 34,644 | 53,114 |
| Capital outlay | | | | | | |
| General government | 29,927 | - | - | - | - | 29,927 |
| Public safety | 25,190 | - | - | - | 91,237 | 116,427 |
| Public works | - | - | 350 | 1,865,251 | 58,658 | 1,924,259 |
| Parks and recreation | 10,570 | - | - | - | 75,197 | 85,767 |
| Total expenditures | <u>1,264,712</u> | <u>158,470</u> | <u>350</u> | <u>1,865,251</u> | <u>418,052</u> | <u>3,706,835</u> |
| Excess of revenues over (under) expenditures | 168,769 | 13,019 | 25,460 | (1,856,490) | 101,184 | (1,548,058) |
| Other Financing Sources (Uses) | | | | | | |
| Proceeds from sale of capital asset | 773 | - | - | - | - | 773 |
| Transfers in | - | - | - | - | 299,424 | 299,424 |
| Transfers out | (224,151) | - | (75,273) | - | - | (299,424) |
| Total other financing sources (uses) | <u>(223,378)</u> | <u>-</u> | <u>(75,273)</u> | <u>-</u> | <u>299,424</u> | <u>773</u> |
| Net change in fund balances | (54,609) | 13,019 | (49,813) | (1,856,490) | 400,608 | (1,547,285) |
| Fund Balances | | | | | | |
| Beginning of year | <u>789,238</u> | <u>424,617</u> | <u>1,396,787</u> | <u>1,519,150</u> | <u>973,558</u> | <u>5,103,350</u> |
| End of year | <u>\$ 734,629</u> | <u>\$ 437,636</u> | <u>\$ 1,346,974</u> | <u>\$ (337,340)</u> | <u>\$ 1,374,166</u> | <u>\$ 3,556,065</u> |

City of Hanover
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
December 31, 2017

Net change in fund balances - governmental funds \$ (1,547,285)

Amounts reported for governmental activities in the Statement of Activities
are different because:

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 and reported as depreciation expense.

| | |
|----------------------------|-----------|
| Capital outlays | 2,081,248 |
| Depreciation expense | (549,746) |
| Disposal of capital assets | (26,111) |

Principal payments on long-term debt are recognized as expenditures in the governmental funds, but have no impact on net position in the Statement of Activities. 288,000

Compensated absences are recognized as paid in the governmental funds, but recognized as the expense is incurred in the Statement of Activities. 6,926

Interest payments on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus requires the use of current resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (14,485)

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.

| | |
|-----------------|----------|
| Pension expense | (28,062) |
|-----------------|----------|

Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are not revenues in the funds.

| | |
|--------------------------------|----------|
| Delinquent special assessments | 196 |
| Delinquent property taxes | (10,054) |

Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

| | |
|---|-----------------|
| Deferred special assessments and grants | <u>(51,651)</u> |
|---|-----------------|

Change in net position - governmental activities \$ 148,976

City of Hanover
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
December 31, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Over (Under) |
|---|------------------|--------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 941,724 | \$ 947,106 | \$ 953,344 | \$ 6,238 |
| Miscellaneous taxes | 12,000 | 11,766 | 15,759 | 3,993 |
| Special assessments | 740 | 856 | 856 | - |
| Licenses and permits | 62,120 | 97,168 | 97,168 | - |
| Intergovernmental | 150,007 | 184,203 | 184,203 | - |
| Charges for services | 136,450 | 143,865 | 145,056 | 1,191 |
| Fines and forfeitures | 2,000 | 5,167 | 5,167 | - |
| Miscellaneous revenues | | | | |
| Investment income | 9,000 | 4,371 | 16,441 | 12,070 |
| Contributions and donations | 3,600 | 2,425 | 10,464 | 8,039 |
| Refunds and reimbursements | - | 181 | 181 | - |
| Other | 8,900 | 4,842 | 4,842 | - |
| Total revenues | <u>1,326,541</u> | <u>1,401,950</u> | <u>1,433,481</u> | <u>31,531</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 451,083 | 437,370 | 441,044 | 3,674 |
| Public safety | 403,357 | 403,435 | 406,390 | 2,955 |
| Public works | 372,101 | 314,694 | 318,128 | 3,434 |
| Parks and recreation | 41,200 | 33,463 | 33,463 | - |
| Capital outlay | | | | |
| General government | 40,000 | 29,927 | 29,927 | - |
| Public safety | 5,000 | 730 | 25,190 | 24,460 |
| Parks and recreation | 13,800 | 10,570 | 10,570 | - |
| Total expenditures | <u>1,326,541</u> | <u>1,230,189</u> | <u>1,264,712</u> | <u>34,523</u> |
| Excess of revenues over (under) expenditures | - | 171,761 | 168,769 | (2,992) |
| Other Financing Sources (Uses) | | | | |
| Proceeds from sale of capital asset | - | 773 | 773 | - |
| Transfers out | - | (224,151) | (224,151) | - |
| Total other financing sources (uses) | <u>-</u> | <u>(223,378)</u> | <u>(223,378)</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ (51,617)</u> | <u>(54,609)</u> | <u>\$ (2,992)</u> |
| Fund Balance | | | | |
| Beginning of year | | | <u>789,238</u> | |
| End of year | | | <u>\$ 734,629</u> | |

City of Hanover
Statement of Net Position - Proprietary Funds
December 31, 2017

| | Water (601, 611) | Sewer (602, 612) | Storm Water (603, 613) | Total |
|-------------------------------------|---------------------|---------------------|---------------------------|----------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 991,698 | \$ 2,150,328 | \$ 753,960 | \$ 3,895,986 |
| Special assessments receivable | | | | |
| Delinquent | 41 | 1,316 | 13 | 1,370 |
| Deferred | 32,856 | 107,480 | 678 | 141,014 |
| Due from other governments | 4,588 | 24,938 | 3,021 | 32,547 |
| Prepaid items | 104 | 838 | - | 942 |
| Total current assets | <u>1,029,287</u> | <u>2,284,900</u> | <u>757,672</u> | <u>4,071,859</u> |
| Noncurrent assets | | | | |
| Capital assets | | | | |
| Land | - | - | 26,781 | 26,781 |
| Improvements | 2,281,145 | 6,287,257 | 2,447,634 | 11,016,036 |
| Vehicles and equipment | - | 29,080 | 10,387 | 39,467 |
| Total capital assets | <u>2,281,145</u> | <u>6,316,337</u> | <u>2,484,802</u> | <u>11,082,284</u> |
| Less accumulated depreciation | <u>(659,145)</u> | <u>(2,591,733)</u> | <u>(708,679)</u> | <u>(3,959,557)</u> |
| Net capital assets | <u>1,622,000</u> | <u>3,724,604</u> | <u>1,776,123</u> | <u>7,122,727</u> |
| Total assets | <u>\$ 2,651,287</u> | <u>\$ 6,009,504</u> | <u>\$ 2,533,795</u> | <u>\$ 11,194,586</u> |
| Liabilities and Net Position | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ - | \$ - | \$ 2,234 | \$ 2,234 |
| Interest payable | - | 2,834 | - | 2,834 |
| Notes payable - current | - | 100,000 | - | 100,000 |
| Total current liabilities | <u>-</u> | <u>102,834</u> | <u>2,234</u> | <u>105,068</u> |
| Noncurrent liabilities | | | | |
| Notes payable | - | 197,000 | - | 197,000 |
| Total liabilities | <u>-</u> | <u>299,834</u> | <u>2,234</u> | <u>302,068</u> |
| Net Position | | | | |
| Net investment in capital assets | 1,622,000 | 3,427,604 | 1,776,123 | 6,825,727 |
| Restricted | 170,483 | 2,025,101 | 554,199 | 2,749,783 |
| Unrestricted | 858,804 | 256,965 | 201,239 | 1,317,008 |
| Total net position | <u>2,651,287</u> | <u>5,709,670</u> | <u>2,531,561</u> | <u>10,892,518</u> |
| Total liabilities and net position | <u>\$ 2,651,287</u> | <u>\$ 6,009,504</u> | <u>\$ 2,533,795</u> | <u>\$ 11,194,586</u> |

See notes to financial statements.

City of Hanover
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
December 31, 2017

| | Water (601, 611) | Sewer (602, 612) | Storm Water (603, 613) | Total |
|--|---------------------|---------------------|---------------------------|----------------------|
| Operating Revenues | | | | |
| Charges for services | \$ 80,165 | \$ 305,242 | \$ 49,893 | \$ 435,300 |
| Permits, hookup fees and penalties | 2,680 | 4,500 | - | 7,180 |
| Miscellaneous | 279 | - | - | 279 |
| Total operating revenues | <u>83,124</u> | <u>309,742</u> | <u>49,893</u> | <u>442,759</u> |
| Operating Expenses | | | | |
| Wages and Salaries | - | - | 4,835 | 4,835 |
| Repairs and maintenance | 9,731 | - | 12,262 | 21,993 |
| Professional services | 45,019 | 164,160 | 18,056 | 227,235 |
| Depreciation | 57,029 | 157,181 | 63,049 | 277,259 |
| Miscellaneous | 286 | 2,261 | 915 | 3,462 |
| Total operating expenses | <u>112,065</u> | <u>323,602</u> | <u>99,117</u> | <u>534,784</u> |
| Operating income (loss) | (28,941) | (13,860) | (49,224) | (92,025) |
| Nonoperating | | | | |
| Revenues (expenses) | | | | |
| Sale of water meters | 3,700 | - | - | 3,700 |
| Investment income | 7,666 | 16,623 | 5,850 | 30,139 |
| Special assessments | - | 1,419 | - | 1,419 |
| Payment to other governments | (29,626) | (76,765) | - | (106,391) |
| Connection charges | 17,144 | 47,734 | - | 64,878 |
| Interest expense | - | (8,110) | - | (8,110) |
| Total nonoperating revenues (expenses) | <u>(1,116)</u> | <u>(19,099)</u> | <u>5,850</u> | <u>(14,365)</u> |
| Income (loss) before capital contributions and transfers | (30,057) | (32,959) | (43,374) | (106,390) |
| Net Position | | | | |
| Beginning of year | <u>2,681,344</u> | <u>5,742,629</u> | <u>2,574,935</u> | <u>10,998,908</u> |
| End of year | <u>\$ 2,651,287</u> | <u>\$ 5,709,670</u> | <u>\$ 2,531,561</u> | <u>\$ 10,892,518</u> |

City of Hanover
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2017

| | Water (601, 611) | Sewer (602, 612) | Storm Water (603, 613) | Total |
|--|---------------------|---------------------|---------------------------|---------------------|
| Cash Flows - Operating Activities | | | | |
| Receipts from customers and users | \$ 108,465 | \$ 378,856 | \$ 55,741 | \$ 543,062 |
| Payments to suppliers | (84,919) | (242,937) | (28,999) | (356,855) |
| Payments to employees | - | - | (4,835) | (4,835) |
| Net cash flows - operating activities | <u>23,546</u> | <u>135,919</u> | <u>21,907</u> | <u>181,372</u> |
| Cash Flows - Capital and Related Financing Activities | | | | |
| Special assessments | 4,156 | 40,118 | - | 44,274 |
| Interest paid on capital debt | - | (9,045) | - | (9,045) |
| Principal paid on capital debt | - | (98,000) | - | (98,000) |
| Acquisition of capital assets | (12,075) | - | - | (12,075) |
| Net cash flows - capital and related financing activities | <u>(7,919)</u> | <u>(66,927)</u> | <u>-</u> | <u>(74,846)</u> |
| Cash Flows - Investing Activities | | | | |
| Interest and dividends received | <u>7,666</u> | <u>16,623</u> | <u>5,850</u> | <u>30,139</u> |
| Net Change in Cash and Cash Equivalents | 23,293 | 85,615 | 27,757 | 136,665 |
| Cash and Cash Equivalents | | | | |
| Beginning of year | <u>968,405</u> | <u>2,064,713</u> | <u>726,203</u> | <u>3,759,321</u> |
| End of year | <u>\$ 991,698</u> | <u>\$ 2,150,328</u> | <u>\$ 753,960</u> | <u>\$ 3,895,986</u> |
| Reconciliation of Operating Loss to Net Cash Flows - Operating Activities | | | | |
| Operating loss | \$ (28,941) | \$ (13,860) | \$ (49,224) | \$ (92,025) |
| Adjustments to reconcile operating loss To net cash flows - operating activities | | | | |
| Other operating income (expense) | (8,782) | (29,031) | - | (37,813) |
| Depreciation expense | 57,029 | 157,181 | 63,049 | 277,259 |
| Delinquent special assessment receivable | (41) | (688) | 2,544 | 1,815 |
| Due from other governments | 4,538 | 22,068 | 3,304 | 29,910 |
| Accounts payable | (294) | - | 2,234 | 1,940 |
| Prepaid items | 37 | 249 | - | 286 |
| Total adjustments | <u>52,487</u> | <u>149,779</u> | <u>71,131</u> | <u>273,397</u> |
| Net cash flows - operating activities | <u>\$ 23,546</u> | <u>\$ 135,919</u> | <u>\$ 21,907</u> | <u>\$ 181,372</u> |

City of Hanover
Statement of Fiduciary Net Position
December 31, 2017

| | <u>Developer Escrow Agency Fund</u> |
|------------------------|---|
| Assets | |
| Current | |
| Cash and investments | <u>\$ 239,300</u> |
| Liabilities | |
| Due to developers | |
| Erosion control escrow | \$ 25,000 |
| Landscape escrow | 24,000 |
| Infrastructure escrow | 15,000 |
| Miscellaneous escrows | <u>175,300</u> |
| Total liabilities | <u>\$ 239,300</u> |

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hanover is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Discretely Presented Component Unit – Entails reporting the component unit financial data in statements separate from the financial date of the City.

Joint Ventures and Jointly Governed Organizations – The relationship of the City with the entity is disclosed.

For each of the categories above, the specific entities are identified as follows:

1. Discretely Presented Component Unit

The Hanover EDA is governed by a seven member board consisting of two members of the City Council and five members of the general public. Separate financial statements are included in this report for the Hanover EDA to emphasize that it is legally separate from the City. The EDA is presented as a governmental fund type. The EDA does not issue separate finance statements.

2. Joint Ventures and Jointly Governed Organizations

The Joint Powers Water Board of Albertville, Hanover, and St. Michael (the "JPWB") was established under a joint powers agreement among the Cities of Albertville, Hanover, and St. Michael to provide water service to the local area. The JPWB operates as an enterprise and provides water service to the general public, with the majority of its costs being paid by various fees and charges to users of the water system. The governing body consists of a six member Board of Commissioners (the "Board"). Two individuals, the Mayor and another Council Member from each City, are appointed by their respective City Council to serve on the Board. The JPWB does not have any component units.

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

2. Joint Ventures and Jointly Governed Organizations (Continued)

The JPWB's agreement states that charges billed and collected for water supply remain with the JPWB, while the charges for distribution are billed by the JPWB but the collections are owned by each Member City and will be remitted to them upon collection.

Financial statements for the JPWB Water Fund may be obtained at the City Hall.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. The fiduciary funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Developer Escrow Agency Fund is presented in the Fiduciary Fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (private parties) and cannot be used to address activities or obligations of the City, this Fund is not incorporated into the government-wide statements.

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Description of Funds

General Fund – This Fund is the City's primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

General Obligation (G.O.) Crossover Refunding Bonds, 2011A, Debt Service Fund – This Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Improvement Capital Projects Fund – This Fund accounts for the costs associated with the City's capital improvement projects.

City Hall Capital Projects Fund – This Fund accounts for the costs associated with City building improvements.

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Description of Funds (Continued)

Proprietary Funds:

Water Fund – This Fund accounts for the operations of the City's water utility.

Sewer Fund – This Fund accounts for the operations of the City's sewer utility.

Storm Water Fund – This Fund accounts for the operations of the City's storm water utility.

Fiduciary Fund:

Developer Escrow Agency Fund – This Fund accounts for the activity related to developer escrow deposits.

Component Unit:

Economic Development Authority – This Fund accounts for the activities related to business incentive activity and development of the City.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, and Storm Water Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first then unrestricted resources as they are needed.

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The City's cash and cash equivalents are considered to be cash on hand, deposits, and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, share of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Certain investments for the City are reported at fair value as disclosed in Note 2. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from this fund.

2. Receivables and Payables

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of the property.

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditors for collection the following year.

Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Hennepin County and Wright County are the collecting agencies for the levy and remit the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflow, and Net Position or Equity (Continued)

2. Receivables and Payables (Continued)

The County Auditors prepare the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditors also collect all special assessments, except for certain prepayments paid directly to the City.

The County Auditors submit the list of taxes and special assessments to be collected on each parcel of property to the County Treasurers in January of each year.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

4. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure, and intangible assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the enterprise fund statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Additionally, intangible assets are reported with land.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the City, meeting the capitalization threshold, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------------|--------------|
| Buildings | 20-40 |
| Building and land improvements | 10-20 |
| Vehicles | 5-20 |
| Machinery and equipment | 5-10 |
| Infrastructure | 10-40 |

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflow, and Net Position or Equity (Continued)

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position, and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

6. Compensated Absences

The City compensates employees, who either retire or terminate, for 100% of their accumulated vacation, compensatory time, and unused sick pay. City employees earn vacation based on years of City service. The maximum amount of vacation or compensatory time an employee may carry is 200 hours. Sick leave may accumulate up to a maximum of 240 hours.

Vacation and sick pay are considered expenditures in the year due.

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**City of Hanover
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflow, and Net Position or Equity (Continued)

8. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the relief association and additions to/deductions from PERA's and the relief association's fiduciary net position have been determined on the same basis as they are reported by PERA and the relief association except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. Fund Equity

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through enabling legislation.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- Assigned Fund Balance – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City's Administrator/Clerk/Treasurer based on the City Council's direction.
- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflow, and Net Position or Equity (Continued)

9. Fund Equity (Continued)

b. Minimum Fund Balance

It is the City's policy that at the end of each year, the City will maintain the unassigned portion of the fund balance for cash flow in a range equal to 35% to 55% of the General Fund operating expenditures.

10. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements and the proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement and the proprietary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

11. Use of Estimates

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

12. Statement of Cash Flows

For purpose of the Statement of Cash Flows, the City considers all highly liquid debt instruments with an original maturity from the time of purchase by the City of three months or less to be cash equivalents. The proprietary fund's equity in the government-wide cash and investment management pool is considered to be cash equivalents.

13. Budgetary Information

1. Budget requests are submitted by department heads to the City Administrator/Clerk/Treasurer. The City Administrator/Clerk/Treasurer compiles the budget requests into an overall preliminary City budget. The City Administrator/Clerk/Treasurer presents the proposed budget to the City Council.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the City Council sets forth the budgets at the function level for the General Fund.
4. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

City of Hanover
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13. Budgetary Information (Continued)

5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund.
6. Annual appropriated budgets are adopted during the year for the General Fund. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances

The City Hall Capital Projects Fund had a deficit fund balance of \$(337,340) as of December 31, 2017.

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as "cash and investments (including cash equivalents)." For purposes of identifying risk of investing public funds, the balances, and related restrictions are summarized as follows.

A. Deposits

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned. The City has adopted a deposit policy to address custodial credit risk for deposits that is consistent with the *Minnesota Statutes* requirement that deposits are collateralized at 110% in excess of FDIC insurance. As of December 31, 2017, the City's bank balance was not exposed to custodial credit risk because it was fully insured through FDIC and collateral pledged.

City of Hanover
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

As of December 31, 2017, the City's deposits and petty cash had a book balance as follows:

| | |
|-----------------------------------|--------------|
| Checking | \$ 1,090,396 |
| Certificates of deposit | 639,944 |
| Money market and savings accounts | 663,336 |
| UBS cash | 190 |
| Petty cash | 200 |
| | 200 |
| Total deposits and cash on hand | \$ 2,394,066 |

B. Investments

As of December 31, 2017, the City had the following investments:

| Investment Type | Fair Value | Current | Less Than 1 Year | 1-3 Year | 3-5 years | Over 5 years |
|----------------------|--------------|------------|---------------------|--------------|--------------|--------------|
| Brokered CDs | \$ 3,605,336 | \$ - | \$ 409,969 | \$ 2,335,217 | \$ 860,150 | \$ - |
| Municipal Securities | 1,905,820 | - | 116,133 | 327,384 | 1,312,979 | 149,324 |
| Money Market | 287,165 | 287,165 | - | - | - | - |
| | \$ 5,798,321 | \$ 287,165 | \$ 526,102 | \$ 2,662,601 | \$ 2,173,129 | \$ 149,324 |

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The City's investment policy places no limit on the amount the City may invest in any one issuer. However, it does discuss the need to diversify investments so the impact of potential losses from any one type of security or from any one individual issuer will be minimized. There are currently three securities that sit over the 5% threshold for concentration of credit risk including the: Louisiana State Municipal Security (5.2%), the New York City Transit Municipal Security (7.2%), and the Alabama State Port Authority Docks Municipal Security (9.8%).

City of Hanover
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. City's investment policy refers to *Minnesota Statutes* 118A. State statutes limit investments to be in the top two ratings issued by nationally recognized statistical rating organizations. The following security ratings are from Moody's and/or S&P, the remaining securities were not rated.

| <u>Investment</u> | <u>Type</u> | <u>Credit Rating</u> |
|----------------------------------|-------------|----------------------|
| Lexington-Fayette Urban | Municipal | Aa2/AA |
| Bemidji MN ISD #31 | Municipal | AA+ |
| Louisiana St. | Municipal | Aa3/AA |
| Florida St. Brd. Admin Fin. | Municipal | Aa3/AA |
| New York NY City Transit | Municipal | Aa1/AAA |
| Alabama St. Port Authority Docks | Municipal | AA |
| Industry CA | Municipal | Aa2 |

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City should manage its interest rates based on liquidity, safety and the overall return on the investment. It also states the City shall invest in securities that can generally be held until maturity and the core of investments should be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Finally, extended maturities may be utilized to take advantages of higher yield; however, no more than 15% of the total should extend beyond five years and the City shall not invest in investments with a maturity exceeding ten years.

Custodial Credit Risk – Investments: The City's investments held by the broker-dealer were insured by Securities Investor Protection Corporation (SIPC) or other supplemental insurance as of December 31, 2017. However, each investment brokerage firm may have a limit to their supplemental insurance and because of the size of the City's portfolio in relation to the brokerage firm's excess SIPC coverage limits the portion of the supplemental policy applicable to the City's portfolio is unknown. The City accepts the risk due to the controls in place at the broker-dealer.

The City has the following recurring fair value measurements as of December 31, 2017:

- \$5,798,321 of investments are valued using a matrix pricing model (Level 2 inputs)

C. Deposits and Investments

Summary of deposits and investments as of December 31, 2017:

| | |
|---|----------------------------|
| Deposits and cash on hand (Note 3. A.) | \$ 2,394,066 |
| Investments (Note 3. B.) | <u>5,798,321</u> |
| Total deposits and investments | <u><u>\$ 8,192,387</u></u> |

**City of Hanover
Notes to Financial Statements**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments (Continued)

Deposits and investments are presented as cash and investments in the December 31, 2017, basic financial statements as follows:

| | |
|-------------------------------------|----------------------------|
| Statement of Net Position | |
| Cash and investments | |
| Primary government | \$ 7,634,190 |
| Component unit | 318,897 |
| Statement of Fiduciary Net Position | <u>239,300</u> |
| Total cash and investments | <u><u>\$ 8,192,387</u></u> |

NOTE 4 – INTERFUND ACTIVITY

A. Interfund Transfers

Transfers during the year ended December 31, 2017, were as follows:

| | |
|----------------------|--------------------------|
| | <u>Transfer In</u> |
| | Other |
| | Nonmajor |
| | Governmental |
| | <u>Funds</u> |
| Transfer out | |
| General | \$ 224,151 |
| Capital improvements | <u>75,273</u> |
| Total transfers | <u><u>\$ 299,424</u></u> |

The purposes of the transfers were to provide funding for capital improvements and other operational purposes.

B. Interfund Balances

At December 31, 2017, the Capital Improvement Fund had an amount due from the City Hall Capital Project Fund of \$122,781 for negative cash balances.

City of Hanover
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|-------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 700,929 | \$ - | \$ - | \$ 700,929 |
| Construction in progress | 266,124 | 1,940,447 | 85,553 | 2,121,018 |
| Total capital assets not being depreciated | <u>967,053</u> | <u>1,940,447</u> | <u>85,553</u> | <u>2,821,947</u> |
| Capital assets being depreciated | | | | |
| Infrastructure | 7,340,326 | - | - | 7,340,326 |
| Buildings | 1,092,945 | - | - | 1,092,945 |
| Improvements | 2,790,007 | 85,553 | - | 2,875,560 |
| Vehicles | 1,482,503 | 91,237 | - | 1,573,740 |
| Machinery and equipment | 502,857 | 49,564 | 30,128 | 522,293 |
| Furniture and fixtures | 5,893 | - | - | 5,893 |
| Total capital assets being depreciated | <u>13,214,531</u> | <u>226,354</u> | <u>30,128</u> | <u>13,410,757</u> |
| Less accumulated depreciation for | | | | |
| Infrastructure | 5,078,950 | 287,764 | - | 5,366,714 |
| Buildings | 534,011 | 36,123 | - | 570,134 |
| Improvements | 559,178 | 138,765 | - | 697,943 |
| Vehicles | 1,089,583 | 62,437 | - | 1,152,020 |
| Machinery and equipment | 404,102 | 24,657 | 4,017 | 424,742 |
| Furniture and fixtures | 5,893 | - | - | 5,893 |
| Total accumulated depreciation | <u>7,671,717</u> | <u>549,746</u> | <u>4,017</u> | <u>8,217,446</u> |
| Total capital assets being depreciated, net | <u>5,542,814</u> | <u>(323,392)</u> | <u>26,111</u> | <u>5,193,311</u> |
| Governmental activities capital assets, net | <u>\$ 6,509,867</u> | <u>\$ 1,617,055</u> | <u>\$ 111,664</u> | <u>\$ 8,015,258</u> |

City of Hanover
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the functions/programs of the City as follows:

| | |
|--|--------------------------|
| Governmental activities | |
| General government | \$ 14,761 |
| Public safety | 64,399 |
| Public works | 340,236 |
| Parks and recreation | <u>130,350</u> |
| Total depreciation expense - governmental activities | <u><u>\$ 549,746</u></u> |

Capital asset activity for the year ended December 31, 2017, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------------|--------------------|----------------------------|
| Business-type activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | <u>\$ 26,781</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 26,781</u> |
| Capital assets being depreciated | | | | |
| Improvements | 11,016,036 | - | - | 11,016,036 |
| Machinery and equipment | 29,080 | - | - | 29,080 |
| Vehicles | <u>10,387</u> | <u>-</u> | <u>-</u> | <u>10,387</u> |
| Total capital assets being depreciated | <u>11,055,503</u> | <u>-</u> | <u>-</u> | <u>11,055,503</u> |
| Less accumulated depreciation for | | | | |
| Improvements | 3,644,316 | 275,774 | - | 3,920,090 |
| Machinery and equipment | 29,080 | - | - | 29,080 |
| Vehicles | <u>8,902</u> | <u>1,485</u> | <u>-</u> | <u>10,387</u> |
| Total accumulated depreciation | <u>3,682,298</u> | <u>277,259</u> | <u>-</u> | <u>3,959,557</u> |
| Total capital assets being depreciated, net | <u>7,373,205</u> | <u>(277,259)</u> | <u>-</u> | <u>7,095,946</u> |
| Business-type activities capital assets, net | <u><u>\$ 7,399,986</u></u> | <u><u>\$ (277,259)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 7,122,727</u></u> |

City of Hanover
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the functions of the City as follows:

| | |
|---|--------------------------|
| Business-type activities | |
| Water | \$ 57,029 |
| Sewer | 157,181 |
| Storm water | <u>63,049</u> |
| Total depreciation expense - business-type activities | <u><u>\$ 277,259</u></u> |

NOTE 6 – LONG-TERM DEBT

A. G.O. Bonds

The City issues G.O. bonds to provide financing for street improvements and facility construction. Debt service is covered respectively by special assessments and property taxes against benefited properties with any shortfalls being paid from general taxes.

B. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------------------------|------------------------------|-------------------------|--------------------------|----------------------------|--------------------------------|
| Governmental Activities | | | | | |
| Bonds payable | | | | | |
| G.O. Improvement Bonds | \$ 2,613,000 | \$ - | \$ 288,000 | \$ 2,325,000 | \$ 240,000 |
| Compensated absences | <u>41,453</u> | <u>27,055</u> | <u>33,981</u> | <u>34,527</u> | <u>32,789</u> |
| Total governmental activities | <u>2,654,453</u> | <u>27,055</u> | <u>321,981</u> | <u>2,359,527</u> | <u>272,789</u> |
| Business-Type Activities | | | | | |
| G.O. PFA Wastewater Revenue Notes | <u>395,000</u> | <u>-</u> | <u>98,000</u> | <u>297,000</u> | <u>100,000</u> |
| Total long-term liabilities | <u><u>\$ 3,049,453</u></u> | <u><u>\$ 27,055</u></u> | <u><u>\$ 419,981</u></u> | <u><u>\$ 2,656,527</u></u> | <u><u>\$ 372,789</u></u> |

City of Hanover
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

C. Components of Long-Term Bonded Liabilities

| | Issue Date | Interest Rates | Original Issue | Final Maturity | Principal Outstanding | Due Within One Year |
|-----------------------------|---------------|-------------------|-------------------|-------------------|--------------------------|------------------------|
| Long-term liabilities | | | | | | |
| Governmental activities | | | | | | |
| G.O. Bonds, Including | | | | | | |
| Refunding bonds | | | | | | |
| G.O. C.I.P. Refunding | | | | | | |
| Bond, Series 2008A | 06/13/08 | 2.50%-3.90% | \$ 660,000 | 02/01/22 | \$ 175,000 | \$ 30,000 |
| G.O. Improvement Refunding | | | | | | |
| Bond, Series 2011A | 08/11/11 | 2.00%-2.75% | 1,225,000 | 12/01/21 | 615,000 | 150,000 |
| G.O. Capital Improvement | | | | | | |
| Bond, Series 2016A | 12/28/16 | 1.35%-3.30% | 1,535,000 | 02/01/37 | 1,535,000 | 60,000 |
| Total Bonds | | | | | <u>2,325,000</u> | <u>240,000</u> |
| Compensated absences | | | | | <u>34,527</u> | <u>32,789</u> |
| Total governmental | | | | | 2,359,527 | 272,789 |
| Activities | | | | | | |
| Business-type activities | | | | | | |
| G.O. Revenue Bonds | | | | | | |
| PFA Wastewater Revenue Note | 08/18/99 | 2.29% | 1,909,275 | 08/20/20 | 297,000 | 100,000 |
| Total all long-term | | | | | <u>\$ 2,656,527</u> | <u>\$ 372,789</u> |
| liabilities | | | | | | |

Long-term bonded indebtedness listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond and other debt issues. The General Fund typically liquidates the liability related to compensated absences.

D. Maturity Schedules

Annual debt service requirements to maturity for all bonded debt outstanding are detailed below.

| Year Ending December 31, | Governmental Activities | | Business-Type Activities | |
|-----------------------------|-------------------------|-------------------|--------------------------|------------------|
| | G.O. Improvement Bonds | | G.O. Revenue Notes | |
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 240,000 | \$ 62,015 | \$ 100,000 | \$ 6,801 |
| 2019 | 245,000 | 56,818 | 102,000 | 4,511 |
| 2020 | 255,000 | 50,762 | 95,000 | 2,175 |
| 2021 | 260,000 | 44,448 | - | - |
| 2022 | 105,000 | 37,400 | - | - |
| 2023-2027 | 350,000 | 159,575 | - | - |
| 2028-2032 | 400,000 | 104,700 | - | - |
| 2033-2037 | 470,000 | 38,408 | - | - |
| Total | <u>\$ 2,325,000</u> | <u>\$ 554,126</u> | <u>\$ 297,000</u> | <u>\$ 13,487</u> |

City of Hanover
Notes to Financial Statements

NOTE 7 – EQUITY

| | General | G.O. Crossover Refunding Bonds 2011A | Capital Improvement Fund | City Hall Fund | Nonmajor Governmental Fund | Total |
|----------------------|-------------------|--|--------------------------------|---------------------|----------------------------------|---------------------|
| Nonspendable | | | | | | |
| Prepaid items | \$ 22,650 | \$ - | \$ - | \$ - | \$ - | \$ 22,650 |
| Long term receivable | 72,042 | - | - | - | - | 72,042 |
| Total nonspendable | <u>94,692</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>94,692</u> |
| Restricted | | | | | | |
| Debt service | - | 437,636 | - | - | 169,572 | 607,208 |
| Capital projects | - | - | - | - | 17,333 | 17,333 |
| Park dedication | - | - | - | - | 63,950 | 63,950 |
| Total restricted | <u>-</u> | <u>437,636</u> | <u>-</u> | <u>-</u> | <u>250,855</u> | <u>688,491</u> |
| Assigned | | | | | | |
| Capital projects | - | - | 1,346,974 | - | 1,123,311 | 2,470,285 |
| Unassigned | <u>639,937</u> | <u>-</u> | <u>-</u> | <u>(337,340)</u> | <u>-</u> | <u>302,597</u> |
| Total | <u>\$ 734,629</u> | <u>\$ 437,636</u> | <u>\$ 1,346,974</u> | <u>\$ (337,340)</u> | <u>\$ 1,374,166</u> | <u>\$ 3,556,065</u> |

NOTE 8 – RESTRICTED NET POSITION

A portion of net position in the Water and Sewer Funds are restricted for capital improvements. As of December 31, 2017, these restrictions for the Water, Sewer, and Storm Water Funds were \$170,483, \$1,966,089 and \$554,199, respectively. The Sewer Fund also had an amount restricted of \$59,012 as municipalities receiving Water Infrastructure Fund (WIF) resources must annually deposit a minimum of 50 cents per 1,000 gallons of flow for major rehabilitation, expansion or replacement of the treatment system at the end of its useful life.

NOTE 9 – PENSION PLANS

Public Employees' Retirement Association

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

City of Hanover
Notes to Financial Statements

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

B. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in calendar year 2017. The City was required to contribute 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$20,320. The City's contributions were equal to the required contributions as set by state statute.

City of Hanover
Notes to Financial Statements

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Pension Costs

General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$268,125 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$3,334. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion share was 0.0042%, which was equal to its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$48,478 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$96 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual economic experience | \$ 8,838 | \$ 17,250 |
| Changes in actuarial assumptions | 44,514 | 26,880 |
| Difference between projected and actual investment earnings | 1,732 | - |
| Changes in proportion | 8,221 | - |
| Contributions paid to PERA subsequent to the measurement date | <u>10,160</u> | <u>-</u> |
| | <u><u>\$ 73,465</u></u> | <u><u>\$ 44,130</u></u> |

**City of Hanover
Notes to Financial Statements**

NOTE 9 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

\$10,160 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending December 31,</u> | <u>Pension Expense Amount</u> |
|-------------------------------------|-----------------------------------|
| 2018 | \$ 20,098 |
| 2019 | 15,535 |
| 2020 | (5,077) |
| 2021 | <u>(11,381)</u> |
| Total | <u>\$ 19,175</u> |

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

| | |
|------------------------------|-----------------|
| Inflation | 2.50 % Per year |
| Active member payroll growth | 3.25 % Per year |
| Investment rate of return | 7.50 % |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees plan through 2044 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

**City of Hanover
Notes to Financial Statements**

NOTE 9 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability, and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1% per year for all years to 1% per year through 2044 and 2.5% per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic stocks | 39 % | 5.10 % |
| International stocks | 19 | 5.30 |
| Bonds | 20 | 0.75 |
| Alternative assets | 20 | 5.90 |
| Cash | 2 | 0.00 |
| Total | <u>100 %</u> | |

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on those assumptions, the fiduciary net position of the General Employees Fund was 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.

**City of Hanover
Notes to Financial Statements**

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

The following table presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate <u>(6.5%)</u> | Discount Rate <u>(7.5%)</u> | 1% Increase in Discount Rate <u>(8.5%)</u> |
|---|--|--------------------------------|--|
| City's proportionate share of the PERA net pension liability | \$ 415,882 | \$ 268,125 | \$ 147,159 |

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 10 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2017 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2017, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

City of Hanover
Notes to Financial Statements

NOTE 11 – COMMITMENT – SEWER CONNECTION AND USE AGREEMENT

The Cities of Hanover and St. Michael are parties to a Sewer Connection and Use Agreement (the "Agreement") dated October 2000. The Agreement details the terms, covenants, and operations between the two Cities and the sewer operations. The purpose of the Agreement is for the City to contract with the City of St. Michael to treat wastewater. The City agrees to provide an interceptor sewer line from the City boundary to the City of St. Michael's Wastewater Treatment Plant. The City of St. Michael agrees to treat the discharged wastewater pursuant to the terms and conditions of the Agreement and approved addendums.

NOTE 12 – TAX INCREMENT FINANCING

The City has entered into a Tax Increment Financing agreement which meets the criteria for disclosure under *Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures*. The City's authority to enter into these agreements comes from Minnesota Statute 469. The City entered into the agreement for the purpose of economic development.

Under the agreement, the City and developer agree on an amount of development costs to be reimbursed to the developer by the City through tax revenues from the additional taxable value of the property generated by the development (tax increment). A "pay-as-you-go" note is established for this amount, on which the City makes payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs.

TIF District No. 1 was established in 2007 for the purpose of assisting Bankwest in the development of a building within the City. Under the agreement, up to \$196,523 of development costs will be reimbursed through tax increment over a 25 year period. During the year ended December 31, 2017, the City generated \$6,560 in tax increment revenue and made \$5,904 in payments to developers.

REQUIRED SUPPLEMENTARY INFORMATION

City of Hanover
Schedule of City's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years

| <u>For Fiscal Year Ended June 30,</u> | <u>City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)</u> | <u>City's Proportionate Share (Amount) of the Net Pension Liability (Asset)</u> | <u>State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City</u> | <u>City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City</u> | <u>City's Covered Payroll</u> | <u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</u> | <u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u> |
|---|---|---|---|--|-----------------------------------|---|---|
| 2017 | 0.0042% | \$ 268,125 | \$ 3,334 | \$ 271,459 | \$ 267,600 | 100.20% | 75.90% |
| 2016 | 0.0042% | 341,019 | 4,396 | 345,415 | 259,067 | 131.63% | 68.91% |
| 2015 | 0.0042% | 217,666 | - | 217,666 | 241,240 | 90.23% | 78.19% |

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**City of Hanover
Schedule of City Contributions
General Employees Retirement Fund
Last Ten Years**

| Fiscal Year Ending December 31, | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | City's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---------------------------------------|---|---|--|---------------------------|--|
| 2017 | \$ 20,320 | \$ 20,320 | \$ - | \$ 270,933 | 7.5% |
| 2016 | 20,070 | 20,070 | - | 267,600 | 7.5% |
| 2015 | 19,197 | 19,197 | - | 255,960 | 7.5% |

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

City of Hanover
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

SUPPLEMENTARY INFORMATION

City of Hanover
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
December 31, 2017

| | <u>Budgeted Amounts</u> | | Actual Amounts | Variance with Final Budget - Over (Under) |
|----------------------------------|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Property taxes | \$ 941,724 | \$ 947,106 | \$ 953,344 | \$ 6,238 |
| Miscellaneous taxes | 12,000 | 11,766 | 15,759 | 3,993 |
| Special assessments | 740 | 856 | 856 | - |
| Licenses and permits | 62,120 | 97,168 | 97,168 | - |
| Intergovernmental revenues | | | | |
| Local government aid | 108,168 | 138,941 | 138,941 | - |
| Market value credit | - | 1,584 | 1,584 | - |
| Pera aid | 339 | 339 | 339 | - |
| Fire aid | 36,000 | 37,428 | 37,428 | - |
| Police aid | 5,500 | 5,911 | 5,911 | - |
| Total intergovernmental revenues | <u>150,007</u> | <u>184,203</u> | <u>184,203</u> | <u>-</u> |
| Charges for services | | | | |
| General government | 17,125 | 20,520 | 21,711 | 1,191 |
| Public safety | 114,325 | 115,075 | 115,075 | - |
| Parks and recreation | 5,000 | 8,270 | 8,270 | - |
| Total charges for services | <u>136,450</u> | <u>143,865</u> | <u>145,056</u> | <u>1,191</u> |
| Fines and forfeitures | 2,000 | 5,167 | 5,167 | - |
| Miscellaneous revenues | | | | |
| Investment income | 9,000 | 4,371 | 16,441 | 12,070 |
| Contributions and donations | 3,600 | 2,425 | 10,464 | 8,039 |
| Refunds and reimbursements | - | 181 | 181 | - |
| Other | 8,900 | 4,842 | 4,842 | - |
| Total miscellaneous revenues | <u>21,500</u> | <u>11,819</u> | <u>31,928</u> | <u>20,109</u> |
| Total revenues | <u>\$ 1,326,541</u> | <u>\$ 1,401,950</u> | <u>\$ 1,433,481</u> | <u>\$ 31,531</u> |
| Expenditures | | | | |
| General government | | | | |
| Mayor and council | 28,642 | 30,516 | 30,511 | (5) |
| Administrative and finance | 228,442 | 222,119 | 225,796 | 3,677 |
| Other general government | 193,999 | 184,735 | 184,737 | 2 |
| Capital outlay | 40,000 | 29,927 | 29,927 | - |
| Total general government | <u>491,083</u> | <u>467,297</u> | <u>470,971</u> | <u>3,674</u> |
| Public safety | | | | |
| Police | | | | |
| Current | 180,479 | 184,439 | 184,439 | - |

City of Hanover
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
December 31, 2017

| | <u>Budgeted Amounts</u> | | Actual Amounts | Variance with Final Budget - Over (Under) |
|---|-------------------------|--------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures (Continued) | | | | |
| Public safety (continued) | | | | |
| Fire | | | | |
| Current | \$ 204,828 | \$ 179,207 | \$ 182,162 | \$ 2,955 |
| Capital outlay | 5,000 | 730 | 25,190 | 24,460 |
| Total fire | <u>209,828</u> | <u>179,937</u> | <u>207,352</u> | <u>27,415</u> |
| Other | | | | |
| Current | <u>18,050</u> | <u>39,789</u> | <u>39,789</u> | <u>-</u> |
| Total public safety | <u>408,357</u> | <u>404,165</u> | <u>431,580</u> | <u>27,415</u> |
| Public Works | | | | |
| Streets and highways | | | | |
| Street maintenance and storm sewers | 294,101 | 233,349 | 236,783 | 3,434 |
| Snow and ice removal | 15,000 | 19,171 | 19,171 | - |
| Street lighting | <u>27,000</u> | <u>23,876</u> | <u>23,876</u> | <u>-</u> |
| Total streets and highways | <u>336,101</u> | <u>276,396</u> | <u>279,830</u> | <u>3,434</u> |
| Sanitation | | | | |
| Collection and disposal | <u>36,000</u> | <u>38,298</u> | <u>38,298</u> | <u>-</u> |
| Total public works | <u>372,101</u> | <u>314,694</u> | <u>318,128</u> | <u>3,434</u> |
| Parks and Recreation | | | | |
| Libraries current expenditures | | | | |
| Total libraries | <u>10,500</u> | <u>11,240</u> | <u>11,240</u> | <u>-</u> |
| Parks and recreation | | | | |
| Current | 30,700 | 22,223 | 22,223 | - |
| Capital outlay | <u>13,800</u> | <u>10,570</u> | <u>10,570</u> | <u>-</u> |
| Total parks and recreation | <u>55,000</u> | <u>44,033</u> | <u>44,033</u> | <u>-</u> |
| Total expenditures | <u>1,326,541</u> | <u>1,230,189</u> | <u>1,264,712</u> | <u>34,523</u> |
| Excess of revenues over expenditures | - | 171,761 | 168,769 | (2,992) |
| Other Financing Sources (Uses) | | | | |
| Proceeds from sale of capital asset | - | 773 | 773 | - |
| Transfers out | <u>-</u> | <u>(224,151)</u> | <u>(224,151)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>-</u> | <u>(223,378)</u> | <u>(223,378)</u> | <u>-</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ (51,617)</u> | (54,609) | <u>\$ (2,992)</u> |
| Fund Balance | | | | |
| Beginning of year | | | <u>789,238</u> | |
| End of year | | | <u>\$ 734,629</u> | |

**City of Hanover
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2017**

| | Debt Service | | | Capital Projects | |
|---|--|--|---------------------------------------|-------------------|------------------|
| | G.O. C.I.P. Refunding Bond 2008A (311) | G.O. Improvement Refunding Bonds, Series 2009A (312) | G.O. C.I.P. Bonds, Series (315) | Total | Park (402) |
| Assets | | | | | |
| Cash and investments | \$ 78,389 | \$ 5,243 | \$ 85,940 | \$ 169,572 | \$ 64,362 |
| Special assessments receivable | | | | | |
| Delinquent | - | 404 | - | 404 | - |
| Deferred | - | 12,399 | - | 12,399 | - |
| Accounts receivable | - | - | - | - | - |
| Due from other governments | - | - | - | - | - |
| | <u>78,389</u> | <u>18,046</u> | <u>85,940</u> | <u>182,375</u> | <u>64,362</u> |
| Total assets | <u>\$ 78,389</u> | <u>\$ 18,046</u> | <u>\$ 85,940</u> | <u>\$ 182,375</u> | <u>\$ 64,362</u> |
| Liabilities | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ 412 |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue - special assessments | \$ - | \$ 12,803 | - | \$ 12,803 | \$ - |
| Fund Balances | | | | | |
| Restricted | 78,389 | 5,243 | 85,940 | 169,572 | 63,950 |
| Assigned | - | - | - | - | - |
| Total fund balances | <u>78,389</u> | <u>5,243</u> | <u>85,940</u> | <u>169,572</u> | <u>63,950</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 78,389</u> | <u>\$ 18,046</u> | <u>\$ 85,940</u> | <u>\$ 182,375</u> | <u>\$ 64,362</u> |

Capital Projects

| Fire Department Fund (403) | Park Dedication (405) | TIF District 1-1 (407) | Mahler Pit/15th Street Improvement Fund (409) | Equipment (417) | Streets (418) | Total | Total Governmental Funds |
|-------------------------------|-----------------------------|---------------------------|--|-------------------|-------------------|---------------------|--------------------------------|
| \$ 238,559 | \$ 2,740 | \$ 12,989 | \$ 660 | \$ 159,995 | \$ 747,942 | \$ 1,227,247 | \$ 1,396,819 |
| - | - | - | - | - | - | - | 404 |
| - | - | - | - | - | - | - | 12,399 |
| - | - | - | 1,799 | - | - | 1,799 | 1,799 |
| - | - | - | 7,789 | - | - | 7,789 | 7,789 |
| <u>\$ 238,559</u> | <u>\$ 2,740</u> | <u>\$ 12,989</u> | <u>\$ 10,248</u> | <u>\$ 159,995</u> | <u>\$ 747,942</u> | <u>\$ 1,236,835</u> | <u>\$ 1,419,210</u> |
| \$ - | \$ - | \$ 5,904 | \$ - | \$ 2,000 | \$ 23,925 | \$ 32,241 | \$ 32,241 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,803 |
| - | - | 7,085 | 10,248 | - | - | 81,283 | 250,855 |
| 238,559 | 2,740 | - | - | 157,995 | 724,017 | 1,123,311 | 1,123,311 |
| <u>238,559</u> | <u>2,740</u> | <u>7,085</u> | <u>10,248</u> | <u>157,995</u> | <u>724,017</u> | <u>1,204,594</u> | <u>1,374,166</u> |
| <u>\$ 238,559</u> | <u>\$ 2,740</u> | <u>\$ 12,989</u> | <u>\$ 10,248</u> | <u>\$ 159,995</u> | <u>\$ 747,942</u> | <u>\$ 1,236,835</u> | <u>\$ 1,419,210</u> |

City of Hanover
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
December 31, 2017

| | Debt Service | | | Total | Capital Projects |
|---|---|--|---------------------------------------|-------------------|------------------|
| | G.O. | | | | Park (402) |
| | G.O. C.I.P. Refunding Bond 2008A (311) | Improvement Refunding Bonds, Series 2009A (312) | G.O. C.I.P. Bonds, Series (315) | | |
| Revenues | | | | | |
| Property taxes | \$ 42,688 | \$ - | \$ 110,036 | \$ 152,724 | \$ 25,000 |
| Tax increments | - | - | - | - | - |
| Special assessments | - | 5,242 | - | 5,242 | - |
| Charges for services | - | - | - | - | - |
| Miscellaneous | | | | | |
| Investment income | 405 | - | 183 | 588 | 473 |
| Contributions and donations | - | - | - | - | 68,086 |
| Other | - | - | - | - | - |
| Total revenues | <u>43,093</u> | <u>5,242</u> | <u>110,219</u> | <u>158,554</u> | <u>93,559</u> |
| Expenditures | | | | | |
| Current | | | | | |
| Parks and recreation | - | - | - | - | 4,412 |
| Economic development | - | - | - | - | - |
| Debt service | | | | | |
| Principal | 30,000 | 118,000 | - | 148,000 | - |
| Interest and other charges | 7,815 | 2,550 | 24,279 | 34,644 | - |
| Capital outlay | | | | | |
| Public safety | - | - | - | - | - |
| 62 | - | - | - | - | - |
| Parks and recreation | - | - | - | - | 75,197 |
| Total expenditures | <u>37,815</u> | <u>120,550</u> | <u>24,279</u> | <u>182,644</u> | <u>79,609</u> |
| Excess of revenues over (under) expenditures | 5,278 | (115,308) | 85,940 | (24,090) | 13,950 |
| Other Financing Sources | | | | | |
| Transfers in | - | 75,273 | - | 75,273 | - |
| Net change in fund balances | 5,278 | (40,035) | 85,940 | 51,183 | 13,950 |
| Fund Balances | | | | | |
| Beginning of year | <u>73,111</u> | <u>45,278</u> | <u>-</u> | <u>118,389</u> | <u>50,000</u> |
| End of year | <u>\$ 78,389</u> | <u>\$ 5,243</u> | <u>\$ 85,940</u> | <u>\$ 169,572</u> | <u>\$ 63,950</u> |

Capital Projects

| Fire Department Fund (403) | Park Dedication (405) | TIF District 1-1 (407) | Mahler Pit/15th Street Improvement Fund (409) | Equipment (417) | Streets (418) | Total | Total Other Governmental Funds |
|----------------------------------|-----------------------------|---------------------------|--|--------------------|-------------------|---------------------|--------------------------------------|
| \$ 30,000 | \$ - | \$ - | \$ - | \$ 52,348 | \$ 160,000 | \$ 267,348 | \$ 420,072 |
| - | - | 6,560 | - | - | - | 6,560 | 6,560 |
| - | - | - | - | - | - | - | 5,242 |
| - | - | - | 10,246 | - | - | 10,246 | 10,246 |
| 1,546 | - | 56 | 2 | 978 | 4,017 | 7,072 | 7,660 |
| - | - | - | - | - | - | 68,086 | 68,086 |
| - | 1,370 | - | - | - | - | 1,370 | 1,370 |
| <u>31,546</u> | <u>1,370</u> | <u>6,616</u> | <u>10,248</u> | <u>53,326</u> | <u>164,017</u> | <u>360,682</u> | <u>519,236</u> |
| - | - | - | - | - | - | 4,412 | 4,412 |
| - | - | 5,904 | - | - | - | 5,904 | 5,904 |
| - | - | - | - | - | - | - | 148,000 |
| - | - | - | - | - | - | - | 34,644 |
| 91,237 | - | - | - | - | - | 91,237 | 91,237 |
| - | - | - | - | 4,000 | 54,658 | 58,658 | 58,658 |
| - | - | - | - | - | - | 75,197 | 75,197 |
| <u>91,237</u> | <u>-</u> | <u>5,904</u> | <u>-</u> | <u>4,000</u> | <u>54,658</u> | <u>235,408</u> | <u>418,052</u> |
| (59,691) | 1,370 | 712 | 10,248 | 49,326 | 109,359 | 125,274 | 101,184 |
| <u>74,151</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>150,000</u> | <u>224,151</u> | <u>299,424</u> |
| 14,460 | 1,370 | 712 | 10,248 | 49,326 | 259,359 | 349,425 | 400,608 |
| <u>224,099</u> | <u>1,370</u> | <u>6,373</u> | <u>-</u> | <u>108,669</u> | <u>464,658</u> | <u>855,169</u> | <u>973,558</u> |
| <u>\$ 238,559</u> | <u>\$ 2,740</u> | <u>\$ 7,085</u> | <u>\$ 10,248</u> | <u>\$ 157,995</u> | <u>\$ 724,017</u> | <u>\$ 1,204,594</u> | <u>\$ 1,374,166</u> |

City of Hanover
Statement of Changes in Agency
Fund Assets and Liabilities - Developer Escrow Agency Fund
December 31, 2017

| | <u>December 31,</u> <u>2016</u> | <u>Additions</u> | <u>Deductions</u> | <u>December 31,</u> <u>2017</u> |
|-----------------------------------|------------------------------------|-------------------|-------------------|------------------------------------|
| Assets | | | | |
| Current | | | | |
| Cash and investments | \$ 249,332 | \$ 273,056 | \$ 283,088 | \$ 239,300 |
| Total assets | <u>\$ 249,332</u> | <u>\$ 273,056</u> | <u>\$ 283,088</u> | <u>\$ 239,300</u> |
| Liabilities | | | | |
| Due to developers | | | | |
| Quail pass second addition escrow | \$ 11,906 | \$ 30 | \$ 11,936 | \$ - |
| Erosion control escrow | 31,000 | 19,000 | 25,000 | 25,000 |
| Landscape escrow | 31,000 | 18,000 | 25,000 | 24,000 |
| Infrastructure escrow | 15,000 | 12,000 | 12,000 | 15,000 |
| Miscellaneous escrows | <u>160,426</u> | <u>224,026</u> | <u>209,152</u> | <u>175,300</u> |
| Total liabilities | <u>\$ 249,332</u> | <u>\$ 273,056</u> | <u>\$ 283,088</u> | <u>\$ 239,300</u> |

**City of Hanover
Combining Balance Sheet -
Component Unit
December 31, 2017**

| | <u>Economic Development Authority (201)</u> | <u>Business Incentive (205)</u> | <u>Total</u> |
|--|---|-------------------------------------|-------------------|
| Assets | | | |
| Cash and investments | \$ 71,825 | \$ 247,072 | \$ 318,897 |
| Taxes receivable - delinquent | 518 | - | 518 |
| Other receivables | - | 14,812 | 14,812 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 72,343</u> | <u>\$ 261,884</u> | <u>\$ 334,227</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 7,406 | \$ 766 | \$ 8,172 |
| Unearned revenue | 313 | - | 313 |
| Total liabilities | <u>7,719</u> | <u>766</u> | <u>8,485</u> |
| Fund balances | | | |
| Restricted | - | 261,118 | 261,118 |
| Unassigned | 64,624 | - | 64,624 |
| Total fund balances | <u>64,624</u> | <u>261,118</u> | <u>325,742</u> |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund balances | <u>\$ 72,343</u> | <u>\$ 261,884</u> | <u>\$ 334,227</u> |

City of Hanover
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Component Unit
December 31, 2017

| | Economic Development Authority (201) | Business Incentive (205) | Total |
|--|---|--------------------------------|-------------------|
| Revenues | | | |
| Property taxes | \$ 49,306 | \$ - | \$ 49,306 |
| Intergovernmental | 52 | - | 52 |
| Miscellaneous | | | |
| Investment income | 810 | 2,324 | 3,134 |
| Total revenues | <u>50,168</u> | <u>2,324</u> | <u>52,492</u> |
| Expenditures | | | |
| Current | | | |
| Economic development | <u>122,065</u> | <u>7,133</u> | <u>129,198</u> |
| Excess of revenues under expenditures | (71,897) | (4,809) | (76,706) |
| Fund Balances | | | |
| Beginning of year | <u>136,521</u> | <u>265,927</u> | <u>402,448</u> |
| End of year | <u>\$ 64,624</u> | <u>\$ 261,118</u> | <u>\$ 325,742</u> |

**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Hanover
Hanover, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hanover, Minnesota, as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 7, 2018.

Internal Control over Financial Reporting

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

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



Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses on Internal Control and Legal Compliance as audit finding 2017-001 to be a significant deficiency.

Compliance and Other Matters

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

City's Response to the Finding

The City's response to the finding identified in our audit is described in the Schedule of Findings and Responses on Internal Control and Legal Compliance. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "BergankDV, Ltd." in a cursive, slightly slanted script.

St. Cloud, Minnesota
May 7, 2018

Report on Legal Compliance

Independent Auditor's Report

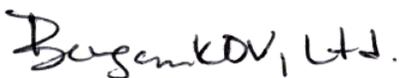
Honorable Mayor and Members
of the City Council
City of Hanover
Hanover, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund and the aggregate remaining fund information of the City of Hanover, Minnesota as of and for the year ended December 31, 2017, and the related notes to financial statements, and have issued our report thereon dated May 7, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Hanover failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the accompanying Schedule of Findings and Responses on Internal Control and Legal Compliance. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of City and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.



St. Cloud, Minnesota
May 7, 2018

City of Hanover
Schedule of Findings and Responses
on Internal Control and Legal Compliance

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Significant Deficiency:

Audit Finding 2017-001 – Lack of Segregation

During the year ended December 31, 2017, the City had a lack of segregation of accounting duties due to a limited number of office employees.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the City Council, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

City's Response:

Management of the City takes its responsibility for internal controls very seriously and has weighed the costs and benefits of an additional office employee to eliminate this risk and has determined the benefit does not exceed the cost. The City's management team diligently follows the City's internal control policies to ensure the protection of public funds.

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Audit Finding 2017-002 – Obtain Sufficient Performance and Payment Bonds for Service Contracts

Minnesota Statute 574.26 requires that contractors doing public work pledge a performance and payment bond in an amount not less than the contract price if the contract is in excess of \$100,000.

During our audit as of December 31, 2017, the City failed to obtain a payment bond for the public works facility project. The City also failed to obtain a sufficient amount for the performance bond for the public works facility project.

City's Response:

The City will ensure payment and performance bonds are obtained for future projects as required.