

**CITY OF HANOVER
Hennepin County and
Wright County, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

CITY OF HANOVER
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CITY OF HANOVER
ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2014

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Chris Kauffman	Mayor	December 31, 2016
Wendy Pinor	Council Member	December 31, 2014
John Vajda	Council Member	December 31, 2016
Ken Warpula	Council Member	December 31, 2014
Doug Hammerseng	Council Member	December 31, 2016
<u>Administration</u>		
Annita Smythe	City Administrator/Clerk/Treasurer	Appointed



Expert advice. When you need it.SM

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, Hanover, Minnesota, as of and for the year ended December 31, 2014, and the related Notes to the 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.

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hanover, Hanover, Minnesota, as of December 31, 2014, and the respective changes in 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 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. 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 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 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 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 April 22, 2015 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.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere Ltd".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
April 22, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$ 19,709,740 (net position). Of this amount, \$ 3,891,977 (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 \$ 238,400.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$ 3,259,788, an increase of \$ 970,281 in comparison with the prior year. Approximately 26% of this total amount, \$ 849,495 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 \$ 849,495, or approximately 75%, of budgeted 2014 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 the 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 liabilities, with the difference between the two 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
December 31, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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 13 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 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
December 31, 2014

FUND FINANCIAL STATEMENTS

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 exceeded liabilities by \$ 19,709,740 at the close of the most recent year.

A significant portion of the City's net position (61%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are 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
December 31, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

	Governmental Activities		Business-Type Transactions		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 4,005,982	\$ 3,805,769	\$ 3,965,435	\$ 3,823,231	\$ 7,971,417	\$ 7,629,000
Capital Assets	6,416,225	6,674,740	7,678,784	7,951,257	14,095,009	14,625,997
Total Assets	\$10,422,207	\$10,480,509	\$11,644,219	\$11,774,488	\$22,066,426	\$22,254,997
Long-Term Liabilities Outstanding	\$ 1,337,242	\$ 1,539,343	\$ 490,000	\$ 583,000	\$ 1,827,242	\$ 2,122,343
Other Liabilities	393,404	513,214	136,040	148,100	529,444	661,314
Total Liabilities	\$ 1,730,646	\$ 2,052,557	\$ 626,040	\$ 731,100	\$ 2,356,686	\$ 2,783,657
Net Position:						
Invested in Capital Assets, Net of Related Debt	\$ 4,881,439	\$ 4,856,809	\$ 7,095,784	\$ 7,277,257	\$ 11,977,223	\$12,134,066
Restricted	994,089	1,099,268	2,846,451	2,793,627	3,840,540	3,892,895
Unrestricted	2,816,033	2,471,874	1,075,944	972,504	3,891,977	3,444,378
Total Net Position	\$ 8,691,561	\$ 8,427,951	\$11,018,179	\$11,043,388	\$ 19,709,740	\$19,471,339

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 \$ 263,609.

CITY OF HANOVER
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

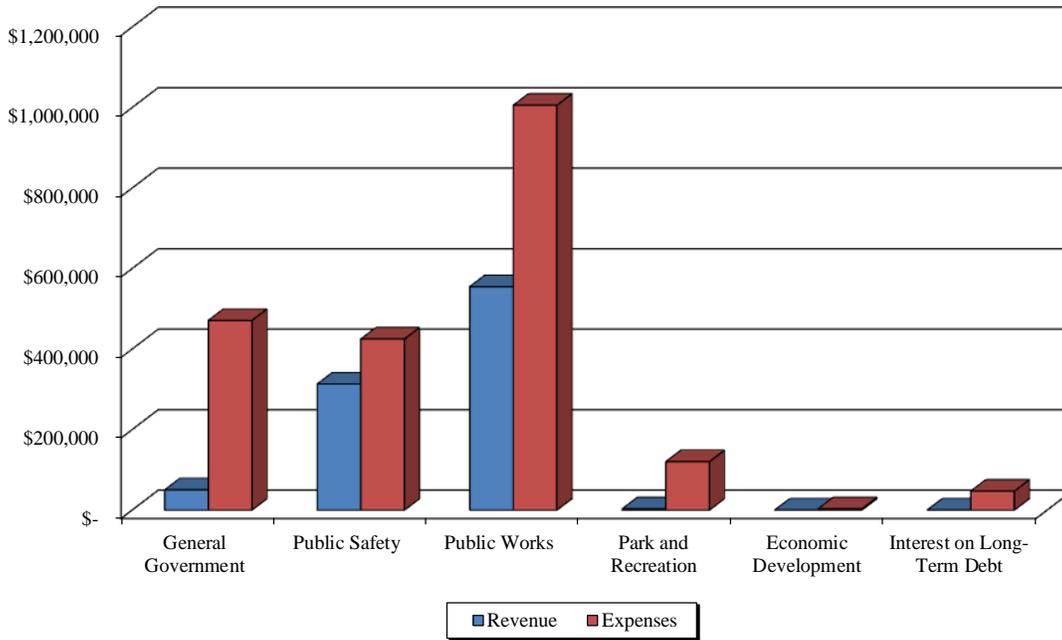
	Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
REVENUES						
Program Revenues:						
Charges for Services	\$ 314,292	\$ 395,747	\$ 611,875	\$ 719,894	\$ 926,167	\$ 1,115,641
Operating Grants and Contributions	74,195	81,550	-	-	74,195	81,550
Capital Grants and Contributions	533,062	1,196,831	16,022	13,853	549,084	1,210,684
General Revenues:						
Property Taxes	1,251,119	1,279,300	-	-	1,251,119	1,279,300
State Aid	102,130	63,542	-	-	102,130	63,542
Unrestricted Investment	44,946	16,619	47,820	28,773	92,766	45,392
Franchise Tax	12,194	14,452	-	-	12,194	14,452
Tax Increments	3,399	11,309	-	-	3,399	11,309
Gain of Sale	100	1,300	-	-	100	1,300
Transfers	-	(375,900)	-	375,900	-	-
Total Revenues	<u><u>\$ 2,335,437</u></u>	<u><u>\$ 2,684,750</u></u>	<u><u>\$ 675,717</u></u>	<u><u>\$ 1,138,420</u></u>	<u><u>\$ 3,011,154</u></u>	<u><u>\$ 3,823,170</u></u>
EXPENSES						
General Government	\$ 471,070	\$ 550,443	\$ -	\$ -	\$ 471,070	\$ 550,443
Public Safety	424,876	464,646	-	-	424,876	464,646
Public Works	1,005,645	678,405	-	-	1,005,645	678,405
Parks and Recreation	120,186	117,234	-	-	120,186	117,234
Economic	3,059	10,179	-	-	3,059	10,179
Interest on Long-Term Debt	46,992	53,785	-	-	46,992	53,785
Water Utility	-	-	168,253	178,200	168,253	178,200
Sewer Utility	-	-	462,754	503,672	462,754	503,672
Storm Water Utility	-	-	69,919	64,321	69,919	64,321
Total Expenses	<u><u>2,071,828</u></u>	<u><u>1,874,692</u></u>	<u><u>700,926</u></u>	<u><u>746,193</u></u>	<u><u>2,772,754</u></u>	<u><u>2,620,885</u></u>
Net Change	<u><u>263,609</u></u>	<u><u>810,058</u></u>	<u><u>(25,209)</u></u>	<u><u>392,227</u></u>	<u><u>238,400</u></u>	<u><u>1,202,285</u></u>
Net Position - Beginning of Year	<u><u>8,427,952</u></u>	<u><u>7,617,894</u></u>	<u><u>11,043,388</u></u>	<u><u>10,651,161</u></u>	<u><u>19,471,340</u></u>	<u><u>18,269,055</u></u>
Net Position - End of Year	<u><u>\$ 8,691,561</u></u>	<u><u>\$ 8,427,952</u></u>	<u><u>\$11,018,179</u></u>	<u><u>\$11,043,388</u></u>	<u><u>\$19,709,740</u></u>	<u><u>\$19,471,340</u></u>

The financial position of governmental activities increased during the year. In addition, some expenditures for construction are expected to be reimbursed by grant funding in 2015. The City's total net position increased by \$ 238,400.

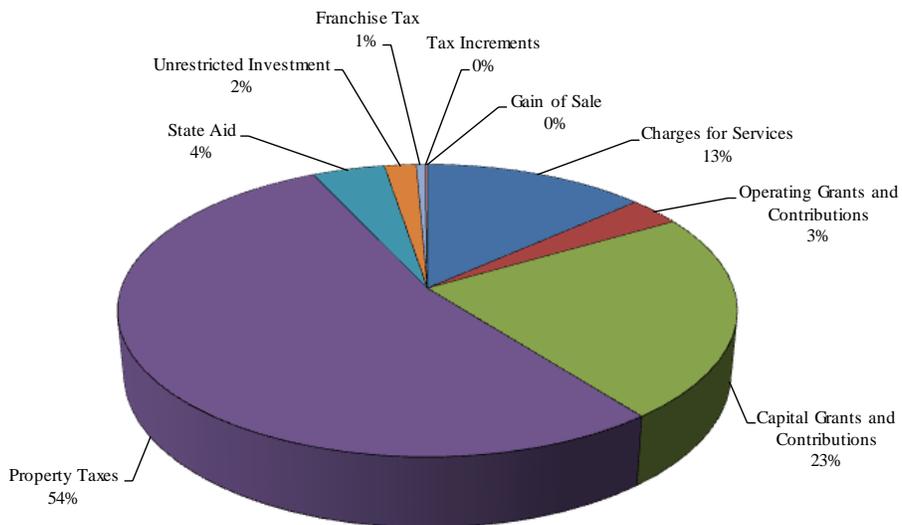
CITY OF HANOVER
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Program Revenue and Expenses - Governmental Activities



Revenue By Source - Governmental Activities



Governmental activity expenses increased due to higher expenditures for construction and other infrastructure projects.

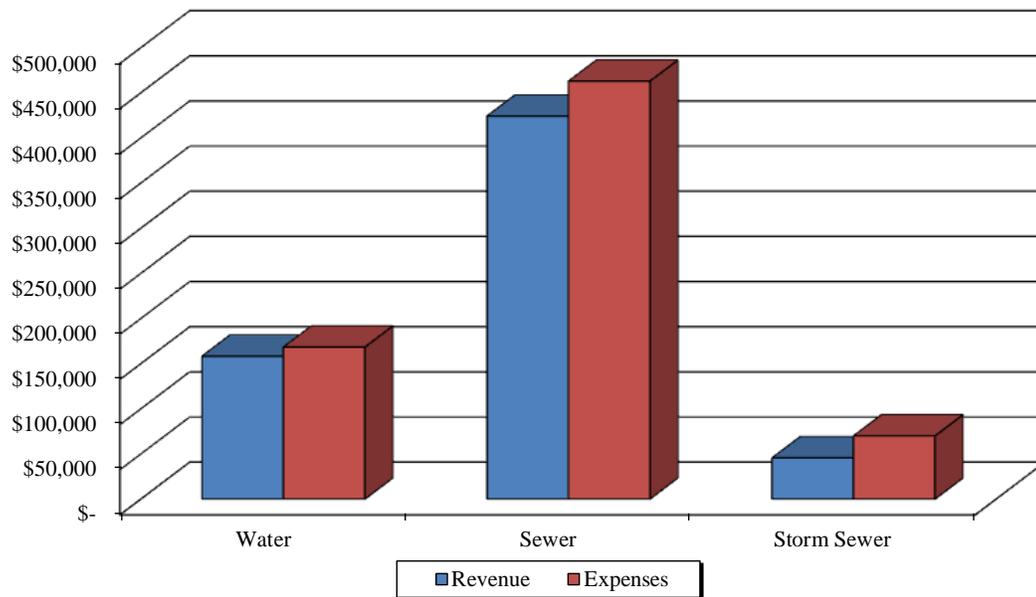
CITY OF HANOVER
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

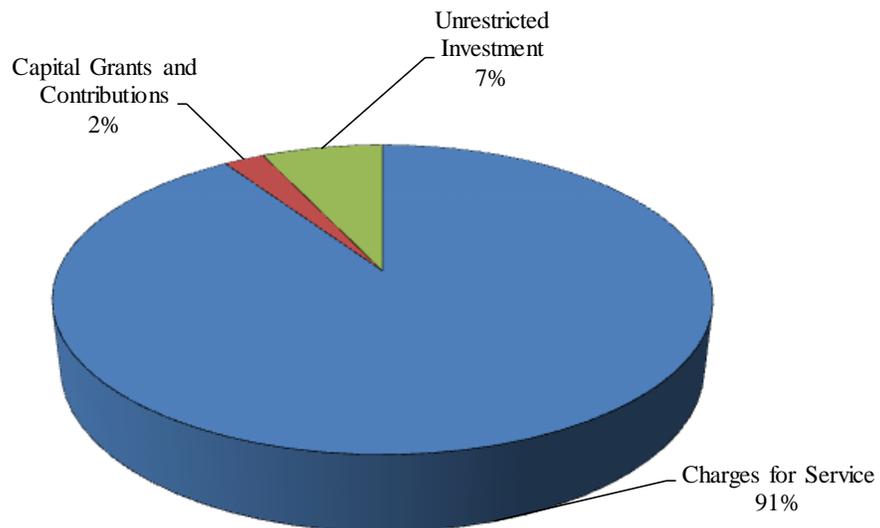
Business-Type Activities

Business-type activities decreased the City's net position by \$ 25,209.

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



Revenue By Source - Business-Type Activities



CITY OF HANOVER
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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, unreserved 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 \$ 3,259,788, an increase of \$ 970,281 in comparison with the prior year. Of this total amount, 26% (\$ 849,495) 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 (\$ 21,402) and long term receivables (\$ 72,042), restricted for debt service (\$ 468,617), restricted for park dedication (\$ 238,877), restricted for Tax Increment Financing (TIF) District (\$ 4,786) and assigned to fund capital projects (\$ 1,604,569).

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 \$ 942,939. \$ 93,444 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 81% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$ 223,686 during the current year. This increase is the result of permit and contribution revenue in excess of budget and expenditures under budget in several departments.

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 2013 and no budget amendments were required during the 2014 year.

Revenues were \$ 138,666 over budget, due mainly to higher than anticipated revenues in licenses and permits as the issuance of building permits increased in 2014. Expenditures were under budget by \$ 81,113, due to lower expenditures in several departments in both operating and capital type expenditures. These variances, less budgeted transfers of \$ 292,500 from the General Fund to the City's Capital Improvement Fund and other nonmajor governmental funds, plus proceeds of \$ 100 from the sale of equipment resulted in a net increase in fund balance of \$ 223,686.

CITY OF HANOVER
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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, 2014, amounts to \$ 14,095,009 (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	
	2014	2013	2014	2013	2014	2013
Land	\$ 877,106	\$ 866,706	\$ 26,781	\$ 26,781	\$ 903,887	\$ 893,487
Construction in Progress	1,287,973	1,149,278	-	-	1,287,973	1,149,278
Improvements Other than Building	221,298	256,465	7,647,551	7,922,538	7,868,849	8,179,003
Buildings and Systems	564,952	589,399	-	-	564,952	589,399
Vehicles	515,932	577,438	-	-	515,932	577,438
Machinery and Equipment	110,542	108,509	4,452	1,938	114,994	110,447
Infrastructure	2,838,422	3,126,945	-	-	2,838,422	3,126,945
Total	\$ 6,416,225	\$ 6,674,740	\$ 7,678,784	\$ 7,951,257	\$14,095,009	\$14,625,997

Long Term Debt

At the end of the current year, the City had total long-term liabilities outstanding of \$ 2,149,667. Of this amount, \$ 1,177,000 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 \$ 260,000, which was issued to refinance previously issued EDA Revenue Bonds. \$ 97,786 represents equipment certificates. 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

	2014	2013
Special Assessment Debt With		
Governmental Commitment	\$ 1,177,000	\$ 1,323,000
Equipment Certificates	97,786	164,931
PFA Water Revenue Bonds	583,000	674,000
G.O. CIP Refunding Bonds	260,000	330,000
Compensated Absences	31,881	18,227
Total	\$ 2,149,667	\$ 2,510,158

The City's total long-term debt decreased by \$ 360,491 during 2014.

CITY OF HANOVER
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is anticipating that Local Government Aid (LGA) will remain flat for 2015 after the increase that was approved by the 2014 Minnesota legislature for 2014. Also, sales taxes have been eliminated for certain City purchases starting in 2014, allowing the City to reduce some costs that have been budgeted in years past.

The City's housing economy continued to remain strong in 2014. That trend is likely to continue in 2015, but a slight decrease is anticipated due to the surplus of vacant parcels dwindling. Thirty-four new homes were constructed in 2014, compared with thirty-four new homes in 2013. The number of short sales and foreclosures also appeared to decline significantly in 2014.

The City continued to make progress on the three major bicycle/pedestrian trail construction projects in 2014. The City completed the first segment in 2011; a trail from the Historic Bridge to the City limits of St. Michael along County Road 19. The next phase; constructing a trail along County Road 34 to Beebe Lake Park in St. Michael saw substantial completion in 2014. The final phase is in Hennepin County; linking the historic bridge on the Hennepin County Side to the County Road 19 Trail in the City of Corcoran. This project received final funding and the project was advertised for bids. In addition to the final phase of bike trails, the City will be completing a Historic Bridge Rehabilitation project in 2015.

The City saw minimal economic change in 2014. Though there were not any new businesses that started in Hanover in 2014, the City did not see any loss to the existing businesses. Throughout 2014 the City held several discussions with prospective business. The discussions provided the City with new knowledge on parcels located within the City. This new knowledge will be used in the future to increase economic development.

The City Council continues to work to control costs in the City. This fiscal restraint has resulted in maintaining a flat levy 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 residents to bring their yard waste to the St. Michael 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.

CITY OF HANOVER
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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, 2014**

	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS				
Cash and Investments (Including Cash Equivalents)	\$ 2,743,009	\$ 3,693,242	\$ 6,436,251	\$ 270,393
Delinquent Property Tax Receivable	64,902	-	64,902	101
Accounts Receivable	75,728	-	75,728	-
Interest Receivable	9,809	13,211	23,020	968
Due from Other Governments	524,575	27,737	552,312	-
Other Receivables	-	-	-	57,439
Special Assessments Receivable:				
Delinquent	149,730	4,702	154,432	-
Deferred	365,081	225,501	590,582	-
Prepaid Items	21,402	1,042	22,444	-
Assets Held for Resale	51,746	-	51,746	-
Capital Assets not being Depreciated:				
Land	877,106	26,781	903,887	-
Construction in Progress	1,287,973	-	1,287,973	-
Capital Assets being Depreciated:				
Infrastructure	2,838,422	-	2,838,422	-
Buildings	564,952	-	564,952	-
Improvements	221,298	7,647,551	7,868,849	-
Vehicles	515,932	-	515,932	-
Machinery and Equipment	110,542	4,452	114,994	-
Total Assets	<u>\$ 10,422,207</u>	<u>\$ 11,644,219</u>	<u>\$ 22,066,426</u>	<u>\$ 328,901</u>
LIABILITIES AND NET POSITION				
Liabilities				
Accounts Payable	\$ 36,432	\$ 3,912	\$ 40,344	\$ 217
Contracts Payable	64,811	-	64,811	-
Due To Other Governments	35,709	33,565	69,274	-
Salaries and Benefits Payable	17,187	-	17,187	-
Interest Payable	9,840	5,563	15,403	-
Bond and Note Principal Payable:				
Payable Within One Year	213,868	93,000	306,868	-
Payable After One Year	1,320,918	490,000	1,810,918	-
Compensated Absences Payable:				
Payable Within One Year	23,910	-	23,910	-
Payable After One Year	7,971	-	7,971	-
Total Liabilities	<u>1,730,646</u>	<u>626,040</u>	<u>2,356,686</u>	<u>217</u>
Net Position				
Net Investment in Capital Assets	4,881,439	7,095,784	11,977,223	-
Restricted for:				
Capital Projects	238,877	2,846,451	3,085,328	-
Debt Service	750,426	-	750,426	-
Tax Increment	4,786	-	4,786	-
Other Projects	-	-	-	247,425
Unrestricted	2,816,033	1,075,944	3,891,977	81,259
Total Net Position	<u>8,691,561</u>	<u>11,018,179</u>	<u>19,709,740</u>	<u>328,684</u>
Total Liabilities and Net Position	<u>\$ 10,422,207</u>	<u>\$ 11,644,219</u>	<u>\$ 22,066,426</u>	<u>\$ 328,901</u>

CITY OF HANOVER
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
General Government	\$ 471,070	\$ 32,248	\$ 18,071	\$ 54	\$ (420,697)	\$ -	\$ (420,697)	\$ -
Public Safety	424,876	271,585	41,636	-	(111,655)	-	(111,655)	-
Public Works	1,005,645	7,446	14,488	533,008	(450,703)	-	(450,703)	-
Parks and Recreation	120,186	3,013	-	-	(117,173)	-	(117,173)	-
Economic Development	3,059	-	-	-	(3,059)	-	(3,059)	-
Interest on Long-Term Debt	46,992	-	-	-	(46,992)	-	(46,992)	-
Total Governmental Activities	<u>2,071,828</u>	<u>314,292</u>	<u>74,195</u>	<u>533,062</u>	<u>(1,150,279)</u>	<u>-</u>	<u>(1,150,279)</u>	<u>-</u>
Business-Type Activities								
Water	168,253	158,001	-	198	-	(10,054)	(10,054)	-
Sewer	462,754	410,470	-	13,660	-	(38,624)	(38,624)	-
Storm Water	69,919	43,404	-	2,164	-	(24,351)	(24,351)	-
Total Business-Type Activities	<u>700,926</u>	<u>611,875</u>	<u>-</u>	<u>16,022</u>	<u>-</u>	<u>(73,029)</u>	<u>(73,029)</u>	<u>-</u>
Total Governmental and Business-Type Activities	<u>\$ 2,772,754</u>	<u>\$ 926,167</u>	<u>\$ 74,195</u>	<u>\$ 549,084</u>	<u>(1,150,279)</u>	<u>(73,029)</u>	<u>(1,223,308)</u>	<u>-</u>
Component Unit								
Economic Development Authority	<u>\$ 53,961</u>	<u>\$ -</u>	<u>\$ 43,957</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,004)</u>
General Revenues								
Property Taxes					1,251,119	-	1,251,119	47,767
Franchise Taxes					12,194	-	12,194	-
Tax Increments					3,399	-	3,399	-
State Aids					102,130	-	102,130	-
Other General Revenue					-	-	-	100
Unrestricted Investment Earnings					44,946	47,820	92,766	4,602
Gain on Sale of Assets					100	-	100	-
Total General Revenues and Transfers					<u>1,413,888</u>	<u>47,820</u>	<u>1,461,708</u>	<u>52,469</u>
Change in Net Position					<u>263,609</u>	<u>(25,209)</u>	<u>238,400</u>	<u>42,465</u>
Net Position - Beginning					<u>8,427,952</u>	<u>11,043,388</u>	<u>19,471,340</u>	<u>286,219</u>
Net Position - Ending					<u>\$ 8,691,561</u>	<u>\$ 11,018,179</u>	<u>\$ 19,709,740</u>	<u>\$ 328,684</u>

CITY OF HANOVER

**BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2014**

		<u>Debt Service</u>	<u>Capital Project</u>		
		G.O. Crossover Refunding Bonds 2011A (314)	Capital Improvement Fund (401)	Other Governmental Funds	Total Governmental Funds
	<u>General Fund (100-110)</u>				
ASSETS					
Cash and Investments (Including Cash Equivalents)	\$ 921,574	\$ 354,766	\$ 363,732	\$ 1,102,937	\$ 2,743,009
Delinquent Property Tax Receivable	64,902	-	-	-	64,902
Accounts Receivable	75,143	-	585	-	75,728
Interest Receivable	3,313	1,262	1,301	3,933	9,809
Due from Other Governments	5,001	-	519,574	-	524,575
Special Assessments Receivable:					
Delinquent	-	-	149,243	487	149,730
Deferred	308	266,365	73,463	24,945	365,081
Assets Held for Resale	-	-	51,746	-	51,746
Prepaid Items	21,402	-	-	-	21,402
Total Assets	<u>\$ 1,091,643</u>	<u>\$ 622,393</u>	<u>\$ 1,159,644</u>	<u>\$ 1,132,302</u>	<u>\$ 4,005,982</u>
LIABILITIES					
Accounts Payable	\$ 34,612	\$ -	\$ 1,820	\$ -	\$ 36,432
Contracts Payable	-	-	59,811	5,000	64,811
Due To Other Governments	35,709	-	-	-	35,709
Salaries and Benefits Payable	17,187	-	-	-	17,187
Total Liabilities	<u>87,508</u>	<u>-</u>	<u>61,631</u>	<u>5,000</u>	<u>154,139</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	60,888	-	-	-	60,888
Unavailable Revenue - Special Assessments	308	266,365	222,706	25,284	514,663
Unavailable Revenue - Grant Revenue	-	-	16,504	-	16,504
Total Deferred Inflows of Resources	<u>61,196</u>	<u>266,365</u>	<u>239,210</u>	<u>25,284</u>	<u>592,055</u>
FUND BALANCES					
Nonspendable	93,444	-	-	-	93,444
Restricted	-	356,028	-	356,252	712,280
Assigned	-	-	858,803	745,766	1,604,569
Unassigned	849,495	-	-	-	849,495
Total Fund Balances	<u>942,939</u>	<u>356,028</u>	<u>858,803</u>	<u>1,102,018</u>	<u>3,259,788</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,091,643</u>	<u>\$ 622,393</u>	<u>\$ 1,159,644</u>	<u>\$ 1,132,302</u>	<u>\$ 4,005,982</u>

CITY OF HANOVER

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2014**

Total Fund Balances - Governmental Funds \$ 3,259,788

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	13,030,450
Less Accumulated Depreciation	(6,614,225)

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	(1,534,786)
Compensated Absences Payable	(31,881)

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	60,888
Delinquent Special Assessments	149,730

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

Deferred Special Assessments Receivable	364,933
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Governmental funds do not report a liability for accrued interest until
due and payable.

(9,840)

Total Net Position - Governmental Activities

\$ 8,691,561

CITY OF HANOVER

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

		<u>Debt Service</u>	<u>Capital Project</u>		
	General Fund (100-110)	G.O. Crossover Refunding Bonds 2011A (314)	Capital Improvement Fund (401)	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 1,040,482	\$ 74,174	\$ -	\$ 123,515	\$ 1,238,171
Tax Increments	-	-	-	3,399	3,399
Miscellaneous Taxes	12,194	-	3,070	-	15,264
Special Assessments	54	93,196	12,289	10,354	115,893
Licenses and Permits	168,158	-	-	-	168,158
Intergovernmental	161,169	-	1,150,178	-	1,311,347
Charges for Services	138,373	-	4,376	-	142,749
Fines and Forfeitures	315	-	-	-	315
Miscellaneous:					
Investment Income	7,272	4,970	(319)	11,698	23,621
Contributions and Donations	21,325	-	-	-	21,325
Other	15,156	-	-	-	15,156
Total Revenues	<u>1,564,498</u>	<u>172,340</u>	<u>1,169,594</u>	<u>148,966</u>	<u>3,055,398</u>
EXPENDITURES					
Current					
General Government	401,697	-	21,384	-	423,081
Public Safety	333,148	-	-	29,278	362,426
Public Works	251,385	-	-	-	251,385
Parks and Recreation	32,498	-	-	3,255	35,753
Economic Development	-	-	-	3,059	3,059
Debt Service					
Principal	-	125,000	-	158,145	283,145
Interest and Other Charges	-	26,270	-	23,135	49,405
Capital Outlay					
General Government	26,167	-	-	66,433	92,600
Public Safety	806	-	8,987	-	9,793
Public Works	-	-	533,502	33,716	567,218
Parks and Recreation	2,711	-	-	4,641	7,352
Total Expenditures	<u>1,048,412</u>	<u>151,270</u>	<u>563,873</u>	<u>321,662</u>	<u>2,085,217</u>
Excess of Revenues Over (Under) Expenditures	516,086	21,070	605,721	(172,696)	970,181
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Asset	100	-	-	-	100
Transfers In	-	-	100,000	197,500	297,500
Transfers Out	(292,500)	(5,000)	-	-	(297,500)
Total Other Financing Sources (Uses)	<u>(292,400)</u>	<u>(5,000)</u>	<u>100,000</u>	<u>197,500</u>	<u>100</u>
Net Change in Fund Balances	223,686	16,070	705,721	24,804	970,281
FUND BALANCES					
Beginning of Year	<u>719,253</u>	<u>339,958</u>	<u>153,082</u>	<u>1,077,214</u>	<u>2,289,507</u>
End of Year	<u>\$ 942,939</u>	<u>\$ 356,028</u>	<u>\$ 858,803</u>	<u>\$ 1,102,018</u>	<u>\$ 3,259,788</u>

CITY OF HANOVER

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

For the Year Ended December 31, 2014

Net Change in Fund Balances - Governmental Funds	\$ 970,281
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	205,028
Depreciation Expense	(445,591)
Loss on Disposal	(17,952)
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.	283,145
Compensated absences are recognized as paid in the governmental funds, but recognized as the expense is incurred in the Statement of Activities.	(13,654)
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.	2,413
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	(629)
Delinquent Property Taxes	12,948
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>(732,380)</u>
Change in Net Position - Governmental Activities	<u><u>\$ 263,609</u></u>

CITY OF HANOVER

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 1,066,590	\$ 1,066,590	\$ 1,040,482	\$ (26,108)
Miscellaneous Taxes	10,000	10,000	12,194	2,194
Special Assessments	-	-	54	54
Licenses and Permits	76,750	76,750	168,158	91,408
Intergovernmental	129,433	129,433	161,169	31,736
Charges for Services	122,059	122,059	138,373	16,314
Fines and Forfeitures	2,000	2,000	315	(1,685)
Miscellaneous Revenues:				
Investment Income	8,000	8,000	7,272	(728)
Contributions and Donations	-	-	21,325	21,325
Other	11,000	11,000	15,156	4,156
Total Revenues	<u>1,425,832</u>	<u>1,425,832</u>	<u>1,564,498</u>	<u>138,666</u>
EXPENDITURES				
Current				
General Government	456,196	456,196	401,697	(54,499)
Public Safety	333,898	333,898	333,148	(750)
Public Works	253,466	253,466	251,385	(2,081)
Parks and Recreation	40,965	40,965	32,498	(8,467)
Capital Outlay				
General Government	37,500	37,500	26,167	(11,333)
Public Safety	5,000	5,000	806	(4,194)
Parks and Recreation	2,500	2,500	2,711	211
Total Expenditures	<u>1,129,525</u>	<u>1,129,525</u>	<u>1,048,412</u>	<u>(81,113)</u>
Excess of Revenues Over Expenditures	296,307	296,307	516,086	219,779
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	-	100	100
Transfers Out	(292,500)	(292,500)	(292,500)	-
Total Other Financing Sources (Uses)	<u>(292,500)</u>	<u>(292,500)</u>	<u>(292,400)</u>	<u>100</u>
Net Change in Fund Balance	<u>\$ 3,807</u>	<u>\$ 3,807</u>	223,686	<u>\$ 219,879</u>
FUND BALANCE				
Beginning of Year			<u>719,253</u>	
End of Year			<u>\$ 942,939</u>	

CITY OF HANOVER

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2014

	<u>Water (601, 611)</u>	<u>Sewer (602, 612)</u>	<u>Storm Water (603, 613)</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and Investments (Including Cash Equivalents)	\$ 1,120,150	\$ 1,927,674	\$ 645,418	\$ 3,693,242
Special Assessments Receivable:				
Delinquent	-	4,166	536	4,702
Deferred	-	223,461	2,040	225,501
Interest Receivable	4,007	6,895	2,309	13,211
Due from Other Governments	3,836	21,152	2,749	27,737
Prepaid Expenses	82	960	-	1,042
Total Current Assets	<u>1,128,075</u>	<u>2,184,308</u>	<u>653,052</u>	<u>3,965,435</u>
Noncurrent Assets				
Capital Assets:				
Land	-	-	26,781	26,781
Sewer and Water Improvements	2,012,153	6,287,257	2,447,634	10,747,044
Vehicles and Equipment	-	29,080	10,387	39,467
Total Capital Assets	<u>2,012,153</u>	<u>6,316,337</u>	<u>2,484,802</u>	<u>10,813,292</u>
Less Accumulated Depreciation	<u>(494,783)</u>	<u>(2,120,190)</u>	<u>(519,535)</u>	<u>(3,134,508)</u>
Net Capital Assets	<u>1,517,370</u>	<u>4,196,147</u>	<u>1,965,267</u>	<u>7,678,784</u>
 Total Assets	 <u>\$ 2,645,445</u>	 <u>\$ 6,380,455</u>	 <u>\$ 2,618,319</u>	 <u>\$ 11,644,219</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts Payable	\$ 3,912	\$ -	\$ -	\$ 3,912
Interest Payable	-	5,563	-	5,563
Due to Other Governments	10,005	23,560	-	33,565
Notes Payable - Current	-	93,000	-	93,000
Total Current Liabilities	<u>13,917</u>	<u>122,123</u>	<u>-</u>	<u>136,040</u>
Noncurrent Liabilities				
Notes Payable	-	490,000	-	490,000
Total Liabilities	<u>13,917</u>	<u>612,123</u>	<u>-</u>	<u>626,040</u>
Net Position				
Net Investment in Capital Assets	1,517,370	3,613,147	1,965,267	7,095,784
Restricted	401,775	1,900,937	543,739	2,846,451
Unrestricted	712,383	254,248	109,313	1,075,944
Total Net Position	<u>2,631,528</u>	<u>5,768,332</u>	<u>2,618,319</u>	<u>11,018,179</u>
 Total Liabilities and Net Position	 <u>\$ 2,645,445</u>	 <u>\$ 6,380,455</u>	 <u>\$ 2,618,319</u>	 <u>\$ 11,644,219</u>

CITY OF HANOVER

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	Water (601, 611)	Sewer (602, 612)	Storm Water (603, 613)	Total
OPERATING REVENUES				
Charges for Services	\$ 67,993	\$ 241,570	\$ 43,404	\$ 352,967
Permits, Hookup Fees and Penalties	11,853	21,470	-	33,323
Total Operating Revenues	<u>79,846</u>	<u>263,040</u>	<u>43,404</u>	<u>386,290</u>
OPERATING EXPENSES				
Repairs and Maintenance	10,496	-	2,441	12,937
Professional Services	37,760	131,150	4,429	173,339
Depreciation	50,304	159,120	63,049	272,473
Miscellaneous	(2)	(222)	-	(224)
Total Operating Expenses	<u>98,558</u>	<u>290,048</u>	<u>69,919</u>	<u>458,525</u>
Operating Income (Loss)	(18,712)	(27,008)	(26,515)	(72,235)
NONOPERATING REVENUES (EXPENSES)				
Sale of Water Meters	12,462	-	-	12,462
Investment Income	14,408	25,105	8,307	47,820
Special Assessments	198	13,660	2,164	16,022
Payment to Other Governments	(69,695)	(156,853)	-	(226,548)
Connection Charges	65,693	147,430	-	213,123
Interest Expense	-	(15,853)	-	(15,853)
Total Nonoperating Revenues (Expenses)	<u>23,066</u>	<u>13,489</u>	<u>10,471</u>	<u>47,026</u>
Change in Net Position	4,354	(13,519)	(16,044)	(25,209)
NET POSITION				
Beginning of Year	<u>2,627,174</u>	<u>5,781,851</u>	<u>2,634,363</u>	<u>11,043,388</u>
End of Year	<u>\$ 2,631,528</u>	<u>\$ 5,768,332</u>	<u>\$ 2,618,319</u>	<u>\$ 11,018,179</u>

CITY OF HANOVER

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	Water (601, 611)	Sewer (602, 612)	Storm Water (603, 613)	Total
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 163,358	\$ 440,178	\$ 48,355	\$ 651,891
Payments to Suppliers	(104,818)	(266,595)	(55,887)	(427,300)
Net Cash Flows - Operating Activities	<u>58,540</u>	<u>173,583</u>	<u>(7,532)</u>	<u>224,591</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Special Assessments	2,552	53,286	(254)	55,584
Interest Paid on Capital Debt	-	(15,435)	-	(15,435)
Principal Paid on Capital Debt	-	(91,000)	-	(91,000)
Net Cash Flows - Capital and Related Financing Activities	<u>2,552</u>	<u>(53,149)</u>	<u>(254)</u>	<u>(50,851)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	<u>10,401</u>	<u>18,210</u>	<u>5,998</u>	<u>34,609</u>
Net Change in Cash and Cash Equivalents	71,493	138,644	(1,788)	208,349
CASH AND CASH EQUIVALENTS				
Beginning of Year	<u>1,048,657</u>	<u>1,789,030</u>	<u>647,206</u>	<u>3,484,893</u>
End of Year	<u>\$ 1,120,150</u>	<u>\$ 1,927,674</u>	<u>\$ 645,418</u>	<u>\$ 3,693,242</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Loss	\$ (18,712)	\$ (27,008)	\$ (26,515)	\$ (72,235)
Adjustments to Reconcile Operating Loss to Net Cash Flows - Operating Activities:				
Other Operating Income	8,658	4,237	2,164	15,059
Depreciation Expense	50,304	159,120	63,049	272,473
Delinquent Special Assessment Receivable	-	(3,642)	-	(3,642)
Due from Other Governments	5,159	19,690	2,787	27,636
Accounts Payable	3,126	(2,152)	(49,017)	(48,043)
Prepaid Items	-	(222)	-	(222)
Due to Other Governmental Units	10,005	23,560	-	33,565
Total Adjustments	<u>77,252</u>	<u>200,591</u>	<u>18,983</u>	<u>296,826</u>
Net Cash Flows - Operating Activities	<u>\$ 58,540</u>	<u>\$ 173,583</u>	<u>\$ (7,532)</u>	<u>\$ 224,591</u>

CITY OF HANOVER

**STATEMENT OF FIDUCIARY NET POSITION
December 31, 2014**

	<u>Developer Escrow Agency Fund</u>
ASSETS	
Current	
Cash and Investments	\$ 246,213
Due from Developers:	
Bridges at Hanover Escrow	<u>13,477</u>
Total Assets	<u><u>\$ 259,690</u></u>
LIABILITIES	
Due to Developers	
Quail Pass 2nd Addition Escrow	\$ 11,670
Erosion Control Escrow	33,250
Landscape Escrow	44,000
Infrastructure Escrow	16,500
Miscellaneous Escrow	<u>154,270</u>
Total Liabilities	<u><u>\$ 259,690</u></u>

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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 THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

A summary of the financial information of the JPWB Water Fund for the year ended December 31, 2014 follows:

Total Assets	\$ 23,959,991
Deferred Outflow of Resources	<u>127,946</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 24,087,937</u></u>
 Liabilities	 \$ 4,500,965
Net Position	<u>19,586,972</u>
 Total Liabilities and Net Position	 <u><u>\$ 24,087,937</u></u>
 Operating Revenue	 \$ 2,072,605
Operating Expenses	(1,555,249)
Nonoperating Income and Expenses (Net)	<u>368,950</u>
 Changes in Net Position	 <u><u>\$ 886,306</u></u>

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.

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements (Continued)

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.

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.

CITY OF HANOVER
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 Fund – This Fund accounts for the costs associated with the City’s capital improvement projects.

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.

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

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 requires all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

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.

Custodial Credit Risk: Deposits: For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. 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.

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 advantage 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.

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Equity (Continued)

1. Deposits and Investments (Continued)

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The 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.

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.

Custodial Credit Risk: Investments: For an investment, this is the risk in the event of the failure of the counterparty the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

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.

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.

CITY OF HANOVER
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Equity (Continued)

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 cost or estimated cost 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:

Assets	Years
Buildings	20-40
Building and Land Improvements	10-20
Vehicles	5-20
Equipment	5-10
Infrastructure	10-40

5. Deferred Outflows/Inflows of Resources

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 one type of item, which arises under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item is reported in the governmental funds balance sheet as unavailable revenue. The governmental funds report unavailable revenues from three 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.

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 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.

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Equity (Continued)

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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.

8. 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 THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities and Net Position or Equity (Continued)

8. 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.

9. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows 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 are 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.

10. 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. 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 THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. 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. 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 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 and Cash on Hand

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

Custodial Credit Risk – Deposits: As of December 31, 2014, the City's bank balance was not exposed to custodial credit risk because it was fully insured through FDIC and collateral pledged.

As of December 31, 2014, the City's deposits and petty cash had a book balance as follows:

Checking	\$ 563,100
Certificates of Deposit	625,310
Money Market Accounts	860,335
Petty Cash	<u>200</u>
 Total Deposits and Cash on Hand	 <u><u>\$ 2,048,945</u></u>

CITY OF HANOVER
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2014, the City had the following investments:

Investment	Type	Maturity	Moody's or S&P Rating	Market Value	Concentration Credit Risk
General Government Investments:					
Money Market	MM	N/A	N/A	\$ 146,222	3.0%
CIT Salt Lake City UT	CD	04/27/15	N/A	100,455	2.0%
American Express C NY	CD	11/10/15	N/A	106,150	2.2%
St. Francis Minn ISD Taxable Refunding Bond	Govt- Mun	04/01/15	Aa2	100,921	2.1%
Yough School District Taxable Refunding Bond	Govt- Mun	10/01/15	A2	50,473	1.0%
Compass Bk Birmingham Al	CD	11/10/15	N/A	<u>240,432</u>	<u>4.9%</u>
Due Within One Year				744,653	15.2%
Goldman Sachs Bank USA	CD	05/09/16	N/A	100,626	2.1%
Goldman Sachs Bank USA	CD	01/18/17	N/A	101,672	2.1%
HSBC Bank USA VA	CD	05/21/17	N/A	188,395	3.8%
Everbank Jacksonville	CD	10/31/17	N/A	240,886	4.9%
Salie Mae Bank	CD	10/31/17	N/A	239,033	4.9%
Banco Popular PR	CD	11/14/17	N/A	240,766	4.9%
Milaca MN ISD 912 GO Bond	Govt-Mun	02/01/16	AA+	91,882	1.9%
Kewaunee Cnty Refd Recovery Zone BAB	Govt-Mun	05/01/16	A1	51,610	1.1%
New Prague BAB GO Bond	Govt-Mun	02/01/17	Aa3	71,959	1.5%
Medford WI Taxable Promisary Note	Govt-Mun	04/01/17	AAA	103,295	2.1%
Linn Cnty Iowa BAB GO Bond	Govt-Mun	06/01/17	Aa2	41,234	0.8%
BMW Bank	CD	11/02/16	N/A	240,067	4.9%
Discover Bank DE	CD	09/07/16	N/A	<u>42,895</u>	<u>0.9%</u>
Due 1-3 Years				1,754,320	35.8%
Ally Bank UT	CD	01/02/18	N/A	237,142	4.8%
CIT Bank Salt Lake City UT	CD	05/19/18	N/A	70,494	1.4%
State Bank of India NY	CD	06/13/18	N/A	236,184	4.8%
Barclays Bank DE	CD	05/29/19	N/A	98,846	2.0%
Discover Bank DE	CD	05/29/18	N/A	99,115	2.0%
Capital One Bank U VS	CD	11/21/19	N/A	237,631	4.8%
American Express F UT	CD	11/13/19	N/A	237,516	4.8%
GE Capital Retail Bank UT	CD	12/16/19	N/A	231,000	4.7%
FHLB Bond Step up	Govt-Mun	12/30/19	AA+	499,115	10.2%
Lexington-Fayette Urban County Government	Govt-Mun	06/01/18	Aa2	<u>123,525</u>	<u>2.5%</u>
Due 3-5 Years				2,070,568	42.2%
Bemidji, MN ISD 031 OBEB Series A Bond	Govt-Mun	02/01/20	AA+	27,089	0.6%
Louisiana St.	Govt-Mun	02/01/20	AA+	<u>307,284</u>	<u>6.3%</u>
Due 5 Years +				334,373	6.8%
Total Investments				<u>\$ 4,903,912</u>	<u>100.0%</u>

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, 2014. 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.

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments

Summary of deposits and investments as of December 31, 2014:

Deposits and Cash on Hand (Note 3.A.)	\$ 2,048,945
Investments (Note 3.B.)	<u>4,903,912</u>
 Total Deposits and Investments	 <u><u>\$ 6,952,857</u></u>

Deposits and investments are presented as cash and investments in the December 31, 2014 basic financial statements as follows:

Statement of Net Position:

Cash and Investments:

Primary Government	\$ 6,436,251
Component Unit	270,393

Statement of Fiduciary Net Position	<u>246,213</u>
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Total Cash and Investments	<u><u>\$ 6,952,857</u></u>
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NOTE 4 – INTERFUND ACTIVITY

A. Transfers

The composition of interfund transfers as of December 31, 2014 was as follows:

	Transfer In			Total
	Capital Improvement Fund	Other Nonmajor Governmental Funds	Component Units	
Transfer Out:				
General	\$ 100,000	\$ 192,500	\$ -	\$ 292,500
Other Nonmajor		5,000	-	5,000
Component Units	-	-	15,000	15,000
Total Transfers	<u>\$ 100,000</u>	<u>\$ 197,500</u>	<u>\$ 15,000</u>	<u>\$ 312,500</u>

The purposes of the above transfers were to provide funding for capital improvement projects, debt service and other operational purposes.

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 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	\$ 866,706	\$ 10,400	\$ -	\$ 877,106
Construction in Progress	<u>1,149,278</u>	<u>156,647</u>	<u>17,952</u>	<u>1,287,973</u>
Total Capital Assets not being Depreciated	<u>2,015,984</u>	<u>167,047</u>	<u>17,952</u>	<u>2,165,079</u>
Capital Assets being Depreciated:				
Infrastructure	7,340,326	-	-	7,340,326
Buildings	1,016,951	8,800	-	1,025,751
Improvements	533,556	-	-	533,556
Vehicles	1,482,503	-	-	1,482,503
Machinery and Equipment	474,829	29,181	26,668	477,342
Furniture and Fixtures	<u>5,893</u>	<u>-</u>	<u>-</u>	<u>5,893</u>
Total Capital Assets being Depreciated	<u>10,854,058</u>	<u>37,981</u>	<u>26,668</u>	<u>10,865,371</u>
Less Accumulated Depreciation for:				
Infrastructure	4,213,381	288,523	-	4,501,904
Buildings	427,552	33,247	-	460,799
Improvements	277,091	35,167	-	312,258
Vehicles	905,065	61,506	-	966,571
Machinery and Equipment	366,320	27,148	26,668	366,800
Furniture and Fixtures	<u>5,893</u>	<u>-</u>	<u>-</u>	<u>5,893</u>
Total Accumulated Depreciation	<u>6,195,302</u>	<u>445,591</u>	<u>26,668</u>	<u>6,614,225</u>
Total Capital Assets being Depreciated, Net	<u>4,895,414</u>	<u>(407,610)</u>	<u>-</u>	<u>4,251,146</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,911,398</u>	<u>\$ (240,563)</u>	<u>\$ 17,952</u>	<u>\$ 6,416,225</u>

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 5 – CAPITAL ASSETS

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

Governmental Activities:

General Government	\$ 13,623
Public Safety	61,644
Public Works	293,243
Parks and Recreation	<u>77,081</u>

Total Depreciation Expense - Governmental Activities	<u><u>\$ 445,591</u></u>
--	--------------------------

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Ending Balance
Business-Type Activities:			
Capital Assets not being Depreciated:			
Land	<u>\$ 26,781</u>	<u>\$ -</u>	<u>\$ 26,781</u>
Capital Assets being Depreciated:			
Improvements	10,747,044	-	10,747,044
Equipment	29,080	-	29,080
Vehicles	<u>10,387</u>	<u>-</u>	<u>10,387</u>
Total Capital Assets being Depreciated	<u>10,786,511</u>	<u>-</u>	<u>10,786,511</u>
Less Accumulated Depreciation for:			
Improvements	2,830,442	269,051	3,099,493
Equipment	27,141	1,939	29,080
Vehicles	<u>4,452</u>	<u>1,483</u>	<u>5,935</u>
Total Accumulated Depreciation	<u>2,862,035</u>	<u>272,473</u>	<u>3,134,508</u>
Total Capital Assets being Depreciated, Net	<u>7,924,476</u>	<u>(272,473)</u>	<u>7,652,003</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 7,951,257</u></u>	<u><u>\$ (272,473)</u></u>	<u><u>\$ 7,678,784</u></u>

CITY OF HANOVER
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 – CAPITAL ASSETS

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

Business-Type Activities:	
Water	\$ 50,304
Sewer	159,120
Storm Water	<u>63,049</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 272,473</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, 2014 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	\$ 1,323,000	\$ -	\$ 146,000	\$ 1,177,000	\$ 145,000
G.O. C.I.P. Refunding Bond	330,000	-	70,000	260,000	25,000
G.O. Equipment Certificates	<u>164,931</u>	<u>-</u>	<u>67,145</u>	<u>97,786</u>	<u>43,868</u>
Total Bonds Payable	<u>1,817,931</u>	<u>-</u>	<u>283,145</u>	<u>1,534,786</u>	<u>213,868</u>
Compensated Absences	<u>18,227</u>	<u>27,141</u>	<u>13,487</u>	<u>31,881</u>	<u>23,910</u>
Total Governmental Activities	<u>1,836,158</u>	<u>27,141</u>	<u>296,632</u>	<u>1,566,667</u>	<u>237,778</u>
Business-Type Activities:					
Notes Payable:					
G.O. PFA Wastewater Revenue Notes	<u>674,000</u>	<u>-</u>	<u>91,000</u>	<u>583,000</u>	<u>93,000</u>
Total Long-Term Liabilities	<u><u>\$ 2,510,158</u></u>	<u><u>\$ 27,141</u></u>	<u><u>\$ 387,632</u></u>	<u><u>\$ 2,149,667</u></u>	<u><u>\$ 330,778</u></u>

CITY OF HANOVER
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 – LONG-TERM DEBT

C. Components of Long-Term Bonded Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
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	\$ 260,000	\$ 25,000
G.O. Improvement Refunding						
Bond, Series 2009A	11/05/09	2.80%-3.90%	231,000	02/01/21	157,000	20,000
G.O. Equipment Certificates,						
Series 2010	06/01/10	3.50%	350,920	08/01/17	97,786	43,868
G.O. Improvement Refunding						
Bond, Series 2011A	08/11/11	2.00%-2.75%	1,225,000	12/01/21	<u>1,020,000</u>	<u>125,000</u>
Total Bonds					<u>1,534,786</u>	<u>213,868</u>
Compensated Absences					<u>31,881</u>	<u>23,910</u>
Total Governmental						
Activities					1,566,667	237,778
Business-Type Activities:						
G.O. Revenue Bonds:						
PFA Wastewater Revenue Note	08/18/99	2.29%	1,909,275	08/20/20	<u>583,000</u>	<u>93,000</u>
Total All Long-Term						
Liabilities					<u>\$ 2,149,667</u>	<u>\$ 330,778</u>

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.

CITY OF HANOVER
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 – LONG-TERM DEBT

D. Maturity Schedules

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

<u>Year Ending December 31,</u>	Governmental Activities			
	G.O. Improvement Bonds		G.O. C.I.P. Refunding Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 145,000	\$ 28,689	\$ 25,000	\$ 9,448
2016	159,000	25,643	30,000	8,430
2017	164,000	22,109	30,000	7,320
2018	173,000	18,392	30,000	6,210
2019	173,000	14,346	35,000	4,972
2020-2022	363,000	14,625	110,000	6,630
Total	\$ 1,177,000	\$ 123,804	\$ 260,000	\$ 43,010

<u>Year Ending December 31,</u>	Governmental Activities			
	G.O. Equipment Certificates		Total	
	Principal	Interest	Principal	Interest
2015	\$ 43,868	\$ 3,046	\$ 213,868	\$ 41,183
2016	32,805	1,500	221,805	35,573
2017	21,113	558	215,113	29,987
2018	-	-	203,000	24,602
2019	-	-	208,000	19,319
2020-2022	-	-	473,000	21,255
Total	\$ 97,786	\$ 5,104	\$ 1,534,786	\$ 171,919

<u>Year Ending December 31,</u>	Business-Type Activities	
	G.O. Revenue Notes	
	Principal	Interest
2015	\$ 93,000	\$ 13,351
2016	95,000	11,221
2017	98,000	9,046
2018	100,000	6,801
2019	102,000	4,511
2020	95,000	2,175
Total	\$ 583,000	\$ 47,105

CITY OF HANOVER

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 7 – EQUITY

	<u>General</u>	<u>G.O. Crossover Refunding Bonds 2011A</u>	<u>Capital Improvement Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Nonspendable:					
Prepaid Items	\$ 21,402	\$ -	\$ -	\$ -	\$ 21,402
Long Term Receivable	72,042	-	-	-	72,042
Total Nonspendable	<u>93,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,444</u>
Restricted:					
Debt Service	-	356,028	-	112,589	468,617
Capital Projects	-	-	-	4,786	4,786
Park Dedication	-	-	-	238,877	238,877
Total Restricted	<u>-</u>	<u>356,028</u>	<u>-</u>	<u>356,252</u>	<u>712,280</u>
Assigned:					
Capital Projects	-	-	858,803	745,766	1,604,569
Unassigned	<u>849,495</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>849,495</u>
 Total	 <u>\$ 942,939</u>	 <u>\$ 356,028</u>	 <u>\$ 858,803</u>	 <u>\$ 1,102,018</u>	 <u>\$ 3,259,788</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, 2014, these restrictions for the Water, Sewer and Storm Water Funds were \$ 401,775, \$ 1,900,937 and \$ 543,739, respectively.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees’ Retirement Association of Minnesota (PERA). PERA administers the General Employees’ Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. These Plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

GERF members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

CITY OF HANOVER
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

A. Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after five years of credited service. The defined retirement 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 and Basic 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 Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

CITY OF HANOVER
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The City’s contributions to the Public Employee’s Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$ 15,432, \$ 11,919 and \$ 18,511, respectively. The City’s contributions were equal to the contractually required contributions for each year as set by state statute.

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 2014 was estimated to be immaterial based on workers’ compensation rates and salaries for the year.

At December 31, 2014, 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.

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.

CITY OF HANOVER

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 12 – GASB STATEMENTS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

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SUPPLEMENTARY INFORMATION

CITY OF HANOVER

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 1,066,590	\$ 1,066,590	\$ 1,040,482	\$ (26,108)
Miscellaneous Taxes	10,000	10,000	12,194	2,194
Special Assessments	-	-	54	54
Licenses and Permits	76,750	76,750	168,158	91,408
Intergovernmental Revenues:				
Local Government Aid	100,494	100,494	103,409	2,915
Market Value Credit	-	-	1,297	1,297
PERA Aid	339	339	339	-
Fire Aid	24,000	24,000	36,371	12,371
Police Aid	4,600	4,600	5,265	665
Other Grants and Aids	-	-	14,488	14,488
Total Intergovernmental Revenues	<u>129,433</u>	<u>129,433</u>	<u>161,169</u>	<u>31,736</u>
Charges for Services:				
General Government	13,360	13,360	26,511	13,151
Public Safety	105,399	105,399	105,899	500
Parks and Recreation	3,300	3,300	5,963	2,663
Total Charges for Services	<u>122,059</u>	<u>122,059</u>	<u>138,373</u>	<u>16,314</u>
Fines and Forfeitures	2,000	2,000	315	(1,685)
Miscellaneous Revenues:				
Investment Income	8,000	8,000	7,272	(728)
Contributions and Donations	-	-	21,325	21,325
Other	11,000	11,000	15,156	4,156
Total Miscellaneous Revenues	<u>19,000</u>	<u>19,000</u>	<u>43,753</u>	<u>24,753</u>
Total Revenues	<u>1,425,832</u>	<u>1,425,832</u>	<u>1,564,498</u>	<u>138,666</u>
EXPENDITURES				
General Government				
Mayor and Council	32,700	32,700	21,708	(10,992)
Administrative and Finance	213,930	213,930	200,724	(13,206)
Other General Government	209,566	209,566	179,265	(30,301)
Capital Outlay	37,500	37,500	26,167	(11,333)
Total General Government	<u>493,696</u>	<u>493,696</u>	<u>427,864</u>	<u>(65,832)</u>
Public Safety				
Police:				
Current	159,224	159,224	158,804	(420)

CITY OF HANOVER

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Public Safety (Continued)				
Fire:				
Current	\$ 153,674	\$ 153,674	\$ 140,243	\$ (13,431)
Capital Outlay	5,000	5,000	806	(4,194)
Total Fire	<u>158,674</u>	<u>158,674</u>	<u>141,049</u>	<u>(17,625)</u>
Other:				
Current	21,000	21,000	34,101	13,101
Total Public Safety	<u>338,898</u>	<u>338,898</u>	<u>333,954</u>	<u>(4,944)</u>
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers	180,466	180,466	180,403	(63)
Snow and Ice Removal	15,000	15,000	11,926	(3,074)
Street Lighting	30,000	30,000	25,125	(4,875)
Total Streets and Highways	<u>225,466</u>	<u>225,466</u>	<u>217,454</u>	<u>(8,012)</u>
Sanitation:				
Collection and Disposal	28,000	28,000	33,931	5,931
Total Public Works	<u>253,466</u>	<u>253,466</u>	<u>251,385</u>	<u>(2,081)</u>
Parks and Recreation				
Libraries Current Expenditures	7,000	7,000	7,000	-
Parks and Recreation:				
Current	33,965	33,965	25,498	(8,467)
Parks and Recreation Capital Outlay	2,500	2,500	2,711	211
Total Parks and Recreation	<u>36,465</u>	<u>36,465</u>	<u>28,209</u>	<u>(8,256)</u>
Total Parks and Recreation	<u>43,465</u>	<u>43,465</u>	<u>35,209</u>	<u>(8,256)</u>
Total Expenditures	<u>1,129,525</u>	<u>1,129,525</u>	<u>1,048,412</u>	<u>(81,113)</u>
Excess of Revenues Over Expenditures	296,307	296,307	516,086	219,779
OTHER FINANCING USES				
Proceeds from Sale of Capital Asset	-	-	100	100
Transfers Out	<u>(292,500)</u>	<u>(292,500)</u>	<u>(292,500)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(292,500)</u>	<u>(292,500)</u>	<u>(292,400)</u>	<u>100</u>
Net Change in Fund Balance	<u>\$ 3,807</u>	<u>\$ 3,807</u>	223,686	<u>\$ 219,879</u>
FUND BALANCE				
Beginning of Year			<u>719,253</u>	
End of Year			<u>\$ 942,939</u>	

CITY OF HANOVER
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Debt Service	
	G.O. C.I.P. Refunding Bond 2008A (311)	G.O. Improvement Refunding Bonds, Series 2009A (312)
ASSETS		
Cash and Investments (Including Cash Equivalents)	\$ 67,263	\$ 41,713
Special Assessments Receivable:		
Delinquent	-	487
Deferred	-	24,797
Interest Receivable	237	147
Total Assets	\$ 67,500	\$ 67,144
LIABILITIES		
Contracts Payable	\$ -	\$ -
Total Liabilities	-	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Special Assessments	-	25,284
Total Deferred Inflows of Resources	-	25,284
FUND BALANCES		
Restricted	67,500	41,860
Assigned	-	-
Total Fund Balances	67,500	41,860
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 67,500	\$ 67,144

<u>Debt Service</u>		<u>Capital Projects</u>	
<u>G.O. Equipment Certificates of 2010 (313)</u>	<u>Total</u>	<u>Park (402)</u>	<u>Fire Department Fund (403)</u>
\$ 3,223	\$ 112,199	\$ 238,026	\$ 110,239
-	487	-	-
-	24,797	-	-
<u>6</u>	<u>390</u>	<u>851</u>	<u>394</u>
<u>\$ 3,229</u>	<u>\$ 137,873</u>	<u>\$ 238,877</u>	<u>\$ 110,633</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>25,284</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>25,284</u>	<u>-</u>	<u>-</u>
<u>3,229</u>	<u>112,589</u>	<u>238,877</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>110,633</u>
<u>3,229</u>	<u>112,589</u>	<u>238,877</u>	<u>110,633</u>
<u>\$ 3,229</u>	<u>\$ 137,873</u>	<u>\$ 238,877</u>	<u>\$ 110,633</u>

CITY OF HANOVER
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Capital Projects	
	Historical Fund (404)	TIF District 1-1 (407)
ASSETS		
Cash and Investments (Including Cash Equivalents)	\$ 95,647	\$ 4,769
Special Assessments Receivable:		
Delinquent	-	-
Deferred	-	-
Interest Receivable	342	17
Total Assets	\$ 95,989	\$ 4,786
LIABILITIES		
Contracts Payable	\$ -	\$ -
Total Liabilities	-	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Special Assessments	-	-
Total Deferred Inflows of Resources	-	-
FUND BALANCES		
Restricted	-	4,786
Assigned	95,989	-
Total Fund Balances	95,989	4,786
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 95,989	\$ 4,786

Capital Projects

<u>City Hall (411)</u>	<u>Equipment (417)</u>	<u>Streets (418)</u>	<u>Total</u>	<u>Total Governmental Funds</u>
\$ 59,853	\$ 52,167	\$ 430,037	\$ 990,738	\$ 1,102,937
-	-	-	-	487
-	-	148	148	24,945
214	187	1,538	3,543	3,933
<u>\$ 60,067</u>	<u>\$ 52,354</u>	<u>\$ 431,723</u>	<u>\$ 994,429</u>	<u>\$ 1,132,302</u>
\$ 5,000	\$ -	\$ -	\$ 5,000	\$ 5,000
<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>
-	-	-	-	25,284
-	-	-	-	<u>25,284</u>
-	-	-	243,663	356,252
55,067	52,354	431,723	745,766	745,766
<u>55,067</u>	<u>52,354</u>	<u>431,723</u>	<u>989,429</u>	<u>1,102,018</u>
<u>\$ 60,067</u>	<u>\$ 52,354</u>	<u>\$ 431,723</u>	<u>\$ 994,429</u>	<u>\$ 1,132,302</u>

CITY OF HANOVER

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Debt Service	
	G.O. C.I.P. Refunding Bond 2008A (311)	G.O. Improvement Refunding Bonds, Series 2009A (312)
REVENUES		
Property Taxes	\$ 40,933	\$ 19,929
Tax Increments	-	-
Special Assessments	-	10,206
Miscellaneous:		
Investment Income	463	258
Total Revenues	41,396	30,393
EXPENDITURES		
Current		
Public Safety	-	-
Park and Recreation	-	-
Economic Development	-	-
Debt Service		
Principal	70,000	21,000
Interest and Other Charges	11,525	6,414
Capital Outlay		
General Government	-	-
Public Works	-	-
Parks and Recreation	-	-
Total Expenditures	81,525	27,414
Excess of Revenues Over (Under) Expenditures	(40,129)	2,979
OTHER FINANCING SOURCES		
Transfers In	-	-
Total Other Financing Sources (Uses)	-	-
Net Change in Fund Balances	(40,129)	2,979
FUND BALANCES		
Beginning of Year	107,629	38,881
End of Year	\$ 67,500	\$ 41,860

<u>Debt Service</u>		<u>Capital Projects</u>	
<u>G.O. Equipment Certificates of 2010 (313)</u>	<u>Total</u>	<u>Park (402)</u>	<u>Fire Department Fund (403)</u>
\$ 62,653	\$ 123,515	\$ -	\$ -
-	-	-	-
-	10,206	-	-
(378)	343	3,274	1,515
<u>62,275</u>	<u>134,064</u>	<u>3,274</u>	<u>1,515</u>
-	-	-	29,278
-	-	3,255	-
-	-	-	-
67,145	158,145	-	-
5,196	23,135	-	-
-	-	-	-
-	-	-	-
-	-	4,641	-
<u>72,341</u>	<u>181,280</u>	<u>7,896</u>	<u>29,278</u>
(10,066)	(47,216)	(4,622)	(27,763)
<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>20,000</u>
<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>20,000</u>
(5,066)	(42,216)	(4,622)	(7,763)
<u>8,295</u>	<u>154,805</u>	<u>243,499</u>	<u>118,396</u>
<u>\$ 3,229</u>	<u>\$ 112,589</u>	<u>\$ 238,877</u>	<u>\$ 110,633</u>

CITY OF HANOVER

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Capital Projects	
	Historical Fund (404)	TIF District 1-1 (407)
REVENUES		
Property Taxes	\$ -	\$ -
Tax Increments	-	3,399
Special Assessments	-	-
Miscellaneous:		
Investment Income	1,132	69
Total Revenues	1,132	3,468
EXPENDITURES		
Current		
Public Safety	-	-
Park and Recreation	-	-
Economic Development	-	3,059
Debt Service		
Principal	-	-
Interest and Other Charges	-	-
Capital Outlay		
General Government	-	-
Public Works	-	-
Parks and Recreation	-	-
Total Expenditures	-	3,059
Excess of Revenues Over (Under) Expenditures	1,132	409
OTHER FINANCING SOURCES		
Transfers In	10,000	-
Total Other Financing Sources (Uses)	10,000	-
Net Change in Fund Balances	11,132	409
FUND BALANCES		
Beginning of Year	84,857	4,377
End of Year	\$ 95,989	\$ 4,786

Capital Projects

<u>City Hall (411)</u>	<u>Equipment (417)</u>	<u>Streets (418)</u>	<u>Total</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 123,515
-	-	-	3,399	3,399
-	-	148	148	10,354
<u>774</u>	<u>660</u>	<u>3,931</u>	<u>11,355</u>	<u>11,698</u>
<u>774</u>	<u>660</u>	<u>4,079</u>	<u>14,902</u>	<u>148,966</u>
-	-	-	29,278	29,278
-	-	-	3,255	3,255
-	-	-	3,059	3,059
-	-	-	-	158,145
-	-	-	-	23,135
66,433	-	-	66,433	66,433
-	33,716	-	33,716	33,716
-	-	-	4,641	4,641
<u>66,433</u>	<u>33,716</u>	<u>-</u>	<u>140,382</u>	<u>321,662</u>
(65,659)	(33,056)	4,079	(125,480)	(172,696)
<u>30,000</u>	<u>32,500</u>	<u>100,000</u>	<u>192,500</u>	<u>197,500</u>
<u>30,000</u>	<u>32,500</u>	<u>100,000</u>	<u>192,500</u>	<u>197,500</u>
(35,659)	(556)	104,079	67,020	24,804
<u>90,726</u>	<u>52,910</u>	<u>327,644</u>	<u>922,409</u>	<u>1,077,214</u>
<u>\$ 55,067</u>	<u>\$ 52,354</u>	<u>\$ 431,723</u>	<u>\$ 989,429</u>	<u>\$ 1,102,018</u>

CITY OF HANOVER

**STATEMENT OF CHANGES IN AGENCY
FUND ASSETS AND LIABILITIES - DEVELOPER ESCROW AGENCY FUND
For the Year Ended December 31, 2014**

	December 31, 2013	Additions	Deductions	December 31, 2014
ASSETS				
Current				
Cash and Investments	\$ 280,826	\$ 437,635	\$ 472,248	\$ 246,213
Due from Developers:				
Bridges at Hanover Escrow	13,345	132	-	13,477
Total Assets	<u>\$ 294,171</u>	<u>\$ 437,767</u>	<u>\$ 472,248</u>	<u>\$ 259,690</u>
LIABILITIES				
Due to Developers				
Quail Pass 2nd Addition Escrow	\$ 11,556	\$ 11,727	\$ 11,613	\$ 11,670
Erosion Control Escrow	44,751	78,500	90,001	33,250
Landscape Escrow	58,999	117,500	132,499	44,000
Infrastructure Escrow	22,999	62,185	68,684	16,500
Miscellaneous Escrow	155,866	167,855	169,451	154,270
Total Liabilities	<u>\$ 294,171</u>	<u>\$ 437,767</u>	<u>\$ 472,248</u>	<u>\$ 259,690</u>

CITY OF HANOVER
COMBINING BALANCE SHEET -
COMPONENT UNIT
December 31, 2014

	Economic Development Authority (201)	Business Incentive (205)	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 81,031	\$ 189,362	\$ 270,393
Taxes Receivable - Delinquent	101	-	101
Interest Receivable	344	624	968
Other Receivables	-	57,439	57,439
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 81,476</u>	<u>\$ 247,425</u>	<u>\$ 328,901</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 217	\$ -	\$ 217
Fund Balances			
Restricted	-	247,425	247,425
Unassigned	81,259	-	81,259
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>81,259</u>	<u>247,425</u>	<u>328,684</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 81,476</u>	<u>\$ 247,425</u>	<u>\$ 328,901</u>

CITY OF HANOVER

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - COMPONENT UNIT
For the Year Ended December 31, 2014**

	Economic Development Authority (201)	Business Incentive (205)	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property Taxes	\$ 47,767	\$ -	\$ 47,767
Intergovernmental	46	43,911	43,957
Miscellaneous:			
Investment Income	1,176	3,426	4,602
Other	-	100	100
Total Revenues	<u>48,989</u>	<u>47,437</u>	<u>96,426</u>
 EXPENDITURES			
Current			
Economic Development	<u>31,595</u>	<u>22,366</u>	<u>53,961</u>
Excess of Revenues Over Expenditures	17,394	25,071	42,465
 OTHER FINANCING SOURCES (USES)			
Transfers In	-	15,000	15,000
Transfers Out	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>
Net Change in Fund Balances	2,394	40,071	42,465
 FUND BALANCES			
Beginning of Year	<u>78,865</u>	<u>207,354</u>	<u>286,219</u>
End of Year	<u><u>\$ 81,259</u></u>	<u><u>\$ 247,425</u></u>	<u><u>\$ 328,684</u></u>



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**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, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 22, 2015.

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.



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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses on Internal Control and Legal Compliance as Audit Finding 2006-001 that we consider 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 cursive script that reads "Kern DeWenter, Viero Ltd".

KERN, DEWENTER, VIERO, LTD.
Minneapolis, Minnesota
April 22, 2015



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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 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, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated April 22, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*. 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.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere Ltd".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
April 22, 2015

CITY OF HANOVER

**SCHEDULE OF FINDINGS AND RESPONSES ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2014**

CURRENT YEAR INTERNAL CONTROL FINDING:

Significant Deficiency:

Audit Finding 2006-001 – Lack of Segregation

During the year ended December 31, 2014, 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.

CITY OF HANOVER

**SCHEDULE OF FINDINGS AND RESPONSES ON
LEGAL COMPLIANCE AND INTERNAL CONTROL
December 31, 2014**

PRIOR YEAR INTERNAL CONTROL FINDING:

Material Weakness:

Audit Finding 2006-02 – Preparation of Financial Statements

As a function of the audit process, auditors are required to gain an understanding of the City's internal control, including the financial reporting process.

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in a city of your size.

This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Taken:

The City has implemented additional controls for preparation of the financial statements being audited including the completion of the disclosure checklist.