

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

**Financial Statements**

**December 31, 2015**



**City of Hanover  
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**City of Hanover  
Elected Officials and Administration  
December 31, 2015**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Chris Kauffman	Mayor	December 31, 2016
Jim Zajicek	Council Member	December 31, 2018
John Vajda	Council Member	December 31, 2016
Ken Warpula	Council Member	December 31, 2018
Doug Hammerseng	Council Member	December 31, 2016
<u>Administration</u>		
Brian Hagen	City Administrator/Clerk/Treasurer	Appointed



## Independent Auditor's Report

BerganKDV, Ltd.

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

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### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hanover, Minnesota, as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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### **Auditor's Responsibility (Continued)**

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

### **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, Minnesota, as of December 31, 2015, 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.

### **Implementation of GASB 68 and GASB 71**

As discussed in Note 12 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis which follows this report letter and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Matters (Continued)**

### *Other Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, , on our consideration of the City of Hanover's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hanover's internal control over financial reporting and compliance.

*BergankDV, Ltd.*

St. Cloud, Minnesota  
May 10,



## **Management's Discussion and Analysis**

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, 2015.

### **FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,013,290 (net position). Of this amount, \$4,252,954 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's current year change in net position was an increase of \$460,246. After considering a change in accounting principle, The City's net position increased \$303,550.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$3,657,566, an increase of \$397,778 in comparison with the prior year. Approximately 23% of this total amount, \$857,152 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 \$857,152, or approximately 68%, of budgeted 2015 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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the categories being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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, Historical Fund and the Capital Improvement Fund. Other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

### **FUND FINANCIAL STATEMENTS**

#### **Governmental Funds (Continued)**

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

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

#### **Proprietary Fund**

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

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

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

#### **Fiduciary Funds**

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

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,013,290 at the close of the most recent year.

A significant portion of the City's net position (59%) 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**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

	Governmental Activities		Business-Type Transactions		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 4,439,876	\$ 4,005,982	\$ 4,062,836	\$ 3,965,435	\$ 8,502,712	\$ 7,971,417
Capital Assets	6,308,190	6,416,225	7,408,250	7,678,784	13,716,440	14,095,009
<b>Total Assets</b>	<b>\$10,748,066</b>	<b>\$10,422,207</b>	<b>\$11,471,086</b>	<b>\$11,644,219</b>	<b>\$ 22,219,152</b>	<b>\$22,066,426</b>
Deferred Outflows of Resources	\$ 54,866	\$ -	\$ -	\$ -	\$ 54,866	\$ -
Long-Term Liabilities Outstanding	\$ 1,324,384	\$ 1,337,242	\$ 395,000	\$ 490,000	\$ 1,719,384	\$ 1,827,242
Other Liabilities	410,556	393,404	119,814	136,040	530,370	529,444
<b>Total Liabilities</b>	<b>\$ 1,734,940</b>	<b>\$ 1,730,646</b>	<b>\$ 514,814</b>	<b>\$ 626,040</b>	<b>\$ 2,249,754</b>	<b>\$ 2,356,686</b>
Deferred Inflows of Resources	\$ 10,974	\$ -	\$ -	\$ -	\$ 10,974	\$ -
Net Position:						
Net Investment in						
Capital Assets	\$ 4,987,272	\$ 4,881,439	\$ 6,918,250	\$ 7,095,784	\$ 11,905,522	\$11,977,223
Restricted	976,608	994,089	2,878,206	2,846,451	3,854,814	3,840,540
Unrestricted	3,093,138	2,816,033	1,159,816	1,075,944	4,252,954	3,891,977
<b>Total Net Position</b>	<b>\$ 9,057,018</b>	<b>\$ 8,691,561</b>	<b>\$10,956,272</b>	<b>\$11,018,179</b>	<b>\$ 20,013,290</b>	<b>\$19,709,740</b>

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 current year change in net position was an increase of \$522,153. After considering a change in accounting principle, The City's net position increased \$365,457.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

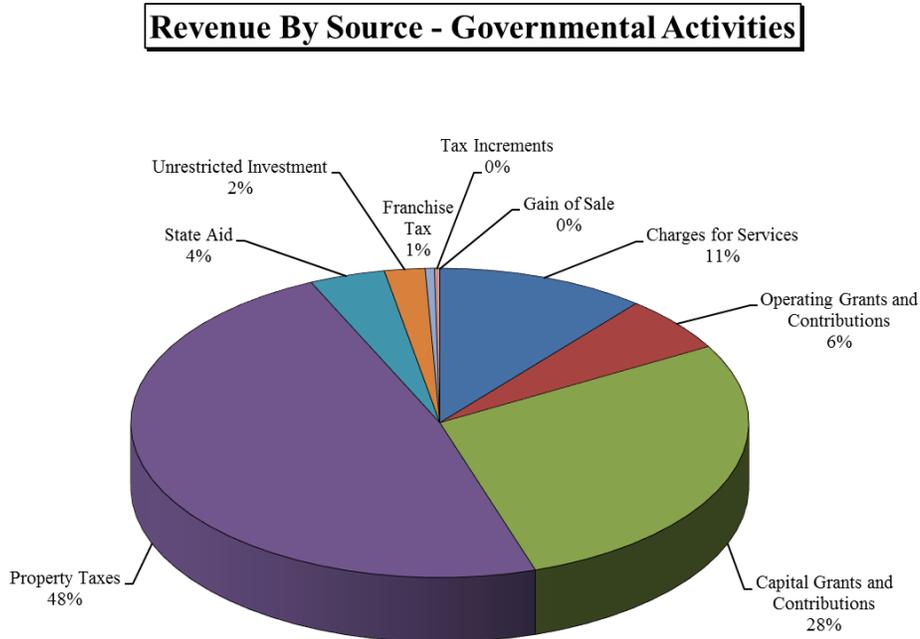
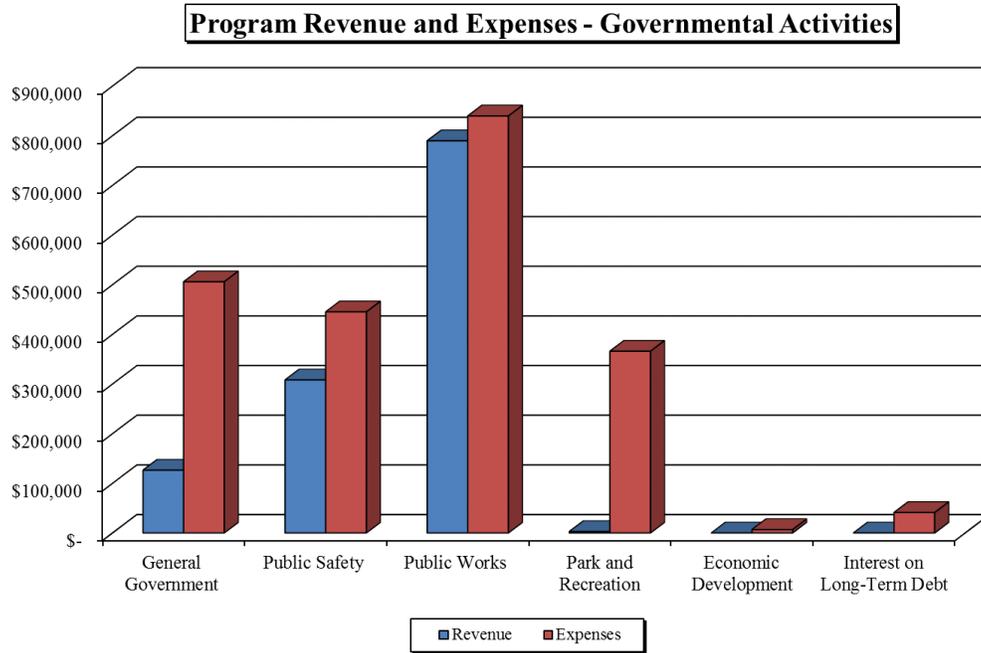
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>REVENUES</b>						
Program Revenues:						
Charges for Services	\$ 299,055	\$ 314,292	\$ 563,808	\$ 611,875	\$ 862,863	\$ 926,167
Operating Grants and Contributions	158,973	74,195	-	-	158,973	74,195
Capital Grants and Contributions	769,139	533,062	5,032	16,022	774,171	549,084
General Revenues:						
Property Taxes	1,313,277	1,251,119	-	-	1,313,277	1,251,119
State Aid	108,064	102,130	-	-	108,064	102,130
Unrestricted Investment	57,883	44,946	35,348	47,820	93,231	92,766
Franchise Tax	13,150	12,194	-	-	13,150	12,194
Tax Increments	7,591	3,399	-	-	7,591	3,399
Gain of Sale	-	100	-	-	-	100
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Revenues	<u>\$ 2,727,132</u>	<u>\$ 2,335,437</u>	<u>\$ 604,188</u>	<u>\$ 675,717</u>	<u>\$ 3,331,320</u>	<u>\$ 3,011,154</u>
<b>EXPENSES</b>						
General Government	\$ 505,860	\$ 471,070	\$ -	\$ -	\$ 505,860	\$ 471,070
Public Safety	445,213	424,876	-	-	445,213	424,876
Public Works	839,865	1,005,645	-	-	839,865	1,005,645
Parks and Recreation	366,045	120,186	-	-	366,045	120,186
Economic	6,832	3,059	-	-	6,832	3,059
Interest on Long-Term Debt	41,164	46,992	-	-	41,164	46,992
Water Utility	-	-	147,060	168,253	147,060	168,253
Sewer Utility	-	-	433,590	462,754	433,590	462,754
Storm Water Utility	-	-	85,445	69,919	85,445	69,919
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Expenses	<u>2,204,979</u>	<u>2,071,828</u>	<u>666,095</u>	<u>700,926</u>	<u>2,871,074</u>	<u>2,772,754</u>
Net Change	<u>522,153</u>	<u>263,609</u>	<u>(61,907)</u>	<u>(25,209)</u>	<u>460,246</u>	<u>238,400</u>
Net Position - Beginning of Year	<u>8,691,561</u>	<u>8,427,952</u>	<u>11,018,179</u>	<u>11,043,388</u>	<u>19,709,740</u>	<u>19,471,340</u>
Change in Accounting Principle	<u>(156,696)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(156,696)</u>	<u>-</u>
Net Position - Beginning Restated	<u>8,534,865</u>	<u>8,427,952</u>	<u>11,018,179</u>	<u>11,043,388</u>	<u>19,553,044</u>	<u>19,471,340</u>
Net Position - End of Year	<u>\$ 9,057,018</u>	<u>\$ 8,691,561</u>	<u>\$10,956,272</u>	<u>\$11,018,179</u>	<u>\$20,013,290</u>	<u>\$19,709,740</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 current year change in total net position was an increase of \$460,246. After considering a change in accounting principle, The City's total net position increased \$303,550.

# City of Hanover Management's Discussion and Analysis

## GOVERNMENT-WIDE FINANCIAL ANALYSIS



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

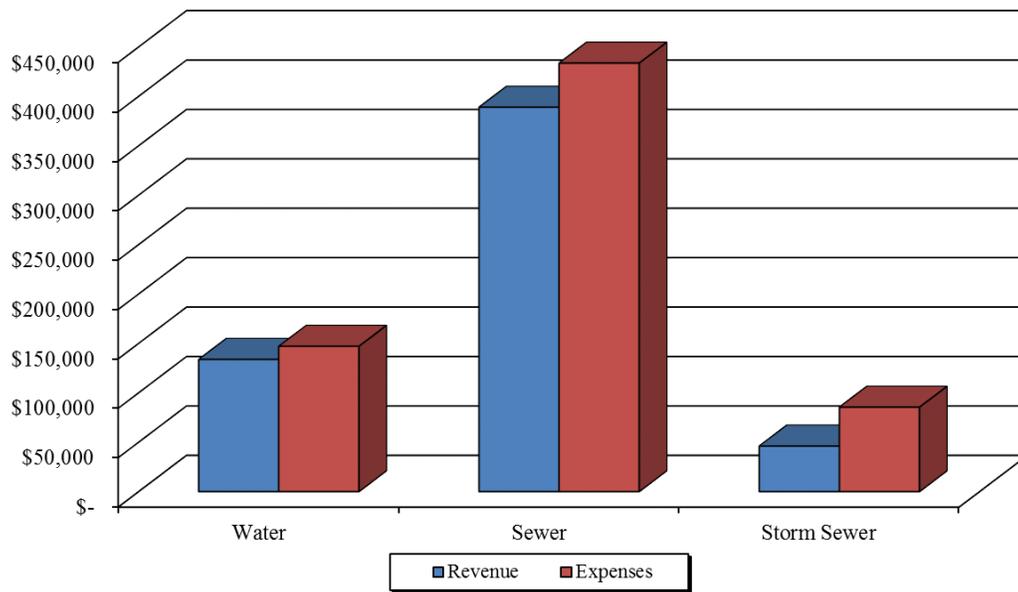
**City of Hanover  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

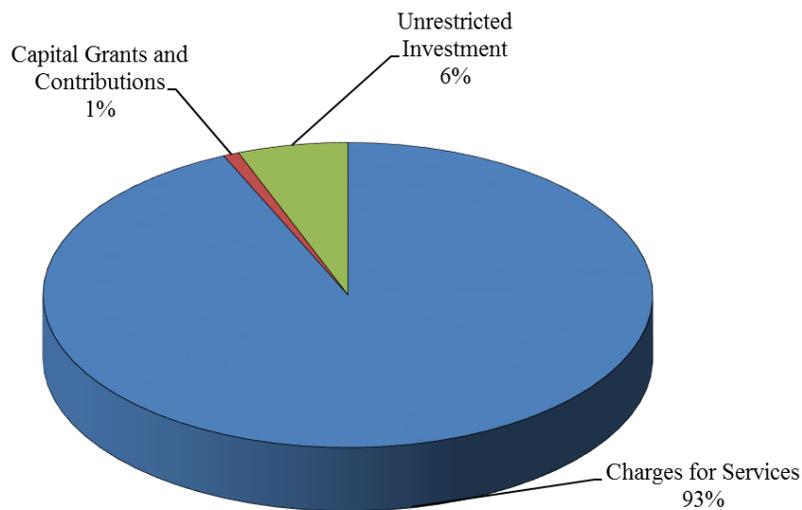
**Business-Type Activities**

Business-type activities decreased the City's net position by \$61,907.

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



**Revenue By Source - Business-Type Activities**



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

### **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

#### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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 \$3,657,566, an increase of \$397,778 in comparison with the prior year. Of this total amount, 23% (\$857,152) 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 (\$47,094) and long term receivables (\$74,009), restricted for debt service (\$511,460), restricted for park dedication (\$234,535), restricted for Tax Increment Financing (TIF) District (\$5,602), assigned to fund capital projects (\$1,936,974), and a negative unassigned fund balance in the historical fund ( \$9,260).

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 \$957,255. \$100,103 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 69% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$14,316 during the current year. This increase is the result of delinquent property taxes received that were not budgeted for and expenditures under budget in several departments.

#### **Proprietary Funds**

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 2014. Revenues were \$175,131 over budget, due mainly to higher than anticipated revenues for intergovernmental grants and delinquent property tax collections. Expenditures were under budget by \$27,949, due to lower expenditures in several departments in both operating and maintenance type expenditures. Revenue and expenditure activity less transfers of \$490,616 from the General Fund to the City's Capital Improvement Fund and other nonmajor governmental funds resulted in a net increase in fund balance of \$14,316.

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business type activities as of December 31, 2015, amounts to \$13,716,440 (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	
	2015	2014	2015	2014	2015	2014
Land	\$ 877,106	\$ 877,106	\$ 26,781	\$ 26,781	\$ 903,887	\$ 903,887
Construction in Progress	162,049	1,287,973	-	-	162,049	1,287,973
Improvements Other than Building	1,572,903	221,298	7,378,501	7,647,551	8,951,404	7,868,849
Buildings and Systems	595,540	564,952	-	-	595,540	564,952
Vehicles	454,426	515,932	2,968	4,452	457,394	520,384
Machinery and Equipment	96,267	110,542	-	-	96,267	110,542
Infrastructure	2,549,899	2,838,422	-	-	2,549,899	2,838,422
<b>Total</b>	<b>\$ 6,308,190</b>	<b>\$ 6,416,225</b>	<b>\$ 7,408,250</b>	<b>\$ 7,678,784</b>	<b>\$13,716,440</b>	<b>\$14,095,009</b>

**Long Term Debt**

At the end of the current year, the City had total long-term liabilities outstanding of \$2,059,001. Of this amount, \$1,032,000 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 \$235,000, which was issued to refinance previously issued EDA Revenue Bonds. \$53,918 represents equipment certificates. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e. Sewer Improvement Bonds), compensated absences, and net pension liability.

**City Outstanding Debt**

	2015	2014
Special Assessment Debt With Governmental Commitment	\$ 1,032,000	\$ 1,177,000
Equipment Certificates	53,918	97,786
PFA Water Revenue Bonds	490,000	583,000
G.O. CIP Refunding Bonds	235,000	260,000
Compensated Absences	30,417	31,881
Net Pension Liability	217,666	-
<b>Total</b>	<b>\$ 2,059,001</b>	<b>\$ 2,149,667</b>

The City's total long-term debt decreased by \$90,666 during 2015.

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

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City is anticipating that Local Government Aid (LGA) will remain flat for 2016. Though not budgeted for due to lack of certainty, the City hopes the State of Minnesota will provide assistance to small cities to be utilized for road maintenance. A similar assistance was provided in 2015, with Hanover receiving just under \$40,000.

The City's housing economy continued to remain strong in 2015. That trend is likely to continue in 2016, but a decrease is anticipated due to the surplus of vacant parcels dwindling. Twenty-two new homes were constructed in 2015, compared with thirty-four new homes in 2014. Foreclosures seem to be limited in recent years, while homes that are placed on the market for sale are transferring ownership quickly.

Over the past three years, the City has been constructing a series of trails and taken on a historic bridge rehabilitation project. The trail segments have been completed, while the historic bridge project has a project completion date of May 2016. The City also anticipates 2016 projects to include a sidewalk extension to the Bridges At Hanover development, a road surface improvement project in the Hanover Hills development, a potential Public Works Facility construction, and a potential watermain extension along fifth street northeast.

The City saw minimal economic change in 2015. Though there were some businesses lost in 2015, the City saw new businesses fill empty spaces quickly and any remaining vacancies are anticipated to also fill quickly.

The City Council continues to work to control costs in the City. This fiscal restraint has resulted in maintaining a flat tax rate from 2015 into 2016. Though there was an increase to the levy amount for the 2016 budget, the increase was largely due to a reduction in building permit revenue, but an increased need for road maintenance. 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**

**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 5<sup>th</sup> Street NE, Hanover, Minnesota 55341.

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## **BASIC FINANCIAL STATEMENTS**

**City of Hanover**  
**Statement of Net Position**  
**December 31, 2015**

	Governmental Activities	Business-Type Activities	Total	Component Unit
<b>Assets</b>				
Cash and investments (including cash equivalents)	\$ 3,442,968	\$ 3,845,203	\$ 7,288,171	\$ 331,561
Delinquent property tax receivable	38,800	-	38,800	1,353
Accounts receivable	84,072	-	84,072	-
Interest receivable	30,153	189	30,342	-
Due from other governments	445,059	31,042	476,101	-
Other receivables	-	-	-	35,308
Special assessments receivable				
Delinquent	221	4,618	4,839	-
Deferred	299,763	180,672	480,435	-
Prepaid items	47,094	1,112	48,206	-
Assets held for resale	51,746	-	51,746	-
Capital assets not being depreciated				
Land	877,106	26,781	903,887	-
Construction in progress	162,049	-	162,049	-
Capital assets being depreciated				
Infrastructure	2,549,899	-	2,549,899	-
Buildings	595,540	-	595,540	-
Improvements	1,572,903	7,378,501	8,951,404	-
Vehicles	454,426	2,968	457,394	-
Machinery and equipment	96,267	-	96,267	-
Total assets	<u>10,748,066</u>	<u>11,471,086</u>	<u>22,219,152</u>	<u>368,222</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows of resources related to City pensions	<u>54,866</u>	<u>-</u>	<u>54,866</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 10,802,932</u>	<u>\$ 11,471,086</u>	<u>\$ 22,274,018</u>	<u>\$ 368,222</u>
<b>Liabilities</b>				
Accounts payable	\$ 74,315	\$ -	\$ 74,315	\$ 2,287
Contracts payable	58,842	-	58,842	-
Due to other governments	19,543	20,139	39,682	-
Salaries and benefits payable	4,832	-	4,832	-
Interest payable	8,407	4,675	13,082	1,184
Bond and note principal payable				
Payable within one year	221,805	95,000	316,805	-
Payable after one year	1,099,113	395,000	1,494,113	-
Net pension liability	217,666	-	217,666	-
Compensated absences payable				
Payable within one year	27,366	-	27,366	-
Payable after one year	3,051	-	3,051	-
Total liabilities	<u>1,734,940</u>	<u>514,814</u>	<u>2,249,754</u>	<u>3,471</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to City pensions	<u>10,974</u>	<u>-</u>	<u>10,974</u>	<u>-</u>
Total deferred inflows of resources	<u>10,974</u>	<u>-</u>	<u>10,974</u>	<u>-</u>
<b>Net Position</b>				
Net investment in capital assets	4,987,272	6,918,250	11,905,522	-
Restricted for				
Capital projects	234,535	2,878,206	3,112,741	-
Debt service	736,471	-	736,471	-
Tax increment	5,602	-	5,602	-
Other projects	-	-	-	265,313
Unrestricted	<u>3,093,138</u>	<u>1,159,816</u>	<u>4,252,954</u>	<u>99,438</u>
Total net position	<u>9,057,018</u>	<u>10,956,272</u>	<u>20,013,290</u>	<u>364,751</u>
Total liabilities and net position	<u>\$ 10,802,932</u>	<u>\$ 11,471,086</u>	<u>\$ 22,274,018</u>	<u>\$ 368,222</u>

See notes to financial statements.

**City of Hanover  
Statement of Activities  
December 31, 2015**

	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
<b>Governmental activities</b>							
General government	\$ 505,860	\$ 97,846	\$ 429	\$ (379,473)	\$ -	\$ (379,473)	\$ -
Public safety	445,213	47,785	-	(137,016)	-	(137,016)	-
Public works	839,865	13,342	768,710	(50,087)	-	(50,087)	-
Parks and recreation	366,045	-	-	(363,240)	-	(363,240)	-
Economic development	6,832	-	-	(6,832)	-	(6,832)	-
Interest on long-term debt	41,164	-	-	(41,164)	-	(41,164)	-
Total governmental activities	2,204,979	158,973	769,139	(977,812)	-	(977,812)	-
<b>Business-type activities</b>							
Water	147,060	-	158	-	(13,321)	(13,321)	-
Sewer	433,590	-	4,290	-	(44,607)	(44,607)	-
Storm water	85,445	-	584	-	(39,327)	(39,327)	-
Total business-type activities	666,095	-	5,032	-	(97,255)	(97,255)	-
Total governmental and Business-type activities	\$ 2,871,074	\$ 158,973	\$ 774,171	(977,812)	(97,255)	(1,075,067)	-
<b>Component unit</b>							
Economic development authority	\$ 45,526	\$ 28,087	\$ -	-	-	-	(17,439)
<b>General revenues</b>							
Property taxes				1,313,277	-	1,313,277	49,867
Franchise taxes				13,150	-	13,150	-
Tax increments				7,591	-	7,591	-
State aids				108,064	-	108,064	-
Unrestricted investment earnings				57,883	35,348	93,231	3,639
Total general revenues and transfers				1,499,965	35,348	1,535,313	53,506
Change in net position				522,153	(61,907)	460,246	36,067
Net position - beginning, as previously stated				8,691,561	11,018,179	19,709,740	328,684
Change in accounting principle (see Note 12)				(156,696)	-	(156,696)	-
Net position - beginning, restated				8,534,865	11,018,179	19,553,044	328,684
Net position - ending				\$ 9,057,018	\$ 10,956,272	\$ 20,013,290	\$ 364,751

**City of Hanover**  
**Balance Sheet - Governmental Funds**  
**December 31, 2015**

	Debt Service		Capital Projects			Total Governmental Funds
	General Fund (100-110)	G.O. Crossover Refunding Bonds 2011A (314)	Capital Improvement Fund (401)	Historical Fund (404)	Other Governmental Funds	
<b>Assets</b>						
Cash and investments	\$ 894,258	\$ 392,811	\$ 782,295	\$ -	\$ 1,373,604	\$ 3,442,968
Delinquent property tax receivable	38,800	-	-	-	-	38,800
Accounts receivable	81,498	-	2,574	-	-	84,072
Interest receivable	30,153	-	-	-	-	30,153
Due from other governments	1,274	-	365,785	78,000	-	445,059
Special assessments receivable						
Delinquent	1	-	-	-	220	221
Deferred	830	212,534	65,735	-	20,664	299,763
Due from other funds	1,967	-	-	-	-	1,967
Assets held for resale	-	-	51,746	-	-	51,746
Prepaid items	26,094	-	-	21,000	-	47,094
<b>Total assets</b>	<b>\$ 1,074,875</b>	<b>\$ 605,345</b>	<b>\$ 1,268,135</b>	<b>\$ 99,000</b>	<b>\$ 1,394,488</b>	<b>\$ 4,441,843</b>
<b>Liabilities</b>						
Accounts payable	\$ 58,120	\$ -	\$ 934	\$ 5,074	\$ 10,187	\$ 74,315
Contracts payable	-	-	50,824	2,219	5,799	58,842
Due to other funds	-	-	-	1,967	-	1,967
Due to other governments	19,543	-	-	-	-	19,543
Salaries and benefits payable	4,832	-	-	-	-	4,832
<b>Total liabilities</b>	<b>82,495</b>	<b>-</b>	<b>51,758</b>	<b>9,260</b>	<b>15,986</b>	<b>159,499</b>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue - property taxes	34,294	-	-	-	-	34,294
Unavailable revenue - special assessments	831	212,534	65,735	-	20,884	299,984
Unavailable revenue - grant revenue	-	-	212,500	78,000	-	290,500
<b>Total deferred inflows of resources</b>	<b>35,125</b>	<b>212,534</b>	<b>278,235</b>	<b>78,000</b>	<b>20,884</b>	<b>624,778</b>
<b>Fund balances</b>						
Nonspendable	100,103	-	-	21,000	-	121,103
Restricted	-	392,811	-	-	358,786	751,597
Assigned	-	-	938,142	-	998,832	1,936,974
Unassigned	857,152	-	-	(9,260)	-	847,892
<b>Total fund balances</b>	<b>957,255</b>	<b>392,811</b>	<b>938,142</b>	<b>11,740</b>	<b>1,357,618</b>	<b>3,657,566</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,074,875</b>	<b>\$ 605,345</b>	<b>\$ 1,268,135</b>	<b>\$ 99,000</b>	<b>\$ 1,394,488</b>	<b>\$ 4,441,843</b>

**City of Hanover**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**December 31, 2015**

Total fund balances - governmental funds \$ 3,657,566

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	13,432,427
Less accumulated depreciation	(7,124,237)

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	(1,320,918)
Compensated absences payable	(30,417)
Net pension liability	(217,666)

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	34,294
Delinquent special assessments	221

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

Deferred special assessments receivable	299,763
Deferred grants receivable	290,500

Deferred Outflows of Resources and Deferred Inflows of Resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred inflows of resources related to pensions	(10,974)
Deferred outflows of resources related to pensions	54,866

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

(8,407)

Total net position - governmental activities

\$ 9,057,018

**City of Hanover**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**December 31, 2015**

	Debt Service		Capital Projects			Total Governmental Funds
	General Fund (100-110)	G.O. Crossover Refunding Bonds 2011A (314)	Capital Improvement Fund (401)	Historical Fund (404)	Other Governmental Funds	
<b>Revenues</b>						
Property taxes	\$ 1,122,264	\$ 110,246	\$ -	\$ -	\$ 107,360	\$ 1,339,870
Tax increments	-	-	-	-	7,591	7,591
Miscellaneous taxes	13,150	-	3,874	-	-	17,024
Special assessments	429	71,146	244,619	-	6,473	322,667
Licenses and permits	151,212	-	-	-	-	151,212
Intergovernmental	207,948	-	387,156	-	-	595,104
Charges for services	130,973	-	3,852	-	-	134,825
Fines and forfeitures	2,643	-	-	-	-	2,643
Miscellaneous						
Investment income	36,521	3,666	7,737	796	9,163	57,883
Contributions and donations	25,980	-	-	-	-	25,980
Refunds and reimbursements	6,501	-	-	-	-	6,501
Other	33,109	-	-	-	-	33,109
Total revenues	<u>1,730,730</u>	<u>185,058</u>	<u>647,238</u>	<u>796</u>	<u>130,587</u>	<u>2,694,409</u>
<b>Expenditures</b>						
<b>Current</b>						
General government	440,868	-	9,800	-	-	450,668
Public safety	383,545	-	-	-	-	383,545
Public works	341,882	-	400	-	-	342,282
Parks and recreation	31,241	-	-	-	6,599	37,840
Economic development	-	-	-	-	6,832	6,832
<b>Debt service</b>						
Principal	-	125,000	-	-	88,868	213,868
Interest and other charges	-	23,275	-	-	19,322	42,597
<b>Capital outlay</b>						
General government	32,273	-	-	-	8,975	41,248
Public safety	3,115	-	-	-	-	3,115
Public works	-	-	557,699	-	124,702	682,401
Parks and recreation	7,190	-	-	85,045	-	92,235
Total expenditures	<u>1,240,114</u>	<u>148,275</u>	<u>567,899</u>	<u>85,045</u>	<u>255,298</u>	<u>2,296,631</u>
Excess of revenues over (under) expenditures	490,616	36,783	79,339	(84,249)	(124,711)	397,778
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	-	-	-	476,300	476,300
Transfers out	(476,300)	-	-	-	-	(476,300)
Total other financing Sources (uses)	<u>(476,300)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>476,300</u>	<u>-</u>
Net change in fund balances	14,316	36,783	79,339	(84,249)	351,589	397,778
<b>Fund Balances</b>						
Beginning of year	<u>942,939</u>	<u>356,028</u>	<u>858,803</u>	<u>95,989</u>	<u>1,006,029</u>	<u>3,259,788</u>
End of year	<u>\$ 957,255</u>	<u>\$ 392,811</u>	<u>\$ 938,142</u>	<u>\$ 11,740</u>	<u>\$ 1,357,618</u>	<u>\$ 3,657,566</u>

**City of Hanover**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to**  
**the Statement of Activities - Governmental Funds**  
**December 31, 2015**

Net change in fund balances - governmental funds \$ 397,778

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	734,712
Depreciation expense	(511,957)
Loss on capital assets	(330,790)

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. 213,868

Compensated absences are recognized as paid in the governmental funds, but recognized as the expense is incurred in the statement of activities. 1,464

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. 1,433

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

Pension expense	(17,078)
-----------------	----------

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	(149,509)
Delinquent property taxes	(26,593)

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>208,825</u>
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Change in net position - governmental activities \$ 522,153

**City of Hanover**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 1,091,352	\$ 1,091,352	\$ 1,122,264	\$ 30,912
Miscellaneous taxes	10,000	10,000	13,150	3,150
Special assessments	-	-	429	429
Licenses and permits	132,350	132,350	151,212	18,862
Intergovernmental	175,053	175,053	207,948	32,895
Charges for services	124,344	124,344	130,973	6,629
Fines and forfeitures	1,500	1,500	2,643	1,143
Miscellaneous revenues				
Investment income	8,000	8,000	36,521	28,521
Contributions and donations	-	-	25,980	25,980
Refunds and reimbursements	-	-	6,501	6,501
Other	13,000	13,000	33,109	20,109
Total revenues	<u>1,555,599</u>	<u>1,555,599</u>	<u>1,730,730</u>	<u>175,131</u>
<b>Expenditures</b>				
Current				
General government	460,871	460,871	440,868	(20,003)
Public safety	370,329	370,329	383,545	13,216
Public works	347,713	347,713	341,882	(5,831)
Parks and recreation	39,650	39,650	31,241	(8,409)
Capital outlay				
General government	37,500	37,500	32,273	(5,227)
Public safety	5,000	5,000	3,115	(1,885)
Parks and recreation	7,000	7,000	7,190	190
Total expenditures	<u>1,268,063</u>	<u>1,268,063</u>	<u>1,240,114</u>	<u>(27,949)</u>
Excess of revenues over expenditures	287,536	287,536	490,616	203,080
<b>Other Financing Sources (uses)</b>				
Transfers out	<u>(269,000)</u>	<u>(269,000)</u>	<u>(476,300)</u>	<u>(207,300)</u>
Net change in fund balance	<u>\$ 18,536</u>	<u>\$ 18,536</u>	14,316	<u>\$ (4,220)</u>
<b>Fund Balance</b>				
Beginning of year			<u>942,939</u>	
End of year			<u>\$ 957,255</u>	

**City of Hanover**  
**Statement of Net Position - Proprietary Funds**  
**December 31, 2015**

	Water (601, 611)	Sewer (602, 612)	Storm Water (603, 613)	Total
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,163,141	\$ 2,002,030	\$ 680,032	\$ 3,845,203
Special assessments receivable				
Delinquent	-	4,613	5	4,618
Deferred	158	180,420	94	180,672
Interest receivable	-	189	-	189
Due from other governments	4,351	23,728	2,963	31,042
Prepaid items	114	998	-	1,112
Total current assets	<u>1,167,764</u>	<u>2,211,978</u>	<u>683,094</u>	<u>4,062,836</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>(545,087)</u>	<u>(2,277,371)</u>	<u>(582,584)</u>	<u>(3,405,042)</u>
Net capital assets	<u>1,467,066</u>	<u>4,038,966</u>	<u>1,902,218</u>	<u>7,408,250</u>
 Total assets	 <u>\$ 2,634,830</u>	 <u>\$ 6,250,944</u>	 <u>\$ 2,585,312</u>	 <u>\$ 11,471,086</u>
<b>Liabilities and Net Position</b>				
Current liabilities				
Interest payable	\$ -	\$ 4,675	\$ -	\$ 4,675
Due to other governments	6,003	14,136	-	20,139
Notes payable - current	-	95,000	-	95,000
Total current liabilities	<u>6,003</u>	<u>113,811</u>	<u>-</u>	<u>119,814</u>
Noncurrent liabilities				
Notes payable	-	395,000	-	395,000
Total liabilities	<u>6,003</u>	<u>508,811</u>	<u>-</u>	<u>514,814</u>
Net position				
Net investment in capital assets	1,467,066	3,548,966	1,902,218	6,918,250
Restricted	406,499	1,922,786	548,921	2,878,206
Unrestricted	755,262	270,381	134,173	1,159,816
Total net position	<u>2,628,827</u>	<u>5,742,133</u>	<u>2,585,312</u>	<u>10,956,272</u>
 Total liabilities and net position	 <u>\$ 2,634,830</u>	 <u>\$ 6,250,944</u>	 <u>\$ 2,585,312</u>	 <u>\$ 11,471,086</u>

**City of Hanover**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Proprietary Funds**  
**December 31, 2015**

	Water (601, 611)	Sewer (602, 612)	Storm Water (603, 613)	Total
Operating Revenues				
Charges for services	\$ 68,821	\$ 264,665	\$ 46,118	\$ 379,604
Permits, hookup fees and penalties	8,853	15,520	-	24,373
Total operating revenues	<u>77,674</u>	<u>280,185</u>	<u>46,118</u>	<u>403,977</u>
Operating Expenses				
Repairs and maintenance	12,725	-	-	12,725
Professional services	33,945	154,262	21,881	210,088
Depreciation	50,304	157,181	63,049	270,534
Miscellaneous	260	2,301	515	3,076
Total operating expenses	<u>97,234</u>	<u>313,744</u>	<u>85,445</u>	<u>496,423</u>
Operating income (loss)	(19,560)	(33,559)	(39,327)	(92,446)
Nonoperating				
Revenues (expenses)				
Sale of water meters	10,001	-	-	10,001
Investment income	10,620	18,408	6,320	35,348
Special assessments	-	4,290	-	4,290
Payment to other governments	(49,826)	(107,383)	-	(157,209)
Connection charges	46,064	104,508	-	150,572
Interest expense	-	(12,463)	-	(12,463)
Total nonoperating	<u>16,859</u>	<u>7,360</u>	<u>6,320</u>	<u>30,539</u>
Revenues (expenses)				
Change in net position	(2,701)	(26,199)	(33,007)	(61,907)
Net Position				
Beginning of year	<u>2,631,528</u>	<u>5,768,332</u>	<u>2,618,319</u>	<u>11,018,179</u>
End of year	<u>\$ 2,628,827</u>	<u>\$ 5,742,133</u>	<u>\$ 2,585,312</u>	<u>\$ 10,956,272</u>

**City of Hanover**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended December 31, 2015**

	Water (601, 611)	Sewer (602, 612)	Storm Water (603, 613)	Total
<b>Cash Flows - Operating Activities</b>				
Receipts from customers and users	\$ 133,066	\$ 385,960	\$ 48,381	\$ 567,407
Payments to suppliers	(104,702)	(273,408)	(22,396)	(400,506)
Net cash flows - operating activities	<u>28,364</u>	<u>112,552</u>	<u>25,985</u>	<u>166,901</u>
<b>Cash Flows - Capital and Related</b>				
<b>Financing Activities</b>				
Special assessments	-	43,041	-	43,041
Interest paid on capital debt	-	(13,351)	-	(13,351)
Principal paid on capital debt	-	(93,000)	-	(93,000)
Net cash flows - capital and related financing activities	<u>-</u>	<u>(63,310)</u>	<u>-</u>	<u>(63,310)</u>
<b>Cash Flows - Investing Activities</b>				
Interest and dividends received	<u>14,627</u>	<u>25,114</u>	<u>8,629</u>	<u>48,370</u>
<b>Net Change in Cash and Cash Equivalents</b>	42,991	74,356	34,614	151,961
<b>Cash and Cash Equivalents</b>				
Beginning of year	<u>1,120,150</u>	<u>1,927,674</u>	<u>645,418</u>	<u>3,693,242</u>
End of year	<u>\$ 1,163,141</u>	<u>\$ 2,002,030</u>	<u>\$ 680,032</u>	<u>\$ 3,845,203</u>
<b>Reconciliation Of Operating Loss to Net Cash Flows - Operating Activities</b>				
Operating loss	\$ (19,560)	\$ (33,559)	\$ (39,327)	\$ (92,446)
Adjustments to reconcile operating loss To net cash flows - operating activities:				
Other operating income	6,239	1,415	-	7,654
Depreciation expense	50,304	157,181	63,049	270,534
Delinquent special assessment receivable	(158)	(447)	2,477	1,872
Due from other governments	(515)	(2,576)	(214)	(3,305)
Accounts payable	(3,912)	-	-	(3,912)
Prepaid items	(32)	(38)	-	(70)
Due to other governmental units	(4,002)	(9,424)	-	(13,426)
Total adjustments	<u>47,924</u>	<u>146,111</u>	<u>65,312</u>	<u>259,347</u>
Net cash flows - operating activities	<u>\$ 28,364</u>	<u>\$ 112,552</u>	<u>\$ 25,985</u>	<u>\$ 166,901</u>

**City of Hanover**  
**Statement of Fiduciary Net Position**  
**December 31, 2015**

	<u>Developer Escrow Agency Fund</u>
<b>Assets</b>	
Current	
Cash and investments	\$ 241,909
Due from developers	
Bridges at Hanover escrow	13,477
Miscellaneous escrows	<u>3,948</u>
Total assets	<u><u>\$ 259,334</u></u>
<b>Liabilities</b>	
Due to developers	
Quail pass 2nd addition escrow	\$ 11,756
Erosion control escrow	31,750
Landscape escrow	41,000
Infrastructure escrow	16,000
Miscellaneous escrows	<u>158,828</u>
Total liabilities	<u><u>\$ 259,334</u></u>

**City of Hanover**  
**Notes to Financial Statements**

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

**A. Reporting Entity**

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

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

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

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

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

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

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

**1. Discretely Presented Component Unit**

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

**2. Joint Ventures and Jointly Governed Organizations**

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

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Reporting Entity (Continued)**

**2. Joint Ventures and Jointly Governed Organizations (Continued)**

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

A summary of the financial information of the JPWB Water Fund for the year ended December 31, 2015 follows:

Total assets	\$ 24,145,982
Deferred outflow of resources	95,959
	<u>24,241,941</u>
Total assets and deferred outflows of resources	<u>\$ 24,241,941</u>
Total liabilities	\$ 3,845,485
Net position	20,396,456
	<u>24,241,941</u>
Total liabilities and net position	<u>\$ 24,241,941</u>
Operating revenues	\$ 2,060,957
Operating expenses	(1,654,593)
Nonoperating revenues	403,120
	<u>809,484</u>
Change in net position	<u>\$ 809,484</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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

Historical Fund – This Fund accounts for the costs associated with preserving history of the City.

**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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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 Financial Statements**

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

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflow, 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. The City's investment policy outlines safekeeping requirements in accordance with *Minnesota Statutes*.

**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.

**City of Hanover  
Notes to Financial Statements**

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

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

**3. Prepaid Items**

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

**4. Capital Assets**

Capital assets, which include property, plant, equipment, infrastructure and intangible assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the enterprise fund statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at 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
Machinery and equipment	5-10
Infrastructure	10-40

**5. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one item that qualifies for reporting in this category. The City presents deferred outflows of resources on the Statement(s) of Net Position for deferred outflows of resources related to pensions. Deferred outflows of resources related to pensions results from the net effect of the change in proportionate share, the difference between projected and actual investment earnings, and employer contributions paid to PERA subsequent to the measurement date

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**5. Deferred Outflows/Inflows of Resources (Continued)**

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

The City presents deferred inflows of resources on the Statement(s) of Net Position for deferred inflows of resources related to pensions. Deferred inflows of resources related to pensions results from the net difference between expected and actual economic experience.

**6. Compensated Absences**

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

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

**7. Long-Term Obligations**

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

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**8. Pensions**

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

**9. Fund Equity**

**a. Classification**

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

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

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**9. Fund Equity (Continued)**

**b. Minimum Fund Balance**

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

**10. Net Position**

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

**11. Use of Estimates**

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

**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 Financial Statements**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

**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. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

**NOTE 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, 2015, 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, 2015, the City's deposits and petty cash had a book balance as follows:

Checking	\$ 581,961
Certificates of deposit	1,626,856
Money market accounts	663,650
Petty cash	<u>200</u>
Total deposits and cash on hand	<u><u>\$ 2,872,667</u></u>

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments**

As of December 31, 2015, the City had the following investments:

Investment	Type	Maturity	Moody's or S&P Rating	Market Value	Concentration Credit Risk
General Government Investments					
UBS Select Prime Inst Fund	MM	N/A	N/A	\$ 153,150	3.1%
Goldman Sachs Bank NY	CD	05/09/16	N/A	100,239	2.0%
Discover Bank DE	CD	09/07/16	N/A	42,302	0.9%
BMW Bank NA Salt Lake	CD	11/02/16	N/A	240,813	4.8%
Milaca MN ISD#912	Govt- Mun	02/01/16	AA+	90,158	1.8%
Kewaunee City WI	Govt- Mun	5/1/2016	A2	50,406	1.0%
Due within year				677,068	13.6%
Goldman Sachs Bank NY	CD	1/18/2017	N/A	101,094	2.0%
Everbank Jacksonvi FL	CD	10/31/2017	N/A	241,291	4.9%
Sallie Mae Bank UT	CD	10/31/2017	N/A	240,082	4.8%
Banco Popular PR	CD	11/14/2017	N/A	241,214	4.8%
Ally Bank UT	CD	1/2/2018	N/A	238,776	4.8%
CIT Bank UT	CD	5/9/2018	N/A	70,589	1.4%
State Bank India IL	CD	6/13/2018	N/A	238,118	4.8%
Barclays Banmk DE	CD	7/16/2018	N/A	99,542	2.0%
New Prague MN	Govt- Mun	2/1/2017	Aa3	70,803	1.4%
Medford WI	Govt- Mun	4/1/2017	AA-	101,616	2.0%
Linn Cnty Hosp Fac	Govt- Mun	6/1/2017	Aaa	40,631	0.8%
Lexington-Fayette Urban	Govt- Mun	6/1/2018	Aa2/AA	122,050	2.5%
Due 1-3 years				1,805,806	36.2%
Discover Bank De Us	CD	5/29/2019	N/A	99,893	2.0%
Capital One Bank U VA	CD	11/12/19	N/A	239,472	4.8%
American Express C UT	CD	11/12/19	N/A	104,306	2.1%
American Express F UT	CD	11/13/19	N/A	239,904	4.8%
Hsbc Bank Usa VA	CD	11/20/19	N/A	189,844	3.8%
GE Cap Retail Bank UT	CD	12/16/19	N/A	234,079	4.7%
Comenity Bank DE	CD	10/07/20	N/A	197,024	3.9%
American Exp Cent UT	CD	10/07/20	N/A	139,349	2.8%
Capital One Na VA	CD	10/07/20	N/A	243,858	4.9%
Discover Bank DeE	CD	10/15/20	N/A	102,498	2.0%
Bemidji MN ISD #31	Govt-Mun	02/01/20	AA+	27,583	0.6%
Louisiana St	Govt-Mun	02/01/20	Aa2/AA	310,047	6.2%
Due 3-5 years				2,127,857	42.6%
GE Cap Retail Bank UT	CD	01/11/21	N/A	139,836	2.8%
Mizrahi Tefahot Bank CA	CD	11/30/21	N/A	238,409	4.8%
Due 5 years +				378,245	7.6%
Total investments				\$ 4,988,974	100.0%

**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, 2015. 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 Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Deposits and Investments**

Summary of deposits and investments as of December 31, 2015:

Deposits and cash on hand (note 3. A. )	\$ 2,872,667
Investments (note 3. B. )	<u>4,988,974</u>
 Total deposits and investments	 <u><u>\$ 7,861,641</u></u>

Deposits and investments are presented as cash and investments in the December 31, 2015, basic financial statements as follows:

Statement of Net Position	
Cash and investments	
Primary government	\$ 7,288,171
Component unit	331,561
 Statement of Fiduciary Net Position	 <u>241,909</u>
 Total cash and investments	 <u><u>\$ 7,861,641</u></u>

**NOTE 4 – INTERFUND ACTIVITY**

**A. Interfund Transfers**

During 2015, a transfer of \$476,300 was made from the General Fund to other nonmajor Governmental Funds. The purposes of the transfer was to provide funding for capital improvements and other operational purposes.

**B. Interfund Balances**

An interfund balance of \$1,967 existed at December 31, 2015, between the General Fund and Historical Fund to cover negative cash.

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015, 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	\$ 877,106	\$ -	\$ -	\$ 877,106
Construction in progress	<u>1,287,973</u>	<u>706,654</u>	<u>1,832,578</u>	<u>162,049</u>
Total capital assets not being depreciated	<u>2,165,079</u>	<u>706,654</u>	<u>1,832,578</u>	<u>1,039,155</u>
Capital assets being depreciated				
Infrastructure	7,340,326	-	-	7,340,326
Buildings	1,025,751	67,194	-	1,092,945
Improvements	533,556	1,459,760	-	1,993,316
Vehicles	1,482,503	-	-	1,482,503
Machinery and equipment	477,342	30,128	29,181	478,289
Furniture and fixtures	<u>5,893</u>	<u>-</u>	<u>-</u>	<u>5,893</u>
Total capital assets being depreciated	<u>10,865,371</u>	<u>1,557,082</u>	<u>29,181</u>	<u>12,393,272</u>
Less accumulated depreciation for				
Infrastructure	4,501,904	288,523	-	4,790,427
Buildings	460,799	36,606	-	497,405
Improvements	312,258	108,155	-	420,413
Vehicles	966,571	61,506	-	1,028,077
Machinery and equipment	366,800	17,167	1,945	382,022
Furniture and fixtures	<u>5,893</u>	<u>-</u>	<u>-</u>	<u>5,893</u>
Total accumulated depreciation	<u>6,614,225</u>	<u>511,957</u>	<u>1,945</u>	<u>7,124,237</u>
Total capital assets being depreciated, net	<u>4,251,146</u>	<u>1,045,125</u>	<u>27,236</u>	<u>5,269,035</u>
Governmental activities capital assets, net	<u>\$ 6,416,225</u>	<u>\$ 1,751,779</u>	<u>\$ 1,859,814</u>	<u>\$ 6,308,190</u>

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

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

Governmental activities	
General government	\$ 13,322
Public safety	58,553
Public works	136,216
Parks and recreation	<u>303,866</u>
Total depreciation expense - governmental activities	<u><u>\$ 511,957</u></u>

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
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
Machinery and 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	3,099,493	269,050	3,368,543
Machinery and equipment	29,080	-	29,080
Vehicles	<u>5,935</u>	<u>1,484</u>	<u>7,419</u>
Total accumulated depreciation	<u>3,134,508</u>	<u>270,534</u>	<u>3,405,042</u>
Total capital assets being depreciated, net	<u>7,652,003</u>	<u>(270,534)</u>	<u>7,381,469</u>
Business-type activities capital assets, net	<u><u>\$ 7,678,784</u></u>	<u><u>\$ (270,534)</u></u>	<u><u>\$ 7,408,250</u></u>

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

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

Business-type activities	
Water	\$ 50,304
Sewer	157,181
Storm water	<u>63,049</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 270,534</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, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds payable					
G.O. Improvement Bonds	\$ 1,177,000	\$ -	\$ 145,000	\$ 1,032,000	\$ 159,000
G.O. C.I.P. Refunding Bond	260,000	-	25,000	235,000	30,000
G.O. Equipment Certificates	<u>97,786</u>	<u>-</u>	<u>43,868</u>	<u>53,918</u>	<u>32,805</u>
Total bonds payable	<u>1,534,786</u>	<u>-</u>	<u>213,868</u>	<u>1,320,918</u>	<u>221,805</u>
Compensated absences	<u>31,881</u>	<u>28,296</u>	<u>29,760</u>	<u>30,417</u>	<u>27,366</u>
Total governmental activities	<u>1,566,667</u>	<u>28,296</u>	<u>243,628</u>	<u>1,351,335</u>	<u>249,171</u>
<b>Business-type activities</b>					
Notes payable					
G.O. PFA Wastewater Revenue Notes	<u>583,000</u>	<u>-</u>	<u>93,000</u>	<u>490,000</u>	<u>95,000</u>
Total long-term liabilities	<u><u>\$ 2,149,667</u></u>	<u><u>\$ 28,296</u></u>	<u><u>\$ 336,628</u></u>	<u><u>\$ 1,841,335</u></u>	<u><u>\$ 344,171</u></u>

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

**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	\$ 235,000	\$ 30,000
G.O. Improvement Refunding						
Bond, Series 2009A	11/05/09	2.80%-3.90%	231,000	02/01/21	137,000	19,000
G.O. Equipment Certificates,						
Series 2010	06/01/10	3.50%	350,920	08/01/17	53,918	32,805
G.O. Improvement Refunding						
Bond, Series 2011A	08/11/11	2.00%-2.75%	1,225,000	12/01/21	<u>895,000</u>	<u>140,000</u>
Total Bonds					<u>1,320,918</u>	<u>221,805</u>
Compensated absences					<u>30,417</u>	<u>27,366</u>
Total governmental					<u>1,351,335</u>	<u>249,171</u>
Activities						
Business-type activities						
G.O. Revenue Bonds						
PFA Wastewater Revenue Note	08/18/99	2.29%	1,909,275	08/20/20	<u>490,000</u>	<u>95,000</u>
Total all long-term					<u>\$ 1,841,335</u>	<u>\$ 344,171</u>
Liabilities						

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

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

**D. Maturity Schedules**

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

Year Ending December 31,	Governmental Activities			
	G.O. Improvement Bonds		G.O. C.I.P. Refunding Bonds	
	Principal	Interest	Principal	Interest
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	177,000	9,718	35,000	3,608
2021	186,000	4,907	75,000	3,022
Total	<u>\$ 1,032,000</u>	<u>\$ 95,115</u>	<u>\$ 235,000</u>	<u>\$ 33,562</u>

Year Ending December 31,	Governmental Activities			
	G.O. Equipment Certificates		Total	
	Principal	Interest	Principal	Interest
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	19,318
2020	-	-	212,000	13,326
2021	-	-	261,000	7,929
Total	<u>\$ 53,918</u>	<u>\$ 2,058</u>	<u>\$ 1,320,918</u>	<u>\$ 130,735</u>

Year Ending December 31,	Business-Type Activities	
	G.O. Revenue Notes	
	Principal	Interest
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	<u>\$ 490,000</u>	<u>\$ 33,754</u>

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 7 – EQUITY**

	General	G.O. Crossover Refunding Bonds 2011A	Capital Improvement Fund	Historical Fund	Nonmajor Governmental Fund	Total
Nonspendable						
Prepaid items	\$ 26,094	\$ -	\$ -	\$ 21,000	\$ -	\$ 47,094
Long term receivable	74,009	-	-	-	-	74,009
Total nonspendable	<u>100,103</u>	<u>-</u>	<u>-</u>	<u>21,000</u>	<u>-</u>	<u>121,103</u>
Restricted						
Debt service	-	392,811	-	-	118,649	511,460
Capital projects	-	-	-	-	5,602	5,602
Park dedication	-	-	-	-	234,535	234,535
Total restricted	<u>-</u>	<u>392,811</u>	<u>-</u>	<u>-</u>	<u>358,786</u>	<u>751,597</u>
Assigned						
Capital projects	-	-	938,142	-	998,832	1,936,974
Unassigned	<u>857,152</u>	<u>-</u>	<u>-</u>	<u>(9,260)</u>	<u>-</u>	<u>847,892</u>
Total	<u>\$ 957,255</u>	<u>\$ 392,811</u>	<u>\$ 938,142</u>	<u>\$ 11,740</u>	<u>\$ 1,357,618</u>	<u>\$ 3,657,566</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, 2015, these restrictions for the Water, Sewer, and Storm Water Funds were \$406,499, \$1,922,786 and \$548,921, respectively.

**NOTE 9 – PENSION PLANS**

**Public Employees' Retirement Association**

**A. Plan Description**

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

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided**

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

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

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

**GERF Benefits**

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 ten 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 ten 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 members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**C. Contributions**

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

**GERF Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015.

**City of Hanover  
Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Contributions (Continued)**

The City's contributions to the GERF for the year ended December 31, 2015, were \$19,197. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

GERF Pension Costs

At December 31, 2015, the City reported a liability of \$217,666 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0042%.

For the year ended December 31, 2015, the City recognized pension expense of \$37,235 for its proportionate share of GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 10,974
Difference between projected and actual investment earnings	20,605	-
Changes in proportion	24,662	-
Contributions paid to PERA subsequent to the measurement date	<u>9,599</u>	<u>-</u>
	<u>\$ 54,866</u>	<u>\$ 10,974</u>

**City of Hanover  
Notes to Financial Statements**

**NOTE 9 –PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

\$9,599 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2016	\$ 9,714
2017	9,714
2018	9,713
2019	5,152

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75 % Per year
Active member payroll growth	3.50 % Per year
Investment rate of return	7.90 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1<sup>st</sup> through 2034 then 2.5%.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GEF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. There were no changes in actuarial assumptions in 2015.

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 9 –PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
	<hr/>	
Total	<u>100%</u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 9 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERP net pension liability	\$ 342,248	\$ 217,666	\$ 114,780

**H. Pension Plan Fiduciary Net Position**

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

**NOTE 10 – RISK MANAGEMENT**

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

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2015 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2015, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**City of Hanover**  
**Notes to Financial Statements**

**NOTE 11 – COMMITMENT – SEWER CONNECTION AND USE AGREEMENT**

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

**NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$156,696 to add the beginning net pension liability.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0042%	\$ 217,666	\$ 255,960	85.04%	78.19%

**City of Hanover**  
**Schedule of City Contributions**  
**GERF Retirement Fund**  
**Last Ten Years**

<u>Fiscal Year</u> <u>Ending</u> <u>December 31,</u>	<u>Statutorily</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Statutorily</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>City's Covered-</u> <u>Employee Payroll</u>	<u>Contributions as a</u> <u>Percentage of</u> <u>Covered-</u> <u>Employee Payroll</u>
2015	\$ 19,197	\$ 19,197	\$ -	\$ 255,960	7.50%

**SUPPLEMENTARY INFORMATION**

**City of Hanover**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**December 31, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$ 1,091,352	\$ 1,091,352	\$ 1,122,264	\$ 30,912
Miscellaneous Taxes	10,000	10,000	13,150	3,150
Special Assessments	-	-	429	429
Licenses and Permits	132,350	132,350	151,212	18,862
Intergovernmental revenues				
Local Government Aid	144,614	144,614	144,616	2
Market Value Credit	-	-	1,866	1,866
PERA Aid	339	339	339	-
Fire Aid	24,000	24,000	42,219	18,219
Police Aid	4,600	4,600	5,566	966
Other Grants and Aids	1,500	1,500	13,342	11,842
Total intergovernmental revenues	<u>175,053</u>	<u>175,053</u>	<u>207,948</u>	<u>32,895</u>
Charges for services				
General government	13,380	13,380	18,754	5,374
Public safety	106,964	106,964	107,464	500
Parks and recreation	4,000	4,000	4,755	755
Total charges for services	<u>124,344</u>	<u>124,344</u>	<u>130,973</u>	<u>6,629</u>
Fines and Forfeitures	1,500	1,500	2,643	1,143
Miscellaneous revenues				
Investment Income	8,000	8,000	36,521	28,521
Contributions and Donations	-	-	25,980	25,980
Refunds and Reimbursements	-	-	6,501	6,501
Other	13,000	13,000	33,109	20,109
Total miscellaneous revenues	<u>21,000</u>	<u>21,000</u>	<u>102,111</u>	<u>81,111</u>
Total revenues	<u>\$ 1,555,599</u>	<u>\$ 1,555,599</u>	<u>\$ 1,730,730</u>	<u>\$ 175,131</u>
<b>Expenditures</b>				
General government				
Mayor and council	30,738	30,738	23,680	(7,058)
Administrative and finance	239,681	239,681	244,617	4,936
Other general government	190,452	190,452	172,571	(17,881)
Capital outlay	37,500	37,500	32,273	(5,227)
Total general government	<u>498,371</u>	<u>498,371</u>	<u>473,141</u>	<u>(25,230)</u>
Public safety				
Police				
Current	163,505	163,505	165,233	1,728

**City of Hanover**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**December 31, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
Public safety (continued)				
Fire				
Current	\$ 156,174	\$ 156,174	\$ 164,686	\$ 8,512
Capital outlay	5,000	5,000	3,115	(1,885)
Total fire	<u>161,174</u>	<u>161,174</u>	<u>167,801</u>	<u>6,627</u>
Other				
Current	50,650	50,650	53,626	2,976
Total public safety	<u>375,329</u>	<u>375,329</u>	<u>386,660</u>	<u>11,331</u>
<b>Public Works</b>				
Streets and highways				
Street maintenance and storm sewers	270,713	270,713	271,295	582
Snow and ice removal	15,000	15,000	15,000	-
Street lighting	27,000	27,000	19,475	(7,525)
Total streets and highways	<u>312,713</u>	<u>312,713</u>	<u>305,770</u>	<u>(6,943)</u>
Sanitation				
Collection and disposal	35,000	35,000	36,112	1,112
Total public works	<u>347,713</u>	<u>347,713</u>	<u>341,882</u>	<u>(5,831)</u>
<b>Parks and Recreation</b>				
Libraries current expenditures	7,000	7,000	5,250	(1,750)
Parks and recreation				
Current	32,650	32,650	25,991	(6,659)
Parks and recreation capital outlay	7,000	7,000	7,190	190
Total parks and recreation	<u>39,650</u>	<u>39,650</u>	<u>33,181</u>	<u>(6,469)</u>
Total parks and recreation	<u>46,650</u>	<u>46,650</u>	<u>38,431</u>	<u>(8,219)</u>
Total expenditures	<u>1,268,063</u>	<u>1,268,063</u>	<u>1,240,114</u>	<u>(27,949)</u>
Excess of revenues over expenditures	287,536	287,536	490,616	203,080
<b>Other Financing Uses</b>				
Transfers Out	<u>(269,000)</u>	<u>(269,000)</u>	<u>(476,300)</u>	<u>(207,300)</u>
Net change in fund balance	<u>\$ 18,536</u>	<u>\$ 18,536</u>	14,316	<u>\$ (4,220)</u>
<b>Fund Balance</b>				
Beginning of year			<u>942,939</u>	
End of year			<u>\$ 957,255</u>	

**City of Hanover  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	Debt Service	
	G.O. C.I.P. Refunding Bond 2008A (311)	G.O. Improvement Refunding Bonds, Series 2009A (312)
<b>Assets</b>		
Cash and investments	\$ 72,636	\$ 40,406
Special assessments receivable		
Delinquent	-	220
Deferred	-	20,664
Total assets	\$ 72,636	\$ 61,290
<b>Liabilities</b>		
Accounts payable	\$ -	\$ -
Contracts payable	-	-
Total liabilities	-	-
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - special assessments	-	20,884
Total deferred inflows of resources	-	20,884
<b>Fund Balances</b>		
Restricted	72,636	40,406
Assigned	-	-
Total fund balances	72,636	40,406
Total liabilities, deferred inflows of resources and fund balances	\$ 72,636	\$ 61,290

<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>
\$ 5,607	\$ 118,649	\$ 234,535	\$ 164,033
-	220	-	-
-	20,664	-	-
<u>\$ 5,607</u>	<u>\$ 139,533</u>	<u>\$ 234,535</u>	<u>\$ 164,033</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	20,884	-	-
-	20,884	-	-
5,607	118,649	234,535	-
-	-	-	164,033
<u>5,607</u>	<u>118,649</u>	<u>234,535</u>	<u>164,033</u>
<u>\$ 5,607</u>	<u>\$ 139,533</u>	<u>\$ 234,535</u>	<u>\$ 164,033</u>

**City of Hanover  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	<u>Capital Projects</u>
	TIF District 1-1 (407)
	(407)
<b>Assets</b>	
Cash and investments	\$ 5,602
Special assessments receivable	
Delinquent	-
Deferred	-
	-
Total assets	\$ 5,602
<b>Liabilities</b>	
Accounts payable	\$ -
Contracts payable	-
Total liabilities	-
	-
<b>Deferred Inflows of Resources</b>	
Unavailable revenue - special assessments	-
Total deferred inflows of resources	-
	-
<b>Fund Balances</b>	
Restricted	5,602
Assigned	-
Total fund balances	5,602
	5,602
Total liabilities, deferred inflows of resources and fund balances	\$ 5,602

Capital Projects

<u>City Hall (411)</u>	<u>Equipment (417)</u>	<u>Streets (418)</u>	<u>Total</u>	<u>Total Governmental Funds</u>
\$ 48,617	\$ 106,846	\$ 695,322	\$ 1,254,955	\$ 1,373,604
-	-	-	-	220
-	-	-	-	20,664
<u>\$ 48,617</u>	<u>\$ 106,846</u>	<u>\$ 695,322</u>	<u>\$ 1,254,955</u>	<u>\$ 1,394,488</u>
\$ 1,975	\$ -	\$ 8,212	\$ 10,187	\$ 10,187
-	-	5,799	5,799	5,799
<u>1,975</u>	<u>-</u>	<u>14,011</u>	<u>15,986</u>	<u>15,986</u>
-	-	-	-	20,884
-	-	-	-	20,884
-	-	-	240,137	358,786
<u>46,642</u>	<u>106,846</u>	<u>681,311</u>	<u>998,832</u>	<u>998,832</u>
<u>46,642</u>	<u>106,846</u>	<u>681,311</u>	<u>1,238,969</u>	<u>1,357,618</u>
<u>\$ 48,617</u>	<u>\$ 106,846</u>	<u>\$ 695,322</u>	<u>\$ 1,254,955</u>	<u>\$ 1,394,488</u>

**City of Hanover**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**December 31, 2015**

	Debt Service	
	G.O. C.I.P. Refunding Bond 2008A (311)	G.O. Improvement Refunding Bonds, Series 2009A (312)
<b>Revenues</b>		
Property taxes	\$ 39,770	\$ 18,292
Tax increments	-	-
Special assessments	-	6,473
Miscellaneous		
Investment income	308	115
Total revenues	40,078	24,880
<b>Expenditures</b>		
Current		
Public works	-	-
Park and recreation	-	-
Economic development	-	-
Debt service		
Principal	25,000	20,000
Interest and other charges	9,942	6,334
Capital outlay		
General government	-	-
Public works	-	-
Total expenditures	34,942	26,334
Excess of revenues over (under) expenditures	5,136	(1,454)
<b>Other Financing Sources</b>		
Transfers in	-	-
Net change in fund balances	5,136	(1,454)
<b>Fund Balances</b>		
Beginning of year	67,500	41,860
End of year	\$ 72,636	\$ 40,406

Debt Service		Capital Projects	
G.O. Equipment Certificates of 2010 (313)	Total	Park (402)	Fire Department Fund (403)
\$ 49,298	\$ 107,360	\$ -	\$ -
-	-	-	-
-	6,473	-	-
(6)	417	2,257	1,100
<u>49,292</u>	<u>114,250</u>	<u>2,257</u>	<u>1,100</u>
-	-	-	-
-	-	6,599	-
-	-	-	-
43,868	88,868	-	-
3,046	19,322	-	-
-	-	-	-
-	-	-	-
<u>46,914</u>	<u>108,190</u>	<u>6,599</u>	<u>-</u>
2,378	6,060	(4,342)	1,100
-	-	-	52,300
<u>2,378</u>	<u>6,060</u>	<u>(4,342)</u>	<u>53,400</u>
3,229	112,589	238,877	110,633
<u>\$ 5,607</u>	<u>\$ 118,649</u>	<u>\$ 234,535</u>	<u>\$ 164,033</u>

**City of Hanover**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**December 31, 2015**

	Capital Projects	
	TIF District 1-1 (407)	City Hall (411)
<b>Revenues</b>		
Property taxes	\$ -	\$ -
Tax increments	7,591	-
Special assessments	-	-
Miscellaneous		
Investment income	57	550
Total revenues	7,648	550
<b>Expenditures</b>		
Current		
Public works	-	-
Park and recreation	-	-
Economic development	6,832	-
Debt service		
Principal	-	-
Interest and other charges	-	-
Capital outlay		
General government	-	8,975
Public works	-	-
Total expenditures	6,832	8,975
Excess of revenues over (under) expenditures	816	(8,425)
<b>Other Financing Sources</b>		
Transfers in	-	-
Net change in fund balances	816	(8,425)
<b>Fund Balances</b>		
Beginning of year	4,786	55,067
End of year	\$ 5,602	\$ 46,642

Capital Projects

<u>Equipment (417)</u>	<u>Streets (418)</u>	<u>Total</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 107,360
-	-	7,591	7,591
-	-	-	6,473
<u>499</u>	<u>4,283</u>	<u>8,746</u>	<u>9,163</u>
<u>499</u>	<u>4,283</u>	<u>16,337</u>	<u>130,587</u>
-	-	-	-
-	-	6,599	6,599
-	-	6,832	6,832
-	-	-	88,868
-	-	-	19,322
-	-	8,975	8,975
<u>1,007</u>	<u>123,695</u>	<u>124,702</u>	<u>124,702</u>
<u>1,007</u>	<u>123,695</u>	<u>147,108</u>	<u>255,298</u>
(508)	(119,412)	(130,771)	(124,711)
<u>55,000</u>	<u>369,000</u>	<u>476,300</u>	<u>476,300</u>
54,492	249,588	345,529	351,589
<u>52,354</u>	<u>431,723</u>	<u>893,440</u>	<u>1,006,029</u>
<u>\$ 106,846</u>	<u>\$ 681,311</u>	<u>\$ 1,238,969</u>	<u>\$ 1,357,618</u>

**City of Hanover**  
**Statement of Changes in Agency**  
**Fund Assets and Liabilities - Developer Escrow Agency Fund**  
**December 31, 2015**

	December 31, 2014	Additions	Deductions	December 31, 2015
<b>Assets</b>				
Current				
Cash and investments	\$ 246,213	\$ 84,685	\$ 85,041	\$ 241,909
Due from developers				
Bridges at Hanover escrow	13,477	-	-	13,477
Miscellaneous escrows	-	3,948	-	3,948
	<u>259,690</u>	<u>88,633</u>	<u>85,041</u>	<u>259,334</u>
Total assets	<u>\$ 259,690</u>	<u>\$ 88,633</u>	<u>\$ 85,041</u>	<u>\$ 259,334</u>
<b>Liabilities</b>				
Due to developers				
Quail pass 2nd addition escrow	\$ 11,670	\$ 112	\$ 26	\$ 11,756
Erosion control escrow	33,250	21,000	22,500	31,750
Landscape escrow	44,000	36,000	39,000	41,000
Infrastructure escrow	16,500	23,000	23,500	16,000
Miscellaneous escrows	154,270	4,573	15	158,828
	<u>259,690</u>	<u>84,685</u>	<u>85,041</u>	<u>259,334</u>
Total liabilities	<u>\$ 259,690</u>	<u>\$ 84,685</u>	<u>\$ 85,041</u>	<u>\$ 259,334</u>

**City of Hanover  
Combining Balance Sheet -  
Component Unit  
December 31, 2015**

	<u>Economic Development Authority (201)</u>	<u>Business Incentive (205)</u>	<u>Total</u>
<b>Assets</b>			
Cash and investments	\$ 101,556	\$ 230,005	\$ 331,561
Taxes receivable - delinquent	1,353	-	1,353
Other receivables	-	35,308	35,308
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 102,909</u>	<u>\$ 265,313</u>	<u>\$ 368,222</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 2,287	\$ -	\$ 2,287
Unearned revenue	1,184	-	1,184
Total liabilities	<u>3,471</u>	<u>-</u>	<u>3,471</u>
<b>Fund balances</b>			
Restricted	-	265,313	265,313
Unassigned	99,438	-	99,438
Total fund balances	<u>99,438</u>	<u>265,313</u>	<u>364,751</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 102,909</u>	<u>\$ 265,313</u>	<u>\$ 368,222</u>

**City of Hanover**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Component Unit**  
**December 31, 2015**

	Economic Development Authority (201)	Business Incentive (205)	Total
<b>Revenues</b>			
Property taxes	\$ 49,867	\$ -	\$ 49,867
Intergovernmental	70	28,017	28,087
Miscellaneous			
Investment income	750	2,889	3,639
Total revenues	<u>50,687</u>	<u>30,906</u>	<u>81,593</u>
<b>Expenditures</b>			
Current			
Economic development	<u>17,508</u>	<u>28,018</u>	<u>45,526</u>
Excess of revenues over expenditures	33,179	2,888	36,067
<b>Other Financing Sources (uses)</b>			
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	18,179	17,888	36,067
<b>Fund Balances</b>			
Beginning of year	<u>81,259</u>	<u>247,425</u>	<u>328,684</u>
End of year	<u>\$ 99,438</u>	<u>\$ 265,313</u>	<u>\$ 364,751</u>



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

**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hanover, Minnesota, as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 10, .

**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.

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### **Internal Control over Financial Reporting (Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control consider to be material weaknesses. 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**

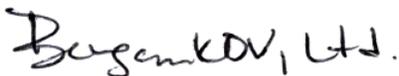
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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.



St. Cloud, Minnesota  
May 10,



## Report on Legal Compliance

### Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund and the aggregate remaining fund information of the City of Hanover, Minnesota as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated May 10, .

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

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

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

St. Cloud, Minnesota  
May 10, 2016

BerganKDV, Ltd.

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**City of Hanover  
Schedule of Findings and  
Responses on Internal Control  
December 31, 2015**

**CURRENT YEAR INTERNAL CONTROL FINDING:**

**Significant Deficiency:**

**Audit Finding 2006-001 – Lack of Segregation**

During the year ended December 31, 2015, 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.