

CITY OF HANCOCK
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2019

CITY OF HANCOCK

June 30, 2019

ADMINISTRATION

City Manager..... Barry Givens
Clerk/Treasurer..... Mary Babcock

BOARD MEMBERS

Mayor..... Paul Labine
Ward I..... Ron Blau
Ward II..... Dan Seguin
Ward III..... John Slivon

At Large..... Will Lytle
At Large..... Steph Tubman
At Large..... Whitney Warstler

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RUKKILA | NEGRO AND ASSOCIATES

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension requirements on pages 7 through 15 and 54 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The prior year comparative information on pages 69 and 71 has been derived from the City's 2018 audit report dated December 22, 2018 in which we expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information and the related notes to the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 30, 2019 on our consideration of the City of Hancock's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Hancock's internal control over financial reporting and compliance.

*Rukkila, Negro and Associates,
Certified Public Accountants, PC*

December 30, 2019

CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

This section of City of Hancock's annual financial report presents management's discussion and analysis of the City's financial activities during the fiscal year ended June 30, 2019. The analysis focuses on the City's financial performance as a whole. It is intended to be read as part of the City's financial statements, which immediately follows this section.

Financial Highlights

- The assets of the City of Hancock's primary government exceeded its liabilities at year end by \$16,948,379 (net position).
- The City of Hancock's total net position increased by \$492,558.
- The City of Hancock had charges for services of \$1,752,241 in governmental activities and \$2,161,486 for business-type activities and \$6,860,739 and \$2,910,445 in expenses for governmental and business-type activities respectively during the year ended June 30, 2019.
- At the close of the fiscal year, the City of Hancock's governmental activities reported a combined ending net position balance of \$8,075,168. This is an increase of \$382,739.
- At the end of the current fiscal year, the fund balance for the general fund was \$1,099,294. General fund operating transfers to other funds were \$5,550 in 2019 compared to \$138,145 in the prior year, a decrease of \$132,595.

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 supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position hanged during the most recent fiscal 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., earned but unused compensated absences).

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 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, and culture and recreation. The business-type activities of the City include wastewater, water, light and power and airport operations.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Overview of the Financial Statements (Continued)

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Downtown Development Authority (DDA) for which the City is financially accountable. Information for this component unit is reported separately from the financial information presented for the primary government itself.

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 governments, 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 fiscal year. Such information may be useful in evaluating a City'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 of the City'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.

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 which is considered a major fund. Data is combined into a single aggregated presentation for the other governmental funds (non-major governmental funds). Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison schedules have been provided for the general and special revenue funds to demonstrate legal compliance.

Proprietary Funds: The City maintains two different types of proprietary funds. 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 and sewer operations. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its insurance (risk management and employee benefits) and motor pool activities. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. A portion of the activity of the internal service funds is also allocated to the enterprise funds and reported in the statement of activities. Proprietary funds provide 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 sewer and water funds, both of which are considered to be major funds of the City. The City's internal service funds are presented in the proprietary fund financial statements in the Governmental Activities - Internal Service Funds column.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

Overview of the Financial Statements (Continued)

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis, required pension schedules and the general fund budget and actual presentation. Supplemental information follows the required pension schedules and includes combining and individual fund statements and schedules.

Summary of Net Position

	Governmental Activities		Business-type Activities	
	2019	2018	2019	2018
Assets				
Current Assets	\$ 2,679,992	\$ 1,082,875	\$ 1,580,393	\$ 1,443,061
Capital assets - net	9,994,456	9,954,795	18,573,375	18,887,174
Total assets	<u>12,674,448</u>	<u>11,037,670</u>	<u>20,153,768</u>	<u>20,330,235</u>
Deferred outflows of resources - pension	740,062	454,683	105,753	75,697
Liabilities				
Current liabilities	1,138,400	360,256	497,959	526,148
Noncurrent liabilities	4,060,826	3,260,899	10,874,072	11,098,173
Total liabilities	<u>5,199,226</u>	<u>3,621,155</u>	<u>11,372,031</u>	<u>11,624,321</u>
Deferred inflows of resources - pension	140,116	87,092	14,279	-
Net position				
Net investment in capital assets	7,400,062	7,924,635	7,733,375	7,784,174
Restricted:				
Streets and highways	344,740	197,647	-	-
CDBG	34,941	39,880	-	-
Cemetery	182,651	180,732	-	-
Parks and recreation	6,088	11,256	-	-
Capital projects	-	42,705	-	-
Program projects	20,387	20,373	-	-
Debt service	1,651	1,331	489,393	478,654
Unrestricted	84,648	(726,130)	650,443	500,564
Total net position	<u>\$ 8,075,168</u>	<u>\$ 7,692,429</u>	<u>\$ 8,873,211</u>	<u>\$ 8,763,392</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Overview of the Financial Statements - (Continued)

	Results of Operations			
	Governmental Activities		Business-type Activities	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Program Revenue:				
Charges for services	\$ 1,752,241	\$ 1,625,568	\$ 2,161,486	\$ 2,089,059
Operating grants and contributions	583,944	176,273	651,622	564,274
Capital grants and contributions	1,400,957	1,465,052	157,533	380,331
General Revenue:				
Property taxes	1,770,167	1,672,280	-	-
State shared revenue	1,534,648	1,492,280	-	-
Other	247,721	330,555	9,623	30,486
Transfers	-	-	40,000	198,597
Total revenues	<u>7,289,678</u>	<u>6,762,008</u>	<u>3,020,264</u>	<u>3,262,747</u>
Functions/program expenses				
General government	1,821,412	1,469,521	-	-
Public safety	946,254	959,174	-	-
Public works	3,094,879	2,653,911	2,910,445	3,024,287
Sanitation	249,650	196,344	-	-
Recreation	616,834	304,277	-	-
Community and economic development	1,982	220,116	-	-
Interest on long-term debt	119,272	109,235	-	-
Other	10,456	31,501	-	-
Loss on sale of equipment	6,200	-	-	-
Transfers	40,000	174,400	-	-
Total expenses	<u>6,906,939</u>	<u>6,118,479</u>	<u>2,910,445</u>	<u>3,024,287</u>
Change in net position	382,739	643,529	109,819	238,460
Net position - Beginning	<u>7,692,429</u>	<u>7,048,900</u>	<u>8,763,392</u>	<u>8,524,932</u>
Net position - Ending	<u>\$ 8,075,168</u>	<u>\$ 7,692,429</u>	<u>\$ 8,873,211</u>	<u>\$ 8,763,392</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Overview of the Financial Statements - (Continued)

The following two charts highlight the City's governmental activities by revenues and expenses.

	<u>2019</u>	<u>% of total</u>	<u>2018</u>	<u>% of total</u>
Revenues				
Charges for services	\$ 1,752,241	24.0 %	\$ 1,625,568	24.0 %
Property taxes	1,770,167	24.3 %	1,672,280	24.7 %
State shared revenue	1,534,648	21.1 %	1,492,280	22.1 %
Grants and contributions	1,984,901	27.2 %	1,641,325	24.3 %
Other revenues	247,721	3.4 %	330,555	4.9 %
Total revenues	<u>\$ 7,289,678</u>	<u>100.0 %</u>	<u>\$ 6,762,008</u>	<u>100.0 %</u>
Expenditures				
General government	\$ 1,821,412	26.4 %	\$ 1,469,521	23.9 %
Public safety	946,254	13.7 %	959,174	15.7 %
Public works	3,094,879	44.8 %	2,653,911	43.4 %
Sanitation	249,650	3.6 %	196,344	3.2 %
Recreation and culture	616,834	8.9 %	304,277	5.0 %
Community development	1,982	- %	220,116	3.6 %
Interest expense	119,272	1.7 %	109,235	1.8 %
Other	10,456	0.2 %	31,501	0.5 %
Loss on sale of equipment	6,200	0.1 %	-	- %
Transfers out	40,000	0.6 %	174,400	2.9 %
Total expenditures	<u>\$ 6,906,939</u>	<u>100.0 %</u>	<u>\$ 6,118,479</u>	<u>100.0 %</u>

The following two charts highlight the City's business-type activities by revenues and expenses.

	<u>2019</u>	<u>% of total</u>	<u>2018</u>	<u>% of total</u>
Revenues				
Charges for services	\$ 2,161,486	71.6 %	\$ 2,089,059	64.0 %
Grants and contributions	809,155	26.8 %	944,605	29.0 %
Other	9,623	0.3 %	30,486	0.9 %
Transfers	40,000	1.3 %	198,597	6.1 %
Total revenues	<u>\$ 3,020,264</u>	<u>100.0 %</u>	<u>\$ 3,262,747</u>	<u>100.0 %</u>
Expenditures				
Water	\$ 1,323,102	45.5 %	\$ 1,194,629	39.5 %
Sewer	1,252,001	43.0 %	1,524,689	50.4 %
Transit	335,342	11.5 %	304,969	10.1 %
Total expenditures	<u>\$ 2,910,445</u>	<u>100.0 %</u>	<u>\$ 3,024,287</u>	<u>100.0 %</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Significant Transactions and Changes in Individual Funds

A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
General Fund			
Revenues/Transfers/Other	\$ 4,232,620	\$ 2,544,615	\$ 1,688,005
Expenditures/Transfers/Other	\$ 3,365,737	\$ 2,417,557	\$ 948,180
Fund Balance	\$ 1,099,294	\$ 232,411	\$ 866,883

The General Fund saw an increase in revenues of \$1,688,005 and an increase in expenditures of \$948,180. The increase in revenues was mainly due to increases in state and federal revenue and charges for services, and loan proceeds. The increase in expenditures is due to increases in general government, public safety, public works, sanitation, and recreation and culture.

SPECIAL REVENUE FUNDS	<u>2019</u>	<u>2018</u>	<u>Change</u>
Major Street Fund			
Revenues/Transfers/Other	\$ 1,214,164	\$ 1,441,320	\$ (227,156)
Expenditures/Transfers/Other	\$ 1,173,968	\$ 1,416,997	\$ (243,029)
Fund Balance	\$ 102,596	\$ 62,400	\$ 40,196
Local Street Fund			
Revenues/Transfers/Other	\$ 407,571	\$ 351,926	\$ 55,645
Expenditures/Transfers/Other	\$ 300,674	\$ 279,443	\$ 21,231
Fund Balance	\$ 242,144	\$ 135,247	\$ 106,897
CDBG Fund			
Revenues/Transfers/Other	\$ 1,485	\$ 258,604	\$ (257,119)
Expenditures/Transfers/Other	\$ 1,982	\$ 220,116	\$ (218,134)
Fund Balance	\$ 34,941	\$ 39,880	\$ (4,939)
Parks and recreation fund			
Revenues/Transfers/Other	\$ 88,412	\$ -	\$ 88,412
Expenditures/Transfers/Other	\$ 52,316	\$ -	\$ 52,316
Fund Balance	\$ 6,088	\$ -	\$ 6,088

Major Street Fund - The decrease in revenue is due to a reduction in state and federal revenue grants received for a project that was completed in the prior year and a decrease in other revenue. Expenditures increased due to a combination of increases in construction costs and snow hauling and decreases in routine maintenance.

Local Street Fund - The increase in revenue is mainly due to an increase in state sources. The decrease in expenses is mainly due to a combination of an increase in winter maintenance and a decrease in routine maintenance.

CDBG - The increase and decrease in revenue and expenses is due to the closing of grants in the prior year.

Parks and recreation - Fund was established in current year.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Significant Transactions and Changes in Individual Funds (Continued)

ENTERPRISE FUNDS	<u>2019</u>	<u>2018</u>	<u>Change</u>
Sewer Fund			
Revenues/Transfers/Other	\$ 1,557,931	\$ 1,606,945	\$ (49,014)
Expenditures/Transfers/Other	\$ 1,252,001	\$ 1,524,689	\$ (272,688)
Fund Balance	\$ 2,966,737	\$ 2,660,807	\$ 305,930
Water Fund			
Revenues/Transfers/Other	\$ 1,068,285	\$ 1,385,050	\$ (316,765)
Expenditures/Transfers/Other	\$ 1,323,102	\$ 1,194,629	\$ 128,473
Fund Balance	\$ 5,219,785	\$ 5,474,602	\$ (254,817)
Transit Fund			
Revenues/Transfers/Other	\$ 394,048	\$ 299,108	\$ 94,940
Expenditures/Transfers/Other	\$ 335,342	\$ 304,969	\$ 30,373
Fund Balance	\$ 686,689	\$ 627,983	\$ 58,706

Sewer Fund - The Sewer Fund's revenues decreased due to a combination of an increase in federal sources and charges for services and a decrease in transfers in. Expenses decreased due to a decrease in general administration, purchased services, operations and maintenance and depreciation.

Water Fund - The Water Fund's revenues decreased due to the closing of the 2016 water bond project in the prior year. Expenses increased from prior year due to a combination of increases in meter reading, purchased services, operations and maintenance, and depreciation and a decrease in general administration.

Transit Fund - The Transit Fund revenues increased mainly due to increases in state and federal sources. Expenses increased due to increases in operations and maintenance and depreciation.

DEBT SERVICE (BUILDING AUTHORITY)	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues/Transfers/Other	\$ 137,081	\$ 132,885	\$ 4,196
Expenditures/Transfers/Other	\$ 136,761	\$ 132,882	\$ 3,879
Fund Balance	\$ 1,651	\$ 1,331	\$ 320

Debt Service Fund - The revenue and expenditures will vary from year to year based on principal and interest payments made during the year.

CAPITAL PROJECTS (SYLVAN ESTATES)	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues/Transfers/Other	\$ 14	\$ 31	\$ (17)
Expenditures/Transfers/Other	\$ -	\$ -	\$ -
Fund Balance	\$ 20,387	\$ 20,373	\$ 14

Capital Projects Fund - The Capital Projects Fund showed no significant variances in revenues or expenditures.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Significant Transactions and Changes in Individual Funds (Continued)

INTERNAL SERVICE FUNDS

Employee Benefits Fund - Revenue increased due to an increase in charges for services. Expenses decreased mainly due to a combination of an increase in vacation pay and decreases in sick pay/personal leave, workers' compensation insurance, and hospitalization insurance.

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues/Transfers/Other	\$ 753,960	\$ 803,611	\$ (49,651)
Expenditures/Transfers/Other	\$ 791,846	\$ 868,850	\$ (77,004)
Fund Balance	\$ 70,641	\$ 108,527	\$ (37,886)

Motor Vehicle Fund - Revenue increased due to higher charges to other city funds. Expenses increased due to increases in operations and maintenance and depreciation.

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues/Transfers/Other	\$ 588,452	\$ 430,489	\$ 157,963
Expenditures/Transfers/Other	\$ 594,672	\$ 481,526	\$ 113,146
Fund Balance	\$ 38,771	\$ 44,991	\$ (6,220)

General Fund Budgetary Highlights

During the year ended June 30, 2019, there was one budget amendment.

Financial Analysis

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 fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined unassigned fund balances of \$1,060,901.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$1,099,294. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents about 33% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$866,883 during the fiscal year.

Proprietary Funds - The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Net position at the end of the year amounted to \$8,873,211.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019**

Capital Assets and Debt Administration

The City's net capital assets for the governmental and business-type activities as of June 30, 2019, amounts to \$28,567,831. Capital asset additions totaling \$891,292 includes a police vehicle, heavy duty truck, recreation pier, road improvements, 2 buses, and water and sewer improvements.

Additional information on the City's capital assets can be found on page 36 of this report.

Long-term Debt – At the end of the current fiscal year, the City had total debt of \$13,456,591.

Additional information on the City's long-term debt can be found starting on page 38 of this report.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the City Clerk, Mary Babcock, at 399 Quincy Street, Hancock, Michigan 49930 or call (906) 482-2720.

CITY OF HANCOCK
STATEMENT OF NET POSITION
June 30, 2019

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,485,403	\$ 703,929	\$ 2,189,332	\$ 80,768
Restricted cash	270,192	489,393	759,585	-
Receivables	30,760	165,161	195,921	-
Inventories	55,050	96,823	151,873	-
Prepaid expenses	55,678	1,864	57,542	-
Due from fiduciary funds	308	-	308	-
Due from other funds	77,701	(77,701)	-	-
Due from government units	704,900	200,924	905,824	-
Capital assets - net	9,994,456	18,573,375	28,567,831	-
Total assets	12,674,448	20,153,768	32,828,216	80,768
Deferred outflows of resources - pension	740,062	105,753	845,815	3,615
Liabilities				
Accounts payable and accrued expense	514,399	187,672	702,071	9,381
Due to other governmental units	-	-	-	-
Unearned revenue	215,279	42,287	257,566	-
Bonds payable, due in one year	137,000	268,000	405,000	-
Note payable, due in one year	271,722	-	271,722	-
Unamortized premium on the issuance of bonds	22,197	-	22,197	-
Bonds payable, due in more than one year	1,109,000	10,572,000	11,681,000	-
Note payable, due in more than one year	1,076,672	-	1,076,672	-
Net pension liability	1,670,601	253,964	1,924,565	10,123
Accrued benefits	182,356	48,108	230,464	1,253
Total liabilities	5,199,226	11,372,031	16,571,257	20,757
Deferred inflows of resources - pension	140,116	14,279	154,395	257
Net position				
Net investment in capital assets	7,400,062	7,733,375	15,133,437	-
Restricted				
Streets and highways	344,740	-	344,740	-
CDBG	34,941	-	34,941	-
Cemetery	182,651	-	182,651	-
Main Street	-	-	-	-
Parks and recreation	6,088	-	6,088	-
Capital projects	20,387	-	20,387	-
Debt service	1,651	489,393	491,044	-
Unassigned	84,648	650,443	735,091	63,369
Total net position	\$ 8,075,168	\$ 8,873,211	\$ 16,948,379	\$ 63,369

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Grants and Contributions		Primary Government			Component Unit (DDA)
			Operating	Capital	Governmental	Business-Type	Total	
Government Activities								
General government	\$ 1,821,412	\$ 753,945	\$ 583,944	\$ 41,083	\$ (442,440)	\$ -	\$ (442,440)	\$ -
Public safety	946,254	1,766	-	22,000	(922,488)	-	(922,488)	-
Public works	3,094,879	586,756	-	1,041,943	(1,466,180)	-	(1,466,180)	-
Sanitation	249,650	124,558	-	-	(125,092)	-	(125,092)	-
Recreation and culture	616,834	134,788	-	-	(482,046)	-	(482,046)	-
Community and economic development	1,982	-	-	295,931	293,949	-	293,949	-
Interest on long-term debt	119,272	-	-	-	(119,272)	-	(119,272)	-
Other	10,456	150,428	-	-	139,972	-	139,972	-
Total governmental activities	<u>6,860,739</u>	<u>1,752,241</u>	<u>583,944</u>	<u>1,400,957</u>	<u>(3,123,597)</u>	<u>-</u>	<u>(3,123,597)</u>	<u>-</u>
Business-type activities:								
Water	1,323,102	1,063,347	-	-	-	(259,755)	(259,755)	-
Sewer	1,252,001	1,049,160	504,093	-	-	301,252	301,252	-
Transit	335,342	48,979	147,529	157,533	-	18,699	18,699	-
Total business-type activities	<u>2,910,445</u>	<u>2,161,486</u>	<u>651,622</u>	<u>157,533</u>	<u>-</u>	<u>60,196</u>	<u>60,196</u>	<u>-</u>
Total primary government	<u>\$ 9,771,184</u>	<u>\$ 3,913,727</u>	<u>\$ 1,235,566</u>	<u>\$ 1,558,490</u>	<u>(3,123,597)</u>	<u>60,196</u>	<u>(3,063,401)</u>	<u>-</u>
Component Unit	<u>\$ 152,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>(152,672)</u>	<u>(152,672)</u>
General revenues:								
Property taxes, levied for general operations					1,770,167	-	1,770,167	169,264
State shared revenue					1,534,648	-	1,534,648	-
Interest income and investment earnings					6,295	6,581	12,876	172
Operating transfers in (out)					(40,000)	40,000	-	-
Gain (loss) on sale of assets					(6,200)	-	(6,200)	-
Other revenues					241,426	3,042	244,468	5,985
Total general revenues, transfers, and special items					<u>3,506,336</u>	<u>49,623</u>	<u>3,555,959</u>	<u>175,421</u>
Change in net position					382,739	109,819	492,558	22,749
Net position - Beginning of year					<u>7,692,429</u>	<u>8,763,392</u>	<u>16,455,821</u>	<u>40,620</u>
Net position - End of year					<u>\$ 8,075,168</u>	<u>\$ 8,873,211</u>	<u>\$ 16,948,379</u>	<u>\$ 63,369</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2019

	<u>Major Governmental Funds</u>			Total
	<u>General Fund</u>	<u>Major Street</u>	<u>Non Major</u>	<u>Governmental</u>
Assets				
Cash and cash equivalents	\$ 908,624	\$ 107,335	\$ 261,090	\$ 1,277,049
Restricted cash	42,769	-	219,243	262,012
Accounts receivable	30,760	-	-	30,760
Due from other funds	47,000	-	-	47,000
Due from fiduciary funds	308	-	-	308
Due from government units	348,464	244,141	112,295	704,900
Inventories	10,428	12,507	1,705	24,640
Prepaid expenses	27,965	10,934	-	38,899
Total assets	<u>\$ 1,416,318</u>	<u>\$ 374,917</u>	<u>\$ 594,333</u>	<u>\$ 2,385,568</u>
Liabilities				
Accounts payable	\$ 177,928	\$ 270,921	\$ 8,710	\$ 457,559
Accrued expenses	20,635	1,400	943	22,978
Unearned revenue	118,461	-	96,818	215,279
Total liabilities	<u>317,024</u>	<u>272,321</u>	<u>106,471</u>	<u>695,816</u>
Fund balances				
Nonspendable:				
Inventories	10,428	12,507	1,705	24,640
Prepays	27,965	10,934	-	38,899
Restricted:				
Streets and highways	-	79,155	240,439	317,889
Parks and recreation	-	-	6,088	6,088
CDBG	-	-	34,941	34,941
Cemetery	-	-	182,651	182,651
Capital projects	-	-	20,387	20,387
Debt service	-	-	1,651	1,651
Unassigned	1,060,901	-	-	1,060,901
Total fund balances	<u>1,099,294</u>	<u>102,596</u>	<u>487,862</u>	<u>1,689,752</u>
Total liabilities and fund balances	<u>\$ 1,416,318</u>	<u>\$ 374,917</u>	<u>\$ 594,333</u>	<u>\$ 2,385,568</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION (Continued)
June 30, 2019

Fund Balance Reported in Governmental Funds	\$ 1,689,752
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds	9,765,858
Net pension liability	(1,670,601)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date	599,946
Internal service fund is used to charge costs of equipment and operations to individual funds. The assets and liabilities are included in the governmental activities of the statement of net position.	130,743
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,440,530)</u>
Net position of governmental activities	<u><u>\$ 8,075,168</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2019

	<u>Major Governmental Funds</u>			Total
	<u>General Fund</u>	<u>Major Street</u>	<u>Non Major</u>	<u>Governmental</u>
Revenues				
Property taxes	\$ 1,550,808	\$ -	\$ 219,359	\$ 1,770,167
State sources	814,127	850,113	266,101	1,930,341
Federal sources	605,944	351,940	10,343	968,227
Charges for services	411,540	-	-	411,540
Interest income	2,954	580	2,573	6,107
Other revenues	66,947	11,531	138,561	217,039
Total revenues	<u>3,452,320</u>	<u>1,214,164</u>	<u>636,937</u>	<u>5,303,421</u>
Expenditures				
General government	746,849	22,113	7,209	776,171
Public safety	985,341	-	-	985,341
Public works	639,677	1,151,855	295,447	2,086,979
Sanitation	249,650	-	-	249,650
Recreation and culture	564,518	-	52,316	616,834
Debt service	108,427	-	-	108,427
Other	65,725	-	137,216	202,941
Total expenditures	<u>3,360,187</u>	<u>1,173,968</u>	<u>492,188</u>	<u>5,026,343</u>
Excess (deficiency) of revenues over expenditures	<u>92,133</u>	<u>40,196</u>	<u>144,749</u>	<u>277,078</u>
Other financing sources (uses)				
Proceeds on sale of assets	24,164	-	-	24,164
Proceeds from the sale of long-term notes/loans	756,136	-	-	756,136
Operating transfers in (out)	(5,550)	-	(34,450)	(40,000)
Total other financing sources (uses)	<u>774,750</u>	<u>-</u>	<u>(34,450)</u>	<u>740,300</u>
Net change in fund balances	866,883	40,196	110,299	1,017,378
Fund balances - Beginning of year	<u>232,411</u>	<u>62,400</u>	<u>377,563</u>	<u>672,374</u>
Fund balances - End of year	<u>\$ 1,099,294</u>	<u>\$ 102,596</u>	<u>\$ 487,862</u>	<u>\$ 1,689,752</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ 1,017,378

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

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	26,930
In the statement of activities, only the gain on the sale of equipment is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.	(7,500)
Long-term liabilities, including loan proceeds and principal payments, are not due and payable in the current period and therefore are not reported in the funds.	(566,572)
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds	(76,328)
This amount represents the current year bond premium amortization expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	2,466
Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred.	28,987
Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities.	<u>(42,622)</u>
Change in net position of governmental activities	<u><u>\$ 382,739</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2019

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Funds		Non-Major Funds		Internal Service Fund
	Sewer Fund	Water Fund	Transit fund	Total	
Assets					
Cash and cash equivalents	\$ 587,148	\$ 116,094	\$ 687	\$ 703,929	\$ 208,354
Restricted cash	133,061	356,332	-	489,393	8,180
Accounts receivable	84,946	70,590	9,625	165,161	-
Inventories	36,518	60,305	-	96,823	30,410
Due from other funds	-	-	-	-	30,701
Due from government units	200,924	-	-	200,924	-
Prepaid expenses	-	-	1,864	1,864	16,779
Capital assets - net	4,003,459	13,739,657	830,259	18,573,375	228,598
Total assets	5,046,056	14,342,978	842,435	20,231,469	523,022
Deferred outflows of resources - pension	33,663	35,765	36,325	105,753	14,246
Liabilities					
Accounts payable	133,057	5,006	11,305	149,368	6,581
Accrued expenses	21,772	48,713	15,927	86,412	14,306
Due to other funds	-	-	77,701	77,701	-
Current maturities on long-term debt	42,287	-	-	42,287	-
Current maturities on long-term debt	37,000	231,000	-	268,000	66,324
Net pension liability	82,237	87,156	84,571	253,964	32,675
Bonds/note payable	1,791,000	8,781,000	-	10,572,000	305,068
Total liabilities	2,107,353	9,152,875	189,504	11,449,732	424,954
Deferred inflows of resources - pension	5,629	6,083	2,567	14,279	2,902
Net Position					
Reserved	133,061	356,332	-	489,393	8,180
Unreserved	2,833,676	4,863,453	686,689	8,383,818	101,232
Total net position	\$ 2,966,737	\$ 5,219,785	\$ 686,689	\$ 8,873,211	\$ 109,412

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2019

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Funds		Non-major Fund		Internal Service Fund
	Sewer Fund	Water Fund	Transit fund	Total	
Operating revenues:					
Charges for services	\$ 1,049,160	\$ 1,063,347	\$ 48,979	\$ 2,161,486	\$ 1,340,701
State sources	292,861	-	128,084	420,945	-
Federal sources	211,232	-	176,978	388,210	-
Other revenues	2,089	953	-	3,042	223
Total operating revenues	<u>1,555,342</u>	<u>1,064,300</u>	<u>354,041</u>	<u>2,973,683</u>	<u>1,340,924</u>
Operating expenses					
General administration	38,717	61,721	71,764	172,202	794,246
Meter reading	1,775	36,351	-	38,126	-
Purchased services	600,928	250,572	-	851,500	-
Operations and maintenance	424,995	242,002	201,258	868,255	517,860
Depreciation	144,129	520,390	62,320	726,839	61,223
Total operating expenses	<u>1,210,544</u>	<u>1,111,036</u>	<u>335,342</u>	<u>2,656,922</u>	<u>1,373,329</u>
Operating income (loss)	<u>344,798</u>	<u>(46,736)</u>	<u>18,699</u>	<u>316,761</u>	<u>(32,405)</u>
Non-operating revenues (expenses)					
Gain on sale of assets	-	-	-	-	1,300
Interest income	2,589	3,985	7	6,581	188
Interest expense	(41,457)	(212,066)	-	(253,523)	(13,189)
Operating transfers in (out)	-	-	40,000	40,000	-
Total non-operating revenues (expenses)	<u>(38,868)</u>	<u>(208,081)</u>	<u>40,007</u>	<u>(206,942)</u>	<u>(11,701)</u>
Net income (loss)	305,930	(254,817)	58,706	109,819	(44,106)
Net position (deficit), beginning of the year	<u>2,660,807</u>	<u>5,474,602</u>	<u>627,983</u>	<u>8,763,392</u>	<u>153,518</u>
Net position (deficit), end of year	<u>\$ 2,966,737</u>	<u>\$ 5,219,785</u>	<u>\$ 686,689</u>	<u>\$ 8,873,211</u>	<u>\$ 109,412</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2019

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 3,062,842	\$ 1,335,452	\$ 4,398,294
Payments to suppliers	(1,500,160)	(911,493)	(2,411,653)
Payments to employees	(477,506)	(399,984)	(877,490)
Net cash provided by operating activities	<u>1,085,176</u>	<u>23,975</u>	<u>1,109,151</u>
Cash flows from noncapital financing activities			
Operating subsidies and transfers to other funds	<u>59,899</u>	<u>164,154</u>	<u>224,053</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	(413,040)	(81,455)	(494,495)
Principal paid on capital debt	(263,000)	(83,778)	(346,778)
Interest paid on capital debt	(253,523)	(13,189)	(266,712)
Loan proceeds	-	81,439	81,439
Proceeds on sale of assets	-	1,300	1,300
Net cash (used) by capital and related financing activities	<u>(929,563)</u>	<u>(95,683)</u>	<u>(1,025,246)</u>
Cash flows from investing activities			
Interest	<u>6,581</u>	<u>188</u>	<u>6,769</u>
Net (decrease) in cash	222,093	92,634	314,727
Balances - beginning of the year	971,229	123,900	1,095,129
Balances - end of the year	<u>\$ 1,193,322</u>	<u>\$ 216,534</u>	<u>\$ 1,409,856</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 316,761	\$ (32,405)	\$ 349,166
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	726,839	61,223	788,062
Change in assets and liabilities			
Receivables, net	119,215	-	119,215
Due from other governmental units	(73,970)	-	(73,970)
Deferred outflows and inflows	(33,996)	(6,228)	(40,224)
Inventory	19,458	3,538	22,996
Prepaid expenses	(83)	(751)	(834)
Net pension liability	41,779	7,712	49,491
Accounts and other payables	(74,280)	(11,424)	(85,704)
Unearned revenue	42,287	-	42,287
Accrued expenses	1,166	2,310	3,476
Net cash provided by operating activities	<u>\$ 1,085,176</u>	<u>\$ 23,975</u>	<u>\$ 1,109,151</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
FIDUCIARY FUNDS
STATEMENT OF ASSETS AND LIABILITIES
June 30, 2019

	<u>Agency Fund</u>	<u>Payroll Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,488	\$ 40,136	\$ 41,624
Liabilities			
Accounts payable	\$ -	\$ 40,136	\$ 40,136
Due to other governmental funds	308	-	308
Due to other governmental units	1,180	-	1,180
Total Liabilities	<u>\$ 1,488</u>	<u>\$ 40,136</u>	<u>\$ 41,624</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

On November 10, 1987, the voters of the City of Hancock voted to establish a Charter Commission for the purpose of rewriting the City Charter that was adopted on July 13, 1982. A new City Charter was drafted by the Charter Commission and approved by the State of Michigan on November 16, 1987. On August 2, 1988, City voters approved the new charter, which changed the City's form of government to the City Council/Manager form.

The City provides services for public safety, public works, sanitation, recreation, and community development as authorized by its Charter.

The accounting policies of the City of Hancock conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Hancock (the primary government) and its component unit. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The criteria and guidelines of the Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the City.

The primary criterion for inclusion is the degree of oversight responsibility over such entities by the City's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity.

The following organizations are not included in the reporting entity of the City:

HANCOCK HOUSING COMMISSION

The Hancock Housing Commission was formulated to construct and operate housing for low income families and senior citizens. The elements considered in the City's determination that the Hancock Housing Commission should not be included as part of the City's general purpose financial statements are as follows:

1. Neither the Council nor management of the City of Hancock is responsible for the designation of the Housing Commission management. Similarly, the City of Hancock does not approve Housing Commission budgets nor does it significantly influence operations.
2. The City of Hancock does not have significant fiscal management responsibilities; it is not responsible for funding or guaranteeing debt, nor does it have a right to receive surplus funds.
3. The City of Hancock provides no ongoing financial support to the Hancock Housing Commission, nor do any special financing relationships exist.
4. Residency in the housing complex is not limited to City residents.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Audited financial information of the Hancock Housing Commission as of and for the year ended December 31, 2018 is as follows:

Total Assets	\$	1,043,287
Total Liabilities	\$	111,682
Total Net Position	\$	931,605
Total Revenues	\$	802,094
Total Expenses	\$	713,509
Net Operating Income	\$	89,044

Portage Lake Water and Sewage Authority

On January 24, 1964, the City of Houghton and the City of Hancock executed a contract to jointly acquire, construct, equip, and operate a sewage treatment plant, including necessary intercepting sewers and appurtenances. Each municipality was to bear one-half of the cost of the sewage treatment plant, pumping stations, and necessary appurtenances and the full cost of its own intercepting sewers. Title to the sewage plant, including land and ownership shall be in the name of the authority whereas the ownership of the intercepting sewers, vests in the respective municipality. Funds for the construction of these facilities were provided by each municipality through the issuance and sale of general obligation bonds and grants totaling \$500,000 from the Federal government. By joint agreement, operating expenses incurred from the inception of operations to February 29, 1966, were shared equally, and for the balance of 1966 on the basis of two-thirds to the City of Houghton, and one-third to the City of Hancock. The contract provides for a joint board to control, manage, and operate the facility with each municipality to share the cost of operation, maintenance, and administration on the basis of relative usage as determined by metered services with 50 percent of the costs of capital expenditures to be paid by each municipality. On December 14, 1972, this agreement was amended to provide allocation of future capital expenditures on the basis of relative usage. The joint board consists of five members of which two are appointed by the respective City Councils and the fifth member appointed by the other four members.

The elements considered in the City's determination that the Portage Lake Water and Sewage Authority (Authority) should not be included as a component unit of the City are as follows:

1. The City of Hancock is not responsible for the designation of the Authority's management.
2. The City does not approve the Authority's annual budget or budget amendments.
3. The City does not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The City does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the City of Houghton.
6. The City provides no direct on-going financial support to the Water and Sewage Authority.
7. The City does not hold title to the physical assets of the Authority.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authority's financial information for the year ended June 30, 2019 (most recent year audited) shows the following:

Total Assets	\$ 12,130,125
Total Liabilities	\$ 3,070,417
Total Net Position	\$ 9,059,708
Total Revenues	\$ 2,138,639
Total Expenses	\$ 1,751,688
Long-Term Debt	\$ 2,663,623

Financial transactions between the City and the Authority, reported in the accompanying financial statements, constitute contractual agreements with the Authority for providing services to the City.

COMPONENT UNITS

In conformity with generally accepted accounting principles, the financial statements of component units, have been included in the financial reporting entity either as blended component units or as discretely presented component units.

DISCRETELY PRESENTED COMPONENT UNITS

The component units' columns in the basic financial statements include the financial data of the City's component unit, the Downtown Development Authority (DDA). This unit is reported in a separate column to emphasize that it is legally separate from the City. Complete financial statements of the DDA may be obtained from the City Clerk's Office, 399 Quincy Street, Hancock, MI 49930.

BLENDED COMPONENT UNITS

City of Hancock Building Authority

The Authority is an entity legally separate from the City. The Authority is governed by a board appointed by the City and is reported as if it were part of the City's operations because its primary purpose is a financing vehicle for the construction of City facilities.

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 non-fiduciary activities of the City and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. 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 net position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the City.

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position are reported in three parts – net investment in capital assets; restricted; and unrestricted net position.

The government-wide statement of net position reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of net position reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The City does not allocate indirect costs.

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

Separate financial statements are provided for governmental funds, Enterprise Funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal 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, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund - The Major Street Fund accounts for the State of Michigan Public Act 51 monies that are used to construct and maintain major road systems.

Other non-major funds include: Local Street Fund, Community Block Development Grant (CDBG), Debt Service (Building Authority), Capital Project - Sylvan Estates, and Permanent Fund Type - Cemetery Perpetual Care.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPES

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary funds principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds included the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The City reports the following proprietary funds:

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund, Sewer Fund, and Transit Fund are enterprise type funds.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost reimbursement basis. The City's Motor Vehicle Fund and Employee Benefit Fund are Internal Service Type Funds.

The City reports the following major proprietary funds:

Sewer Fund- The Sewer Fund records maintenance and operations of the sewer services provided for City residents and is financed through user charges.

Water Fund- The Water Fund records maintenance and operations of the water system services provided for the City residents and it is financed through user charges.

Other non-major funds include the Transit Fund.

FIDUCIARY FUND TYPES

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Fund and Payroll Fund are the only two Trust and Agency Funds.

Fiduciary Funds are not included in the government-wide statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method - 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 fiscal 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 done.

**CITY OF HANCOCK
 NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Other Accounting Policies

Cash and cash equivalents - Cash and equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Investments - The City reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorizes the City to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The City is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker’s acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes - Property taxes are assessed and liened as of December 31, and are levied annually on July 1 with a due date of August 10. A one percent (1%) penalty per month is added to the tax liability for taxes not paid by August 10.

The City bills and collects its own property taxes, and those of the local school District, the Intermediate School District, and County. Collections of other units' taxes and remittance of these collections are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

<u>Fund</u>	<u>Purpose</u>	<u>Mills</u>
General	Operating	13.3731
General	Fire - extra voted	.7777
Recreation	Recreation	.8000

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - Deferred outflows are reported in a separate section following assets, and deferred inflows are reported in a separate section following liabilities. The statement of net position then arrives at net position which includes the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions - For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance - Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either a.) Not in spendable form, or b.) Legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, laws or regulations of other governments. Committed fund balance, if any, is reported from amounts that can be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, the Council. A formal resolution of the Council is required to establish, modify or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned balance.

Receivables and Payables - Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivables, are shown net of allowance for uncollectables.

Inventory - Inventory is valued at the lower of cost (first-in, first-out) or market. The individual inventories are recorded as an asset when purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	5-10 years
Furniture and other equipment	5-10 years

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with an activity are included on their balance sheets. Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is generally reflected over the estimated useful lives using the straight line method.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. General obligation bonds are direct obligations and pledge the full faith and credit of the township. Other long-term debt include revenue bonds and compensated absences. Revenue bonds are paid back through charges for services in the enterprise funds.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures as it is in the government-wide statements.

Estimates – The preparation of 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Encumbrances - Encumbrances are defined as commitments related to unperformed contracts for goods and services. The City does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Requirements for preparing the City's annual budget are outlined in the City Charter. Major procedures in preparing the annual budget are as follows:

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.
2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2019, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

In accordance with the State of Michigan Budgeting and Accounting Act, the City must adopt an annual operating budget for the General and Special Revenue.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the General Fund and Major Street Fund are noted in the required supplementary information section.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE C - CASH

At year-end, the City’s cash deposits, checking, savings and certificates of deposit with a maturity of three months or less when acquired, were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the City is as follows:

	Governmental	Enterprise Fund	Total	Component Unit	Fiduciary Fund
Cash and cash equivalents	\$ 1,485,403	\$ 703,929	\$ 2,189,332	\$ 80,768	\$ -
Restricted cash	270,192	489,393	759,585	-	41,624
Total cash	<u>\$ 1,755,595</u>	<u>\$ 1,193,322</u>	<u>\$ 2,948,917</u>	<u>\$ 80,768</u>	<u>\$ 41,624</u>

Interest Rate Risk - In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City’s cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of June 30, 2019, \$2,525,290 of the City’s bank balance of \$3,192,048 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

Restricted Cash

The City has restricted cash accounts net of liabilities that are restricted for specific future use as follows:

General Fund		Other Funds		Enterprise Funds	
Main Street Local	\$ 42,769	CDBG	\$ 34,941	Water Fund	\$ 133,061
		Debt Retirement	\$ 1,651	Sewer Fund	\$ 356,332
		Employee Benefits	\$ 8,180		
		Cemetery Perpetual	\$ 182,651		

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE C - CASH (Continued)

General Fund: Main Street Local Pool: In 1981, funds of a CDBG were used to establish an interest free revolving commercial loan program to assist local businesses who have exhausted other means of obtaining credit. The \$42,769 represents the balance of the commercial loan program. As of June 30, 2019, there were no outstanding loan balances.

Enterprise Funds: Certain proceeds from operations are restricted for the payment of revenue and general obligation bonds and, accordingly, are recorded as restricted assets in the amount of \$489,393 as of June 30, 2019. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$8,180 as of June 30, 2019.

The Cemetery Perpetual Care Trust balance of \$182,651 is reserved for the perpetual care of cemetery lots.

NOTE D - TRANSFERS AND INTERFUND BALANCES

For the year then ended, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Transit	\$ 40,000	General fund	\$ 40,000

The transfers from the General Fund and other non-major governmental funds to the Major and Local Street Funds and other non-major governmental funds represents the use of unrestricted resources to finance these programs, in accordance with budgetary authorizations. The transfers from all funds to the Employee Benefits Fund and the Motor Vehicle funds represents the amounts paid for the services provided from each service fund.

The amounts of interfund receivables and payables at June 30, 2019 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 47,308	Transit fund	\$ 77,701
Employee Benefits	30,056	Agency Fund	308
Motor Vehicle Fund	645		-
Total	\$ 78,009	Total	\$ 78,009

Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payable between funds.

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE E - CAPITAL ASSETS

Capital Asset activity of the City's governmental activities was as follows:

	Balance July 01, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets, not being depreciated				
Land	\$ 439,418	\$ -	\$ 7,500	\$ 431,918
Construction in progress	-	272,820	-	272,820
Subtotal	<u>\$ 439,418</u>	<u>\$ 272,820</u>	<u>\$ 7,500</u>	<u>\$ 704,738</u>
Capital assets, being depreciated				
Buildings	2,762,930	\$ -	\$ -	2,762,930
Equipment	1,274,965	9,550	2,500	1,282,015
Improvements	9,461,017	348,162	-	9,809,179
Vehicles	2,823,714	120,540	405,280	2,538,974
Subtotal	<u>16,322,626</u>	<u>\$ 478,252</u>	<u>\$ 407,780</u>	<u>16,393,098</u>
Accumulated depreciation				
Building	1,483,029	\$ 64,778	\$ -	1,547,807
Equipment	1,109,967	45,936	2,500	1,153,403
Improvements	2,014,136	461,604	-	2,475,740
Vehicles	2,200,117	131,593	405,280	1,926,430
Subtotal	<u>6,807,249</u>	<u>\$ 703,911</u>	<u>\$ 407,780</u>	<u>7,103,380</u>
Net capital assets being depreciated	<u>9,515,377</u>			<u>9,289,718</u>
Net capital assets	<u>\$ 9,954,795</u>			<u>\$ 9,994,456</u>

Depreciation expense was charged to governmental activities of the City as follows:

General Fund	\$ 213,329
Building Authority	92,620
Major Streets Fund	326,726
Local Streets Fund	10,013
Motor Vehicle Fund	61,223
	<u>\$ 703,911</u>

The components of property, plant, and equipment in City proprietary funds at June 30, 2019 are summarized as follows:

	Balance July 01, 2018	Additions	Deletions	Balance June 30, 2019
TRANSIT FUND				
Capital assets, being depreciated				
Buildings	\$ 716,473	\$ -	\$ -	\$ 716,473
Equipment	43,120	-	-	43,120
Vehicles	484,462	150,320	-	634,782
Subtotal	<u>1,244,055</u>	<u>\$ 150,320</u>	<u>\$ -</u>	<u>1,394,375</u>
Accumulated depreciation:				
Buildings	129,860	\$ 17,912	\$ -	147,772
Equipment	43,120	-	-	43,120
Vehicles	328,816	44,408	-	373,224
Subtotal	<u>501,796</u>	<u>\$ 62,320</u>	<u>\$ -</u>	<u>564,116</u>
Net capital assets	<u>\$ 742,259</u>			<u>\$ 830,259</u>

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE E - CAPITAL ASSETS (Continued)

	Balance July 01, 2018	Additions	Deletions	Balance June 30, 2019
SEWER DISPOSAL FUND				
Capital assets, being depreciated				
Buildings	\$ 754,725	\$ -	\$ -	\$ 754,725
Vehicles	7,500	-	-	7,500
Utility system	9,320,055	216,825	-	9,536,880
Subtotal	<u>10,082,280</u>	<u>\$ 216,825</u>	<u>\$ -</u>	<u>10,299,105</u>
Accumulated depreciation:				
Buildings	754,726	\$ -	\$ -	754,726
Vehicles	2,000	1,500	-	3,500
Utility system	5,394,790	142,630	-	5,537,420
Subtotal	<u>6,151,516</u>	<u>\$ 144,130</u>	<u>\$ -</u>	<u>6,295,646</u>
Net capital assets	<u>\$ 3,930,764</u>			<u>\$ 4,003,459</u>
WATER SUPPLY FUND				
Capital assets, being depreciated				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	13,383	-	-	13,383
Vehicles	7,500	-	-	7,500
Land	73,500	-	-	73,500
Loan fees/lease	238,496	-	-	238,496
Utility system	18,884,021	45,895	-	18,929,916
Subtotal	<u>20,862,592</u>	<u>\$ 45,895</u>	<u>\$ -</u>	<u>20,908,487</u>
Accumulated depreciation:				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	13,381	-	-	13,381
Vehicles	1,000	1,500	-	2,500
Loan fees/lease	196,760	4,490	-	201,250
Utility system	4,791,607	514,400	-	5,306,007
Subtotal	<u>6,648,440</u>	<u>\$ 520,390</u>	<u>\$ -</u>	<u>7,168,830</u>
Net capital assets	<u>\$ 14,214,152</u>			<u>\$ 13,739,657</u>

NOTE F - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2019, for the City's governmental funds individual major funds and non-major funds in the aggregate, are as follows:

Payables	Governmental	Enterprise	Total
Accounts payable	\$ 464,140	\$ 149,368	\$ 613,508
Accrued expenses	50,259	38,304	88,563
Total	<u>\$ 514,399</u>	<u>\$ 187,672</u>	<u>\$ 702,071</u>

NOTE G - ACCUMULATED UNPAID VACATION AND SICK LEAVE

City employees generally earn sick leave at the rate of one day per month. Accumulated sick leave per employee cannot exceed ninety (90) days and is paid to union employees upon retirement or to beneficiaries in case of death. At termination, non-union employees receive 2/25 of their accumulated sick leave plus an additional 1/25 of that accumulation for each year of service until full accumulation is paid for 25 years of service or age 65. Vacation pay is accumulated annually based on length of service and must be used within one year.

Accumulated unpaid vacation and sick leave at June 30, 2019 was \$59,053 and \$123,303 respectively.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE H - LONG TERM DEBT

GOVERNMENTAL ACTIVITIES

Michigan Department of Transportation: On April 15, 2019 the City of Hancock entered into a State Infrastructure Loan in the amount of \$756,136 to be used for the 20% local match required for the Federal Highway Administration flood repair grant revenue. The loan has an interest rate of 0% per annum with principal amounts payable annually on April 15.

Fiscal Year	Principal
2019-2020	\$ 151,227
2020-2021	151,227
2021-2022	151,227
2022-2023	151,227
2023-2024	151,228
	<u>\$ 756,136</u>

Superior National Bank: On December 15, 2016 the City of Hancock authorized the purchase of a fire truck (pumper with Freightliner MD106 crew cab chassis) with financing through Superior National Bank in the amount of \$280,000. The loan has an interest rate of 2.49% per annum with principal amounts and interest payable annually on July 15.

Fiscal Year	Principal	Interest	Total
2019-2020	\$ 38,117	\$ 5,101	\$ 43,218
2020-2021	39,952	4,130	44,082
2021-2022	40,946	3,136	44,082
2022-2023	41,966	2,116	44,082
2023-2024	43,831	1,071	44,902
	<u>\$ 204,812</u>	<u>\$ 15,554</u>	<u>\$ 220,366</u>

2015 Advance Refunding: On October 7, 2015, the City of Hancock issued limited tax general obligation refunding bonds, series 2015 of \$1,240,000. Proceeds from this bond issue were used to payoff the 1997 and 1998 Building Authority bonds and the U.S. Department of Agriculture Community Facilities Loans. The bond was split into three separate bond schedules. Premium on bond in the amount of \$32,062 is being amortized over the life of the bond. Current portion of amortization is \$2,466 .

Refund 1997 Bonds: The bond issue matures as indicated below with interest at varying rates 2% to 4% per annum. Interest payments started on April 1, 2016 and are payable semi-annually on April 1 and October 1.

Fiscal Year	Principal	Interest	Total
2019-2020	\$ 25,000	\$ 7,115	\$ 32,115
2020-2021	25,000	6,365	31,365
2021-2022	25,000	5,765	30,765
2022-2023	30,000	5,165	35,165
2023-2024	30,000	4,310	34,310
2024-2025	30,000	3,455	33,455
2025-2026	30,000	2,600	32,600
2026-2027	35,000	1,400	36,400
	<u>\$ 230,000</u>	<u>\$ 36,175</u>	<u>\$ 266,175</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE H - LONG TERM DEBT (Continued)

Refund 1998 Bonds: The bond issue matures as indicated below with interest at varying rates 2% to 4% per annum. Interest payments started on April 1, 2016 and are payable semi-annually on April 1 and October 1.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 50,000	\$ 16,202	\$ 66,202
2020-2021	50,000	14,703	64,703
2021-2022	50,000	13,503	63,503
2022-2023	55,000	12,303	67,303
2023-2024	55,000	10,735	65,735
2024-2025	55,000	9,168	64,168
2025-2026	60,000	7,600	67,600
2026-2027	65,000	5,200	70,200
2027-2028	65,000	2,600	67,600
	<u>\$ 505,000</u>	<u>\$ 92,014</u>	<u>\$ 597,014</u>

Refund 2005 Notes: The bond issue matures as indicated below with interest at varying rates 2% to 3% per annum. Interest payments started on April 1, 2016 and are payable semi-annually on April 1 and October 1.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 45,000	\$ 1,350	\$ 46,350

2008A Building Authority Bonds: On June 18, 2008, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$500,000 to fund City Hall Renovations at an interest rate of 4.125% per annum with principal amounts payable June 1 and interest payable semi-annually on June 1 and December 1.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 14,000	\$ 15,923	\$ 29,923
2021-2022	14,000	15,345	29,345
2022-2023	15,000	14,768	29,768
2023-2024	15,000	14,149	29,149
2024-2025	16,000	13,530	29,530
2025-2026	17,000	12,870	29,870
2026-2027	17,000	12,169	29,169
2027-2028	18,000	11,468	29,468
2028-2029	19,000	10,725	29,725
2029-2030	20,000	9,941	29,941
2030-2031	21,000	9,116	30,116
2031-2032	22,000	8,250	30,250
2032-2037	121,000	27,225	148,225
2037-2038	57,000	3,546	60,546
	<u>\$ 386,000</u>	<u>\$ 179,025</u>	<u>\$ 565,025</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE H - LONG TERM DEBT (Continued)

2008B Building Authority Bonds: On June 18, 2009, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$104,000 to fund City Hall Renovations. The bonds were issued at an interest rate of 4.5% per annum with principal amounts payable June 1 and interest payable semi-annually on June 1 and December 1.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 3,000	\$ 3,600	\$ 6,600
2020-2021	3,000	3,465	6,465
2021-2022	3,000	3,330	6,330
2022-2023	3,000	3,195	6,195
2023-2024	3,000	3,060	6,060
2024-2025	3,000	2,925	5,925
2025-2026	4,000	2,790	6,790
2026-2027	4,000	2,610	6,610
2027-2028	4,000	2,430	6,430
2028-2029	4,000	2,250	6,250
2029-2030	4,000	2,070	6,070
2030-2031	4,000	1,890	5,890
2031-2036	26,000	6,300	32,300
2036-2037	12,000	810	12,810
	<u>\$ 80,000</u>	<u>\$ 40,725</u>	<u>\$ 120,725</u>

Superior National Bank: On June 1, 2012 the City of Hancock authorized the purchase of land with financing through Superior National Bank in the amount of \$135,000. The loan has an interest rate of 4.00% per annum with principal amounts and interest payable June 1 for the first Sixty (60) months. The rate was adjusted on June 1, 2015 from 4% to an interest rate equal to prime rate plus seventy-five hundredths percent (.75%) for the remaining sixty (60) months and the payment amount will be adjusted to the interest rate.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	<u>\$ 16,054</u>	<u>\$ 640</u>	<u>\$ 16,694</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE H - LONG TERM DEBT (Continued)

ENTERPRISE FUNDS

2011A Water Supply System Junior Lien Revenue and Refunding Bond: On June 21, 2011, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$1,225,000 for the purpose of constructing improvements to the City's water supply system and to refund prior bonds. The bond was issued in a single denomination of \$1,225,000 at an interest rate of 2.625% per annum with principal amounts payable May 1 and interest payable semi-annually on December 1 and May 1. Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after June 1, 2012, at par plus accrued interest to the date fixed for prepayment. Bonds are financed with the United States Department of Agriculture.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 22,000	\$ 28,061	\$ 50,061
2020-2021	22,000	27,484	49,484
2021-2022	23,000	26,906	49,906
2022-2023	24,000	26,302	50,302
2023-2024	24,000	25,672	49,672
2024-2025	25,000	25,042	50,042
2025-2026	25,000	24,386	49,386
2026-2031	137,000	111,641	248,641
2031-2036	156,000	92,689	248,689
2036-2041	180,000	71,006	251,006
2041-2046	205,000	46,069	251,069
2046-2051	226,000	17,928	243,928
	<u>\$ 1,069,000</u>	<u>\$ 523,186</u>	<u>\$ 1,592,186</u>

2011B Water Supply System Junior Lien Revenue and Revenue Refunding Bond: On June 21, 2011, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$3,745,000 for the purpose of constructing improvements to the water supply system and to refund prior bonds. The bond was issued at an interest rate of 2.375% per annum with principal amounts payable May 1 and interest payable semi-annually on December 1 and May 1. Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after June 1, 2012, at par plus accrued interest to the date fixed for prepayment. Bonds are financed with the United States Department of Agriculture.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 69,000	\$ 77,164	\$ 146,164
2020-2021	71,000	75,525	146,525
2021-2022	72,000	73,839	145,839
2022-2023	74,000	72,129	146,129
2023-2024	76,000	70,371	146,371
2024-2025	77,000	68,566	145,566
2025-2026	79,000	66,738	145,738
2026-2031	425,000	304,594	729,594
2031-2036	478,000	251,679	729,679
2036-2041	539,000	192,066	731,066
2041-2046	605,000	125,044	730,044
2046-2051	684,000	49,634	733,634
	<u>\$ 3,249,000</u>	<u>\$ 1,427,349</u>	<u>\$ 4,676,349</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE H - LONG TERM DEBT (Continued)

2010 Sanitary Sewage Disposal System: On December 8, 2010 the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$2,092,000 for the purpose of constructing improvements to the sanitary sewage system. The bond is at an interest rate of 2.25% per annum with principal amounts payable December 1 and interest payable semi-annually on June 1 and December 1. Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after December 1, 2011, at par plus accrued interest to the date fixed for prepayment. Bonds are financed with the United States Department of Agriculture..

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 37,000	\$ 47,500	\$ 84,500
2020-2021	38,000	46,515	84,515
2021-2022	39,000	45,504	84,504
2022-2023	40,000	44,467	84,467
2023-2024	41,000	43,404	84,404
2024-2025	42,000	42,315	84,315
2025-2026	43,000	41,200	84,200
2026-2031	234,000	188,132	422,132
2031-2036	267,000	155,282	422,282
2036-2041	304,000	117,864	421,864
2041-2046	346,000	75,287	421,287
2046-2051	397,000	26,685	423,685
	<u>\$ 1,828,000</u>	<u>\$ 874,155</u>	<u>\$ 2,702,155</u>

2008 Water Supply System Junior Lien Revenue Bond: On June 23, 2008, the City of Hancock authorized the sale of a Water Supply System Junior Lien Revenue Bond in the amount of \$3,665,000 for the purpose of upgrades and improvements to the existing water systems' connection to the Houghton Valve House and existing source connection. As of June 30, 2011 the full amount of the bond was issued at an interest rate of 2.5% per annum with principal amounts payable April 1 and interest payable semi-annually on October 1 and April 1. Bonds are financed with the Michigan Municipal Bond Authority.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 105,000	\$ 68,250	\$ 173,250
2020-2021	110,000	65,625	175,625
2021-2022	110,000	62,875	172,875
2022-2023	115,000	60,125	175,125
2023-2024	120,000	57,250	177,250
2024-2025	120,000	54,250	174,250
2025-2026	125,000	51,250	176,250
2026-2031	665,000	208,250	873,250
2031-2036	760,000	120,375	880,375
2036-2041	500,000	25,125	525,125
	<u>\$ 2,730,000</u>	<u>\$ 773,375</u>	<u>\$ 3,503,375</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE H - LONG TERM DEBT (Continued)

2016 Water Supply System Junior Lien Revenue Bond, Series 2016A: on October 21, 2015, the City of Hancock authorized the sale of a Water Supply System Junior Lien Revenue Bond in the amount of \$1,992,000 for the purpose of upgrades and improvements to the existing City's water system.

The bond was issued at an interest rate of 2.125% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1. Bonds are financed with the United States Department of Agriculture.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 34,000	\$ 33,145	\$ 67,145
2020-2021	35,000	32,550	67,550
2021-2022	36,000	31,938	67,938
2022-2023	36,000	31,308	67,308
2023-2024	37,000	30,678	67,678
2024-2025	38,000	30,030	68,030
2025-2026	39,000	29,365	68,365
2026-2031	206,000	136,343	342,343
2031-2036	230,000	117,512	347,512
2036-2041	255,000	96,512	351,512
2041-2046	283,000	73,273	356,273
2046-2051	315,000	47,407	362,407
2051-2056	350,000	18,671	368,671
	<u>\$ 1,894,000</u>	<u>\$ 708,732</u>	<u>\$ 2,602,732</u>

2016 Water Supply System Junior Lien Revenue Bond, Series 2016B: on October 21, 2015, the City of Hancock authorized the sale of a Water Supply System Junior Lien Revenue Bond in the amount of \$73,000 for the purpose of upgrades and improvements to the existing City's water system.

The bond was issued at an interest rate of 2.125% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1. Bonds are financed with the United States Department of Agriculture.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019-2020	\$ 1,000	\$ 1,225	\$ 2,225
2020-2021	1,000	1,207	2,207
2021-2022	1,000	1,190	2,190
2022-2023	1,000	1,173	2,173
2023-2024	1,000	1,155	2,155
2024-2025	1,000	1,138	2,138
2025-2026	1,000	1,120	2,120
2026-2031	7,000	5,320	12,320
2031-2036	10,000	4,550	14,550
2036-2041	10,000	3,675	13,675
2041-2046	10,000	2,800	12,800
2046-2051	10,000	1,925	11,925
2051-2056	16,000	1,050	17,050
	<u>\$ 70,000</u>	<u>\$ 27,528</u>	<u>\$ 97,528</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE H - LONG TERM DEBT (Continued)

INTERNAL SERVICE FUNDS - INSTALLMENT LOANS

The City is authorized, pursuant to Act 99 of the Public Acts of Michigan of 1933, as amended ("Act 99"), to purchase equipment, to be paid for in installments.

Purpose of Note	Date	Original	Maturity	Interest	Balance	Current
2017 Western Star Sander/Scraper	12/15/16	\$ 145,595	12/15/23	2.49 %	\$ 106,453	\$ 20,270
2013 Caterpillar Loader	1/21/14	\$ 160,000	1/21/19	2.24 %	-	-
2011 Snow Blower	3/2/10	\$ 91,000	2/1/19	4.00 %	11,000	10,000
2011 Sander	4/20/11	\$ 187,000	10/1/26	4.13 %	73,500	9,000
2011 Grader	4/20/11	\$ 130,000	4/1/26	4.00 %	99,000	12,000
2019 International Dump Truck	12/20/18	\$ 81,439	12/20/23	3.89 %	81,439	15,054
Total					<u>\$ 371,392</u>	<u>\$ 66,324</u>

Long-term debt liabilities for governmental activities, are reported in and liquidated through the General, Major and Local Street, Parks and Recreation, Building Authority, Employee Benefits and Motor Vehicle funds for the fiscal year ended June 30, 2019, was as follows:

	Balance July 01, 2018	Increase	Decrease	Balance June 30, 2019	Current Portion
GOVERNMENTAL ACTIVITIES					
Superior National Bank - Fire truck	\$ 242,929	\$ -	\$ 38,117	\$ 204,812	\$ 38,117
Superior National Bank - Land	31,501	-	15,447	16,054	16,054
MDOT State Infrastructure Bank Loan	-	756,136	-	756,136	151,227
2015 Refunding Bond:					
Fire Hall	260,000	-	30,000	230,000	25,000
Public Works Garage	550,000	-	45,000	505,000	50,000
Fire Truck	90,000	-	45,000	45,000	45,000
2008A Building Authority Bonds	399,000	-	13,000	386,000	14,000
2008B Building Authority Bonds	83,000	-	3,000	80,000	3,000
Premium on bond	24,663	-	2,466	22,197	-
	<u>1,681,093</u>	<u>756,136</u>	<u>192,030</u>	<u>2,245,199</u>	<u>342,398</u>
INTERNAL SERVICE FUND					
Installment Loans	373,730	81,439	83,777	371,392	66,324
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 2,054,823</u>	<u>\$ 837,575</u>	<u>\$ 275,807</u>	<u>\$ 2,616,591</u>	<u>\$ 408,722</u>
ENTERPRISE FUNDS					
2010 Sanitary Sewage Disposal Bonds	\$ 1,864,000	\$ -	\$ 36,000	\$ 1,828,000	\$ 37,000
2011A Water Supply System Bonds	1,090,000	-	21,000	1,069,000	22,000
2011B Water Supply System Bonds	3,316,000	-	67,000	3,249,000	69,000
2016A Water Revenue Bond	1,927,000	-	33,000	1,894,000	34,000
2016B Water Revenue Bond	71,000	-	1,000	70,000	1,000
2008 Water Supply System Bond	2,835,000	-	105,000	2,730,000	105,000
TOTAL ENTERPRISE FUNDS	<u>\$ 11,103,000</u>	<u>\$ -</u>	<u>\$ 263,000</u>	<u>\$ 10,840,000</u>	<u>\$ 268,000</u>
Accrued compensated absences	<u>\$ 208,999</u>	<u>\$ -</u>	<u>\$ 26,643</u>	<u>\$ 182,356</u>	

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE H - LONG TERM DEBT (Continued)

The aggregate amount of maturities on long-term debt by fund type is as follows:

GOVERNMENTAL ACTIVITIES			
Fiscal Year	Principal	Interest	Total
2019-2020	\$ 343,221	\$ 49,931	\$ 393,152
2020-2021	283,179	44,008	327,187
2021-2022	285,173	40,502	325,675
2022-2023	296,193	36,928	333,121
2023-2024	298,236	32,706	330,942
2024-2025	105,000	28,418	133,418
2025-2026	111,000	25,159	136,159
2026-2027	122,000	20,678	142,678
2027-2028	88,000	15,755	103,755
2028-2029	24,000	12,191	36,191
2029-2030	25,000	11,186	36,186
2030-2031	26,000	10,140	36,140
2031-2036	147,000	33,525	180,525
2036-2042	69,000	4,356	73,356
	<u>\$ 2,223,002</u>	<u>\$ 365,483</u>	<u>\$ 2,588,485</u>

INTERNAL SERVICE FUNDS			
Fiscal Year	Principal	Interest	Total
2019-2020	\$ 67,323	\$ 13,296	\$ 80,619
2020-2021	58,915	10,913	69,828
2021-2022	61,056	8,860	69,916
2022-2023	63,228	6,736	69,964
2023-2024	65,870	4,533	70,403
2024-2025	27,000	2,229	29,229
2025-2026	28,000	1,135	29,135
	<u>\$ 371,392</u>	<u>\$ 47,702</u>	<u>\$ 419,094</u>

ENTERPRISE FUNDS			
Fiscal Year	Principal	Interest	Total
2019-2020	\$ 268,000	\$ 255,345	\$ 523,345
2020-2021	277,000	248,906	525,906
2021-2022	281,000	242,252	523,252
2022-2023	290,000	235,504	525,504
2023-2024	299,000	228,530	527,530
2024-2025	303,000	221,341	524,341
2025-2026	312,000	214,059	526,059
2026-2031	1,674,000	954,280	2,628,280
2031-2036	1,901,000	742,087	2,643,087
2036-2041	1,788,000	506,248	2,294,248
2041-2046	1,449,000	322,473	1,771,473
2046-2051	1,632,000	143,579	1,775,579
2051-2056	366,000	19,721	385,721
	<u>\$ 10,840,000</u>	<u>\$ 4,334,325</u>	<u>\$ 15,174,325</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE I - PENSION PLAN

Plan Description: The City participates in the Municipal Employees Retirement System (MERS) of Michigan which provides certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Retirement benefits for employees are calculated as two percent of the employee's five-year final average compensation times the employee's years of service. Normal retirement age is 60 with early retirement at a reduced benefit at age 50 with 25 years of service or at age 55 with 15 years of service. Deferred retirement benefits vest after 8 years of service and member contributions are 3.3% of payroll.

Employees covered by benefit terms - At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>12</u>
Total employees covered by MERS	<u>20</u>

Contributions - The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City may establish contribution rates to be paid by its covered employees. Employer contributions were 15.72% of annual payroll.

Net Pension Liability - The City's Net Pension Liability reported as of June 30, 2019 was measured as of December 31, 2018 and was determined by an annual actuarial valuation as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/17	\$ 4,235,124	\$ 2,742,575	\$ 1,492,549
Service cost	80,168	-	80,168
Interest on total pension liability	333,217	-	333,217
Changes in benefits	-	-	-
Difference between expected and actual experience	65,732	-	65,732
Changes in assumptions	-	-	-
Employer contributions	-	125,627	(125,627)
Employee contributions	-	22,280	(22,280)
Net investment income	-	(105,656)	105,656
Benefit payments, including employee refunds	(219,984)	(219,984)	-
Administrative expense	-	(5,273)	5,273
Other changes	-	-	-
Net changes	<u>259,133</u>	<u>(183,006)</u>	<u>442,139</u>
Balances as of 12/31/18	<u>\$ 4,494,257</u>	<u>\$ 2,559,569</u>	<u>\$ 1,934,688</u>

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE I - PENSION PLAN (Continued)

Actuarial assumptions - The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%	
Salary increases	3.75%	In the long term, 1 percent, 2 percent, and 3 percent for calendar years 2014, 2015, and 2016, respectively, including inflation.
Investment rate of return	8.00%	Gross of pension plan investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2018, the measurement date, for each major asset class summarized in the following table:

Asset Class	Target Allocation	Long-tem expected real rate of return
Global equity	55.5%	3.41%
Global fixed income	18.5%	.23%
Real assets	13.5%	.97%
Diversifying strategies	12.5%	.63%

Discount rate - The discount rate used to measure the total pension liability is 8.0% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay 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.

Sensitivity of the Net Pension Liability to changes in the discount rate - The following presents the Net Pension Liability of the City, calculated using the discount rate of 8.0%, as well as what the City’s Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.0%) or 1% higher (9.0%) than the current rate.

**CITY OF HANCOCK
 NOTES TO FINANCIAL STATEMENTS - June 30, 2019**

NOTE I - PENSION PLAN (Continued)

	1% Decrease <u>7.0%</u>	Current Discount Rate <u>8.0%</u>	1% Increase <u>9.0%</u>
Net pension liability of the City	\$ 2,459,083	\$ 1,934,688	\$ 1,493,254

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in a separately issued financial report found at www.mersofmich.com. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same bases as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Pension expense and deferred outflows of resources and deferred inflows of resources and deferred inflows of resources related to pensions - For the year ended June 30, 2019 the City recognized pension expense of \$242,452. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflow <u>of Resources</u>	Deferred Inflow <u>of Resources</u>
Differences in experience	\$ 207,635	\$ 980
Differences in assumptions	143,131	-
Excess (deficit) investment returns	415,695	153,672
Contributions subsequent to the measurement date	82,969	-
Total	<u>\$ 849,430</u>	<u>\$ 154,652</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2020.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended</u>	<u>Amount</u>
2020	\$ 132,858
2021	125,010
2022	81,179
2023	97,103
2024	123,578
Thereafter	52,081
	<u>\$ 611,809</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE J -ENTERPRISE FUNDS - SEGMENT INFORMATION

The City maintains four Enterprise Funds which provide water, sewer, transit and parking meter services. Segment information for the year ended June 30, 2019 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Transit</u>
Operating revenues	\$ 1,555,342	\$ 1,064,300	\$ 354,041
Depreciation	\$ 144,129	\$ 520,390	\$ 62,320
Income (loss) from operations	\$ 344,798	\$ (46,736)	\$ 18,699
Non-operating revenues (expenses)	\$ (38,868)	\$ (208,081)	\$ 40,007
Net income (loss)	\$ 305,930	\$ (254,817)	\$ 58,706
Property, plant & equipment additions	\$ 216,825	\$ 45,895	\$ 150,320
Total assets	\$ 5,046,056	\$ 14,342,978	\$ 842,435
Net working capital surplus (deficit)	\$ 808,481	\$ 318,602	\$ (92,757)
Long-term liabilities:			
Payable from operating revenues	\$ 1,873,237	\$ 8,868,156	\$ 84,571
Net investment in capital assets	\$ 4,003,459	\$ 13,739,657	\$ 830,259
Reserved net position	\$ 133,061	\$ 356,332	\$ -
Unreserved net position	\$ 2,833,676	\$ 4,863,453	\$ 686,689
Total net position	\$ 2,966,737	\$ 5,219,785	\$ 686,689
Net cash provided (used) by:			
Operating activities	\$ 481,051	\$ 519,436	\$ 84,689
Noncapital financing activities	\$ 21,714	\$ (21,714)	\$ 59,899
Capital & related financing activities	\$ (294,282)	\$ (484,961)	\$ (150,320)
Investing activities	\$ 2,589	\$ 3,985	\$ 7
Beginning cash	\$ 509,137	\$ 455,680	\$ 6,412
Ending cash	\$ 720,209	\$ 472,426	\$ 687

NOTE K - RESERVES AND RESTRICTED ASSETS

Water Fund

2011A and 2011B Water Supply System Revenue Bonds

The ordinance authorizing issuance of the 2011A and 2011B Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Account - Quarterly transfers are to be made in the sum of at least \$4,922.50 per quarter, with the annual requirement equal to \$19,690 until there is accumulated in such fund the aggregate sum of \$196,900.

Junior Lien Bond and Interest Redemption Account - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Repair and Replacement Account - Quarterly transfers are to be made in the sum of not less than \$7,425.50, with the annual requirement equal to \$29,702. Until the balance in the Bond Reserve Account reaches \$196,900, the quarterly transfer will be \$2,503.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE K - RESERVES AND RESTRICTED ASSETS (Continued)

2016A and 2016B Water Supply System Revenue Bonds

The ordinance authorizing issuance of the 2016A and 2016B Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Account - Quarterly transfers are to be made in the sum of at least \$1,950 per quarter, with the annual requirement equal to \$7,800 until there is accumulated in such fund the aggregate sum of \$78,000.

Junior Lien Bond and Interest Redemption Account - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Repair and Replacement Account - Quarterly transfers are to be made in the sum of not less than \$10,050.50, with the annual requirement equal to \$40,202.

Sewer Fund

The ordinance authorizing issuance of the 2010 Sewage Disposal System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Account - Quarterly transfers are to be made in the sum of at least \$2,136 per quarter, with the annual requirement equal to \$8,544 until there is accumulated in such fund the aggregate sum of \$85,440.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Repair and Replacement Improvement Account - The general purpose account as of December 2013 has been transferred to the Repair and Replacement Improvement Account (RRI) in the amount of \$41,576 as required. The City may deposit monies in the RRI Account at anytime.

At June 30, 2019, the City had established these accounts and had restricted cash, as required, as follows:

	<u>Required</u>	<u>Amount Funded</u>
Water Fund		
<u>2011A and 2011B Water Supply System Revenue Bonds</u>		
Bond Reserve Account	\$ 157,520	\$ 128,016
Repair and Replacement Account	80,096	79,716
Bond and Interest Redemption Account	48,306	50,005
	<u>\$ 285,922</u>	<u>\$ 257,737</u>
<u>2016A and 2016B Water Supply System Revenue Bonds</u>		
Bond Reserve Account	\$ 23,400	\$ 15,630
Repair and Replacement Account	97,206	64,930
Bond and Interest Redemption Account	17,343	18,035
	<u>\$ 137,949</u>	<u>\$ 98,595</u>
Sewer Fund		
Bond Reserve Account	\$ 70,488	\$ 70,488
Repair and Replacement Account	41,576	41,576
Bond and Interest Redemption Account	20,997	20,997
	<u>\$ 133,061</u>	<u>\$ 133,061</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE L - TRANSIT FUND

The City of Hancock's Transit Fund receives grant revenue under Section 10e(4) of PA 51. These funds are to be used to pay for eligible operating expenses for public transportation. The Local Bus Operating Assistance revenue under Act 51 is disbursed to the City based on the amount of eligible operating expenses at the current reimbursement rate. The Local Audit Division of the Michigan Department of Treasury and Michigan Department of Transportation/Bureau of Passenger Transportation administer the audit disclosures and compliance requirements.

The following are required Michigan Department of Transportation disclosures:

- Management provides assurance that the City of Hancock Transit has one approved cost allocation plan, which was adhered to in the preparation of the City of Hancock's financial statements.
- The methodology used for compiling miles and other nonfinancial information used to allocate costs has been reviewed and the recording method has been found to be adequate and reliable.
- The depreciation expense reported in 51300 equals the ineligible depreciation reported in 55007. Therefore, the depreciation assurance regarding approval of useful life is not required.
- No operating expenses are subtracted out as ineligible because no capital money was used to pay for operating expenses.
- The Hancock Transit has not received auxiliary or non-transportation revenue.
- Pension costs incurred for the defined benefit retirement plan administered by MERS were calculated pursuant to the MERS GASB 68 Implementation Guide. The total pension expense recognized as calculated in STEP 6 of the guide is \$242,452. Of this amount \$2,592 was expensed on the books of the Transit Fund and \$0 was reported on line 50200 Fringes.
- The Transit Fund did not incur, nor pay, any 50201 pension costs or 50202 other post-employment benefits.

The Department of Transportation required schedules are located on pages 69 through 73.

NOTE M - TAX INCREMENT FINANCING

The City approved the Downtown Development District and Tax Increment Financing Plan (DDA TIF) dated September 1984. December 17, 2014 an amendment was approved by the City to extend the life of the 1993 Amendment Plan to terminate upon the collections of the last taxes levied for the year 2044 . The DDA TIF is a plan to prevent further deterioration and to encourage historic preservation and economic growth in the Downtown District. The DDA TIF Plan is allowed by Michigan Public Act 197 of 1975 (Act 197). The primary purpose of Act 197 is to encourage the marketing and promotion of the Downtown District, historic preservation, catalytic projects and infrastructure improvement projects (streetscapes, lighting, parks, etc.). Tax increment financing is eligible for certain eligible activities. The amount of taxes foregone by the City during the fiscal year was \$169,264.

NOTE N - RELATED PARTY TRANSACTIONS

The Portage Lake Water and Sewage Authority is a jointly governed organization consisting of five members, of which two are appointed by the respective City Councils of Houghton and Hancock, and the fifth member appointed by the other four members. The entity is not a component unit of the City. Further financial information is detailed in Note A of these financial statements. As of June 30, 2019, The Portage Lake Water and Sewage Authority owed the City \$87,868, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due from other governmental units.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2019

NOTE O - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts, theft, damage, and destruction of assets, errors and omissions, and natural disasters. The City has obtained coverage from a commercial insurance company. The City has comprehensive general liability coverage of \$1,000,000 per occurrence and \$3,000,000 in the aggregate and has obtained workers compensation coverage.

All risk management activities are accounted for in the financial statements of the City. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2019 will not materially affect the financial condition of the City. Therefore, the financial statements contain no provision for estimated claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE P - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

- On August 2, 2018 the Federal Emergency Management Agency, FEMA, declared a state of emergency for the City of Hancock as a result of storm damage occurring from June 16-18, 2018. Recovery efforts will be funded by FEMA and the Federal Highway Administration (FHWA). Both federal agencies require local matching funds with FEMA requiring a twenty-five percent local match and FHWA requiring a twenty percent local match. FEMA and FHWA projects have been ongoing and will continue into the 2019-20 fiscal year.
- In August of 2019, a grant was approved with Michigan Department of Environment, Great Lakes and Energy in the amount of \$8,363 to purchase recycling bins. The total cost of the project is \$14,454 requiring a City match in the amount of \$6,091.
- In November of 2019, a grant was approved with USDA in the amount of \$50,000 to purchase a backhoe/loader with mini excavator. The total cost of the equipment is \$100,000 requiring a City match in the amount of \$50,000.
- In November of 2019, a grant was approved with USDA in the amount of \$50,000 to purchase a loader mounted snow blower. The total cost of the equipment is \$146,000 requiring a City match in the amount of \$96,000.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HANCOCK
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Property taxes	\$ 1,608,000	\$ 1,563,277	\$ 1,550,808	\$ (12,469)
Licenses & permits	10	5,000	-	(5,000)
State sources	503,200	816,753	814,127	(2,626)
Federal sources	-	-	605,944	605,944
Charges for services	385,150	608,150	411,540	(196,610)
Interest income	1,548	1,548	2,954	1,406
Other revenues	88,100	88,100	66,947	(21,153)
Total revenues	<u>2,586,008</u>	<u>3,082,828</u>	<u>3,452,320</u>	<u>369,492</u>
Expenditures				
General government				
Council	22,776	28,640	29,442	(802)
City manager	201,902	154,509	90,039	64,470
Clerk	70,670	66,670	65,673	997
Treasurer	76,210	76,210	97,132	(20,922)
Accounting	19,750	13,653	11,645	2,008
Assessor	29,350	29,210	32,432	(3,222)
Planning	3,579	186,000	278,818	(92,818)
Elections	13,400	13,400	17,300	(3,900)
Building and grounds	67,650	63,650	73,188	(9,538)
Cemetery	43,850	45,550	51,180	(5,630)
Public safety	935,576	907,076	985,341	(78,265)
Public works	316,550	430,550	639,677	(209,127)
Recreation and culture	358,483	651,800	564,518	87,282
Sanitation	197,067	190,067	249,650	(59,583)
Debt service	107,100	107,100	108,427	(1,327)
Other	65,750	59,750	65,725	(5,975)
Total expenditures	<u>2,529,663</u>	<u>3,023,835</u>	<u>3,360,187</u>	<u>(336,352)</u>
Excess (deficiency) of revenues over expenditures	56,345	58,993	92,133	33,140
Other financing sources (uses)				
Proceeds on sale of assets	22,000	22,000	24,164	2,164
Proceeds from the sale of long-term notes/loans	-	-	756,136	756,136
Operating transfers in (out)	(70,000)	(60,000)	(5,550)	54,450
Total other financing sources (uses)	<u>(48,000)</u>	<u>(38,000)</u>	<u>774,750</u>	<u>812,750</u>
Net change in fund balances	<u>\$ 8,345</u>	<u>\$ 20,993</u>	866,883	<u>\$ 845,890</u>
Fund balances - Beginning of year			<u>232,411</u>	
Fund balances - End of year			<u>\$ 1,099,294</u>	

CITY OF HANCOCK
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
Revenues				
State sources	\$ 901,200	\$ 901,200	\$ 850,113	\$ (51,087)
Federal sources	-	-	351,940	351,940
Interest income	400	400	580	180
Other revenues	-	-	11,531	11,531
Total revenues	<u>901,600</u>	<u>901,600</u>	<u>1,214,164</u>	<u>312,564</u>
Expenditures				
General administration	30,604	30,604	22,113	8,491
Highways and streets:				
Construction	302,031	302,031	528,006	(225,975)
State trunkline maintenance	302,283	302,283	365,628	(63,345)
Routine maintenance	64,750	64,750	35,225	29,525
Traffic services	15,900	15,900	7,850	8,050
Snow and ice control	174,000	174,000	214,127	(40,127)
Sweeping and flushing	3,800	3,800	1,019	2,781
Total expenditures	<u>893,368</u>	<u>893,368</u>	<u>1,173,968</u>	<u>(280,600)</u>
Net change in fund balances	<u>\$ 8,232</u>	<u>\$ 8,232</u>	40,196	<u>\$ 31,964</u>
Fund balances - Beginning of year			<u>62,400</u>	
Fund balances - End of year			<u>\$ 102,596</u>	

CITY OF HANCOCK
SCHEDULE OF CHANGES IN THE CITY NET
PENSION LIABILITY AND RATIOS
Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability					
Service cost	\$ 80,168	\$ 67,495	\$ 60,533	\$ 64,222	\$ 51,865
Interest	333,217	316,010	288,232	259,977	240,815
Difference between expected and actual experience	65,732	36,297	146,857	(1,568)	-
Changes in assumptions	-	-	-	229,010	-
Benefit payments, including refunds	(219,984)	(202,111)	(101,645)	(94,628)	(38,562)
Other changes	-	-	-	-	1
Net change in total pension liability	<u>259,133</u>	<u>217,691</u>	<u>393,977</u>	<u>457,013</u>	<u>254,119</u>
Total pension liability - beginning of year	<u>4,235,124</u>	<u>4,017,433</u>	<u>3,623,456</u>	<u>3,166,443</u>	<u>2,912,324</u>
Total pension liability - end of year	<u>\$ 4,494,257</u>	<u>\$ 4,235,124</u>	<u>\$ 4,017,433</u>	<u>\$ 3,623,456</u>	<u>\$ 3,166,443</u>
Plan fiduciary net position					
Contributions - employer	125,627	103,116	113,009	82,780	73,738
Contributions - employee	22,280	22,597	25,626	22,463	21,525
Net investment income	(105,656)	327,073	255,606	(34,273)	132,353
Administrative expenses	(5,272)	(5,180)	(5,042)	(4,966)	(4,894)
Benefit payments, including refunds	<u>(219,984)</u>	<u>(202,111)</u>	<u>(101,645)</u>	<u>(94,628)</u>	<u>(38,562)</u>
Net change in plan fiduciary net position	<u>(183,005)</u>	<u>245,495</u>	<u>287,554</u>	<u>(28,624)</u>	<u>184,160</u>
Plan fiduciary net position - beginning of year	<u>2,742,574</u>	<u>2,497,079</u>	<u>2,209,525</u>	<u>2,238,149</u>	<u>2,053,989</u>
Plan fiduciary net position - end of year	<u>\$ 2,559,569</u>	<u>\$ 2,742,574</u>	<u>\$ 2,497,079</u>	<u>\$ 2,209,525</u>	<u>\$ 2,238,149</u>
City's net pension liability - ending	<u>\$ 1,934,688</u>	<u>\$ 1,492,550</u>	<u>\$ 1,520,354</u>	<u>\$ 1,413,931</u>	<u>\$ 928,294</u>
Plan fiduciary net position as a percent of total pension	56.95 %	64.76 %	62.16 %	60.98 %	70.68 %
Covered employee payroll	\$ 736,838	\$ 634,354	\$ 618,951	\$ 696,554	\$ 562,531
City's net pension liability as a percent of covered employee	262.57 %	235.29 %	245.63 %	202.99 %	165.02 %

CITY OF HANCOCK
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial determined contributions	\$ 125,627	\$ 103,116	\$ 113,009	\$ 82,780	\$ 73,738
Contributions in relation to the actuarially determined contributions	<u>125,627</u>	<u>103,116</u>	<u>113,009</u>	<u>82,780</u>	<u>73,738</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Covered-employee payroll	\$ 736,838	\$ 634,354	\$ 618,951	\$ 696,554	\$ 562,531
Contributions as a percentage of covered-employee payroll	17 %	16 %	18 %	12 %	13 %

CITY OF HANCOCK
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2019

NOTE A - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATE

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	22 years
Asset valuation method	5 years smoothed
Inflation	2.5%
Salary increases	3.75%
Investment rate of return	8.0%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male blend of the RP-2014 Group Annuity Mortality Table

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

CITY OF HANCOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2019

	<u>Local Street</u>	<u>CDBG</u>	<u>Park & Recreation Fund</u>	<u>Building Authority</u>	<u>Sylvan Estates</u>	<u>Cemetery Perpetual</u>	<u>Total</u>
Assets							
Cash and cash equivalents	\$ 225,209	\$ -	\$ 15,494	\$ -	\$ 20,387	\$ -	\$ 261,090
Restricted cash	-	34,941	-	1,651	-	182,651	219,243
Due from government units	112,295	-	-	-	-	-	112,295
Inventories	1,705	-	-	-	-	-	1,705
Total assets	<u>\$ 339,209</u>	<u>\$ 34,941</u>	<u>\$ 15,494</u>	<u>\$ 1,651</u>	<u>\$ 20,387</u>	<u>\$ 182,651</u>	<u>\$ 594,333</u>
Liabilities							
Accounts payable	\$ -	\$ -	\$ 8,710	\$ -	\$ -	\$ -	\$ 8,710
Accrued expenses	247	-	696	-	-	-	943
Unearned revenue	96,818	-	-	-	-	-	96,818
Total liabilities	<u>97,065</u>	<u>-</u>	<u>9,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>106,471</u>
Fund balances							
Restricted	242,144	34,941	-	1,651	20,387	182,651	481,774
Unassigned	-	-	6,088	-	-	-	6,088
Total fund balances	<u>242,144</u>	<u>34,941</u>	<u>6,088</u>	<u>1,651</u>	<u>20,387</u>	<u>182,651</u>	<u>487,862</u>
Total liabilities and fund balances	<u>\$ 339,209</u>	<u>\$ 34,941</u>	<u>\$ 15,494</u>	<u>\$ 1,651</u>	<u>\$ 20,387</u>	<u>\$ 182,651</u>	<u>\$ 594,333</u>

CITY OF HANCOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2019

	<u>Local Street</u>	<u>CDBG</u>	<u>Park & Recreation Fund</u>	<u>Building Authority</u>	<u>Sylvan Estates</u>	<u>Cemetery Perpetual</u>	<u>Total</u>
Revenues							
Property taxes	\$ 130,947	\$ -	\$ 88,412	\$ -	\$ -	\$ -	\$ 219,359
State sources	266,101	-	-	-	-	-	266,101
Federal sources	10,343	-	-	-	-	-	10,343
Interest income	180	-	-	5	14	2,374	2,573
Miscellaneous income	-	1,485	-	-	-	-	1,485
Rentals	-	-	-	137,076	-	-	137,076
Total revenues	<u>407,571</u>	<u>1,485</u>	<u>88,412</u>	<u>137,081</u>	<u>14</u>	<u>2,374</u>	<u>636,937</u>
Expenditures							
General administration	6,889	320	-	-	-	-	7,209
Recreation and culture	-	-	52,316	-	-	-	52,316
Public works	293,785	1,662	-	-	-	-	295,447
Highways and streets:							
Other	-	-	-	136,761	-	455	137,216
Total expenditures	<u>300,674</u>	<u>1,982</u>	<u>52,316</u>	<u>136,761</u>	<u>-</u>	<u>455</u>	<u>492,188</u>
Excess (deficiency) of revenues over expenditures	106,897	(497)	36,096	320	14	1,919	144,749
Other financing sources (uses)							
Operating transfers in (out)	-	(4,442)	(30,008)	-	-	-	(34,450)
Total other financing sources (uses)	<u>-</u>	<u>(4,442)</u>	<u>(30,008)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,450)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	106,897	(4,939)	6,088	320	14	1,919	110,299
Fund balances - Beginning of year	<u>135,247</u>	<u>39,880</u>	<u>-</u>	<u>1,331</u>	<u>20,373</u>	<u>180,732</u>	<u>377,563</u>
Fund balances - End of year	<u>\$ 242,144</u>	<u>\$ 34,941</u>	<u>\$ 6,088</u>	<u>\$ 1,651</u>	<u>\$ 20,387</u>	<u>\$ 182,651</u>	<u>\$ 487,862</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2019

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 587,148	\$ 116,094	\$ 687	\$ 703,929
Restricted cash	133,061	356,332	-	489,393
Accounts receivable	84,946	70,590	9,625	165,161
Due from government units	200,924	-	-	200,924
Inventories	36,518	60,305	-	96,823
Prepaid expenses	-	-	1,864	1,864
Capital assets - net	4,003,459	13,739,657	830,259	18,573,375
Total assets	<u>5,046,056</u>	<u>14,342,978</u>	<u>842,435</u>	<u>20,231,469</u>
Deferred outflow of resources - pension	33,663	35,765	36,325	105,753
Liabilities				
Accounts payable	133,057	5,006	11,305	149,368
Accrued expenses	21,772	48,713	15,927	86,412
Due to other funds	-	-	77,701	77,701
Current maturities	42,287	-	-	42,287
Current maturities	37,000	231,000	-	268,000
Net pension liability	82,237	87,156	84,571	253,964
Bonds payable	1,791,000	8,781,000	-	10,572,000
Total liabilities	<u>2,107,353</u>	<u>9,152,875</u>	<u>189,504</u>	<u>11,449,732</u>
Deferred inflow of resources - pension	5,629	6,083	2,567	14,279
Net position				
Reserved	133,061	356,332	-	489,393
Unreserved	2,833,676	4,863,453	686,689	8,383,818
Total net position	<u>\$ 2,966,737</u>	<u>\$ 5,219,785</u>	<u>\$ 686,689</u>	<u>\$ 8,873,211</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2019

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Total</u>
Operating revenues				
Charges for services	\$ 1,049,160	\$ 1,063,347	\$ 48,979	\$ 2,161,486
State sources	292,861	-	128,084	420,945
Federal sources	211,232	-	176,978	388,210
Other revenues	2,089	953	-	3,042
Total operating revenues	<u>1,555,342</u>	<u>1,064,300</u>	<u>354,041</u>	<u>2,973,683</u>
Operating expenses				
General administration	38,717	61,721	71,764	172,202
Meter reading	1,775	36,351	-	38,126
Purchased services	600,928	250,572	-	851,500
Operations and maintenance	424,995	242,002	201,258	868,255
Depreciation	144,129	520,390	62,320	726,839
Total operating expenses	<u>1,210,544</u>	<u>1,111,036</u>	<u>335,342</u>	<u>2,656,922</u>
Operating income (loss)	<u>344,798</u>	<u>(46,736)</u>	<u>18,699</u>	<u>316,761</u>
Non-operating revenues (expenses)				
Interest income	2,589	3,985	7	6,581
Interest expense	(41,457)	(212,066)	-	(253,523)
Operating transfers in (out)	-	-	40,000	40,000
Total non-operating revenues (expenses)	<u>(38,868)</u>	<u>(208,081)</u>	<u>40,007</u>	<u>(206,942)</u>
Net income (loss)	305,930	(254,817)	58,706	109,819
Net position, beginning of year	<u>2,660,807</u>	<u>5,474,602</u>	<u>627,983</u>	<u>8,763,392</u>
Net position, end of year	<u>\$ 2,966,737</u>	<u>\$ 5,219,785</u>	<u>\$ 686,689</u>	<u>\$ 8,873,211</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers	\$ 1,573,003	\$ 1,079,503	\$ 410,336	\$ 3,062,842
Payments to suppliers	(1,000,827)	(369,407)	(129,926)	(1,500,160)
Payments to employees	(91,125)	(190,660)	(195,721)	(477,506)
Net cash provided by operating activities	<u>481,051</u>	<u>519,436</u>	<u>84,689</u>	<u>1,085,176</u>
Cash flows from noncapital financing activities				
Operating subsidies and transfers to other funds	<u>21,714</u>	<u>(21,714)</u>	<u>59,899</u>	<u>59,899</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(216,825)	(45,895)	(150,320)	(413,040)
Principal paid on capital debt	(36,000)	(227,000)	-	(263,000)
Interest paid on capital debt	(41,457)	(212,066)	-	(253,523)
Net cash (used) by capital and related financing activities	<u>(294,282)</u>	<u>(484,961)</u>	<u>(150,320)</u>	<u>(929,563)</u>
Cash flows from investing activities				
Interest and dividends	<u>2,589</u>	<u>3,985</u>	<u>7</u>	<u>6,581</u>
Net (decrease) in cash	211,072	16,746	(5,725)	222,093
Balances - beginning of the year	<u>509,137</u>	<u>455,680</u>	<u>6,412</u>	<u>971,229</u>
Balances - end of the year	<u>\$ 720,209</u>	<u>\$ 472,426</u>	<u>\$ 687</u>	<u>\$ 1,193,322</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 344,798	\$ (46,736)	\$ 18,699	\$ 316,761
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	144,129	520,390	62,320	726,839
Change in assets and liabilities:				
Receivables, net	26,802	25,107	67,306	119,215
Due to/from other governmental units	(73,970)	-	-	(73,970)
Deferred outflows and inflows	(10,402)	(11,271)	(12,323)	(33,996)
Inventory	3,561	15,897	-	19,458
Prepaid expenses	-	-	(83)	(83)
Net pension liability	12,892	13,972	14,915	41,779
Accounts and other payables	(11,862)	2,428	(64,846)	(74,280)
Unearned revenue	42,287	-	-	42,287
Accrued expenses	2,816	(351)	(1,299)	1,166
Net cash provided by operating activities	<u>\$ 481,051</u>	<u>\$ 519,436</u>	<u>\$ 84,689</u>	<u>\$ 1,085,176</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING NET POSITION
June 30, 2019

	<u>Employee</u> <u>Benefits</u>	<u>Motor Vehicle</u> <u>Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 44,041	\$ 164,313	\$ 208,354
Restricted cash	8,180	-	8,180
Due from other funds	30,056	645	30,701
Inventories	-	30,410	30,410
Prepaid expenses	-	16,779	16,779
Capital assets - net	-	228,598	228,598
Total assets	<u>82,277</u>	<u>440,745</u>	<u>523,022</u>
Deferred outflows of resources - pension	-	14,246	14,246
Liabilities			
Accounts payable	3,366	3,215	6,581
Accrued expenses	8,270	1,209	9,479
Accrued interest payable	-	4,827	4,827
Net pension liability	-	32,675	32,675
Current maturities	-	66,324	66,324
Notes payable	-	305,068	305,068
Total liabilities	<u>11,636</u>	<u>413,318</u>	<u>424,954</u>
Deferred inflows of resources - pension	-	2,902	2,902
Net position			
Reserved	8,180	-	8,180
Unreserved	62,461	38,771	101,232
Total net position	<u>\$ 70,641</u>	<u>\$ 38,771</u>	<u>\$ 109,412</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2019

	Employee Benefits	Motor Vehicle Fund	Total
Operating revenues			
Charges for services	\$ 753,945	\$ 586,756	\$ 1,340,701
Other revenues	-	223	223
Total operating revenues	<u>753,945</u>	<u>586,979</u>	<u>1,340,924</u>
Operating expenses			
General administration	-	2,400	2,400
Garage maintenance	-	103,425	103,425
Operations and maintenance	-	414,435	414,435
Depreciation	-	61,223	61,223
Benefit payments:			
Payroll taxes	25,723	-	25,723
Retirement plan expense	97,857	-	97,857
Holiday pay	43,172	-	43,172
Sickpay/personal leave	12,441	-	12,441
Vacation pay	94,102	-	94,102
Workers' compensation insurance	59,599	-	59,599
Hospitalization insurance	365,319	-	365,319
Employee life insurance	639	-	639
Longevity pay	80,802	-	80,802
Other	12,192	-	12,192
Total operating expenses	<u>791,846</u>	<u>581,483</u>	<u>1,373,329</u>
Operating income (loss)	<u>(37,901)</u>	<u>5,496</u>	<u>(32,405)</u>
Non-operating revenues (expenses)			
Gain on sale of assets	-	1,300	1,300
Interest income	15	173	188
Interest expense	-	(13,189)	(13,189)
Total non-operating revenues (expenses)	<u>15</u>	<u>(11,716)</u>	<u>(11,701)</u>
Net income (loss)	(37,886)	(6,220)	(44,106)
Net Position- Beginning of year	<u>108,527</u>	<u>44,991</u>	<u>153,518</u>
Net Position - End of year	<u>\$ 70,641</u>	<u>\$ 38,771</u>	<u>\$ 109,412</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOW
Year Ended June 30, 2019

	<u>Employee Benefits</u>	<u>Motor Vehicle Fund</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 753,945	\$ 581,507	\$ 1,335,452
Payments to suppliers	(523,932)	(387,561)	(911,493)
Payments to employees	(278,051)	(121,933)	(399,984)
Net cash provided by operating activities	<u>(48,038)</u>	<u>72,013</u>	<u>23,975</u>
Cash flows from noncapital financing activities			
Operating subsidies and transfers to other funds	<u>63,232</u>	<u>100,922</u>	<u>164,154</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	-	(81,455)	(81,455)
Principal paid on capital debt	-	(83,778)	(83,778)
Interest paid on capital debt	-	(13,189)	(13,189)
Loan proceeds	-	81,439	81,439
Proceeds from sale of assets	-	1,300	1,300
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(95,683)</u>	<u>(95,683)</u>
Cash flows from investing activities			
Interest and dividends	<u>15</u>	<u>173</u>	<u>188</u>
Net (decrease) in cash	15,209	77,425	92,634
Balances - beginning of the year	37,012	86,888	123,900
Balances - end of the year	<u>\$ 52,221</u>	<u>\$ 164,313</u>	<u>\$ 216,534</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (37,901)	\$ 5,496	\$ (32,405)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-	61,223	61,223
Change in assets and liabilities:	:		
Deferred outflows and inflows	-	(6,228)	(6,228)
Inventory	-	3,538	3,538
Prepaid expenses	-	(751)	(751)
Net pension liability	-	7,712	7,712
Accounts and other payables	(11,282)	(142)	(11,424)
Accrued expenses	1,145	1,165	2,310
Net cash provided by operating activities	<u>\$ (48,038)</u>	<u>\$ 72,013</u>	<u>\$ 23,975</u>

**CITY OF HANCOCK
TRANSIT FUND SUPPLEMENTAL INFORMATION
June 30, 2019**

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
Year Ended June 30, 2019

	07/01/18 through 09/30/18	10/01/18 through 06/30/19	Total
Farebox receipts - passenger fares	\$ 10,165	\$ 38,814	\$ 48,979
State Operating Assistance*	22,339	68,200	90,539
Federal Section 5311**	9,939	45,553	55,492
Federal RTAP***	2,314	2,244	4,558
Local Operating Assistance****	-	47,548	47,548
Interest Income	5	2	7
Total Operating Revenue	\$ 44,762	\$ 202,361	\$ 247,123

	10/01/17 through 06/30/18	07/01/18 through 09/30/18	Total
Farebox receipts - passenger fares	\$ 32,180	\$ 10,165	\$ 42,345
State Operating Assistance	49,283	22,339	71,622
Federal Section 5311	32,372	9,939	42,311
Federal RTAP	-	2,314	2,314
Local Operating Assistance	35,000	-	35,000
Interest Income	5	5	10
Total Operating Revenue	\$ 148,840	\$ 44,762	\$ 193,602

* State revenue is \$39,545 less than what's reported on page 24 due to the exclusion of two state grants.

** Federal revenue is \$121,486 lower than what's reported on page 24 due to the exclusion of the federal portion of the transit bus grant in the amount of \$119,988 and RTAP money of \$1,498.

*** Total operating revenue on page 23 only includes \$1,498 in RTAP revenue which is on the federal revenue line on page 24 as note above.

**** Local Operating assistance above includes an energy grant in the amount of \$7,548 that was reclassified to state grant revenue on page 24.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Year Ended June 30, 2019

	07/01/18 through 09/30/18				10/01/18 through 06/30/19				Total			
	Operations	Maint.	Gen. Admin	Total	Operations	Maint.	Gen. Admin	Total	Operations	Maint.	Gen. Admin	Total
Labor:												
Wages - operations	\$ 21,050	\$ 5,358	\$ 3,133	\$ 29,541	\$ 78,764	\$ 15,409	\$ 9,561	\$ 103,734	\$ 99,814	\$ 20,767	\$ 12,694	\$ 133,275
Other salaries and wages	-	-	-	-	-	(9,474)	-	(9,474)	-	(9,474)	-	(9,474)
Dispatchers wages	3,849	-	-	3,849	13,407	-	-	13,407	17,256	-	-	17,256
Fringe benefits	10,792	2,316	586	13,694	29,390	7,282	5,563	42,235	40,182	9,598	6,149	55,929
Pension DC	-	-	-	-	1,799	-	697	2,496	1,799	-	697	2,496
Services:												
Advertising	-	-	-	-	-	-	608	608	-	-	608	608
Audit costs	-	-	-	-	-	-	3,152	3,152	-	-	3,152	3,152
Other	-	-	133	133	1,401	-	478	1,879	1,401	-	611	2,012
Materials and supplies:												
Fuel and lubricants	4,740	-	-	4,740	21,796	-	-	21,796	26,536	-	-	26,536
Tires and tubes	-	-	-	-	1,490	-	-	1,490	1,490	-	-	1,490
Major Supplies	-	-	-	-	-	-	-	-	-	-	-	-
Other	350	2,230	111	2,691	1,184	6,427	898	8,509	1,534	8,657	1,009	11,200
Utilities	-	-	1,388	1,388	-	-	7,373	7,373	-	-	8,761	8,761
Insurance	-	-	-	-	-	2,047	-	2,047	-	2,047	-	2,047
Operating lease and rentals	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous expense:												
Travel	-	-	-	-	-	-	537	537	-	-	537	537
Dues & Subscriptions	-	-	-	-	-	-	700	700	-	-	700	700
RTAP	-	-	2,314	2,314	-	-	2,244	2,244	-	-	4,558	4,558
Other	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
	<u>40,781</u>	<u>9,904</u>	<u>7,665</u>	<u>58,350</u>	<u>149,231</u>	<u>21,691</u>	<u>31,811</u>	<u>202,733</u>	<u>190,012</u>	<u>31,595</u>	<u>39,476</u>	<u>261,083</u>
Less:												
Ineligible expenses - pension	-	-	-	-	-	-	-	-	-	-	-	-
Ineligible expenses - RTAP	-	-	2,314	2,314	-	-	2,244	2,244	-	-	4,558	4,558
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 40,781</u>	<u>\$ 9,904</u>	<u>\$ 5,351</u>	<u>\$ 56,036</u>	<u>\$ 149,231</u>	<u>\$ 21,691</u>	<u>\$ 29,567</u>	<u>\$ 200,489</u>	<u>\$ 190,012</u>	<u>\$ 31,595</u>	<u>\$ 34,918</u>	<u>\$ 256,525</u>

Total expenses in the amount of \$261,083 are less than total operating expenses on page 24 by \$74,259 of which \$62,320 is due to depreciation expense reported on page 24 but not reported above. Of the remaining difference, \$1,790 is included as expenses above that were later reclassified as a fixed asset, \$6,461 is due to repairs excluded above that was reimbursed by an insurance payment, \$1,498 is due to RTAP expenses on page 24 not included above, RTAP expenses of \$4,558 above not included on page 23, and \$7,736 is due to a year-end adjustment not included above, and pension expenses of \$2,592 not included above.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Reporting period October 1, 2017 through September 30, 2018

	<u>10/01/17 through 06/30/18</u>				<u>07/01/18 through 09/30/18</u>				<u>Total</u>			
	<u>Operations</u>	<u>Maint.</u>	<u>Gen. Admin</u>	<u>Total</u>	<u>Operations</u>	<u>Maint.</u>	<u>Gen. Admin</u>	<u>Total</u>	<u>Operations</u>	<u>Maint.</u>	<u>Gen. Admin</u>	<u>Total</u>
Labor:												
Wages - operations	\$ 77,952	\$ 10,256	\$ 7,253	\$ 95,461	\$ 1,862	\$ 7,668	\$ 31,744	\$ 9,815	\$ 9,815	\$ 31,526	\$ 38,997	\$ 80,338
Other salaries and wages	-	-	-	-	-	-	-	12,775	6,461	-	-	6,461
Dispatchers wages	13,770	-	-	13,770	-	-	-	-	-	-	-	-
Fringe benefits	37,157	7,060	1,830	46,047	1,631	4,701	13,396	10,971	13,903	25,125	15,226	54,254
Services:												
Advertising	-	-	280	280	-	-	-	-	620	270	280	1,170
Audit costs	-	-	3,424	3,424	-	-	-	-	-	-	3,424	3,424
Other	-	-	3,066	3,066	-	-	-	3,686	332	496	3,066	3,894
Materials and supplies:												
Fuel and lubricants	16,855	-	-	16,855	-	-	5,878	-	-	-	5,878	5,878
Tires and tubes	2,333	-	-	2,333	-	-	-	-	-	-	-	-
Major Supplies	-	-	-	-	-	-	-	8,313	-	-	-	-
Other	2,553	5,730	722	9,005	1,897	283	2,901	-	248	470	3,623	4,341
Utilities	-	-	7,521	7,521	-	920	920	-	6,202	8,210	8,441	22,853
Insurance	-	3,962	-	3,962	-	-	-	-	-	-	-	-
Operating lease and rentals	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous expense:												
Travel	-	-	(324)	(324)	-	1,258	1,258	-	2,497	2,410	934	5,841
Dues & Subscriptions	-	-	1,049	1,049	-	294	294	-	165	644	1,343	2,152
RTAP	-	-	-	-	-	-	-	-	-	1,690	-	1,690
Other	-	-	-	-	-	-	-	57	148	-	-	148
Depreciation	-	-	-	-	-	-	-	-	-	35,169	-	35,169
	<u>150,620</u>	<u>27,008</u>	<u>24,821</u>	<u>202,449</u>	<u>5,390</u>	<u>15,124</u>	<u>56,391</u>	<u>45,617</u>	<u>40,391</u>	<u>106,010</u>	<u>81,212</u>	<u>227,613</u>
Less:												
Ineligible expenses - pension	-	-	-	-	-	-	-	-	-	669	-	669
Ineligible expenses - RTAP	-	-	-	-	-	-	-	-	-	1,690	-	1,690
Depreciation	-	-	-	-	-	-	-	-	-	35,169	-	35,169
	<u>\$ 150,620</u>	<u>\$ 27,008</u>	<u>\$ 24,821</u>	<u>\$ 202,449</u>	<u>\$ 5,390</u>	<u>\$ 15,124</u>	<u>\$ 56,391</u>	<u>\$ 45,617</u>	<u>\$ 40,391</u>	<u>\$ 69,151</u>	<u>\$ 81,212</u>	<u>\$ 190,754</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
Year Ended June 30, 2019

<u>NON URBAN AREAS</u>	<u>07/01/17 through 09/30/17</u>	<u>10/01/17 through 06/30/18</u>	<u>Total</u>
STATE OF MICHIGAN			
Total Eligible Expenses	\$ 202,449	\$ 200,489	<u>\$ 402,938</u>
Reimbursement Rate %	<u>38.0667 %</u>	<u>39.0667 %</u>	
Eligible operating assistance*	<u>\$ 79,356</u>	<u>\$ 78,324</u>	<u>\$ 157,680</u>
FEDERAL SECTION 5311			
Total Eligible Expenses	\$ 202,449	\$ 200,489	<u>\$ 402,938</u>
Reimbursement Rate %	<u>18.0000 %</u>	<u>18.0000 %</u>	
Eligible operating assistance	<u>\$ 36,441</u>	<u>\$ 36,088</u>	<u>\$ 72,529</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
Year Ended June 30, 2019

<u>Quarter Ending</u>	<u>Miles</u>
September 30, 2018	16,518
December 31, 2018	17,525
March 31, 2019	17,430
June 30, 2019	<u>14,987</u>
Total Miles	<u><u>66,460</u></u>

**CITY OF HANCOCK
FEDERAL AWARDS PROGRAMS
JUNE 30, 2019**

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

310 Sheldon Avenue, Houghton, Michigan 49931
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INDEPENDENT AUDITOR'S 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*

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

We have audited, in accordance with the 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 and each major fund information of City of Hancock (the City) as of and for the year then ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 30, 2019.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will be not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-001- and 2019-002.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

December 30, 2019

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Hancock's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Hancock's major federal programs for the year ended June 30, 2019. The City of Hancock's major federal programs are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs.

Management Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Hancock's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hancock' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Hancock's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the City of Hancock is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Hancock's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

December 30, 2019

CITY OF HANCOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

<u>FEDERAL GRANTOR/PASS THROUGH/PROGRAM TITLE</u>	<u>CFDA #</u>	<u>Award/Project #</u>	<u>Award Amount</u>	<u>Accrued/ (Payable) 11/1/2017</u>	<u>Prior Year Expenses</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued/ (Payable) 10/31/2018</u>
US DEPARTMENT OF TRANSPORTATION								
Pass-through Michigan Department of Transportation								
Highway Planning and Construction Cluster								
Federal Aid Highway Program	20.205	204843/CV0047676	\$ 686,289	\$ -	\$ -	\$ 269,195	\$ 686,289	\$ 417,094
Federal Transit Administration - Operating Assistance - Section 5311	20.509	2017-0059 P6 207127	56,990	-	-	56,990	56,990	-
Bus and Bus Facilities Formula Program-Section 5339	20.526	2017-0059 P4 203444	119,988	-	-	119,988	119,988	-
			<u>863,267</u>	<u>-</u>	<u>-</u>	<u>446,173</u>	<u>863,267</u>	<u>417,094</u>
DEPARTMENT OF HOMELAND SECURITY								
Passed Through Michigan State Police:								
Disaster Grants -- Public Assistance	94.006	PA-05-MI-4381	408,911	-	-	408,910	232,542	(176,368)
US DEPARTMENT OF AGRICULTURE								
Community Facilities Grant	10.766	26-031-*****4557	22,000	-	-	22,000	22,000	-
TOTAL FEDERAL AWARDS			<u>\$ 1,294,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 877,083</u>	<u>\$ 1,117,809</u>	<u>\$ 240,726</u>

CITY OF HANCOCK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

NOTE A - OVERSIGHT AGENCY

The U. S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the City's expenditures of federal awards.

NOTE B - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.)

NOTE C – MICHIGAN DEPARTMENT OF TRANSPORTATION

The Michigan Department of Transportation (MDOT) requires that the city report all Federal and State grants pertaining to their city. During the fiscal year ended June 30, 2019, the Federal aid expended by the City was \$171,148 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the City, as they are included in MDOT's Single Audit.

NOTE D – FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

Department of Homeland Security - Disaster Grants--Public Assistance: The City of Hancock's FEMA program worksheets in connection with the June 2018 flood damage expenses were incurred in the June 30, 2019 fiscal year. Pursuant to FEMA, the expenditures are to be recorded in the fiscal year expended and be reported in the Schedule of Expenditures of Federal Awards (SEFA) in the fiscal year approved. There were \$67,480 FEMA expenditures approved in November 2019 and incurred during the current fiscal year. These expenditures will be reported in the SEFA for June 30, 2020.

NOTE E -- FEDERAL AWARDS FINANCIAL STATEMENT RECONCILIATION

Governmental Funds (Page20)	\$ 968,227
Less MDOT activity (see Note C)	(171,148)
Enterprise Funds (Page 23)	388,210
Less MDOT activity (see Note D)	<u>(67,480)</u>
Total expenditures of federal awards	<u><u>\$ 1,117,809</u></u>

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal Control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in with Title 2 CFR Section 200.516(a)? No

Name of Federal Program:	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
U.S. Department of Transportation - Highway Planning and Construction Cluster	20.205	Highway Planning and Construction (Federal-Aid Highway Program)
	20.219	Recreational Trails Program
	20.224	Federal Lands Access Program
	23.003	Appalachian Development Highway System

Highway Planning and Construction (Federal-Aid Highway Program) 20.205

Dollar threshold used to distinguish between type A and type B program: \$750,000

Auditee qualified as low-risk auditee? No

SECTION II - FINANCIAL STATEMENT FINDINGS

INSTANCES OF NON-COMPLIANCE

2019-001 - BUDGET

Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that cities shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City of Hancock has actual expenditures and budgeted expenditures. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2019, the City of Hancock incurred expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the year ended June 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Effect: The City of Hancock is not in compliance with State Law.

Recommendation: The City of Hancock should control expenditures in each governmental fund so as not to exceed the amounts appropriated. When this is not possible, the budget should be amended accordingly.

View of Responsible Officials: The budget will be closely monitored and budget amendments will be made accordingly.

2019-002 - RESERVES

Condition/Criteria: As of June 30, 2019, there was a shortage of funds deposited to meet the requirements of the bond and interest redemption listed on page 50. The City needs to deposit additional funds totaling \$67,539 into the required accounts and review the schedules and deposit/transfer of funds on a quarterly basis to meet requirements.

Cause of Condition: Failure to transfer funds on a quarterly basis to meet requirements.

Effect: The City of Hancock is not in compliance with bond reserve requirements.

Recommendation: The City of Hancock should review bond requirements on a quarterly basis and make transfers of funds to meet bond reserve requirements

View of Responsible Officials: The bond requirements will be closely monitored and transfers will be made accordingly.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - There were no findings and/or questioned costs identified.

COMMUNICATIONS SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Mayor and Members of the City Council
City of Hancock
Hancock, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 12, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Hancock are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by the City of Hancock during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Governmental Activities financial statements were:

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout:

- We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the lives of capital assets:

- We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability:

- We evaluated the key factors and assumptions used to develop the liabilities related to the Municipal Employees' Retirement System, which are based on actuarial valuations.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 30, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Hancock's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Hancock's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison schedules and pension requirements which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on RSI.

We were engaged to report on the supplemental financial information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the City of Hancock board and management and is not intended to be and should not be used for anyone other than these specified parties.

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

December 30, 2019