

**CITY OF HANCOCK
HOUGHTON COUNTY, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS
SUPPLEMENTAL INFORMATION
(with required supplementary and additional information)**

June 30, 2011



CITY OF HANCOCK

JUNE 30, 2011

ADMINISTRATION

City Manager Glenn Anderson
Clerk/Treasurer Karen Haischer

BOARD MEMBERS

Mayor William Laitila
Mayor Pro Tem Jeremie Moore
Ward III John Slivon
At Large Lisa McKenzie
At Large John Haeussler
At Large James Hainault
At Large Ted Belej

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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 as of and for the year then ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2011, and the respective changes in financial position and, cash flows, where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2011 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 through 16 and 52 through 53, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hancock's financial statements as a whole. The additional information on pages 55 to 92 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

December 20, 2011

**City of Hancock
Management's Discussion and Analysis
June 30, 2011**

This section of the 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, 2011. 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 follow this section.

Financial Highlights

- The assets of the City of Hancock exceeded its liabilities at year end by \$5,387,180 (net assets). Of this amount, (\$981,040) (unrestricted net assets) may be used to meet the government's ongoing obligations.
- The City of Hancock's total net assets increased by \$505,813. This was the result of an increase in net assets of governmental activities of \$79,617 along with an increase in the assets of business-type activities of \$426,196.
- The City of Hancock had charges for services of \$1,712,554 in governmental activities and \$1,723,548 for business-type activities and expenses totaling \$6,593,779 during the year ended June 30, 2011.
- At the close of the fiscal year, the City of Hancock's governmental activities funds reported a combined ending net assets balance of \$2,623,487. This is an increase of \$79,617.
- At the end of the current fiscal year, fund balance for the general fund was \$59,191 or about 2 percent of total general fund expenditures, general fund operating transfers to other funds were \$87,246 in 2011 compared to \$92,092 in the prior year, a decrease of \$4,846.
- The City of Hancock expended \$6,641,669 in federal awards requiring the City to undergo a Single Audit. The schedule of federal expenditure awards is located on page 98. A majority of the federal expenditures was related to the construction of the transit facility and transit bus purchase.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- ▶ Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- ▶ The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the City is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

Overview of the Financial Statements - (Continued)

The City's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the City's net assets are one way to determine if the financial position of the City is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the City.

There are two kinds of activities in the Statement of Net Assets and the Statement of Activities:

Governmental Activities - Most of the City's basic services are reported here, including general administration, fire, public works, and parks and recreation. These activities are financed primarily by property taxes, intergovernmental revenues, and charges for services.

Major Funds: Under GASB Statement 34, the audit focus has shifted from governmental type funds to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the City of Hancock the General Fund and Major Street Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller, less active funds. Detailed information about non-major funds can be found after the notes to the financial statements.

Business-Type Activities - Business-type activities represent those activities for which the City charges fees to customers to cover the cost of services. The City's Sewer, Water, Transit and Parking Meter Funds are business-type funds. Of these funds the Sewer, Water, and Transit Funds were major funds.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the City's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information.
- Other supplementary information provides detailed information about the General Fund, Special Revenue Funds, and Proprietary Funds.

Governmental Funds - The City's basic services are mainly reported in this type of fund, which concentrates on how money goes into and out of those funds and the balances left at year end that are available for spending. Modified accrual accounting is the reporting method used for these funds. These statements provide a short-term view of the City's general governmental operations and the basic services it provides in detail. Information in these statements help determine whether there are more or fewer financial resources that can be spent in the future to finance the City's programs.

Governmental funds are essentially the same as the governmental activities with the exception that internal services are included in governmental activities but not as governmental funds. Governmental funds use a modified accrual basis of accounting and focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources.

Overview of the Financial Statements - (Continued)

In governmental funds, capital outlay and debt principal are reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and depreciation is not recorded. The Balance Sheet for governmental funds does not include any capital assets or long-term debt.

Proprietary Funds - Proprietary funds use a full accrual method of accounting for both government-wide statements and fund level statements. There are two types of proprietary funds.

Enterprise funds are used to report business like activities. In general, these funds charge a fee for their services. The City uses enterprise funds for transit, parking meter, water and sewer. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds. Sewer and Water funds qualify as major funds.

Internal service funds provide services to other City activities or functions. Internal service funds facilitate cost allocation of centralized services such as vehicle and equipment maintenance. The Employee Benefit Fund and the Motor Vehicle Fund are the only internal service funds.

Component Units - The City has one discretely presented component included in this report, the Downtown Development Authority (DDA). Although legally separate, this component unit is important because the City is financially accountable for the DDA. This component unit is shown in a separate column. The City also has a blended component unit, the City of Hancock Building Authority. The Authority is reported as if it were part of the City's operations because its primary purpose is that of a financing vehicle for the construction of City facilities. Further information on the component units are found in Note A of the financial statements.

Summary of Net Assets

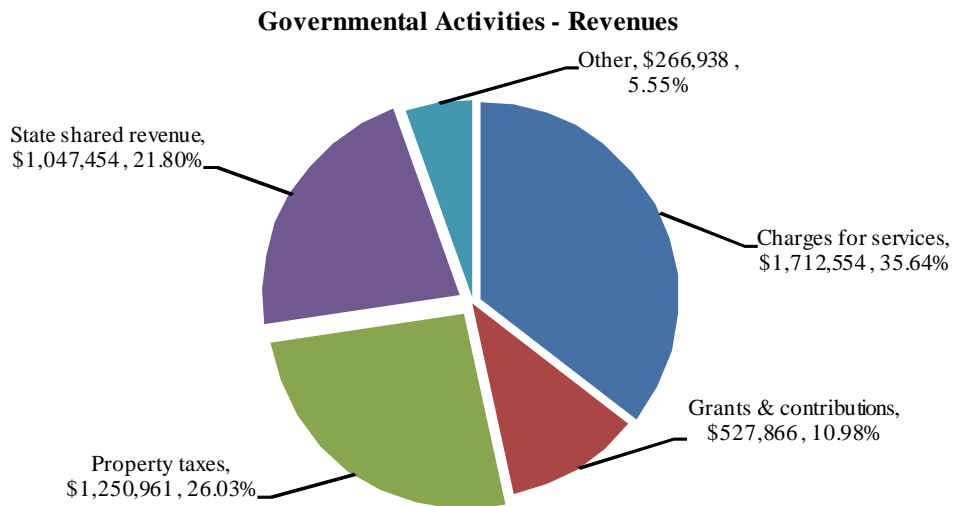
	Governmental Activities		Business-type Activities	
	2011	2010	2011	2010
Assets				
Current and other assets	\$ 1,639,665	\$ 1,652,872	\$ 445,576	\$ 652,650
Capital assets- Net of accumulated	4,582,512	4,299,014	11,239,490	7,111,183
Total Assets	<u>\$ 6,222,177</u>	<u>\$ 5,951,886</u>	<u>\$ 11,685,066</u>	<u>\$ 7,763,833</u>
Liabilities				
Current liabilities	\$ 444,976	\$ 399,915	\$ 1,773,373	\$ 446,774
Long-term liabilities	3,153,714	3,008,101	7,148,000	4,979,562
Total Liabilities	<u>3,598,690</u>	<u>3,408,016</u>	<u>8,921,373</u>	<u>5,426,336</u>
Net Assets				
Invested in property and equipment - net of	1,633,017	1,457,994	3,971,490	2,017,621
Restricted:				
Streets and highways	31,144	255,452	-	-
CDBG	106,186	106,186	-	-
TIFA	198,928	198,928	-	-
Capital projects	19,909	19,909	-	-
Debt service	1,293	1,293	230,440	366,863
Compensated absences	175,813	375,453	-	-
Unrestricted	457,197	128,655	(1,438,237)	(46,987)
Total Net Assets	<u>2,623,487</u>	<u>2,543,870</u>	<u>2,763,693</u>	<u>2,337,497</u>
Total Liabilities and Net Assets	<u>\$ 6,222,177</u>	<u>\$ 5,951,886</u>	<u>\$ 11,685,066</u>	<u>\$ 7,763,833</u>

**City of Hancock
Management's Discussion and Analysis
June 30, 2011**

Results of Operations

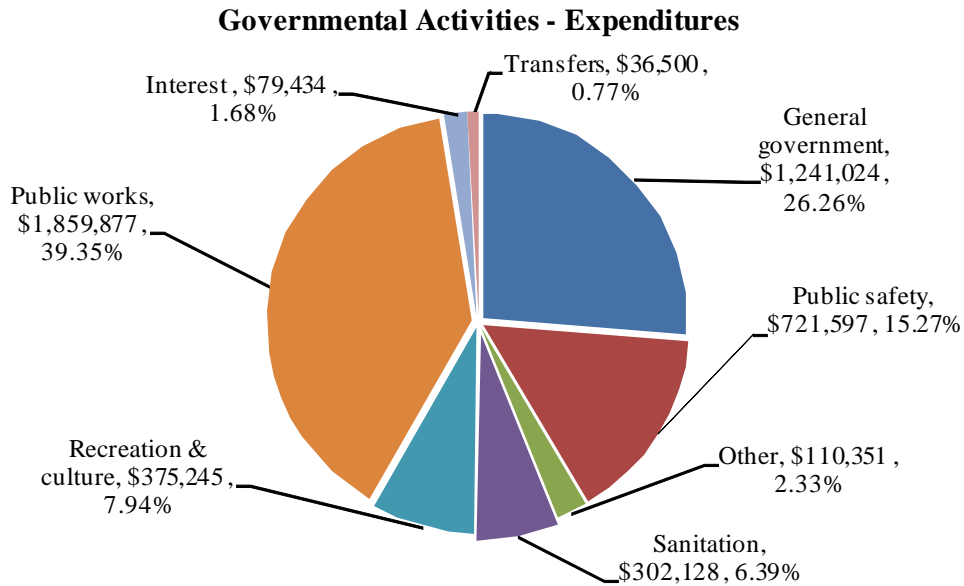
	Governmental Activities		Business-type Activities	
	2011	2010	2011	2010
<u>Revenues</u>				
Program Revenue:				
Charges for services	\$ 1,712,554	\$ 1,615,473	\$ 1,723,548	\$ 1,695,945
Grants and contributions	292,162	367,872	190,120	466,227
Capital grants and contributions	235,704	12,173	363,314	-
General Revenue:				
Property taxes	1,250,961	1,238,172	-	-
State shared revenue	1,047,454	961,817	-	-
Other	266,938	318,295	16,837	30,814
Transfers	-	-	36,500	37,770
Total Revenue	<u>4,805,773</u>	<u>4,513,802</u>	<u>2,330,319</u>	<u>2,230,756</u>
<u>Functions/Program Expenses</u>				
General government	1,241,024	1,236,410	-	-
Public safety	721,597	722,595	-	-
Public works	1,859,877	1,774,602	1,904,123	2,099,742
Sanitation	302,128	289,441	-	-
Recreation and culture	375,245	152,247	-	-
Interest on long-term debt	79,434	50,061	-	-
Other	110,351	286,629	-	-
Transfers	36,500	37,770	-	-
Total Expenses	<u>4,726,156</u>	<u>4,549,755</u>	<u>1,904,123</u>	<u>2,099,742</u>
Change in Net Assets	79,617	(35,953)	426,196	131,014
Net Assets - Beginning	<u>2,543,870</u>	<u>2,579,823</u>	<u>2,337,497</u>	<u>2,206,483</u>
Net Assets - Ending	<u>\$ 2,623,487</u>	<u>\$ 2,543,870</u>	<u>\$ 2,763,693</u>	<u>\$ 2,337,497</u>

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



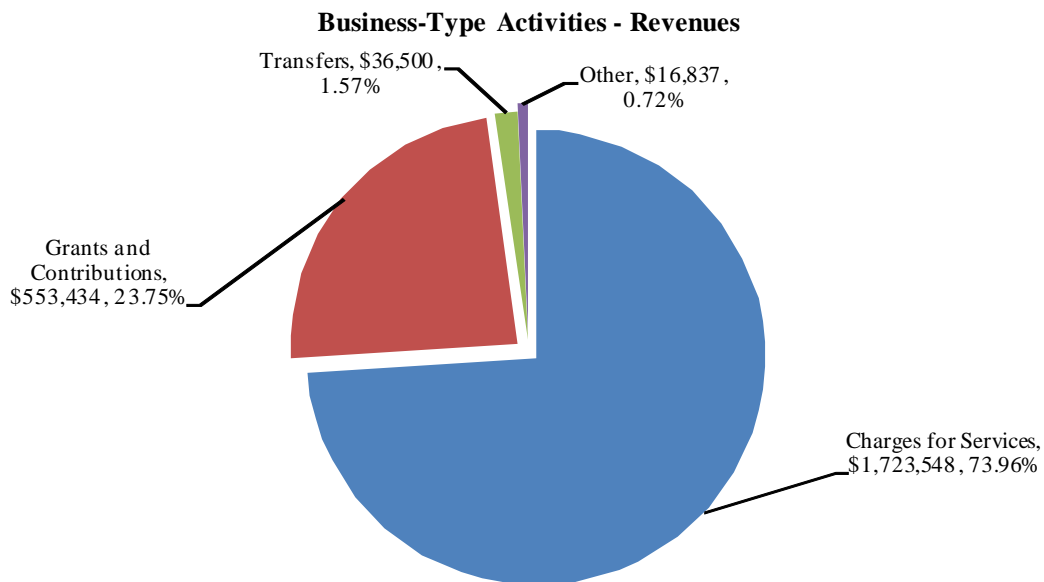
The most significant portions of the revenues for all governmental activities of the City comes from property taxes. The City's operating millage was 14.2021. Charges for services include revenue from internal service funds for employee benefits and the use of the motor vehicles, as well as garbage collection revenue and campground revenue. State revenue represents state shared revenue and funds for the Major and Local Street Funds from the Michigan Transportation Fund.

The general area expenses represent City hall activities. The major, local and motor vehicle expenses are included in the public works area. Police and fire expenses are included in public safety.

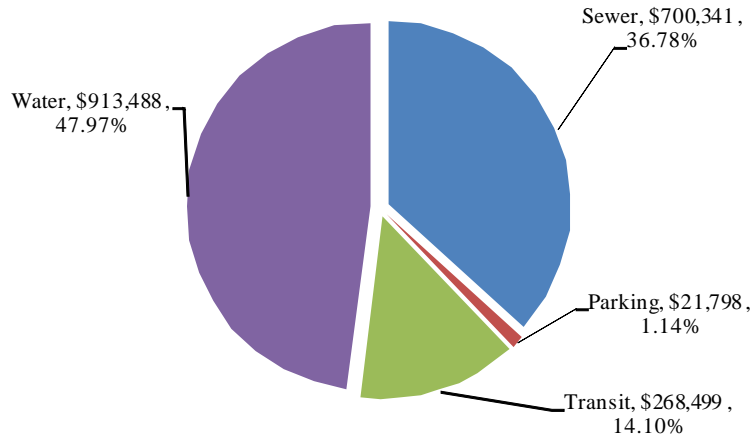


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following two charts highlight the City's business-type activities by revenues and expenses.



Business-Type Activities - Expenditures



Significant Transactions and Changes in Individual Funds

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

GENERAL FUND	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 2,292,151	\$ 2,100,045	\$ 192,106
Expenditures/Transfers	\$ 2,302,903	\$ 2,125,572	\$ 177,331
Fund Balance	\$ 59,191	\$ 69,943	\$ (10,752)

The General Fund saw an increase in revenues and expenditures of \$192,106 and \$177,331, respectfully. The increase in revenue is mainly due to several federal grants received during the year. The increase in expenditures is due to the combination of increases in general government administration, public works, sanitation, and capital outlay.

SPECIAL REVENUE FUNDS	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Major Street Fund:			
Revenues/Transfers	\$ 498,046	\$ 578,433	\$ (80,387)
Expenditures/Transfers	\$ 467,280	\$ 523,733	\$ (56,453)
Fund Balance (Deficit)	\$ 31,144	\$ 378	\$ 30,766
Local Street Fund:			
Revenues/Transfers	\$ 264,710	\$ 234,718	\$ 29,992
Expenditures/Transfers	\$ 264,906	\$ 234,522	\$ 30,384
Fund Balance (Deficit)	-	\$ 196	\$ (196)
CDBG Fund:			
Revenues/Transfers	\$ 247,959	\$ 295,096	\$ (47,137)
Expenditures/Transfers	\$ 322,917	\$ 278,189	\$ 44,728
Fund Balance	\$ 106,186	\$ 181,144	\$ (74,958)
Elevation Street TIF Fund:			
Revenues/Transfers	\$ 26,897	\$ 27,936	\$ (1,039)
Expenditures/Transfers	\$	\$	\$ -
Fund Balance	\$ 198,928	\$ 172,031	\$ 26,897

Significant Transactions and Changes in Individual Funds - (Continued)

Major Street Fund - The decrease in revenues/transfers of \$80,387 is from not having any operating transfers in the current year. In addition, there was a special project in the prior year resulting in miscellaneous income for the prior year only. Expenses/transfers decreased by \$56,453 due to the combination of lower construction and snow and ice control costs and an increase in routine maintenance and state trunkline maintenance.

Local Street Fund - The increase in revenues/transfers are primarily from the combination of increases in transfers and decreases in state revenue. The increase in expenses are from an increase in snow and ice control and routine maintenance costs combined with a decrease in construction costs.

CDBG Fund - The CDBG fund had a decrease in revenues due to less grant proceeds in the current year. The increase in expenditures is due to additional expenses related to grant proceeds.

ENTERPRISE FUNDS	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Parking Meter Fund			
Revenues/Transfers	\$ 22,091	\$ 14,932	\$ 13,140
Expenditures/Transfers	\$ 21,798	\$ 18,418	\$ 3,380
Retained Earnings	\$ (5,981)	\$ (6,274)	\$ 6,274
Transit Fund			
Revenues/Transfers	\$ 627,752	\$ 551,992	\$ 75,760
Expenditures/Transfers	\$ 268,497	\$ 253,284	\$ 15,213
Retained Earnings	\$ 853,909	\$ 494,654	\$ 359,255
Sewer Fund			
Revenues/Transfers	\$ 682,182	\$ 709,168	\$ (26,986)
Expenditures/Transfers	\$ 700,340	\$ 810,962	\$ (110,622)
Retained Earnings	\$ 1,022,431	\$ 1,040,590	\$ (18,159)
Water Fund			
Revenues/Transfers	\$ 998,294	\$ 954,664	\$ 43,630
Expenditures/Transfers	\$ 913,488	\$ 1,017,078	\$ (103,590)
Retained Earnings	\$ 893,333	\$ 808,527	\$ 84,806

Parking Meter Fund - The Parking Meter Fund showed an increase revenues and transfers due to an increase in charges for services. Expenses increased due to an increase in general administration costs.

Transit Fund - The Transit Fund had an increase in revenues due to an increase in federal grants. Expenditures showed an increase due to an increase in operations and maintenance and depreciation combined with a decrease in general administration.

Sewer Fund - The Sewer Fund's revenues/transfers decreased due to a decrease in charges for services. Expenditures decreased due to decreases in purchased services and operations and maintenance.

Water Fund - The Water Funds revenues increased due to an increase in charges for services. The decrease in expenditures is from a decrease in purchased services and operations and maintenance.

DEBT SERVICE (BUILDING AUTHORITY)	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 137,581	\$ 137,945	\$ (364)
Expenditures/Transfers	\$ 137,571	\$ 137,930	\$ (359)
Fund Balance	\$ 1,293	\$ 1,283	\$ 10

Significant Transactions and Changes in Individual Funds - (Continued)

RESIDENTIAL CAPITAL PROJECTS			
	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 218	\$ 16,218	\$ (16,000)
Expenditures/Transfers	\$ 165	\$ 11,641	\$ (11,476)
Fund Balance (deficit)	\$ 19,909	\$ 19,856	\$ 53

Decrease in revenues is due to transfers in prior year. The decrease in expenditures is due to a decrease in construction costs.

INTERNAL SERVICE FUNDS

Employee Benefits Fund - Revenue decreased due to a reduction in charges to other city funds. Expenses decreased mainly due to health insurance costs.

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 924,859	\$ 930,651	\$ (5,792)
Expenditures/Transfers	\$ 864,629	\$ 880,988	\$ (16,359)
Fund Balance	\$ 175,813	\$ 115,583	\$ 60,230

Motor Vehicle Fund -Revenue increased due to additional charges to other city funds. Expenses increased due to the combination of increases in garage maintenance and operations and decreases in administration and depreciation expense.

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 464,098	\$ 391,872	\$ 72,226
Expenditures/Transfers	\$ 550,647	\$ 511,722	\$ 38,925
Fund Balance	\$ 636,656	\$ 703,340	\$ (66,684)

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 unrestricted fund balances of \$385,360.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, fund balance of the General Fund was \$59,191. 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 2% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$10,752 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. Fund equity at the end of the year amounted to \$2,763,693.

Capital Assets and Debt Administration

The City's net investment in capital assets for the governmental and business-type activities as of June 30, 2011, amounts to \$15,822,002. Capital asset additions totaling \$5,479,084 includes transit building construction, paving, water and sewer improvements, sander, and grader.

Additional information on the City's capital assets can be found starting on page 35 of this report.

Long-term debt: At the end of the current fiscal year, the City had total debt of \$10,217,495. This total amount is backed by the full faith and credit of the City.

Additional information on the City's long-term debt can be found starting on page 37 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 Manager at 399 Quincy Street, Hancock, Michigan 49930 or call (906) 482-1121.

CITY OF HANCOCK
STATEMENT OF NET ASSETS

June 30, 2011

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
CURRENT ASSETS:				
Cash	\$ 697,570	\$ 45,380	\$ 742,950	\$ 104,302
Restricted cash	181,391	98,914	280,305	-
Investments	51,949	-	51,949	-
Restricted investments	-	147,223	147,223	-
Receivables	153,273	163,709	316,982	18,500
Inventories	60,792	116,997	177,789	-
Prepaid expenses	90,718	2,327	93,045	-
Due from component unit	2,515	-	2,515	-
Due from fiduciary funds	905	-	905	-
Internal balances	179,644	(179,644)	-	-
Due from other governmental units	220,908	50,670	271,578	-
TOTAL CURRENT ASSETS	1,639,665	445,576	2,085,241	122,802
NONCURRENT ASSETS:				
Non-depreciable capital assets	435,670	-	435,670	114,288
Depreciable capital assets-Net	4,146,842	11,239,490	15,386,332	-
TOTAL NONCURRENT ASSETS	4,582,512	11,239,490	15,822,002	114,288
TOTAL ASSETS	\$ 6,222,177	\$ 11,685,066	\$ 17,907,243	\$ 237,090
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ 270,286	\$ 1,653,373	\$ 1,923,659	\$ 133
Due to other governmental units	-	-	-	2,515
Bonds payable, current maturities	110,864	195,000	305,864	-
Note payable, current maturities	63,826	-	63,826	-
TOTAL CURRENT LIABILITIES	444,976	1,848,373	2,293,349	2,648
NONCURRENT LIABILITIES:				
Bonds payable, less current maturities	2,232,324	7,073,000	9,305,324	-
Note payable, less current maturities	542,481	-	542,481	-
Compensated absences	378,909	-	378,909	-
TOTAL NONCURRENT LIABILITIES	3,153,714	7,073,000	10,226,714	-
TOTAL LIABILITIES	3,598,690	8,921,373	12,520,063	2,648
NET ASSETS:				
Invested in capital assets, net of related debt	1,633,017	3,971,490	5,604,507	-
Restricted:				
Streets and highways	31,144	-	31,144	-
CDBG	106,186	-	106,186	-
TIFA	198,928	-	198,928	-
Program expenses	73,912	-	73,912	-
Capital projects	19,909	-	19,909	-
Debt service	1,293	230,440	231,733	-
Unrestricted	559,098	(1,438,237)	(879,139)	234,442
TOTAL LIABILITIES AND NET ASSETS	\$ 6,222,177	\$ 11,685,066	\$ 17,907,243	\$ 237,090

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

CITY OF HANCOCK
STATEMENT OF ACTIVITIES
June 30, 2011

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Grants and Contributions Operating	Capital	Governmental	Primary Government Business-Type	Total	Component Unit (DDA)
Primary government:								
Government activities:								
General government	\$ 1,241,024	\$ 924,509	\$ 46,940	\$ 39,499	\$ (230,076)	-	\$ (230,076)	\$ -
Public safety	721,597	1,711	-	-	(719,886)	-	(719,886)	-
Public works	1,859,877	423,815	-	196,205	(1,239,857)	-	(1,239,857)	-
Sanitation	302,128	171,248	-	-	(130,880)	-	(130,880)	-
Recreation and culture	375,245	81,898	244,712	-	(48,635)	-	(48,635)	-
Interest on long-term debt	79,434	-	-	-	(79,434)	-	(79,434)	-
Other	110,351	109,373	-	-	(978)	-	(978)	-
Total governmental activities	4,689,656	1,712,554	291,652	235,704	(2,449,746)	-	2,449,746	-
Business-type activities:								
Water	913,488	992,417	-	-	-	78,929	78,929	-
Sewer	700,340	678,357	-	-	-	(21,983)	(21,983)	-
Parking Meter	21,798	15,560	-	-	-	(6,238)	(6,238)	-
Transit	268,497	37,214	190,020	363,414	-	322,151	322,151	-
Total business-type activities	1,904,123	1,723,548	190,020	363,414	-	(372,859)	(372,859)	-
Total primary government	\$ 6,593,779	\$ 3,436,102	\$ 481,672	\$ 599,118	(2,449,746)	372,859	(2,076,887)	-
Component Unit (DDA)	\$ 181,686	\$ -	\$ -	\$ -	-	-	-	(181,686)
General Revenues:								
Property taxes, levied for general operations					1,250,961	-	1,250,961	133,626
State shared revenue					1,047,964	-	1,047,964	-
Interest and investment earnings					9,808	6,190	15,998	1,157
Transfers					(36,500)	36,500	-	-
Gain on sale of assets					1,300	-	1,300	-
Other					255,830	10,647	266,477	1,006
Total general revenues, transfers, and special items					2,529,363	53,337	2,582,700	135,789
Change in Net Assets					79,617	426,196	505,813	(45,897)
Net Assets - Beginning					2,543,870	2,337,497	4,881,367	280,339
Net Assets - Ending					\$ 2,623,487	\$ 2,763,693	\$ 5,387,180	\$ 234,442

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

CITY OF HANCOCK
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	<u>Major Governmental Funds</u>		Other	Total Governmental Funds
	General	Major Street	Non-major	
	Fund	Fund	Government Funds	
ASSETS:				
Cash and cash equivalents	\$ 185,646	\$ 108,545	\$ 263,205	\$ 557,396
Restricted cash	71,837	-	107,479	179,316
Investments	51,949	-	-	51,949
Taxes receivable	64,300	-	51,643	115,943
Accounts receivable	36,188	-	-	36,188
Due from other funds	69,039	-	192,630	261,669
Due from fiduciary funds	905	-	-	905
Due from governmental units	169,252	36,209	15,447	220,908
Inventory	21,857	-	-	21,857
Prepaid expenses	27,468	-	-	27,468
TOTAL ASSETS	\$ 698,441	\$ 144,754	\$ 630,404	\$ 1,473,599
LIABILITIES:				
Accounts payable	\$ 151,947	\$ -	\$ -	\$ 151,947
Accrued expenses	24,619	787	1,353	26,759
Due to other funds	462,684	112,823	302,735	878,242
TOTAL LIABILITIES	639,250	113,610	304,088	1,056,948
FUND BALANCES:				
Nonspendable:				
Inventories	21,857	-	-	21,857
Prepays	27,468	-	-	27,468
Restricted:				
Streets and highways	-	31,144	-	31,144
CDBG	-	-	106,186	106,186
TIFA	-	-	198,928	198,928
Program projects	71,837	-	-	71,837
Capital projects	-	-	19,909	19,909
Debt service	-	-	1,293	1,293
Unassigned	(61,971)	-	-	(61,971)
	59,191	31,144	326,316	416,651
TOTAL LIABILITIES AND FUND BALANCES	\$ 698,441	\$ 144,754	\$ 630,404	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,962,384
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 assets.	812,469
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,568,017)</u>
Net assets of governmental activities	<u>\$ 2,623,487</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 2011

	<u>Major Governmental Funds</u>		<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Major Street</u>	<u>Non-major Governmental Funds</u>	<u>Governmental Funds</u>
Revenues:				
Taxes	\$ 1,137,476	\$ -	\$ 113,485	\$ 1,250,961
State revenue	425,011	496,951	126,002	1,047,964
Federal revenue	291,652	-	196,205	487,857
Charges for services	363,297	-	137,572	500,869
Interest	16,507	1,095	1,601	19,203
Other revenue	57,954	-	51,754	109,708
Total revenues	<u>2,291,897</u>	<u>498,046</u>	<u>626,619</u>	<u>3,416,562</u>
Expenditures:				
General government	442,244	28,670	7,107	478,021
Public safety	721,597	-	-	721,597
Public works	228,402	438,610	580,881	1,247,893
Sanitation	302,128	-	-	302,128
Recreation and culture	375,245	-	-	375,245
Debt service	79,434	-	-	79,434
Other	66,607	-	137,571	204,178
Total expenditures	<u>2,215,657</u>	<u>467,280</u>	<u>725,559</u>	<u>3,408,496</u>
Excess (deficiency) of revenue over expenditures	<u>76,240</u>	<u>30,766</u>	<u>(98,940)</u>	<u>8,066</u>
Other Financing Sources (Uses)				
Loan Proceeds	254	-	-	254
Operating transfers in	-	-	50,746	50,746
Operating transfers out	(87,246)	-	-	(87,246)
Total other financing sources (uses)	<u>(86,992)</u>	<u>-</u>	<u>50,746</u>	<u>(36,246)</u>
Net change in fund balance	(10,752)	30,766	(48,194)	(28,180)
Fund Balances - Beginning of Year	69,943	378	374,510	
Fund Balances - End of Year	<u>\$ 59,191</u>	<u>\$ 31,144</u>	<u>\$ 326,316</u>	

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.

This amount represents depreciation. 22,465

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. 107,984

Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred. 3,667

Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities. (26,319)

Change in net assets of governmental activities \$ 79,617

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

CITY OF HANCOCK
PROPRIETARY FUNDS
BALANCE SHEET
Year Ended June 30, 2011

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds				Non-major Fund	Internal Service Funds
	Sewer	Water	Transit	Parking	Total	
				Meter		
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 14,633	\$ 21,653	\$ 7,717	\$ 1,377	\$ 45,380	\$ 140,174
Restricted cash	89,509	9,405	-	-	98,914	2,075
Restricted investments	-	147,223	-	-	147,223	-
Accounts receivable	65,775	97,814	40	80	163,709	1,142
Inventory	51,711	65,286	-	-	116,997	38,935
Due from other funds	-	70,000	-	-	70,000	898,367
Due from other governmental units	50,670	-	-	-	50,670	-
Due from component unit	-	-	-	-	-	2,515
Prepaid expenses	-	650	1,677	-	2,327	63,250
Total current assets	272,298	412,031	9,434	1,457	695,220	1,146,458
General fixed assets						
Property, plant, and equipment	7,191,156	12,076,375	1,110,186	30,893	20,408,610	2,381,898
Accumulated depreciation	(4,938,138)	(3,959,358)	(240,731)	(30,893)	(9,169,120)	(1,761,770)
Total general fixed assets	2,253,018	8,117,017	869,455	-	11,239,490	620,128
TOTAL ASSETS	\$ 2,525,316	\$ 8,529,048	\$ 878,889	\$ 1,457	\$ 11,934,710	\$ 1,766,586
LIABILITIES:						
Current liabilities:						
Accounts payable	\$ 460,325	\$ 1,178,120	\$ 4,277	\$ -	\$ 1,642,722	\$ 68,867
Accrued expenses	2,253	4,257	3,703	438	10,651	176,793
Due to other funds	112,306	113,338	17,000	7,000	249,644	102,150
Current maturities on long-term debt	30,000	165,000	-	-	195,000	63,826
Total current liabilities	604,884	1,460,715	24,980	7,438	2,098,017	411,636
Long-term liabilities:						
Bonds/note payable	898,000	6,175,000	-	-	7,073,000	542,481
TOTAL LIABILITIES	1,502,884	7,635,715	24,980	7,438	9,171,017	954,117
NET ASSETS:						
Reserved	83,217	147,223	-	-	230,440	2,075
Unreserved	939,215	746,110	853,909	(5,981)	2,533,253	810,394
Total retained earnings	1,022,432	893,333	853,909	(5,981)	2,763,693	812,469
TOTAL LIABILITIES AND NET ASSETS	\$ 2,525,316	\$ 8,529,048	\$ 878,889	\$ 1,457	\$ 11,934,710	\$ 1,766,586

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

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN RETAINED EARNINGS
Year Ended June 30, 2011

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds			Non-major Fund	Total	Internal Service Funds
	Sewer	Water	Transit	Parking Meter		
	Sewer	Water	Transit	Parking Meter	Total	Internal Service Funds
OPERATING REVENUES:						
Sales and charges for services	\$ 678,357	\$ 992,417	\$ 37,214	\$ 15,560	\$ 1,723,548	\$ 1,348,324
State revenue	-	-	151,352	-	151,352	-
Federal revenue	-	-	406,082	-	406,082	39,499
Other revenue	3,036	740	2,871	-	6,647	473
TOTAL OPERATING REVENUES	681,393	993,157	597,519	15,560	2,287,629	1,388,296
OPERATING EXPENSES:						
General administration	40,152	60,441	55,884	21,798	178,275	872,534
Meter reading	12,015	12,051	-	-	24,066	-
Purchased services	449,803	165,184	-	-	614,987	-
Operations and maintenance	96,552	281,479	153,384	-	531,415	426,245
Depreciation	98,318	227,872	59,229	-	385,419	101,387
TOTAL OPERATING EXPENSES	696,840	747,027	268,497	21,798	1,734,162	1,400,166
OPERATING INCOME (LOSS)	(15,447)	246,130	329,022	(6,238)	553,467	(11,870)
NON-OPERATING REVENUES (EXPENSES):						
Interest income	789	5,137	233	31	6,190	661
Interest expense	(3,500)	(166,461)	-	-	(169,961)	(15,110)
Operating transfers in	-	-	30,000	6,500	36,500	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,711)	(161,324)	30,233	6,531	(127,271)	(14,449)
NET INCOME (LOSS)	(18,158)	84,806	359,255	293	426,196	(26,319)
NET ASSETS BEGINNING OF YEAR	1,040,590	808,527	494,654	(6,274)	2,337,497	838,788
NET ASSETS END OF YEAR	\$ 1,022,432	\$ 893,333	\$ 853,909	\$ (5,981)	\$ 2,763,693	\$ 812,469

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

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

	Business Type		Total
	Activities	Governmental Activities	
	Enterprise Funds	Internal Service Funds	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,705,548	\$ 1,348,324	\$ 3,053,872
Payments to suppliers	737,156	275,952	(461,204)
Internal activity-receipts (payments) to other funds	(72,994)	-	72,994
Payments to employees	(484,694)	979,822	1,464,516
Other receipts (payments)	564,081	39,972	604,053
Net cash provided by operating activities	<u>2,449,097</u>	<u>132,522</u>	<u>2,581,619</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	<u>(98,212)</u>	<u>(95,177)</u>	<u>3,035</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	4,513,726	(362,420)	(4,876,146)
Principal paid on capital debt	2,174,438	(216,459)	(2,390,897)
Interest paid on capital debt	<u>(169,961)</u>	<u>(15,110)</u>	<u>(185,071)</u>
Net cash (used) by capital and related financing activities	<u>(2,509,249)</u>	<u>(161,071)</u>	<u>(2,670,320)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>6,190</u>	<u>(661)</u>	<u>59,229</u>
Net cash provided by investing activities	<u>6,190</u>	<u>661</u>	<u>59,229</u>
Net (decrease) in cash and cash equivalents	(152,174)	67,289	(150,965)
Balances -- beginning of the year	<u>443,691</u>	<u>74,960</u>	<u>-</u>
Balances -- end of the year	<u>\$ 291,517</u>	<u>\$ 142,249</u>	<u>\$ 150,965</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 553,467	\$ 11,870	\$ 541,597
Adjustments to reconcile operating income to to net cash provided (used) by operating activities:			
Depreciation expense	385,419	101,387	486,806
Changes in assets and liabilities:			
Receivables, net	(18,000)	-	(18,000)
Due from other governmental units	232,290	-	232,290
Inventory	(24,752)	-	24,752
Prepaid expenses	74	1,940	1,866
Accounts and other payables	1,338,131	38,667	1,376,798
Accrued expenses	884	6,278	7,162
Due to other governmental units	<u>(18,416)</u>	<u>-</u>	<u>(18,416)</u>
Net cash provided by operating activities	<u>\$ 2,449,097</u>	<u>\$ 132,522</u>	<u>\$ 2,581,619</u>

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

CITY OF HANCOCK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	Non-Expendable			
	<u>Trust Fund</u>			
	Cemetery			
	Perpetual			
	<u>Agency Funds</u>			
	<u>Care Trust</u>	<u>Agency</u>	<u>Payroll</u>	<u>Total</u>
ASSETS:				
Cash and equivalents	\$ 79,247	\$ 906	\$ 5	\$ 911
Investments	96,489	-	-	-
TOTAL ASSETS	\$ 175,736	\$ 906	\$ 5	\$ 911
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ 5	\$ 5
Due to general fund	-	906	-	906
TOTAL LIABILITIES	-	906	5	911
FUND EQUITY:				
Fund balance:				
Reserved	175,736	-	-	-
TOTAL FUND EQUITY	175,736	-	-	-
TOTAL LIABILITIES AND FUND EQUITY	\$ 175,736	\$ 906	\$ 5	\$ 911

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

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.

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, 2010 is as follows:

Total assets	\$ 860,638
Total liabilities	\$ 95,296
Total equity	765,342
Total liabilities and surplus	<u>\$ 860,638</u>
Operating income	\$ 742,816
Operating expenses	<u>884,003</u>
Net operating income	(141,187)
Capital grant contributions	37,614
Net Non-operating revenues (expenses)	<u>(122,391)</u>
Net income	<u>\$ (225,964)</u>

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 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, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2011 (most recent year audited) shows the following:

Total Assets	\$ 9,446,864
Total Liabilities	\$ 9,238,777
Total Equity	\$ 208,087
Total Revenues	\$ 1,941,291
Total Expenditures	\$ 2,282,330
Long-Term Debt	\$ 8,387,564

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 combined 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 Clerks 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 that of 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 assets and the statement of activities) report information on all of the non-fiduciary activities of the City. 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 activities 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the government-wide statement of net assets, 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 assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The City first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities 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 activities 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 assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds, Enterprise Funds, Internal Service 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 judgements, 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: Elevation Street TIFA Fund, Debt Service (Building Authority), Community Development Block Grant, and Residential Capital Project.

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, Parking Meter 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 primarily through user charges and bonds.

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

Transit Fund - The transit Fund is used to account for the operation of the public transportation system established the City of Hancock for its residents.

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.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 amounts in demand deposits and certificates of deposit.

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 statues 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 on tax roll properties attach as an enforceable lien on property as of December 31, are levied annually on July 1, and are due on 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 City, 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.

Fund Balance - The City adopted the provisions of GASB Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is presented on the face of the balance sheet.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Board of Education. A formal resolution of the Board 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. Inventory in the General Fund consists of expendable supplies. The individual inventory supplies 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. Capital 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.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

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.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Reclassification - Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

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, 2011, 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 major funds are noted in the required supplementary information section.

NOTE C - CASH AND INVESTMENTS

At year-end, the City's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the City is as follows:

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units	Fiduciary Funds
Unrestricted	\$ 697,570	\$ 45,380	\$ 742,950	\$ 104,302	\$ -
Restricted Cash	181,391	98,914	280,305	-	80,158
Total Cash and Cash Equivalents	<u>878,961</u>	<u>144,294</u>	<u>1,023,255</u>	<u>104,302</u>	<u>80,158</u>
Unrestricted Investments	51,949	-	51,949	-	-
Restricted Investments	-	147,223	147,223	-	96,489
Total Investments	<u>51,949</u>	<u>147,223</u>	<u>199,172</u>	<u>-</u>	<u>96,489</u>
Total deposits and investments	<u>\$ 930,910</u>	<u>\$ 291,517</u>	<u>\$ 1,222,427</u>	<u>\$ 104,302</u>	<u>\$ 176,647</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE C - CASH AND INVESTMENTS (Continued)

As of June 30, 2011 the City had the following investments:

Investment Type	Fair Value	Rating
Accrued Interest	\$ 22	AAA
Federal Government Obligations	230,541	AAA
TOTAL	<u>\$ 230,563</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, 2011, \$373,984 of the City’s bank balance of \$2,461,564 was exposed to custodial credit risk because it was uninsured and collateralized 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.

NOTE D - TRANSFERS AND INTERFUND BALANCES

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

Fund	Transfer Out	Fund	Transfer In
General	\$ 87,246	Local Street	\$ 50,746
		Parking Meter	6,500
		Transit	30,000
TOTALS	<u>\$ 87,246</u>	TOTALS	<u>\$ 87,246</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE D - TRANSFERS AND INTERFUND BALANCES (Continued)

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, 2011 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Local Street	192,630	General	\$ 192,630
Subtotal	<u>192,630</u>	Subtotal	<u>192,630</u>
Employee Benefits	296,515	General	230,000
		Parking	7,000
		Motor Vehicle	20,000
		DDA	2,515
		Transit	17,000
		Sewer	20,000
Subtotal	<u>296,515</u>	Subtotal	<u>296,515</u>
Motor Vehicle	604,367	General	40,054
		Major	66,877
		Local	291,792
		Sewer	92,306
		Water	113,338
Subtotal	<u>604,367</u>	Subtotal	<u>604,367</u>
Water	70,000	Employee Benefits	70,000
Subtotal	<u>70,000</u>	Subtotal	<u>70,000</u>
General	69,039	Motor Vehicle	12,150
		Major	45,946
		Local Street	10,943
Subtotal	<u>69,039</u>	Subtotal	<u>69,039</u>
TOTALS	<u>\$ 1,232,551</u>	TOTALS	<u>\$ 1,232,551</u>

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.

NOTE E - RECEIVABLES

The detail of receivables at June 30, 2011 are as follows:

<u>Receivables</u>	<u>General</u>	<u>Special Revenue</u>	<u>Internal Service</u>	<u>Enterprise</u>	<u>Total Primary Government</u>
Accounts	\$ 36,188	\$	\$ 1,142	\$ 163,709	\$ 201,039
Taxes	64,300	51,643	-	-	115,943
Total receivables	<u>\$ 100,488</u>	<u>\$ 51,643</u>	<u>\$ 1,142</u>	<u>\$ 163,709</u>	<u>\$ 316,982</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE F - CAPITAL ASSETS

Capital asset activity of the City's governmental activities is as follows:

	Balance 6/30/10	Additions	Subtractions	Balance 6/30/11
Land	\$ 435,670	\$ -	\$ -	\$ 435,670
Depreciable Capital Assets				
Buildings	2,715,738	-	-	2,715,738
Equipment	719,792	378,854	-	1,098,646
Improvements	1,866,421	268,812	-	2,135,233
Vehicles	2,546,468	-	-	2,546,468
Subtotal	<u>7,848,419</u>	<u>\$ 647,666</u>	<u>\$ -</u>	<u>8,496,085</u>
Accumulated Depreciation				
Buildings	971,957	\$ 64,424	\$ -	1,036,381
Equipment	387,497	95,003	-	482,500
Improvements	746,515	101,082	-	847,597
Vehicles	1,879,106	103,659	-	1,982,765
Subtotal	<u>3,985,075</u>	<u>\$ 364,168</u>	<u>\$ -</u>	<u>4,349,243</u>
Net depreciable capital assets	<u>3,863,344</u>			<u>4,146,842</u>
Net capital assets	<u>\$ 4,299,014</u>			<u>\$ 4,582,512</u>

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

General Fund	\$ 178,429
DDA	3,332
Major Streets Fund	69,020
Local Streets Fund	12,000
Motor Vehicle Fund	101,387
	<u>\$ 364,168</u>

The components of property, plant, and equipment in City proprietary funds at June 30, 2011 are summarized as follows:

	Beginning	Additions	Deletions	Ending
PARKING METER FUND				
Equipment	\$ 30,893	\$ -	\$ -	\$ 30,893
Accumulated depreciation	30,893	-	-	30,893
Net capital assets	<u>\$ -</u>			<u>\$ -</u>
TRANSIT FUND				
Construction in progress	\$ 317,692	\$ -	\$ 317,692	\$ -
Buildings	-	716,473	-	716,473
Equipment	3,221	39,899	-	43,120
Vehicles	350,593	-	-	350,593
Subtotal	<u>671,506</u>	<u>\$ 756,372</u>	<u>\$ 317,692</u>	<u>1,110,186</u>
Accumulated depreciation:				
Buildings	\$ -	\$ 4,478	\$ -	\$ 4,478
Equipment	2,970	1,812	-	4,782
Vehicles	178,531	52,940	-	231,471
Subtotal	<u>181,501</u>	<u>\$ 59,230</u>	<u>\$ -</u>	<u>240,731</u>
Net capital assets	<u>\$ 490,005</u>			<u>\$ 869,455</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE F - CAPITAL ASSETS (Continued)

SEWER DISPOSAL FUND	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Buildings	\$ 754,725	\$ -	\$ -	\$ 754,725
Construction in progress	-	1,403,252	-	1,403,252
Utility system	5,033,179	-	-	5,033,179
Subtotal	<u>5,787,904</u>	<u>\$ 1,403,252</u>	<u>\$ -</u>	<u>7,191,156</u>
Accumulated depreciation:				
Buildings	\$ 632,081	\$ 18,868	\$ -	\$ 650,949
Utility system	4,207,739	79,450	-	4,287,189
Subtotal	<u>4,839,820</u>	<u>\$ 98,318</u>	<u>\$ -</u>	<u>4,938,138</u>
Net capital assets	<u>\$ 948,084</u>			<u>\$ 2,253,018</u>
WATER SUPPLY FUND	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Buildings	\$ 1,645,692	\$ -	\$ -	\$ 1,645,692
Construction in progress	-	2,671,794	-	2,671,794
Equipment	13,383	-	-	13,383
Land	73,500	-	-	73,500
Loan fees/lease	238,496	-	-	238,496
Utility system	7,433,510	-	-	7,433,510
Subtotal	<u>9,404,581</u>	<u>\$ 2,671,794</u>	<u>\$ -</u>	<u>12,076,375</u>
Accumulated depreciation:				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	7,360	1,338	-	8,698
Loan fees/lease	155,415	5,190	-	160,605
Utility system	1,923,019	221,344	-	2,144,363
Subtotal	<u>3,731,486</u>	<u>\$ 227,872</u>	<u>\$ -</u>	<u>3,959,358</u>
Net capital assets	<u>\$ 5,673,095</u>			<u>\$ 8,117,017</u>

NOTE G - RESTRICTED ASSETS AND RESERVE FUND/EQUITY BALANCES

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

<u>General Fund</u>		<u>Other Funds</u>		<u>Enterprise Funds</u>	
Dupee Shaft	\$ 23,424	CDBG	\$ 106,186	Sewer Fund	\$ 89,509
Main Street Local Pool	41,732	Debt Retirement	\$ 1,293	Water Fund	\$ 156,628
Perry House	286	Employee benefits	\$ 2,075		
Civic Flowers	2,090				
Parks Round Up	3,845				
Sister City	149				
Maasto Hiihto	311				
	<u>\$ 71,837</u>				

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 \$41,732 represents the balance of the commercial loan program. As of June 30, 2011, 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 \$246,317 as of June 30, 2011. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$2,075 as of June 30, 2011.

The Cemetery Perpetual Care Trust balance of \$175,736 is reserved for the perpetual care payments.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE H - 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, 2011 was \$101,313 and \$277,596 respectively.

NOTE I - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

1997 Building Authority Bonds: On August 15, 1997, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$533,800 to fund the construction of a new fire hall. The bond was issued in a single denomination of \$533,800 at an interest rate not to exceed 5.0% per annum with principal amounts payable August 1 and interest payable semi-annually on February 1 and August 1.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 15,000	\$ 20,375	\$ 35,375
2012-13	15,000	19,625	34,625
2013-14	15,000	18,875	33,875
2014-15	20,000	18,125	38,125
2015-16	20,000	17,250	37,250
2016-17	20,000	16,250	36,250
2017-18	20,000	15,250	35,250
2018-19	20,000	14,250	34,250
2019-24	130,000	54,250	184,250
2024-28	125,000	19,875	144,875
TOTALS	\$ 400,000	\$ 214,125	\$ 614,125

1998 Building Authority Bonds: On March 19, 1998, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$1,048,000 to fund the construction of a new department of public works garage. The bond was issued in a single denomination of \$1,048,000 at an interest rate of 4.75% per annum with principal amounts payable April 1 and interest payable semi-annually on April 1 and October 1.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 29,000	\$ 38,618	\$ 67,618
2012-13	31,000	37,264	68,264
2013-14	32,000	35,839	67,839
2014-15	34,000	34,343	68,343
2015-16	36,000	32,775	68,775
2016-17	38,000	31,113	69,113
2017-18	41,000	29,355	70,355
2018-23	240,000	116,447	356,447
2023-28	318,000	55,813	373,813
TOTALS	\$ 799,000	\$ 411,567	\$ 1,210,567

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE I - LONG-TERM DEBT (Continued)

U.S. Department of Agriculture Community Facilities Loans: On October 26, 2007, the City of Hancock was awarded a note of \$550,000 for the purpose of purchasing two fire trucks. The note was issued for \$550,000 at an interest rate of 4.25% per annum with principal amounts payable October 1 and interest payable semi-annually on October 1 and April 1.

This note is subject to prepayment at any time prior to the dates on which principal and interest are due at the discretion of the City, upon seven days written notice to the USDA.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 33,000	\$ 16,487	\$ 49,487
2012-13	35,000	15,029	50,029
2013-14	35,000	13,528	48,528
2014-15	37,000	11,984	48,984
2015-16	39,000	10,355	49,355
2016-17	41,000	8,640	49,640
2017-18	43,000	6,839	49,839
2018-19	45,000	4,952	49,952
2019-20	46,000	3,001	49,001
2020-21	47,000	1,008	48,008
TOTALS	\$ 401,000	\$ 91,824	\$ 492,824

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. As of June 30, 2011, \$490,210 of the bonds was issued 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>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 9,000	\$ 19,553	\$ 28,553
2012-13	10,000	19,181	29,181
2013-14	10,000	18,769	28,769
2014-15	11,000	18,356	29,356
2015-16	11,000	17,903	28,903
2016-17	12,000	17,449	29,449
2017-18	12,000	16,954	28,954
2018-23	71,000	76,643	147,643
2023-28	87,000	60,761	147,761
2028-33	108,000	41,085	149,085
2033-37	133,000	16,995	149,995
TOTALS	\$ 474,000	\$ 323,649	\$ 797,649

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE I - 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>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 2,000	\$ 4,410	\$ 6,410
2012-13	2,000	4,320	6,320
2013-14	2,000	4,230	6,230
2014-15	2,000	4,140	6,140
2015-16	2,000	4,050	6,050
2016-17	2,000	3,960	5,960
2017-18	3,000	3,870	6,870
2018-23	15,000	17,325	32,325
2023-28	18,000	13,815	31,815
2028-33	22,000	9,405	31,405
2033-37	28,000	3,915	31,915
TOTALS	\$ 98,000	\$ 73,440	\$ 171,440

Superior National Bank: On June 1, 2011 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 will be adjusted on June 1, 2015 from the to an interest rate equal to prime rate plus seventy-five hundredths percent (.75%) for the remaining sixty (60) months.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 11,694	\$ 4,950	\$ 16,644
2012-13	12,162	4,482	16,644
2013-14	12,648	3,996	16,644
2014-15	13,154	3,490	16,138
2015-16	74,098	2,964	77,062
	<u>\$123,756</u>	<u>\$19,882</u>	<u>\$143,132</u>

Superior National Bank: On June 3, 2009 the City of Hancock authorized the purchase of a garbage truck with financing through Superior National Bank in the amount of \$68,499. The loan has an interest rate of 4.00% per annum with principal amounts and interest payable June 3.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 11,170	\$ 1,897	\$ 13,067
2012-13	11,617	1,450	13,067
2013-14	12,081	986	13,067
2015-16	12,564	503	13,067
	<u>\$47,432</u>	<u>\$4,836</u>	<u>\$52,268</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE I - 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 November 1 and interest payable semi-annually on November 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 Development Authority.

Year	Principal	Interest	Total
2011-12	\$ 18,000	\$ 30,370	\$ 48,370
2012-13	18,000	31,684	49,684
2013-14	19,000	31,211	50,211
2014-15	19,000	30,712	49,712
2015-16	20,000	30,214	50,214
2016-17	20,000	29,689	49,689
2017-18	21,000	29,164	50,164
2018-19	21,000	28,612	49,612
2019-20	22,000	28,061	50,061
2020-21	22,000	27,484	49,484
2021-26	121,000	128,310	249,310
2026-31	137,000	111,641	248,641
2031-36	156,000	92,689	248,689
2036-41	180,000	71,006	251,006
2041-46	205,000	46,069	251,069
2046-51	226,000	17,928	243,928
TOTALS	<u>\$ 1,225,000</u>	<u>\$ 764,844</u>	<u>\$ 1,989,844</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 in a single denomination of \$500,000 at an interest rate of 2.375% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1. As of June 30, 2011 \$1,620,000 of the bond had been issued. 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 Development Authority.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE I - LONG-TERM DEBT (Continued)

2011B Water Supply System Junior Lien Revenue and Revenue Refunding Bond:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 57,000	\$ 84,002	\$ 141,002
2012-13	58,000	87,590	145,590
2013-14	60,000	86,213	146,213
2014-15	61,000	84,788	145,788
2015-16	63,000	83,339	146,339
2016-17	64,000	81,843	145,843
2017-18	66,000	80,323	146,323
2018-19	67,000	78,755	145,755
2019-20	69,000	77,164	146,164
2020-21	71,000	75,525	146,525
2021-26	378,000	351,643	729,643
2026-31	425,000	304,594	729,594
2031-36	478,000	251,679	729,679
2036-41	539,000	192,066	731,066
2041-46	605,000	125,044	730,044
2046-51	684,000	49,634	733,634
TOTALS	<u>\$ 3,745,000</u>	<u>\$ 2,094,202</u>	<u>\$ 5,839,202</u>

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 May 1 and interest payable semi-annually on June 1 and December 1. As of June 30, 2011 \$928,000 of the bond had been issued. 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 Development Authority.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 30,000	\$ 54,522	\$ 84,522
2012-13	31,000	53,721	84,721
2013-14	32,000	52,894	84,894
2014-15	33,000	52,041	85,041
2015-16	33,000	51,175	84,175
2016-17	34,000	50,295	84,295
2017-18	35,000	49,389	84,389
2018-19	36,000	48,458	84,458
2019-20	37,000	47,500	84,500
2020-21	38,000	46,515	84,515
2021-26	205,000	216,890	421,890
2026-31	234,000	188,132	422,132
2031-36	267,000	155,282	422,282
2036-41	304,000	117,864	421,864
2041-46	346,000	75,287	421,287
2046-51	397,000	26,685	423,685
TOTALS	<u>\$ 2,092,000</u>	<u>\$ 1,286,650</u>	<u>\$ 3,378,650</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE I - LONG-TERM DEBT (Continued)

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>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 90,000	\$ 87,375	\$ 177,375
2012-13	90,000	85,125	175,125
2013-14	90,000	82,875	172,875
2014-15	95,000	80,625	175,625
2015-16	95,000	78,250	173,250
2016-17	100,000	75,875	175,875
2017-18	100,000	73,375	173,375
2018-19	105,000	70,875	175,875
2019-20	105,000	68,250	173,250
2020-21	110,000	65,625	175,625
2021-26	590,000	285,750	875,750
2026-31	665,000	208,250	873,250
2031-36	760,000	120,375	880,375
2036-43	500,000	25,125	525,125
TOTALS	<u>\$ 3,495,000</u>	<u>\$ 1,407,750</u>	<u>\$ 4,902,750</u>

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, and the City desires to pay for the equipment in installments, in accordance with Act 99.

<u>Purpose of Note</u>	<u>Date</u>	<u>Original</u>	<u>Maturity</u>	<u>Interest</u>	<u>Balance</u>	<u>Current</u>
Cat end loader	12/21/07	\$ 150,065	12/1/13	3.85%	\$ 75,032	\$ 25,011
97 Ford and Vactor	12/1/08	\$ 124,950	12/1/14	3.55%	\$ 86,170	\$ 20,429
2009 Rear Loader	6/3/09	\$ 63,694	6/3/15	4.00%	\$ 44,105	\$ 10,386
2011 Snow Blower	3/2/10	\$ 91,000	2/1/19	4.00%	\$ 84,000	\$ 8,000
2011 Sander	4/20/11	\$ 187,000	10/1/26	4.125%	\$ 187,000	\$ -
2011 Grader	4/20/11	\$ 130,000	4/1/26	4.00%	\$ 130,000	\$ -

As of June 30, 2011, the aggregate maturities of loans payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 78,326	\$ 23,915	\$ 102,241
2012-13	80,967	20,905	101,872
2013-14	84,149	17,791	101,940
2014-15	61,365	14,552	75,917
2015-16	28,000	12,191	40,191
2016-17	29,500	11,062	40,562
2017-18	30,000	9,873	39,873
2018-19	30,500	8,663	39,163
2019-20	32,000	6,992	38,992
2020-21	65,500	6,141	71,641
2021-26	86,000	15,153	101,153
TOTALS	<u>\$ 606,307</u>	<u>\$ 147,238</u>	<u>\$ 753,545</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE I - LONG-TERM DEBT (Continued)

Changes in long-term debt principal are summarized below:

	Balance 6/30/10	Additions	Retired	Balance 6/30/11	Current Maturities
GOVERNMENTAL ACTIVITIES					
1997 Building Authority Bonds	\$ 415,000	\$ -	\$ 15,000	\$ 400,000	\$ 15,000
1998 Building Authority Bonds	827,000	-	28,000	799,000	29,000
USDA Community Facilities Loan	433,000	-	32,000	401,000	33,000
Superior National Bank - Land	135,000	-	11,244	123,756	11,694
Superior National Bank - Vehicle	-	47,432	-	47,432	11,170
2008A Building Authority Bonds	483,000	-	9,000	474,000	9,000
2008B Building Authority Bonds	100,000	-	2,000	98,000	2,000
	<u>2,393,000</u>	<u>47,432</u>	<u>97,244</u>	<u>2,343,188</u>	<u>110,864</u>
ENTERPRISE FUNDS					
2011A Water Supply System Bonds	-	1,225,000	-	1,225,000	18,000
2011B Water Supply System Bonds	-	1,620,000	-	1,620,000	57,000
2010 Sanitary Sewage Disposal Bonds	-	928,000	-	928,000	30,000
1997 Water System Bonds	1,087,562	-	1,087,562	-	-
1998 Water System Bonds	426,000	-	426,000	-	-
2008 Water Supply System Bond	3,580,000	-	85,000	3,495,000	90,000
	<u>5,093,562</u>	<u>3,773,000</u>	<u>1,598,562</u>	<u>7,268,000</u>	<u>195,000</u>
INTERNAL SERVICE FUND					
Installment Loans	448,020	317,000	158,713	606,307	63,826
TOTALS	<u>\$ 7,934,582</u>	<u>\$ 4,137,432</u>	<u>\$ 1,854,519</u>	<u>\$ 10,217,495</u>	<u>\$ 369,690</u>

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

GOVERNMENTAL ACTIVITIES

Year	Principal	Interest	Total
2011-12	\$ 110,864	\$ 106,290	\$ 217,154
2012-13	116,779	101,351	218,130
2013-14	118,729	96,223	214,952
2014-15	129,718	90,941	220,659
2015-16	182,098	85,297	267,395
2016-17	113,000	77,412	190,412
2017-18	119,000	72,268	191,268
2018-23	584,000	229,617	813,617
2023-28	578,000	187,640	765,640
2028-33	130,000	71,373	201,373
2033-38	161,000	20,910	181,910
TOTALS	<u>\$ 2,343,188</u>	<u>\$ 1,139,322</u>	<u>\$ 3,482,510</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE I - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 78,326	\$ 23,915	\$ 102,241
2012-13	80,967	20,905	101,872
2013-14	84,149	17,791	101,940
2014-15	61,365	14,552	75,917
2015-16	28,000	12,191	40,191
2016-17	29,500	11,062	40,562
2017-18	30,000	9,873	39,873
2018-19	30,500	8,663	39,163
2019-20	32,000	6,992	38,992
2020-21	65,500	6,141	71,641
2021-26	86,000	15,153	101,153
TOTALS	<u>\$ 606,307</u>	<u>\$ 147,238</u>	<u>\$ 753,545</u>

ENTERPRISE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011-12	\$ 195,000	\$ 256,269	\$ 451,269
2012-13	197,000	258,120	455,120
2013-14	201,000	253,193	454,193
2014-15	208,000	248,166	456,166
2015-16	211,000	242,978	453,978
2016-17	218,000	237,702	455,702
2017-18	222,000	232,251	454,251
2018-19	229,000	483,575	712,575
2019-20	233,000	408,600	641,600
2020-21	241,000	324,024	565,024
2021-26	1,294,000	778,718	2,072,718
2026-31	1,461,000	608,617	2,069,617
2031-36	1,661,000	499,650	2,160,650
2036-41	1,523,000	380,936	1,903,936
2041-46	1,156,000	246,400	1,402,400
2046-51	1,307,000	94,247	1,401,247
TOTALS	<u>\$ 10,557,000</u>	<u>\$ 5,553,446</u>	<u>\$ 16,110,446</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE J - ENTERPRISE FUNDS

SEGMENT INFORMATION - The City maintains four Enterprise Funds which provide water, sewer, parking, and transit services. Segment information for the year ended June 30, 2011 is as follows:

	<u>Parking Meter</u>	<u>Transit</u>	<u>Sewer</u>	<u>Water</u>
Operating revenues	\$ 15,560	\$ 597,519	\$ 681,393	\$ 993,157
Depreciation	\$ -	\$ 59,229	\$ 98,318	\$ 227,872
Income (loss) from operations	\$ (6,238)	\$ 329,022	\$ (15,447)	\$ 246,130
Non-operating revenues	\$ 6,531	\$ 30,233	\$ 789	\$ 5,137
Non-operating expenses	\$ -	\$ -	\$ (3,500)	\$ (166,461)
Net Income (loss)	\$ 293	\$ 359,255	\$ (18,158)	\$ 84,806
Property, plant & equipment				
Additions	\$ -	\$ 756,372	\$ 1,403,252	\$ 2,671,794
Total assets	\$ 1,457	\$ 878,889	\$ 2,525,316	\$ 8,529,048
Net working capital surplus (deficit)	\$ (5,981)	\$ (15,546)	\$ (332,586)	\$ (1,048,684)
Long-term liabilities:				
Payable from operating revenues	\$ -	\$ -	\$ 898,000	\$ 6,175,000
Invested in capital assets, net of related debt	\$ -	\$ 869,455	\$ 1,325,018	\$ 1,777,017
Reserved net assets	\$ -	\$ -	\$ 83,217	\$ 147,223
Unrestricted net assets	\$ (5,981)	\$ 853,909	\$ 939,215	\$ 746,110
Total net assets	\$ (5,981)	\$ 853,909	\$ 1,022,431	\$ 893,333
Net cash provided (used) by:				
Operating activities	\$ (6,245)	\$ 401,894	\$ 444,686	\$ 1,608,762
Noncapital financing activities	\$ 5,315	\$ 32,801	\$ 34,855	\$ (171,183)
Capital & related financing activities	\$ -	\$ (438,680)	\$ (478,752)	\$ (1,591,817)
Investing activities	\$ 31	\$ 233	\$ 789	\$ 5,137
Beginning cash	\$ 2,276	\$ 11,469	\$ 102,564	\$ 327,382
Ending cash	\$ 1,377	\$ 7,717	\$ 104,142	\$ 178,281

NOTE K - RESERVES AND RESTRICTED ASSETS

Water Fund

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.

Water Supply System Revenue Bonds - Bond and Interest Redemption Account - Monies in this Bond and Interest Redemption Account shall be invested and income earned shall be used or transferred to the receiving account.

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.

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 2010 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, 2011, the City had established these accounts and had restricted cash, as required, as follows:

	<u>Required</u>	<u>Amount Funded</u>
<u>Water Fund</u>		
Bond Reserve	\$ -	\$ 20,600
Repair and Replacement	-	-
Junior Lien Bond and Interest Redemption	26,911	124,710
Bond and Interest Redemption	-	-
	<u>\$ 26,911</u>	<u>\$ 145,310</u>
<u>Sewer Fund</u>		
Bond Reserve Account	\$ 2,136	\$ 20,600
Repair and Replacement Account	41,576	126,623
Bond and Interest Redemption Account	21,032	-
	<u>\$ 64,744</u>	<u>\$ 147,223</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

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:

- The Hancock Transit has not used any capital money to pay for operating expenses and all ineligible expenses, as defined by the local public transit revenue and expense manual, are properly reported and properly subtracted out as ineligible.
- The Hancock Transit has not received auxiliary or non transportation revenue.
- 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.
- Audit costs are included in the required schedule of operating expenses.

The Department of Transportation required schedules are located on pages 88 through 92.

NOTE M - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2011, the Downtown Development District (DDD), the Elevation Street City(ESD), and the MTEPS (Smart Zone) City. The taxes on the DDD and the ESD Cities are levied based on the increase of the state equalized value of the properties from the base year to the current year and are levied on both real and personal property. The DDD expanded the base year in 1993 from the 1984 initial base year. The tax revenues generated from the DDD and the ESD are recorded in the Downtown Development Authority Fund and Elevation Street TIFA Fund respectively.

On April 11, 2001, The Michigan Economic Development Corporation approved the application for a Smart Park that was submitted by the Michigan Tech Enterprise Smart Zone (MTEPS). The MTEPS is a partnership between Michigan Technological University, the City of Hancock and the City of Houghton. The MTEPS will be funded for the first 2 years by a state grant. Thereafter, it will be funded through a tax increment financing City which includes the entire Cities of Hancock and Houghton. The tax is levied annually with the school millage only and will continue until the year 2017. The Smart Zone TIF plan will not affect either City’s current tax revenue. The tax revenue levied for the summer 2011 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2011, via the Local Development Finance Authority – the financing entity. Summary of TIF City data as of June 30, 2011:

	Downtown Development	TIF District	
		Local Street (Elevation)	MTEPS
Base year	1984	1993	1999
State Equalized Value (SEV) base year			
Real property	\$ 9,811,600	\$ 143,000	\$ 48,229,352
Personal property	\$ 1,662,280	\$ -	\$ 2,911,983
Current year SEV			
Real property	\$ 15,186,898	\$ 1,162,106	\$ 77,101,160
Personal property	\$ 1,777,720	\$ 169,226	\$ 4,770,278
Increase (Decrease) of taxable value			
Real	\$ 5,375,298	\$ 1,019,106	\$ 28,871,808
Personal property	\$ 115,440	\$ 169,226	\$ 1,858,295
Authorized tax mills levied-Homestead	20.4682	23.02	3.00
Non-homestead	-	-	11.89
Tax revenue collected	\$ 133,626	\$ 25,887	\$ 231,068

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE N - PENSION PLAN

Plan Description: The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement system of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, by calling (800) 767-6377 or at <http://www.mersofmich.com>.

Funding Policy: The City is required to contribute to the plan at an actuarially determined rate. As of July 1, 2010 the rate, as a percent of annual covered payroll, was 12.82%. Plan members are required to contribute 3.3% of their annual covered salary. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost: For the year ended June 30, 2011, the City's required and actual pension cost was \$80,008. The annual required contribution percentage was determined as a part of the actuarial valuation on December 31, 2010, using the entry age normal cost method. Significant actuarial assumptions used include a net investment rate of return on assets of 8 percent per year compounded annually, projected salary increases of 4.5 percent per year compounded annually due to inflation, and additional projected salary increases ranging from 0 to 4.5 percent per year depending on an age to reflect merit and longevity. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Any unfunded actuarial liability is amortized by a level percent of payroll contributions over a period of 30 years.

Three-year Trend Information:

	<u>Fiscal Year Ended March 31</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Annual pension cost (APC)	\$ 62,227	\$ 74,411	\$ 80,007
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	<u>Valuation as of December 31</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Actuarial value of assets	\$1,267,042	\$ 1,445,619	\$ 1,636,274
Actuarial accrued liability (entry age)	\$1,686,407	\$ 2,040,960	\$ 2,181,334
Unfunded actuarial liability (UAAL)	\$ 419,365	\$ 595,341	\$ 545,060
Funded ratio	75%	71%	75%
Covered payroll	\$ 619,135	\$ 622,844	\$ 626,872
UAAL as a percentage of covered payroll	68%	96%	87%

The unfunded accrued liability of the plan as of December 31, 2010 was \$545,060.

NOTE N - PENSION PLAN (Continued)

Defined Contribution Pension Union Agreement

The City provides pension benefits for all Teamster employees per the signed union bargaining agreement. For the year ending June 30, 2011, after adjustment the City made weekly contributions of \$87 per week, per participant to a defined contribution plan based on years of service.

Contributions for Teamster employees are paid to the Central States Southeast & Southwest Areas Pension Fund. The Teamster employees are not required to contribute to the pension plan. The City does not administer the pension plan for Teamster employees and therefore has no liability beyond its weekly contributions.

NOTE O - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees that enter into a joint agreement with the City, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be the property of the Plan's participants and are no longer subject to the City's general creditors. Because the City relies on a third party for investment and administration of the plan, the 457 plan assets are excluded from the financial statements.

NOTE P - DEFICIT FUND BALANCE

The financial statements for the Parking Meter Fund had a fund deficit at June 30, 2011 of \$5,981.

NOTE Q - 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, 2011, Portage Lake Water and Sewage Authority owed The City of Hancock \$50,670, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due from other governmental units.

NOTE R - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2011

NOTE S - PRIOR PERIOD ADJUSTMENT

In 2009 the City purchased a Garbage Truck in the amount of \$68,499 and recorded this activity in the Motor Vehicle Fund for fiscal years 2009 and 2010. This included accumulated depreciation, principal reductions, interest expense, and depreciation expense. Activity for the garbage truck should have been recorded in the General Fund. The following shows the correction of activity and net effect on the net assets for the General Fund and Motor Vehicle Fund.

	2009	2010
General Fund		
Capital Outlay	68,499	
Loan Proceeds	(68,499)	
Principal payment		10,327
Interest expense		2,740
Due to Motor Vehicle		(13,067)
Net Assets (Principal & Interest Payments)		13,067
Motor Vehicle Fund		
Due from General Fund		13,067
Note Payable	68,499	10,327
Fixed Assets - Equipment	(68,499)	
Fixed Assets - Accumulated Depreciation	3,425	13,700
Interest expense		(2,740)
Depreciation expense	(3,425)	(13,700)
Net Assets (Depreciation and Interest Expenses)	(3,425)	(16,410)

NOTE T - SUBSEQUENT EVENTS

On April 20, 2011 the City closed on a grant in the amount of \$43,501 to be used for the purchase of a dump truck which was purchased on September 23, 2011. Total cost of the dump truck was \$56,900.

Prior to June 30, 2011 the City received a Small Urban grant in the amount of \$125,000 with a match of 20% for total construction costs of \$150,000 for the resurfacing of Campus Drive between US 41 and the High School drive. The project began in July 2011 and has been completed.

CITY OF HANCOCK
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2011

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
Local sources	\$ 1,680,563	\$ 1,680,563	\$ 1,575,234	\$ (105,329)
State sources	385,873	385,873	716,663	330,790
TOTAL REVENUE	2,066,436	2,066,436	2,291,897	225,461
EXPENDITURES:				
General government				
Board/Legislative	10,175	10,175	11,047	(872)
Manager	79,113	79,113	84,917	(5,804)
Clerk	45,666	45,666	60,543	(14,877)
Treasurer	46,237	46,237	53,885	(7,648)
Legal, accounting, and audit	26,300	26,300	23,933	2,367
Assessor	26,849	26,849	29,542	(2,693)
Planning and professional services	1,690	1,690	66,071	(64,381)
Elections	12,002	12,002	18,842	(6,840)
Building and grounds	56,029	56,029	54,888	1,141
Cemetery	31,818	31,818	38,576	(6,758)
Public safety	693,127	693,127	721,597	(28,470)
Public works	245,417	245,417	228,402	17,015
Sanitation	302,902	302,902	302,128	774
Recreation and culture	115,987	115,987	375,245	(259,258)
Capital outlay	-	-	-	-
Debt service	86,212	86,212	79,434	6,778
Other	59,981	59,981	66,607	(6,626)
TOTAL EXPENDITURES	1,839,505	1,839,505	2,215,657	(376,152)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	226,931	226,931	76,240	(150,691)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	254	254
Operating transfers out	(226,374)	(226,374)	(87,246)	139,128
	<u>(226,374)</u>	<u>(226,374)</u>	<u>(86,992)</u>	<u>139,382</u>
NET CHANGE IN FUND BALANCE	\$ 557	\$ 557	(10,752)	\$ 128,073
FUND BALANCE - BEGINNING OF YEAR			<u>69,943</u>	
FUND BALANCE - END OF YEAR			<u>\$ 59,191</u>	

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
State	\$ 463,899	\$ 463,899	\$ 496,951	\$ 33,052
Federal			-	
Interest	1,324	1,324	1,095	(229)
Other revenue	-	-	-	-
TOTAL REVENUE	<u>465,223</u>	<u>465,223</u>	<u>498,046</u>	<u>32,823</u>
EXPENDITURES:				
General government administration	20,529	20,529	28,670	(8,141)
Highway and streets:				
Construction	19,065	19,065	12,877	6,188
State trunkline maintenance	226,525	226,525	245,391	(18,866)
Routine maintenance	46,878	46,878	50,272	(3,394)
Traffic services	2,997	2,997	7,213	(4,216)
Snow and ice control	140,295	140,295	121,530	18,765
Sweeping and flushing	8,259	8,259	1,327	6,932
TOTAL EXPENDITURES	<u>464,548</u>	<u>464,548</u>	<u>467,280</u>	<u>(2,732)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	675	675	30,766	30,091
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	54,322	-	54,322
Operating transfers out	-	-	-	-
NET CHANGE IN FUND BALANCE	<u>\$ 675</u>	<u>\$ 54,997</u>	30,766	<u>\$ 84,413</u>
FUND BALANCE - BEGINNING OF YEAR			<u>378</u>	
FUND BALANCE - END OF YEAR			<u>\$ 31,144</u>	

CITY OF HANCOCK
SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2011

CITY OF HANCOCK
GENERAL FUND
BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	<u>2011</u>	<u>2010</u>
ASSETS:		
Cash and cash equivalents	\$ 185,646	\$ 162,343
Investments	51,949	81,704
Receivables		
Delinquent taxes	64,300	84,779
Service customers (includes unbilled)	15,934	14,212
Other	20,254	11,354
Due from other funds	69,039	-
Due from fiduciary funds	905	670
Due from government units	169,252	78,055
Prepaid expenses	27,468	30,540
Inventory	21,857	21,856
Restricted cash	<u>71,837</u>	<u>70,976</u>
TOTAL ASSETS	<u>\$ 698,441</u>	<u>\$ 556,489</u>
LIABILITIES:		
Accounts payable	\$ 151,947	\$ 37,913
Accrued expenses	24,619	23,951
Due to other funds	<u>462,684</u>	<u>424,682</u>
TOTAL LIABILITIES	<u>639,250</u>	<u>486,546</u>
FUND BALANCES:		
Nonspendable:		
Inventories	21,857	21,856
Prepays	27,468	30,540
Unassigned	<u>9,866</u>	<u>(25,527)</u>
TOTAL FUND BALANCES	<u>59,191</u>	<u>26,869</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 698,441</u>	<u>\$ 513,415</u>

CITY OF HANCOCK
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

With Comparative Actual Amounts for Year Ended June 30, 2010

REVENUES:	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
Current taxes:				
Property taxes	\$ 1,026,056	\$ 1,008,124	\$ 17,932	\$ 997,041
Personal property taxes	63,942	59,763	4,179	59,629
Penalties & interest on tax	12,000	8,432	3,568	8,909
Payments in lieu of tax	17,000	18,717	(1,717)	17,808
Tax administration fees	<u>43,500</u>	<u>42,440</u>	<u>1,060</u>	<u>41,459</u>
Total current taxes	<u>1,162,498</u>	<u>1,137,476</u>	<u>25,022</u>	<u>1,124,846</u>
State and federal revenue:				
Federal Grant	-	291,652	(291,652)	12,173
Police training	1,076	2,187	(1,111)	1,627
Sales tax	380,000	422,796	(42,796)	405,502
Liquor tax	<u>4,797</u>	<u>28</u>	<u>4,769</u>	<u>4,952</u>
Total state and federal revenue	<u>385,873</u>	<u>716,663</u>	<u>(330,790)</u>	<u>424,254</u>
Charges for services:				
Vault service	2,368	2,465	(97)	3,705
Burial open and close	11,839	9,660	2,179	8,810
Garbage collection	172,000	171,248	752	171,836
Campground revenue	70,000	81,323	(11,323)	75,273
Beach rental fees	878	575	303	740
Other charges	101,597	91,090	10,507	92,654
Cemetery lots	<u>6,117</u>	<u>5,225</u>	<u>892</u>	<u>10,900</u>
Total charges for services	<u>364,799</u>	<u>361,586</u>	<u>3,213</u>	<u>363,918</u>
Fines, forfeitures and penalties	<u>2,000</u>	<u>1,711</u>	<u>289</u>	<u>1,112</u>
Rentals:				
Interest income	8,779	6,451	2328	4,473
Cemetery interest	439	1,196	(757)	905
Land rents	2,500	1,240	1260	1,100
Office rental	<u>8,201</u>	<u>7,620</u>	<u>581</u>	<u>7,620</u>
Total Rentals	<u>19,919</u>	<u>16,507</u>	<u>3412</u>	<u>14,098</u>
Other revenue:				
Sale of assets	10,000	1,300	8,700	1,200
Parks Round-up contributions	110	63	47	52
Sand and salt sales	64,000	931	63,069	451
Cable franchise fee	40,000	33,422	6,578	24,499
Reimbursement	10,000	10,263	(263)	3,377
Licenses and permits	105	44	61	115
Miscellaneous	<u>7,132</u>	<u>11,931</u>	<u>(4,799)</u>	<u>4,635</u>
Total other revenue	<u>131,347</u>	<u>57,954</u>	<u>73,393</u>	<u>34,329</u>
TOTAL REVENUES	<u>2,066,436</u>	<u>2,291,897</u>	<u>(225,461)</u>	<u>1,962,557</u>

CITY OF HANCOCK
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2011
With Comparative Actual Amounts for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
EXPENDITURES:				
General government administration:				
Legislative	8,769	10,132	(1,363)	15,271
City manager	79,113	84,917	(5,804)	87,143
Planning and professional services	1,690	66,071	(64,381)	7,204
Clerk	45,666	60,543	(14,877)	59,127
Treasurer	46,237	53,885	(7,648)	49,974
Attorney	4,000	2,303	1,697	3,749
Assessor	26,849	29,542	(2,693)	28,728
Elections	12,002	18,842	(6,840)	5,093
Accounting and computer services	22,300	21,630	670	27,000
Board of review	1,406	915	491	980
Building and grounds	56,029	54,888	1,141	57,870
Cemetery	31,818	38,576	(6,758)	37,303
Total general government administration	<u>335,879</u>	<u>442,244</u>	<u>(106,365)</u>	<u>379,442</u>
Public safety:				
Police	619,848	649,875	(30,027)	644,209
Fire	73,279	71,722	1,557	78,386
Total public safety	<u>693,127</u>	<u>721,597</u>	<u>(28,470)</u>	<u>722,595</u>
Public works:				
Department of public works	89,011	127,298	(38,287)	121,353
Inventory sand/calcium	63,999	-	63,999	245
Winter maintenance	3,347	81	3,266	-
Equipment rental-street lighting	89,060	97,326	(8,266)	89,951
Sidewalks and curbs	-	3,697	(3,697)	160
Total public works	<u>245,417</u>	<u>228,402</u>	<u>17,015</u>	<u>211,709</u>
Sanitation:				
Garbage collection	178,280	170,856	7,424	164,891
Landfill	92,558	97,197	(4,639)	98,562
Spring and fall cleanup	32,064	34,075	(2,011)	25,988
Total sanitation	<u>302,902</u>	<u>302,128</u>	<u>774</u>	<u>289,441</u>
Culture and recreation:				
Parks	31,419	37,831	(6,412)	39,576
Water front development	2,018	-	2,018	866
Beach	15,289	256,593	(241,304)	13,117
Campground	53,884	61,599	(7,715)	73,372
Ski trails	4,661	12,606	(7,945)	19,088
Skating rinks	8,716	6,616	2,100	6,228
Total culture and recreation	<u>115,987</u>	<u>375,245</u>	<u>(259,258)</u>	<u>152,247</u>

CITY OF HANCOCK
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2011
With Comparative Actual Amounts for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
Capital outlay	-	-	-	135,000
Debt service	86,212	79,434	6,778	63,128
Other:				
Community promotion	23,981	36,747	(12,766)	48,796
Insurance	36,000	29,860	6,140	31,122
Total other	59,981	66,607	(6,626)	79,918
TOTAL EXPENDITURES	<u>1,839,505</u>	<u>2,215,657</u>	<u>(376,152)</u>	<u>2,033,480</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>226,931</u>	<u>76,240</u>	<u>150,691</u>	<u>(70,923)</u>
OTHER FINANCING SOURCES (USES):				
Loan proceeds	-	254	(254)	137,488
Operating transfers out	(226,374)	(87,246)	(139,128)	(92,092)
TOTAL OTHER FINANCING SOURCES (USES):	<u>(226,374)</u>	<u>(86,992)</u>	<u>(139,382)</u>	<u>45,396</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 557</u>	<u>(10,752)</u>	<u>\$ 11,309</u>	<u>(25,527)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>69,943</u>		<u>95,470</u>
FUND BALANCE, END OF YEAR		<u>\$ 59,191</u>		<u>\$ 69,943</u>

CITY OF HANCOCK
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	Major Street	Local Street	Community Development Block Grant	Elevation Street TIF	Totals (Memorandum Only)	
					2011	2010
ASSETS:						
Cash	\$ 108,545	\$ 44,413	\$ -	\$ 198,883	\$ 351,841	\$ 249,028
Restricted cash	-	-	106,186	-	106,186	181,144
Taxes receivable	-	51,598	-	45	51,643	38,317
Due from other funds	-	192,630	-	-	192,630	191,884
Due from other governmental units	36,209	15,447	-	-	51,656	116,052
Total assets	\$ 144,754	\$ 304,088	\$ 106,186	\$ 198,928	\$ 753,956	\$ 776,425
LIABILITIES:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,152
Accrued expenses	787	1,353	-	-	2,140	1,769
Due to other funds	112,823	302,735	-	-	415,558	346,755
Total liabilities	113,610	304,088	-	-	417,698	422,676
FUND EQUITY:						
Restricted:						
Streets and highways	31,144	-	-	-	31,144	574
CDBG	-	-	106,186	-	106,186	181,144
TIFA	-	-	-	198,928	198,928	172,031
TOTAL FUND EQUITY	31,144	-	106,186	198,928	336,258	353,749
TOTAL LIABILITIES AND FUND EQUITY	\$ 144,754	\$ 304,088	\$ 106,186	\$ 198,928	\$ 753,956	\$ 776,425

CITY OF HANCOCK
SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

June 30, 2011 and 2010

	Major Street	Local Street	Community Development Block Grant	Elevation Street TIF	Totals (Memorandum Only)	
					2011	2010
REVENUES:						
Current taxes	\$ -	\$ 87,598	\$ -	\$ 25,887	\$ 113,485	\$ 113,326
State	496,951	126,002	196,205	-	819,158	788,608
Federal	-	-	-	-	-	90,000
Interest	1,095	364	-	1,010	2,469	3,945
Other revenue	-	-	51,754	-	51,754	85,982
Total revenues	498,046	213,964	247,959	26,897	986,866	1,081,861
EXPENDITURES:						
General government administration	28,670	6,942	-	-	35,612	35,261
Highway and streets:						
Construction	12,877	23,493	-	-	36,370	158,406
State trunkline maintenance	245,391	-	-	-	245,391	221,529
Routine maintenance	50,272	75,792	-	-	126,064	68,847
Traffic services	7,213	2,279	-	-	9,492	6,634
Snow and ice control	121,530	154,514	-	-	276,044	266,117
Sweeping and flushing	1,327	1,886	-	-	3,213	1,461
State grant expenditures	-	-	322,917	-	322,917	278,189
Total expenditures	467,280	264,906	322,917	-	1,055,103	1,036,444
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	30,766	(50,942)	(74,958)	26,897	(68,237)	45,417
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	50,746	-	-	50,746	54,322
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	30,766	(196)	(74,958)	26,897	(17,491)	99,739
FUND BALANCE, BEGINNING OF YEAR	378	196	181,144	172,031	353,749	254,010
FUND BALANCE, END OF YEAR	\$ 31,144	\$ -	\$ 106,186	\$ 198,928	\$ 336,258	\$ 353,749

CITY OF HANCOCK
MAJOR STREET FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

With Comparative Actual Amounts for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
REVENUES:				
State	\$ 463,899	\$ 496,951	\$ (33,052)	\$ 402,592
Federal	-	-	-	90,000
Interest	1,324	1,095	229	1,761
Other revenue	-	-	-	29,758
TOTAL REVENUES	<u>465,223</u>	<u>498,046</u>	<u>(32,823)</u>	<u>524,111</u>
EXPENDITURES:				
General government administration	<u>20,529</u>	<u>28,670</u>	<u>(8,141)</u>	<u>28,737</u>
Highway and streets:				
Construction	19,065	12,877	6,188	108,717
State trunkline maintenance	226,533	245,391	(18,858)	221,529
Routine maintenance	46,878	50,272	(3,394)	21,779
Traffic services	2,996	7,213	(4,217)	2,760
Snow and ice control	140,294	121,530	18,764	138,938
Sweeping and flushing	8,259	1,327	6,932	1,273
Total highway and streets	<u>444,025</u>	<u>438,610</u>	<u>5,415</u>	<u>494,996</u>
TOTAL EXPENDITURES	<u>464,554</u>	<u>467,280</u>	<u>(2,726)</u>	<u>523,733</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>669</u>	<u>30,766</u>	<u>(30,097)</u>	<u>378</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	<u>54,322</u>	-	<u>54,322</u>	<u>54,322</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>54,322</u>	-	<u>54,322</u>	<u>54,322</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 54,991</u>	30,766	<u>\$ 24,225</u>	54,700
FUND BALANCE, BEGINNING OF YEAR		<u>378</u>		<u>(54,322)</u>
FUND BALANCE, END OF YEAR		<u>\$ 31,144</u>		<u>\$ 378</u>

CITY OF HANCOCK
LOCAL STREET FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

With Comparative Actual Amounts for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
REVENUES:				
Taxes	\$ 90,000	\$ 87,598	\$ 2,402	\$ 86,938
State and federal	163,973	126,002	37,971	147,144
Income revenue	<u>265</u>	<u>364</u>	<u>(99)</u>	<u>636</u>
TOTAL REVENUES	<u>254,238</u>	<u>213,964</u>	<u>40,274</u>	<u>234,718</u>
EXPENDITURES:				
General government administration	<u>6,644</u>	<u>6,942</u>	<u>(298)</u>	<u>6,524</u>
Highway and streets:				
Construction	45,922	23,493	22,429	49,689
Routine maintenance	151,675	75,792	75,883	47,068
Traffic services	2,245	2,279	(34)	3,874
Snow and ice control	212,727	154,514	58,213	127,179
Sweeping and flushing	<u>12,210</u>	<u>1,886</u>	<u>10,324</u>	<u>188</u>
Total highway and streets	<u>424,779</u>	<u>257,964</u>	<u>166,815</u>	<u>227,998</u>
TOTAL EXPENDITURES	<u>431,423</u>	<u>264,906</u>	<u>166,517</u>	<u>234,522</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(177,185)</u>	<u>(50,942)</u>	<u>(126,243)</u>	<u>196</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	<u>178,000</u>	<u>50,746</u>	<u>127,254</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>178,000</u>	<u>50,746</u>	<u>127,254</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 815</u>	<u>(196)</u>	<u>\$ 1,011</u>	<u>196</u>
FUND BALANCE, BEGINNING OF YEAR		<u>196</u>		<u>-</u>
FUND BALANCE, END OF YEAR		<u>\$ -</u>		<u>\$ 196</u>

CITY OF HANCOCK
COMMUNITY DEVELOPMENT BLOCK GRANT FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

Year Ended June 30, 2011

With Comparative Actual Amounts for Year Ended June 30, 2010

	Budget	2011	Variance	2010
REVENUES:				
Federal grant	\$ 119,992	\$ 196,205	\$ (76,213)	\$ 238,872
Other revenue	-	51,754	(51,754)	56,224
TOTAL REVENUES	119,992	247,959	(127,967)	295,096
EXPENDITURES:				
Administration	23,998	-	23,998	64
Construction	95,994	322,917	(226,923)	278,125
TOTAL EXPENDITURES	119,992	322,917	(202,925)	278,189
EXCESS OF REVENUES OVER EXPENDITURES	-	(74,958)	74,958	16,907
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES):	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	(74,958)	\$ 74,958	16,907
FUND BALANCE, BEGINNING OF YEAR		181,144		164,237
FUND BALANCE, END OF YEAR		\$ 106,186		\$ 181,144

CITY OF HANCOCK
ELEVATION STREET TIFA
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

With Comparative Actual Amounts for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
REVENUES:				
Taxes	\$ 27,216	\$ 25,887	\$ 1,329	\$ 26,388
Interest	779	1,010	(231)	1,548
Other Revenue	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
TOTAL REVENUES	<u>27,996</u>	<u>26,897</u>	<u>1,099</u>	<u>27,936</u>
EXPENDITURES:				
General government administration	<u>22,907</u>	<u>-</u>	<u>22,907</u>	<u>-</u>
TOTAL EXPENDITURES	<u>22,907</u>	<u>-</u>	<u>22,907</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 5,089</u>	26,897	<u>\$ (21,808)</u>	<u>27,936</u>
FUND BALANCE, BEGINNING OF YEAR		<u>172,031</u>		<u>144,095</u>
FUND BALANCE, END OF YEAR		<u>\$ 198,928</u>		<u>\$ 172,031</u>

CITY OF HANCOCK
DEBT SERVICE (BUILDING AUTHORITY) FUND
BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	<u>2011</u>	<u>2010</u>
ASSETS:		
Cash	<u>\$ 1,293</u>	<u>\$ 1,283</u>
FUND BALANCES:		
Assigned - debt service	<u>\$ 1,293</u>	<u>\$ 1,283</u>

CITY OF HANCOCK
DEBT SERVICE (BUILDING AUTHORITY) FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

With Comparative Actual Amounts for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
REVENUES:				
Rental income	\$ 139,500	\$ 137,572	\$ 1,928	\$ 137,931
Interest income	<u>265</u>	<u>9</u>	<u>256</u>	<u>14</u>
TOTAL REVENUES	<u>139,765</u>	<u>137,581</u>	<u>2,184</u>	<u>137,945</u>
EXPENDITURES:				
Bond principal	54,000	54,000	-	52,000
Bond interest and other expense	<u>85,500</u>	<u>83,571</u>	<u>1,929</u>	<u>85,930</u>
TOTAL EXPENDITURES	<u>139,500</u>	<u>137,571</u>	<u>1,929</u>	<u>137,930</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 265</u>	10	<u>\$ 255</u>	15
FUND BALANCE, BEGINNING OF YEAR		<u>1,283</u>		<u>1,268</u>
FUND BALANCE, END OF YEAR		<u>\$ 1,293</u>		<u>\$ 1,283</u>

CITY OF HANCOCK
RESIDENTIAL CAPITAL PROJECTS
BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	<u>2011</u>	<u>2010</u>
ASSETS:		
Cash	\$ <u>19,909</u>	\$ <u>19,856</u>
 TOTAL ASSETS	 \$ <u>19,909</u>	 \$ <u>19,856</u>
 LIABILITIES:		
 FUND BALANCES:		
Restricted - capital projects	<u>19,909</u>	<u>19,856</u>
 TOTAL LIABILITIES AND FUND BALANCES	 \$ <u>19,909</u>	 \$ <u>19,856</u>

CITY OF HANCOCK
RESIDENTIAL CAPITAL PROJECTS
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

With Comparative Actual Amounts for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
REVENUES:				
Other revenue:				
Lot sales	\$ 34,000	\$ -	\$ 34,000	\$ 16,009
Interest	100	218	(118)	209
TOTAL REVENUES	<u>34,100</u>	<u>218</u>	<u>33,882</u>	<u>16,218</u>
EXPENDITURES:				
General government administration	-	165	(165)	50
Construction	<u>33,979</u>	<u>-</u>	<u>33,979</u>	<u>11,591</u>
TOTAL EXPENDITURES	<u>33,979</u>	<u>165</u>	<u>33,814</u>	<u>11,641</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>121</u>	<u>53</u>	<u>68</u>	<u>4,577</u>
OTHER FINANCING SOURCES (USES):				
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 121</u>	53	<u>\$ 68</u>	4,577
FUND BALANCE, BEGINNING OF YEAR		<u>19,856</u>		<u>15,279</u>
FUND BALANCE, END OF YEAR		<u>\$ 19,909</u>		<u>\$ 19,856</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	Sewer Disposal System	Water Supply System	Transit	Parking Meter	Totals (Memorandum Only)	
					2011	2010
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 14,633	\$ 21,653	\$ 7,717	\$ 1,377	\$ 45,380	\$ 73,440
Investments	-	-	-	-	-	3,388
Restricted cash	89,509	9,405	-	-	98,914	194,126
Restricted investments	-	147,223	-	-	147,223	172,737
Accounts receivable	65,775	97,814	40	80	163,709	145,709
Due from other funds	-	70,000	-	-	70,000	-
Due from other government	50,670	-	-	-	50,670	282,960
Inventory	51,711	65,286	-	-	116,997	92,245
Prepaid expenses	-	650	1,677	-	2,327	2,401
Total current assets	272,298	412,031	9,434	1,457	695,220	967,006
Property, plant, and equipment	7,191,156	12,076,375	1,110,186	30,893	20,408,610	15,894,884
Accumulated depreciation & amortization	(4,938,138)	(3,959,358)	(240,731)	(30,893)	(9,169,120)	(8,783,701)
	<u>2,253,018</u>	<u>8,117,017</u>	<u>869,455</u>	<u>-</u>	<u>11,239,490</u>	<u>7,111,183</u>
TOTAL ASSETS	\$ 2,525,316	\$ 8,529,048	\$ 878,889	\$ 1,457	\$ 11,934,710	\$ 8,078,189

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEETS (CONTINUED)

June 30, 2011

With Comparative Totals at June 30, 2010

	Sewer Disposal System	Water Supply System	Transit	Parking Meter	Totals (Memorandum Only)	
					2011	2010
LIABILITIES:						
Current liabilities:						
Accounts payable	\$ 460,325	\$ 1,178,120	\$ 4,277	\$ -	\$ 1,642,722	\$ 304,591
Accrued expenses	2,253	4,257	3,703	438	10,651	9,767
Due to other funds	112,306	113,338	17,000	7,000	249,644	314,356
Due to other governmental units	-	-	-	-	-	18,416
Current maturities on long term debt	30,000	165,000	-	-	195,000	114,000
Total current liabilities	<u>604,884</u>	<u>1,460,715</u>	<u>24,980</u>	<u>7,438</u>	<u>2,098,017</u>	<u>761,130</u>
Long-term liabilities:						
Bonds payable	898,000	6,175,000	-	-	7,073,000	4,979,562
TOTAL LIABILITIES	<u>1,502,884</u>	<u>7,635,715</u>	<u>24,980</u>	<u>7,438</u>	<u>9,171,017</u>	<u>5,740,692</u>
NET ASSETS:						
Reserved	83,217	147,223	-	-	230,440	366,863
Unreserved	939,215	746,110	853,909	(5,981)	2,533,253	1,970,634
Total net assets	<u>1,022,432</u>	<u>893,333</u>	<u>853,909</u>	<u>(5,981)</u>	<u>2,763,693</u>	<u>2,337,497</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,525,316</u>	<u>\$ 8,529,048</u>	<u>\$ 878,889</u>	<u>\$ 1,457</u>	<u>\$ 11,934,710</u>	<u>\$ 8,078,189</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

June 30, 2011

With Comparative Totals at June 30, 2010

	Sewer Fund	Water Fund	Transit	Parking Meter	Totals (Memorandum Only)	
					2011	2010
OPERATING REVENUES:						
Sales and charges for services	\$ 678,357	\$ 992,417	\$ 37,214	\$ 15,560	\$ 1,723,548	\$ 1,695,945
State Grant	-	-	147,352	-	147,352	147,611
Federal Grant	-	-	406,082	-	406,082	318,616
Other revenue	3,036	740	6,871	-	10,647	27,071
TOTAL OPERATING REVENUES	681,393	993,157	597,519	15,560	2,287,629	2,189,243
OPERATING EXPENSES:						
General administration	40,152	60,441	55,884	21,798	178,275	176,467
Meter reading	12,015	12,051	-	-	24,066	21,850
Purchased services	449,803	165,184	-	-	614,987	663,026
Operations and maintenance	96,552	281,479	153,384	-	531,415	709,631
Depreciation	98,318	227,872	59,229	-	385,419	369,467
TOTAL OPERATING EXPENSES	696,840	747,027	268,497	21,798	1,734,162	1,940,441
OPERATING INCOME (LOSS)	(15,447)	246,130	329,022	(6,238)	553,467	248,802
NON-OPERATING REVENUES (EXPENSES):						
Interest income	789	5,137	233	31	6,190	3,743
Interest expense	(3,500)	(166,461)	-	-	169,961	(159,301)
Operating transfers in	-	-	30,000	6,500	36,500	37,770
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,711)	(161,324)	30,233	6,531	(127,271)	(117,788)
NET INCOME (LOSS)	(18,158)	84,806	359,255	293	426,196	131,014
NET ASSETS (DEFICIT), BEGINNING OF THE YEAR	1,040,590	808,527	494,654	(6,274)	2,337,497	2,206,483
NET ASSETS (DEFICIT), END OF YEAR	\$ 1,022,432	\$ 893,333	\$ 853,909	\$ (5,981)	\$ 2,763,693	\$ 2,337,497

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2011

	Enterprise Funds				
	Major Funds			Non-major Fund	
	Sewer	Water	Transit	Parking	
				Meter	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 671,426	\$ 981,348	\$ 37,214	\$ 15,560	\$ 1,705,548
Payments to suppliers	(108,359)	891,759	(43,821)	(2,423)	737,156
Internal activity-receipts (payments) to other funds	(20,685)	(52,228)	-	(81)	(72,994)
Payments to employees	(100,732)	(212,857)	(151,804)	(19,301)	(484,694)
Other receipts (payments)	3,036	740	560,305	-	564,081
Net cash provided by operating activities	444,686	1,608,762	401,894	(6,245)	2,449,097
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies and transfers to other funds	34,855	(171,183)	32,801	5,315	(98,212)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(1,403,252)	(2,671,794)	(438,680)	-	(4,513,726)
Principal paid on capital debt	928,000	1,246,438	-	-	2,174,438
Interest paid on capital debt	(3,500)	(166,461)	-	-	(169,961)
Net cash (used) by capital and related financing activities	(478,752)	(1,591,817)	(438,680)	-	(2,509,249)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	789	5,137	233	31	6,190
Net cash provided by investing activities	789	5,137	233	31	6,190
Net (decrease) in cash and cash equivalents	1,578	(149,101)	(3,752)	(899)	(152,174)
Balances -- beginning of the year	102,564	327,382	11,469	2,276	443,691
Balances -- end of the year	\$ 104,142	\$ 178,281	\$ 7,717	\$ 1,377	\$ 291,517
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (15,447)	\$ 246,130	\$ 329,022	\$ (6,238)	\$ 553,467
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	98,318	227,872	59,229	-	385,419
Changes in assets and liabilities:					
Receivables, net	(6,931)	(11,069)	-	-	(18,000)
Due from other governmental units	(50,670)	-	282,960	-	232,290
Inventory	(17,603)	(7,149)	-	-	(24,752)
Prepaid expenses	-	-	74	-	74
Accounts and other payables	454,347	1,153,547	(269,763)	-	1,338,131
Accrued expenses	1,088	(569)	372	(7)	884
Due to other governmental units	(18,416)	-	-	-	(18,416)
Net cash provided by operating activities	\$ 444,686	\$ 1,608,762	\$ 401,894	\$ (6,245)	\$ 2,449,097

CITY OF HANCOCK
PARKING METER FUND
BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	<u>2011</u>	<u>2010</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,377	\$ 2,276
Accounts receivable	80	80
Fixed Assets:		
Equipment	30,893	30,893
Less accumulated depreciation & amortization	<u>(30,893)</u>	<u>(30,893)</u>
 TOTAL ASSETS	 <u>\$ 1,457</u>	 <u>\$ 2,356</u>
 LIABILITIES:		
Current Liabilities:		
Accrued wages payable	438	445
Due to other funds	<u>7,000</u>	<u>8,185</u>
 TOTAL LIABILITIES	 <u>7,438</u>	 <u>8,630</u>
 RETAINED EARNINGS	 <u>(5,981)</u>	 <u>(6,274)</u>
 TOTAL LIABILITIES AND RETAINED EARNINGS	 <u>\$ 1,457</u>	 <u>\$ 2,356</u>

CITY OF HANCOCK
PARKING METER FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2011

With Comparative Actual Amounts for Year ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
OPERATING REVENUES:				
Charges for services:	\$ 18,814	\$ 15,560	\$ 3,254	\$ 8,967
OPERATING EXPENSES:				
General administration	21,289	21,798	(509)	18,418
TOTAL OPERATING EXPENSES	21,289	21,798	(509)	18,418
OPERATING INCOME (LOSS)	(2,475)	(6,238)	3,763	(9,451)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	-	31	(31)	27
Operating transfers in	5,938	6,500	(562)	5,938
TOTAL NON-OPERATING REVENUES (EXPENSES)	5,938	6,531	(593)	5,965
NET INCOME (LOSS)	\$ 3,463	293	\$ 3,170	(3,486)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		(6,274)		(2,788)
RETAINED EARNINGS (DEFICIT), END OF YEAR		\$ (5,981)		\$ (6,274)

CITY OF HANCOCK
SEWER DISPOSAL SYSTEM FUND
BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	2011	2010
ASSETS:		
Current Assets		
Cash and cash equivalents	\$ 14,633	\$ 15,959
Investments	-	3,388
Accounts Receivable	65,775	58,844
Due from other government	50,670	-
Inventory	51,711	34,108
Restricted Assets:		
Investments	-	69,569
Cash	89,509	13,648
Fixed Assets:		
Utility plant in service	7,191,156	5,787,904
Less accumulated depreciation & amortization	(4,938,138)	(4,839,820)
TOTAL ASSETS:	\$ 2,525,316	\$ 1,143,600
LIABILITIES:		
Current Liabilities:		
Accounts payable	\$ 460,325	\$ 5,978
Accrued expenses	2,253	1,165
Due to other funds	112,306	77,451
Due to other governmental units	-	18,416
Current maturities on long-term debt	30,000	-
Long-term Liabilities:		
Revenue bonds payable	898,000	-
TOTAL LIABILITIES	1,502,884	103,010
RETAINED EARNINGS:		
Reserved	83,217	83,217
Unreserved	939,215	957,373
TOTAL RETAINED EARNINGS	1,022,432	1,040,590
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 2,525,316	\$ 1,143,600

CITY OF HANCOCK
SEWER DISPOSAL SYSTEM FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2011
With Comparative Totals for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
OPERATING REVENUES:				
Charges for services	\$ 735,792	\$ 678,357	\$ 57,435	\$ 707,816
Other revenue	-	3,036	(3,036)	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OPERATING REVENUES	735,792	681,393	54,399	707,816
	<hr/>	<hr/>	<hr/>	<hr/>
OPERATING EXPENSES:				
General administration	-	40,152	(40,152)	35,415
Meter reading	-	12,015	(12,015)	10,925
Operations and maintenance	-	96,552	(96,552)	169,852
Share of Portage Lake W & S Auth plant expense	-	449,803	(449,803)	493,411
Depreciation	-	98,318	(98,318)	98,318
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	-	696,840	(696,840)	807,921
	<hr/>	<hr/>	<hr/>	<hr/>
OPERATING INCOME (LOSS)	735,792	(15,447)	751,239	(100,105)
	<hr/>	<hr/>	<hr/>	<hr/>
NON-OPERATING REVENUES (EXPENSES):				
Interest income	4,706	789	3,917	1,352
Interest expense	-	(3,500)	3,500	(3,041)
Operating transfers out	-	-	-	-
Operating transfers in	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	4,706	(2,711)	7,417	(1,689)
	<hr/>	<hr/>	<hr/>	<hr/>
NET INCOME (LOSS)	<u>\$ 740,498</u>	<u>(18,158)</u>	<u>\$ 758,656</u>	<u>(101,794)</u>
	<hr/>	<hr/>	<hr/>	<hr/>
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		<u>1,040,590</u>		<u>1,142,384</u>
		<hr/>		<hr/>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ 1,022,432</u>		<u>\$ 1,040,590</u>

CITY OF HANCOCK
WATER SUPPLY SYSTEM FUND
BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	2011	2010
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 21,653	\$ 43,736
Accounts receivable	97,814	86,745
Due from other funds	70,000	-
Inventory	65,286	58,137
Prepaid expenses	650	650
Restricted Assets:		
Restricted cash	9,405	180,478
Restricted investments	147,223	103,168
Fixed Assets:		
Property, plant, and equipment	12,076,375	9,404,581
Accumulated depreciation & amortization	(3,959,358)	(3,731,486)
TOTAL ASSETS	\$ 8,529,048	\$ 6,146,009
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 1,178,120	\$ 24,573
Accrued expenses	4,257	4,826
Due to other funds	113,338	214,521
Current maturities on long term debt	165,000	114,000
Long-term liabilities:		
Revenue bonds payable	6,175,000	4,979,562
TOTAL LIABILITIES	7,635,715	5,337,482
RETAINED EARNINGS:		
Reserved	147,223	283,646
Unreserved	746,110	524,881
TOTAL FUND EQUITY	893,333	808,527
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 8,529,048	\$ 6,146,009

CITY OF HANCOCK
WATER SUPPLY SYSTEM FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2011
With Comparative Actual Amounts for Year Ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
OPERATING REVENUES:				
Sales and charges for services	\$ 896,076	\$ 992,417	\$ (96,341)	\$ 941,128
Other revenue	1,324	740	584	11,380
TOTAL OPERATING REVENUES	<u>897,400</u>	<u>993,157</u>	<u>(95,757)</u>	<u>952,508</u>
OPERATING EXPENSES:				
General administration	57,552	60,441	(2,889)	58,846
Meter reading	10,087	12,051	(1,964)	10,925
Purchase of Water	174,000	165,184	8,816	169,615
Operations and maintenance	229,728	281,479	(51,751)	397,864
Depreciation	-	227,872	(227,872)	223,568
TOTAL OPERATING EXPENSES	<u>471,367</u>	<u>747,027</u>	<u>(275,660)</u>	<u>860,818</u>
OPERATING INCOME (LOSS)	426,033	246,130	179,903	91,690
NON-OPERATING REVENUES (EXPENSES):				
Interest income	4,305	5,137	(832)	2,156
Interest expense	(271,060)	(166,461)	(104,599)	(156,260)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(266,755)</u>	<u>(161,324)</u>	<u>(105,431)</u>	<u>(154,104)</u>
NET INCOME (LOSS)	<u>\$ 159,278</u>	84,806	<u>\$ 74,472</u>	(62,414)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		<u>808,527</u>		<u>870,941</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ 893,333</u>		<u>\$ 808,527</u>

CITY OF HANCOCK
TRANSIT FUND
BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	2011	2010
ASSETS:		
Current assets:		
Cash	\$ 7,717	\$ 11,469
Accounts receivable	40	40
Due from other governmental units	-	282,960
Prepaid Expenses	1,677	1,751
Total current assets	9,434	296,220
Fixed Assets:		
Vehicles and equipment	1,110,186	671,506
Accumulated depreciation	(240,731)	(181,502)
	869,455	490,004
TOTAL ASSETS	\$ 878,889	\$ 786,224
 LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 4,277	\$ 274,040
Accrued expenses	3,703	3,331
Due to other funds	17,000	14,199
TOTAL LIABILITIES	24,980	291,570
 RETAINED EARNINGS	 853,909	 494,654
 TOTAL LIABILITIES AND RETAINED EARNINGS	 \$ 878,889	 \$ 786,224

CITY OF HANCOCK
TRANSIT FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2011
With Comparative Totals at June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
OPERATING REVENUES:				
Sales and charges for services	\$ 39,500	\$ 37,214	\$ 2,286	\$ 38,034
State grant	74,688	147,352	(72,664)	147,611
Federal grant	32,688	406,082	(373,394)	318,616
Other revenue	-	6,871	(6,871)	15,691
	<u>146,876</u>	<u>597,519</u>	<u>(450,643)</u>	<u>519,952</u>
OPERATING EXPENSES:				
General administration	48,965	55,884	(6,919)	63,788
Operations and maintenance	155,335	153,384	1,951	141,915
Depreciation	-	59,229	(59,229)	47,581
TOTAL OPERATING EXPENSES	<u>204,300</u>	<u>268,497</u>	<u>(64,197)</u>	<u>253,284</u>
OPERATING INCOME (LOSS)	(57,424)	329,022	(386,446)	266,668
NON-OPERATING REVENUES (EXPENSES):				
Interest income	200	233	(33)	208
Operating transfers in	45,224	30,000	15,224	31,832
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>45,424</u>	<u>30,233</u>	<u>15,191</u>	<u>32,040</u>
NET INCOME (LOSS)	<u>\$ (12,000)</u>	<u>359,255</u>	<u>\$ (371,255)</u>	<u>298,708</u>
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		<u>494,654</u>		<u>195,946</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ 853,909</u>		<u>\$ 494,654</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEETS

June 30, 2011

With Comparative Totals at June 30, 2010

	Employee Benefit	Motor Vehicle	Totals (Memorandum Only)	
			2011	2010
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 91,434	\$ 48,740	\$ 140,174	\$ 72,911
Restricted cash	2,075	-	2,075	2,049
Accounts receivable	-	1,142	1,142	1,142
Due from other funds	294,000	604,367	898,367	893,909
Due from component unit	2,515	-	2,515	-
Inventory	-	38,935	38,935	38,935
Prepaid expenses	47,656	15,594	63,250	61,310
Total current assets	437,680	708,778	1,146,458	1,070,256
Fixed Assets:				
Equipment	-	2,381,898	2,381,898	2,019,478
Accumulated depreciation & amortization	-	(1,761,770)	(1,761,770)	(1,660,383)
Total Fixed Assets	-	620,128	620,128	359,095
TOTAL ASSETS	\$ 437,680	\$ 1,328,906	\$ 1,766,586	\$ 1,429,351
LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 17,404	\$ 51,463	\$ 68,867	\$ 30,200
Due to other funds	70,000	32,150	102,150	-
Accrued sick and vacation	171,902	-	171,902	165,732
Accrued wages payable	2,561	2,330	4,891	4,783
Current maturities on long term debt	-	63,826	63,826	111,128
Total current liabilities	261,867	149,769	411,636	311,843
Long-term liabilities:				
Notes payable	-	542,481	542,481	278,720
TOTAL LIABILITIES	261,867	692,250	954,117	590,563
RETAINED EARNINGS:				
Reserved	2,075	-	2,075	2,049
Unreserved	173,738	636,656	810,394	836,739
Total retained earnings	175,813	636,656	812,469	838,788
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 437,680	\$ 1,328,906	\$ 1,766,586	\$ 1,429,351

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

Year ended June 30, 2011

With Comparative Totals for Year ended June 30, 2010

	Employee Benefit	Motor Vehicle	Totals	
			2011	2010
OPERATING REVENUES:				
Charges for services	\$ 924,509	\$ 423,815	\$ 1,348,324	\$ 1,249,981
Federal revenue	-	39,499	39,499	39,000
Other revenue	-	473	473	32,573
TOTAL OPERATING REVENUES	924,509	463,787	1,388,296	1,321,554
OPERATING EXPENSES:				
General government administration	113	7,905	8,018	22,437
Garage maintenance	-	119,288	119,288	99,850
Operations and maintenance	-	306,957	306,957	255,359
Depreciation	-	101,387	101,387	103,027
Benefit payments:				
Payroll taxes	128,006	-	128,006	121,419
Retirement plan expense	134,339	-	134,339	124,053
Holiday pay	37,749	-	37,749	34,645
Sick pay/personal leave	45,575	-	45,575	42,092
Vacation pay	74,821	-	74,821	79,877
Workers' compensation insurance	49,110	-	49,110	71,721
Hospitalization insurance	368,632	-	368,632	380,024
Employee life insurance	755	-	755	1,860
Longevity pay	19,350	-	19,350	19,300
Employee picnic	-	-	-	600
Other	6,179	-	6,179	5,355
TOTAL OPERATING EXPENSES	864,629	535,537	1,400,166	1,361,619
OPERATING INCOME (LOSS)	59,880	(71,750)	(11,870)	(40,065)
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	-	-	-	39
Interest income	350	311	661	930
Interest expense	-	(15,110)	15,110	(14,651)
TOTAL NON-OPERATING REVENUES (EXPENSES)	350	(14,799)	(14,449)	(13,682)
NET INCOME (LOSS)	60,230	(86,549)	(26,319)	(53,747)
RETAINED EARNINGS, BEGINNING OF YEAR	115,583	723,205	838,788	892,535
RETAINED EARNINGS, END OF YEAR	\$ 175,813	\$ 636,656	\$ 812,469	\$ 838,788

CITY OF HANCOCK
INTERNAL SERVICES FUNDS
COMBINING STATEMENTS OF CASH FLOW
Year Ended June 30, 2011

	Employee Benefit	Motor Vehicle	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 924,509	\$ 423,815	\$ 1,348,324
Payments to suppliers	1,155	(277,107)	(275,952)
Payments to employees	(858,620)	(121,202)	(979,822)
Other receipts (payments)	-	39,972	39,972
Net cash provided by operating activities	<u>67,044</u>	<u>65,478</u>	<u>132,522</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	<u>(8,469)</u>	<u>103,646</u>	<u>(95,177)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	-	(362,420)	(362,420)
Principal paid on capital debt	-	216,459	216,459
Interest paid on capital debt	<u>-</u>	<u>(15,110)</u>	<u>(15,110)</u>
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(161,071)</u>	<u>(161,071)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>350</u>	<u>311</u>	<u>661</u>
Net cash provided by investing activities	<u>350</u>	<u>311</u>	<u>661</u>
Net (decrease) in cash and cash equivalents	58,925	8,364	67,289
Balances -- beginning of the year	<u>34,584</u>	<u>40,376</u>	<u>74,960</u>
Balances -- end of the year	<u>\$ 93,509</u>	<u>\$ 48,740</u>	<u>\$ 142,249</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 59,880	\$ (71,750)	\$ (11,870)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-	101,387	101,387
Changes in assets and liabilities:			
Prepaid expenses	(2,105)	165	(1,940)
Accounts and other payables	3,373	35,294	38,667
Accrued expenses	<u>5,896</u>	<u>382</u>	<u>(6,278)</u>
Net cash provided by operating activities	<u>\$ 67,044</u>	<u>\$ 65,478</u>	<u>\$ (132,522)</u>

CITY OF HANCOCK
EMPLOYEE BENEFIT FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2011

With Comparative Actual Amounts for Year ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
OPERATING REVENUES:				
Charges for services	\$ 853,577	\$ 924,509	\$ (70,932)	\$ 898,204
Other revenue	<u>65,663</u>	<u>-</u>	<u>65,663</u>	<u>31,969</u>
TOTAL OPERATING REVENUES	<u>919,240</u>	<u>924,509</u>	<u>(5,269)</u>	<u>930,173</u>
EXPENSES:				
General government administration	1,721	113	1,608	42
Benefit payments:				
Payroll taxes	115,464	128,006	(12,542)	121,419
Retirement plan expense	130,000	134,339	(4,339)	124,053
Holiday pay	37,119	37,749	(630)	34,645
Sick pay/personal leave	41,117	45,575	(4,458)	42,092
Vacation pay	77,665	74,821	2,844	79,877
Workers' compensation insurance	55,987	49,110	6877	71,721
Hospitalization insurance	430,500	368,632	61,868	380,024
Employee life insurance	2,691	755	1,936	1,860
Longevity pay	19,803	19,350	453	19,300
Employee picnic	795	-	795	600
Other	5,398	6,179	(781)	5,355
TOTAL OPERATING EXPENSES	<u>918,260</u>	<u>864,629</u>	<u>53,631</u>	<u>880,988</u>
OPERATING INCOME (LOSS)	980	59,880	(58,900)	49,185
NON-OPERATING REVENUES (EXPENSES):				
Interest income	<u>265</u>	<u>350</u>	<u>(85)</u>	<u>478</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>265</u>	<u>350</u>	<u>(85)</u>	<u>478</u>
NET INCOME (LOSS)	<u>\$ 1,245</u>	<u>60,230</u>	<u>\$ (58,985)</u>	<u>49,663</u>
RETAINED EARNINGS, BEGINNING OF YEAR		<u>115,583</u>		<u>65,920</u>
RETAINED EARNINGS, END OF YEAR		<u>\$ 175,813</u>		<u>\$ 115,583</u>

CITY OF HANCOCK
MOTOR VEHICLE FUND
SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2011
With Comparative Totals for Year ended June 30, 2010

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2010</u>
OPERATING REVENUES:				
Charges for services	\$ 444,744	\$ 423,815	\$ 868,559	\$ 351,777
Federal revenue	-	39,499	39,499	39,000
Other revenue	662	473	1,135	604
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OPERATING REVENUES	445,406	463,787	909,193	391,381
	<hr/>	<hr/>	<hr/>	<hr/>
OPERATING EXPENSES:				
General government administration	28,679	7,905	36,584	22,395
Garage maintenance	107,938	119,288	227,226	99,850
Operations and maintenance	219,030	306,957	525,987	255,359
Depreciation	-	101,387	101,387	103,027
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TOTAL OPERATING EXPENSES	355,647	535,537	891,184	480,631
	<hr/>	<hr/>	<hr/>	<hr/>
OPERATING INCOME (LOSS)	89,759	(71,750)	18,009	(89,250)
	<hr/>	<hr/>	<hr/>	<hr/>
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	3,426	-	3,426	39
Interest income	1,060	311	1,371	452
Interest expense	(93,750)	(15,110)	108,860	(14,651)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(89,264)	(14,799)	(104,063)	(14,160)
	<hr/>	<hr/>	<hr/>	<hr/>
NET INCOME (LOSS)	<u>\$ 495</u>	<u>(86,549)</u>	<u>\$ (86,054)</u>	<u>(103,410)</u>
	<hr/>	<hr/>	<hr/>	<hr/>
RETAINED EARNINGS, BEGINNING OF YEAR		<u>723,205</u>		<u>826,615</u>
	<hr/>	<hr/>	<hr/>	<hr/>
RETAINED EARNINGS, END OF YEAR		<u>\$ 636,656</u>		<u>\$ 723,205</u>

CITY OF HANCOCK
CEMETERY PERPETUAL CARE TRUST FUND
SCHEDULES OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

Year ended June 30, 2011

With Comparative Actual Amounts for Year ended June 30, 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Other revenue	\$ 1,351	\$ 575
TOTAL OPERATING REVENUES	<u>1,351</u>	<u>575</u>
OPERATING EXPENSES:		
OPERATING INCOME (LOSS)	1,351	575
NON-OPERATING REVENUES (EXPENSES):		
Interest income	<u>1,048</u>	<u>1,555</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>1,048</u>	<u>1,555</u>
NET INCOME (LOSS)	2,399	2,130
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	<u>173,337</u>	<u>171,207</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ 175,736</u>	<u>\$ 173,337</u>

CITY OF HANCOCK
TRANSIT FUND SUPPLEMENTAL INFORMATION
June 30, 2011

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
For the Year Ended June 30, 2011

	07/01/10 through 09/30/10	10/01/10 through 06/30/11	Total
Farebox receipts- passenger fares	\$ 8,567	\$ 28,647	\$ 37,214
Contract Fares*	1,608	1,263	2,871
State Operating Assistance**	7,884	66,949	74,833
Federal Section 5311***	-	40,893	40,893
Federal RTAP**	-	-	-
Local Operating Assistance****	10,000	24,000	34,000
Interest Income	70	163	233
Total Operating Revenue	\$ 28,129	\$ 161,915	\$ 190,044

	10/01/09 through 06/30/10	07/01/10 through 09/30/10	Total
Farebox receipts- passenger fares	\$ 28,527	\$ 8,567	\$ 37,094
Contract Fares	1,691	1,608	3,299
State Operating Assistance	59,274	7,884	67,158
Federal Section 5311	18,763	-	18,763
Federal RTAP	3,138	-	3,138
Local Operating Assistance	45,832	10,000	55,832
Interest Income	133	70	203
Total Operating Revenue	\$ 157,358	\$ 28,129	\$ 185,487

* Contract Fares revenue in the amount of \$2,871 is included under other revenue on page 80 of audit report.

**State revenue on page 80 of audit report exceeds the total of State operating assistance by \$72,519. The audit report is higher because it includes grant revenue not reported on the quarterly transit reports.

***Federal revenue on page 80 of audit report exceeds the total of Federal Section 5311 by \$387,319. The audit report includes additional federal grant revenue not reported on the quarterly transit reports.

****Operating transfers on page 80 of audit report, in the amount of \$30,000, are considered local operating assistance revenue and is included in the amount of \$34,000 above.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
For the Year Ended June 30, 2011

	07/01/10 through 09/30/10				10/01/10 through 06/30/11				Total			
	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total
Labor:												
Wages -operations	\$ 14,062	\$ 0	\$ 0	\$ 14,062	\$ 58,163	\$ 0	\$ 0	\$ 58,163	\$ 72,225	\$ 0	\$ 0	\$ 72,225
Other salaries and wages	0	1,444	2,727	4,171	0	9,533	15,111	24,644	0	10,977	17,838	28,815
Dispatchers wages	1,843	0	0	1,843	5,528	0	0	5,528	7,371	0	0	7,371
Fringe benefits	4,132	1,567	3,246	8,945	13,413	8,375	13,036	34,824	17,545	9,942	16,282	43,769
Services:												
Advertising	0	0	329	329	0	0	314	314	0	0	643	643
Audit costs	0	0	0	0	0	0	0	0	0	0	500	500
Other	123	3,218	4,165	7,506	2,694	4,576	1,380	8,650	2,817	7,794	5,545	16,156
Materials and supplies:												
Fuel and lubricants	5,042	0	0	5,042	19,181	0	0	19,181	24,223	0	0	24,223
Tires and tubes	13	0	0	13	537	0	0	537	550	0	0	550
Major supplies	0	2,298	0	2,298	0	6,672	45	6,717	0	8,970	45	9,015
Other	0	0	0	0	0	0	0	0	0	0	0	0
Utilities	0	0	410	410	0	0	5,953	5,953	0	0	6,363	6,363
Insurance	1,751	0	0	1,751	673	0	0	673	2,424	0	0	2,424
Operating lease and rentals	0	0	0	0	0	0	0	0	0	0	0	0
Miscellaneous expenses:												
Travel	0	0	0	0	0	0	1,921	1,921	0	0	1,921	1,921
Dues & Subscriptions	0	0	651	651	0	0	165	165	0	0	816	816
Other	0	0	310	310	7	391	87	485	7	391	397	795
Depreciation	0	0	0	0	59,229	0	0	59,229	59,229	0	0	59,229
	<u>26,966</u>	<u>8,527</u>	<u>11,838</u>	<u>47,331</u>	<u>159,425</u>	<u>29,547</u>	<u>38,012</u>	<u>226,984</u>	<u>186,391</u>	<u>38,074</u>	<u>50,350</u>	<u>274,815</u>
Less:												
Ineligible expenses- RTAP	0	0	0	0	0	0	1,606	1,606	0	0	1,606	1,606
Deprecation	0	0	0	0	59,229	0	0	59,229	59,229	0	0	59,229
	<u>\$ 26,966</u>	<u>\$ 8,527</u>	<u>\$ 11,838</u>	<u>\$ 47,331</u>	<u>\$ 100,196</u>	<u>\$ 29,547</u>	<u>\$ 36,406</u>	<u>\$ 166,149</u>	<u>\$ 127,162</u>	<u>\$ 38,074</u>	<u>\$ 48,744</u>	<u>\$ 213,980</u>

Total expenses in the amount of \$274,815 exceed total operating expenses on page 80 by \$6,318 (audit adjusting journal entry to reverse accounts payable \$3,984, ineligible expenses (\$2,313), expenses that were reimbursed after filing of transit report, \$4,140, audit costs on transit reports not reflected on page 80, \$500, and rounding, \$7).

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Reporting period October 1, 2009 through September 30, 2010

	10/01/09 through 06/30/10				07/01/10 through 09/30/10				Total			
	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total
Labor:												
Wages -operations	\$ 57,081	\$ 0	\$ 0	\$ 57,081	\$ 14,588	\$ 1,408	\$ 4,235	\$ 20,231	\$ 71,669	\$ 1,408	\$ 4,235	\$ 77,312
Other salaries and wages	0	8,305	15,510	23,815	0	0	0	0	0	8,305	15,510	23,815
Dispatchers wages	5,529	0	0	5,529	1,843	0	0	1,843	7,372	0	0	7,372
Fringe benefits	13,283	7,353	13,441	34,077	4,150	1,503	4,475	10,128	17,433	8,856	17,916	44,205
Services:												
Advertising	341	0	2,000	2,341	0	0	0	0	341	0	2,000	2,341
Other	818	5,520	3,594	9,932	105	1,450	90	1,645	923	6,970	3,684	11,577
Materials and supplies:												
Fuel and lubricants	16,589	0	0	16,589	5,012	0	0	5,012	21,601	0	0	21,601
Tires and tubes	1,398	0	0	1,398	1,137	0	0	1,137	2,535	0	0	2,535
Major supplies	0	3,856	0	3,856	0	1,508	0	1,508	0	5,364	0	5,364
Other	367	0	0	367	0	0	0	0	367	0	0	367
Utilities	0	0	2,592	2,592	0	0	134	134	0	0	2,726	2,726
Insurance	250	0	0	250	1,825	0	0	1,825	2,075	0	0	2,075
Operating lease and rentals	0	0	0	0	0	0	0	0	0	0	0	0
Miscellaneous expenses:												
Travel	0	0	265	265	425	0	1,099	1,524	425	0	1,364	1,789
Dues & Subscriptions	0	0	0	0	0	0	0	0	0	0	0	0
Other	1332	0	32	1,364	0	0	(26)	(26)	1,332	0	6	1,338
Depreciation	47,581	0	0	47,581	0	0	0	0	47,581	0	0	47,581
	<u>144,569</u>	<u>25,034</u>	<u>37,434</u>	<u>207,037</u>	<u>29,085</u>	<u>5,869</u>	<u>10,007</u>	<u>44,961</u>	<u>173,654</u>	<u>30,903</u>	<u>47,441</u>	<u>251,998</u>
Less:												
Ineligible expenses- RTAP	583	0	698	1,281	425	0	2,238	2,663	1,008	0	2,936	3,944
Deprecation	47,581	0	0	47,581	0	0	0	0	47,581	0	0	47,581
	<u>\$ 96,405</u>	<u>\$ 25,034</u>	<u>\$ 36,736</u>	<u>\$ 158,175</u>	<u>\$ 28,660</u>	<u>\$ 5,869</u>	<u>\$ 7,769</u>	<u>\$ 42,298</u>	<u>\$ 125,065</u>	<u>\$ 30,903</u>	<u>\$ 44,505</u>	<u>\$ 200,473</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
For the Year Ended June 30, 2011

NON URBAN AREAS	10/01/10 Through 09/30/11
STATE OF MICHIGAN	
Total Eligible Expenses	\$ 213,980
Reimbursement Rate %	37.1243%
Eligible operating assistance	\$ 79,439
 FEDERAL SECTION 5311	
Total Eligible Expenses	\$ 200,473
Reimbursement Rate %	18.5000%
Eligible operating assistance	\$ 37,088

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
For the Year Ended June 30, 2011

<u>Quarter Ending:</u>	<u>Miles</u>
September 30, 2010	14,294
December 31, 2010	14,573
March 31, 2011	14,518
June 30, 2011	14,225
Total Miles	<u><u>57,610</u></u>

**CITY OF HANCOCK
FEDERAL AWARDS PROGRAMS
JUNE 30, 2011**

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

310 Sheldon Avenue, Houghton, Michigan 49931

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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 as of and for the year then ended June 30, 2011 which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2011-1 through 2011-2. 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.

Compliance

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 Standard* and which are described in the accompanying schedule of findings and questioned costs as items 2011-3 through 2011-4.

We noted certain matters that we reported to management of the City of Hancock's in a separate letter dated December 20, 2011.

The City of Hancock's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Hancock's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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

December 20, 2011

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Hancock's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hancock's major federal programs for the year ended June 30, 2011. The City of Hancock's major federal programs are identified in the summary of auditors results section of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hancock's management. Our responsibility is to express an opinion on the City of Hancock's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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's 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. Our audit does not provide a legal determination on the City of Hancock's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Hancock is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Hancock's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's 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, 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.

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Hancock's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Hancock's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the City's council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

December 20, 2011

CITY OF HANCOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency Pass-through programs from: State of Michigan/Department Of Environmental Quality Stormwater Management	66.469	\$ 235,812
United States Department of Agriculture Rural Development Water Supply System Junior Lien Revenue Refunding Bond Series 2011A	10.781	1,225,000
2010 Sewage Disposal System Revenue Bond	10.781	<u>1,385,469</u>
		<u>2,610,469</u>
Water Supply System Junior Lien Revenue and Revenue Refunding Bond Series 2011B	10.760	2,781,962
Rural Housing Service Community Facilities Grant Sander truck loan	10.766	130,000
Sander truck grant	10.766	6,499
Grader Loan	10.766	187,000
Grader grant	10.766	<u>33,000</u>
		<u>356,499</u>
U.S. Department of Housing and Urban Development-State Programs Pass-through programs from: Michigan State Housing Development Authority Rental Rehabilitation Grant	14.239	196,205
U.S. Department of Transportation - Federal Transit Administration Pass-through programs from: State of Michigan, Michigan Department of Transportation Operating Assistance-Section 5311	20.509	42,668
Federal Transit Capital Investment Grants Transit facility	20.500	363,414
Michigan Department of Natural Resources and Environment Urban Forestry Grant	10.688	8,900
Michigan Bureau of Energy Systems State of Michigan/Department of Energy, Labor & Economic Growth Energy Efficiency & Conservation Block Grant Program	81.128	<u>45,740</u>
Total expenditures of federal awards		<u>\$ 6,641,669</u>

CITY OF HANCOCK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

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-SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION

Below is a reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized within the financial statements:

Total Federal expenditures per Schedule of Expenditures	<u>\$ 6,641,669</u>
Federal awards per financial statements:	
Federal awards governmental funds	\$ 487,857
Federal awards enterprise funds	406,082
Federal awards internal service funds	39,499
Federal expenditures recorded in prior year and revenue recognized in current year	(1,200)
Bond proceeds enterprise funds	5,392,431
Loan proceeds governmental funds	<u>317,000</u>
Total federal awards per financial statements	<u>\$ 6,641,669</u>

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
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:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133?	No

Identification of major programs:

Name of Federal Program	<u>CFDA Number</u>
United States Department of Agriculture:	
Rural Development	
Water Supply System Junior Lien Revenue Refunding Bond Series 2011A	10.781
2010 Sewage Disposal System Revenue Bond	10.781
Water Supply System Junior Lien Revenue and Revenue Refunding Bond Series 2011B	10.760
Rural Housing Service Community Facilities Grant	
Grader Loan	10.766
Grader Grant	10.766
Federal Transit Administration Capital Investment Grant	
Transit Facility	20.500
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2011
(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2011-1 – Preparation of Financial Statements in Accordance with GAAP (Repeat Finding)

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, the City of Hancock has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City of Hancock's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the City of Hancock to perform this task internally.

Effect: As a result of this condition, the City of Hancock lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The City of Hancock has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City of Hancock to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation.

2011-2 – Recording, Processing and Summarizing Accounting Data - Capital Assets/Adjustments (Repeat Finding)

Criteria: The City is required to have in place internal controls over recording, processing and summarizing accounting data (e.g., maintaining internal books and records).

Condition: As is the case with many small entities, the City has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the City has placed reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Effect: As a result of this condition, the City lacks internal controls over the recording, processing and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The City has evaluated the costs vs. benefit of establishing internal controls over the recording, processing and summarizing of accounting data, and determined that it is in the best interest of the City to rely on its external auditors to recommend the necessary adjustments.

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2011
(Continued)

Instances of Non-compliance

2011-3 - 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, 2011, the City of Hancock incurred expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

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.

2011-4 - Deficit Net Assets

Condition/Criteria: At June 30, 2011 the City of Hancock had an unrestricted equity deficit in their Parking Meter Fund, as shown on page 14. Public Act 275 of 1980 requires that all deficits in any fund balance of local units be disclosed and enumerated upon in the footnotes of the financial statements. In accordance with the Act, a corrective action plan for the deficit is required to be filed with the State Treasurer within 90 days of the end of the fiscal year. As of this time, the City of Hancock has not filed such a plan.

Cause of Condition/Effect: Expenditures exceed revenue.

View of Responsible Officials: Upon board approval, money will be transferred from the General Fund to the Parking Meter Fund to eliminate the deficit. Contact Person(s) Responsible for Correction: Glenn Anderson, City Manager, Corrective Action Planned:

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Current Year - No matters were reported.

Prior Year - No matters were reported.

COMMUNICATION SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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COMMUNICATION WITH THOSE IN CHARGE OF GOVERNANCE

December 20, 2011

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, 2011, and have issued our report thereon dated December 28, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), 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 20, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the 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, 2011. 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 financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

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 as 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 20, 2011.

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'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.

This information is intended solely for the use of the members of the City of Hancock's Council and is not intended to be and should not be used for any other purpose.

We appreciate your business, thank you.

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

December 20, 2011

In planning and performing our audit of the financial statements of the City of Hancock, as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

During our audit we became aware of opportunities for strengthening internal controls and operating efficiencies. The following items summarize our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any addition study of these matters, or to assist you in implementing the recommendations.

Budget Review

Michigan law prohibits spending amounts in excess of appropriations (budgeted amounts). As noted in our audit report, there were several instances of spending amounts greater than budgeted.

We recommend that the Council carefully review its actual revenues and expenditures to budgeted amounts at least quarterly. Amendments to the budget should be made after reviewing all financial information, if required or necessary.

Public Act 275 of 1980

The City had a fund balance deficit as of June 30, 2011 in the Parking Meter Fund in the amount of \$5,981.

We recommend that the Council monitor the fund balances of all funds more closely and take steps to avoid such deficits as necessary. In accordance with Public Act 275 of 1980, the City must formulate and file a deficit elimination plan (DEP) with the State Treasurer to correct the deficit situation. This DEP must contain: (1) a copy of current trial balances showing the deficit eliminated; (2) copies of Council resolutions approving operating transfers used to eliminate the deficit; and (3) a projected budget, approved by the Council, itemizing the revenues, expenditures and the changes in the fund balance.

Funding Sources

It is important to know grant requirements for each revenue source. We recommend that documentation be maintained and organized individually for all grant awards. The documentation should include: Grant award document, budget, contact information, correspondence, cash management information (invoices, receipts, and reports). Payment requests should be stapled or paper clipped to all supporting document and filed in one folder with acknowledgment of receipt of funds.