

**CITY OF HANCOCK
HOUGHTON COUNTY, MICHIGAN**

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

June 30, 2014



CITY OF HANCOCK

JUNE 30, 2014

ADMINISTRATION

City Manager Glenn Anderson
Clerk/Treasurer Karen Haischer

BOARD MEMBERS

Mayor William Laitila
Ward II Jeremie Moore
Ward III John Slivon
Mayor Pro-Tem Lisa McKenzie
At Large John Haeussler
At Large Barry Givens
At Large Ted Belej

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	5
MANAGEMENT'S DISCUSSION AND ANALYSIS	7
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	16
Statement of Activities	17
Balance Sheet - Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Statement of Net Position - Proprietary Funds	20
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Statement of Assets and Liabilities - Fiduciary Funds	23
Notes to Financial Statements	24
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION:	
Budgetary Comparison Schedule - General Fund	51
Budgetary Comparison Schedule - Major Street Fund	52
Budgetary Comparison Schedule - CDBG Fund	53
SUPPLEMENTAL FINANCIAL INFORMATION:	
<u>Special Revenue Funds:</u>	
Combining Balance Sheet - Nonmajor Governmental Funds	55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	56

**TABLE OF CONTENTS
(CONTINUED)**

	<u>Page</u>
SUPPLEMENTAL FINANCIAL INFORMATION (Continued):	
<u>Proprietary Funds:</u>	
Enterprise Funds:	
Combining Balance Sheet	57
Combining Statement of Revenues, Expenses, and Changes in Retained Earnings	59
Combining Statement of Cash Flows	60
<u>Internal Service Funds:</u>	
Combining Balance Sheet	61
Combining Statement of Revenues, Expenses, and Changes in Retained Earnings	62
Combining Statement of Cash Flows	63
TRANSIT FUND SUPPLEMENTAL INFORMATION:	
<u>MDOT-Passenger Transportation Division Schedules:</u>	
Operating Revenue	65
Operating Expenses	66
Computation of State and Federal Operating Assistance	68
Mileage Data Report (Unaudited)	69
FEDERAL AWARDS PROGRAMS:	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	73
Schedule of Expenditures of Federal Awards	75
Notes to the Schedule of Expenditures of Federal Awards	76
Schedule of Findings and Questioned Costs	77
COMMUNICATIONS SECTION	
Communication with Those in Charge of Governance	81

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 15 and 51 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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, individual major, and nonmajor 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The prior year comparative information on pages 65 and 67 has been derived from the City's 2013 audit report dated December 12, 2013 in which we expressed unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information and the related notes to the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

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

December 18, 2014

**City of Hancock
Management's Discussion and Analysis
June 30, 2014**

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, 2014. 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 \$10,447,392 (net position). Of this amount, \$879,024 (unrestricted net position) may be used to meet the government's ongoing obligations.
- The City of Hancock's total net position decreased by \$18,446.
- The City of Hancock had charges for services of \$1,842,138 in governmental activities and \$1,997,178 for business-type activities and \$4,914,910 and \$2,456,988 in expenses for governmental and business-type activities respectively during the year ended June 30, 2014.
- At the close of the fiscal year, the City of Hancock's governmental activities funds reported a combined ending net position balance of \$2,283,987. This is an increase of \$64,483.
- At the end of the current fiscal year, the fund balance for the general fund was \$127,895. General fund operating transfers to other funds were \$43,730 in 2014 compared to \$114,175 in the prior year, a decrease of \$70,455.
- The City of Hancock expended \$557,302 in federal awards requiring the City to undergo a Single Audit. The schedule of federal expenditure awards is located on page 75. A majority of the federal expenditures were related to rental rehabilitation in the CDBG Fund.

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 Position 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 Position 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.

The City's net position and the changes in the net position during the year are reported by these two statements. Increases or decreases in the City's net position 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.

Overview of the Financial Statements - (Continued)

There are two kinds of activities in the Statement of Net Position 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, CDGB, 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.

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.

Overview of the Financial Statements - (Continued)

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 Position 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, Water and Transit 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 Position

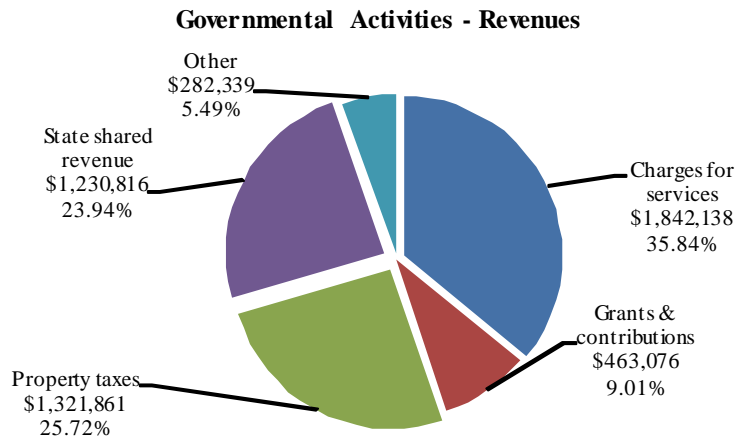
	Governmental Activities		Business-type Activities	
	2014	2013	2014	2013
Assets				
Current and other assets	\$ 1,177,045	\$ 1,247,370	\$ 1,076,377	\$ 941,469
Capital assets - Net of accumulated depreciation	4,228,667	3,997,641	17,138,657	17,611,748
Total Assets	5,405,712	5,245,011	18,215,034	18,553,217
Liabilities				
Current liabilities	236,950	75,598	87,629	141,883
Noncurrent liabilities	2,884,775	2,949,909	9,964,000	10,165,000
Total Liabilities	3,121,725	3,025,507	10,051,629	10,306,883
Net Position				
Invested in capital assets - net of related debt	1,709,007	1,435,058	7,174,657	7,446,748
Restricted for streets and highways	(110,064)	17,435	-	-
Restricted for CDBG	3,861	3,896	-	-
Restricted for TIFA	53,312	142,575	-	-
Restricted for the cemetery	178,424	178,148	-	-
Restricted for program services	42,418	44,401	-	-
Restricted for capital projects	20,236	20,176	-	-
Restricted for debt service	1,312	1,312	495,205	417,618
Unrestricted	385,481	376,503	493,543	381,968
Total Net Position	\$ 2,283,987	\$ 2,219,504	\$ 8,163,405	\$ 8,246,334

**City of Hancock
Management's Discussion and Analysis
June 30, 2014**

Results of Operations

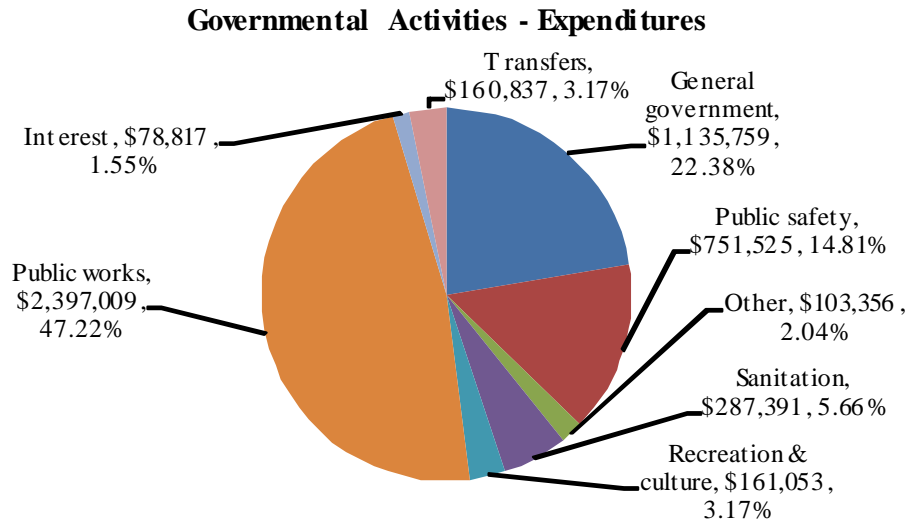
	Governmental Activities		Business-type Activities	
	2014	2013	2014	2013
<u>Revenues</u>				
Program Revenue:				
Charges for services	\$ 1,842,138	\$ 1,705,181	\$ 1,997,178	\$ 1,833,844
Grants and contributions	-	-	139,317	144,712
Capital grants and contributions	463,076	302,979	71,816	983,923
General Revenue:				
Property taxes	1,321,861	1,300,655	-	-
State shared revenue	1,230,816	1,141,387	-	-
Other	282,339	514,438	4,911	103,884
Transfers	-	-	160,837	159,183
Total Revenue	<u>5,140,230</u>	<u>4,964,640</u>	<u>2,374,059</u>	<u>3,225,546</u>
<u>Functions/Program Expenses</u>				
General government	1,135,759	1,476,624	-	-
Public safety	751,525	737,203	-	-
Public works	2,397,009	2,254,309	2,456,988	2,215,003
Sanitation	287,391	304,127	-	-
Recreation and culture	161,053	162,585	-	-
Interest on long-term debt	78,817	79,608	-	-
Other	103,356	127,599	-	-
Transfers	160,837	159,183	-	-
Total Expenses	<u>5,075,747</u>	<u>5,301,238</u>	<u>2,456,988</u>	<u>2,215,003</u>
Change in Net Position	64,483	(336,598)	(82,929)	1,010,543
Net Position - Beginning	2,219,504	2,556,102	8,246,334	7,235,791
Net Position - Ending	<u>\$ 2,283,987</u>	<u>\$ 2,219,504</u>	<u>\$ 8,163,405</u>	<u>\$ 8,246,334</u>

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

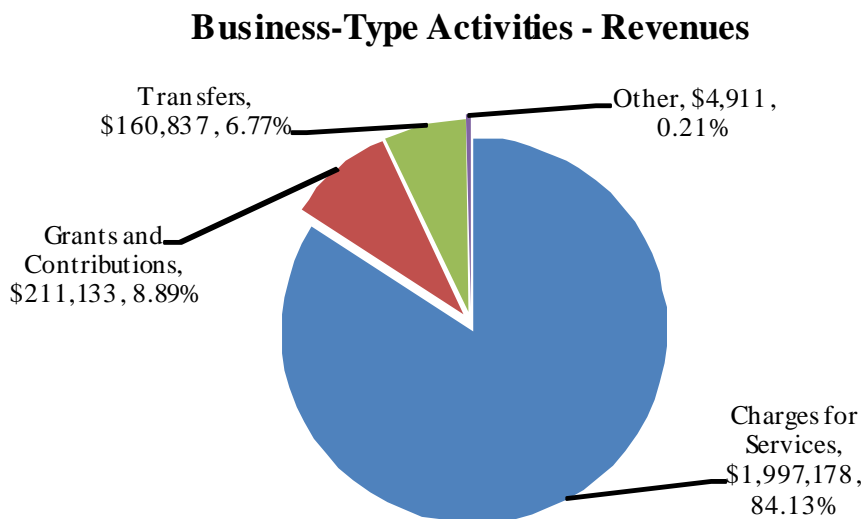


The most significant portions of the revenues for all governmental activities of the City comes from charges for services. The City's operating millage was 14.2021. Charges for services include revenue from internal service funds for employee benefits and the use of the motor vehicles, as well as garbage 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.

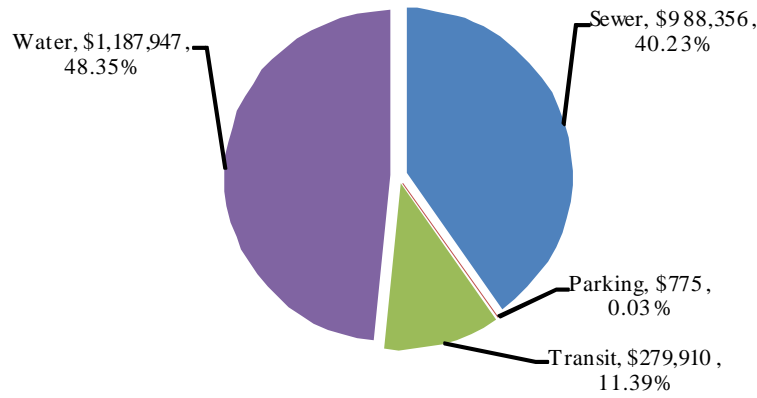
The general area expenses represent City hall activities. The major, local, and motor vehicle expenses are included in the public works area. Police and fire expenses are included in public safety.



The 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	Current Year	Prior Year	Change
Revenues/Transfers	\$ 2,105,270	\$ 2,064,901	\$ 40,369
Expenditures/Transfers	\$ 2,041,249	\$ 2,101,233	\$ (59,984)
Fund Balance	\$ 127,895	\$ 63,874	\$ 64,021

The General Fund saw an increase in revenues of \$40,369 and a decrease in expenditures of \$59,984. The increase in revenue is mainly due to increases in taxes, state shared revenue, and charges for services. The decrease in expenditures is mainly due to a decrease in transfers out.

SPECIAL REVENUE FUNDS	Current Year	Prior Year	Change
Major Street Fund:			
Revenues/Transfers	\$ 722,091	\$ 552,170	\$ 169,921
Expenditures/Transfers	\$ 775,135	\$ 542,355	\$ 232,780
Fund Balance (Deficit)	\$ (35,609)	\$ 17,435	\$ (53,044)
Local Street Fund:			
Revenues/Transfers	\$ 266,991	\$ 300,192	\$ (33,201)
Expenditures/Transfers	\$ 341,446	\$ 276,894	\$ 64,552
Fund Balance (Deficit)	\$ (74,455)	\$ -	\$ (74,455)
CDBG Fund:			
Revenues/Transfers	\$ 396,470	\$ 590,844	\$ (194,374)
Expenditures/Transfers	\$ 396,505	\$ 590,844	\$ (194,339)
Fund Balance	\$ 3,861	\$ 3,896	\$ 35
Elevation Street TIF Fund:			
Revenues/Transfers	\$ 35,610	\$ 34,736	\$ 874
Expenditures/Transfers	\$ 124,873	\$ 105,385	\$ 19,488
Fund Balance	\$ 53,312	\$ 142,575	\$ (89,263)

**City of Hancock
Management's Discussion and Analysis
June 30, 2014**

Significant Transactions and Changes in Individual Funds - (Continued)

Major Street Fund - The increase in revenue is due to the City receiving federal revenue for reconstruction of Campus Drive and an increase in State revenue. Expenditures increased due to expenses related to the reconstruction of Campus Drive and additional costs related to winter road maintenance.

Local Street Fund - The decrease in revenues of \$33,201 is due to a combination of an increase in state revenue and a decrease in transfers in. The increase in expenses is mainly due to an increase in snow and ice control.

CDBG Fund - The CDBG fund had a decrease in revenues and expenses due to fewer grant proceeds and related expenses in the current year.

Elevation Street - Increase in expenditures/transfers is due to higher transfers out to water and sewer fund.

ENTERPRISE FUNDS	Current Year	Prior Year	Change
Parking Meter Fund			
Revenues/Transfers	\$ 19,065	\$ 19,686	\$ (621)
Expenditures/Transfers	\$ 775	\$ 10,457	\$ (9,682)
Retained Earnings	\$ 16,124	\$ (2,166)	\$ 18,290
Transit Fund			
Revenues/Transfers	\$ 289,731	\$ 236,812	\$ 52,919
Expenditures/Transfers	\$ 279,910	\$ 292,658	\$ (12,748)
Retained Earnings	\$ 746,394	\$ 736,573	\$ 9,821
Sewer Fund			
Revenues/Transfers	\$ 975,131	\$ 1,112,845	\$ (137,714)
Expenditures/Transfers	\$ 988,356	\$ 882,523	\$ 105,833
Retained Earnings	\$ 2,954,196	\$ 2,967,421	\$ (13,225)
Water Fund			
Revenues/Transfers	\$ 1,090,132	\$ 1,856,203	\$ (766,071)
Expenditures/Transfers	\$ 1,187,947	\$ 1,029,365	\$ 158,582
Retained Earnings	\$ 4,446,691	\$ 4,544,506	\$ (97,815)

Parking Meter Fund - The Parking Meter Fund showed a decrease in expenses due to fewer general administration costs.

Transit Fund - The Transit Fund revenues increased mainly due to a federal grant received for the purchase of a bus.

Sewer Fund - The Sewer Fund's revenues decreased mainly to a combination of a federal grant received in the prior year and an increase in charges for services in the current year. Expenses increased due to higher general administration costs and an increase in depreciation expense

Water Fund - The Water Fund's revenues/transfers decreased due to a combination of a federal grant received in the prior year and an increase in charges for services in the current year. Expenditures increased due to increases in purchased services and depreciation expense.

DEBT SERVICE (BUILDING AUTHORITY)	Current Year	Prior Year	Change
Revenues/Transfers	\$ 134,780	\$ 136,487	\$ (1,707)
Expenditures/Transfers	\$ 134,780	\$ 136,479	\$ (1,699)
Fund Balance	\$ 1,312	\$ 1,312	\$ -

Significant Transactions and Changes in Individual Funds - (Continued)

RESIDENTIAL CAPITAL PROJECTS			
	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 60	\$ 88	\$ (28)
Expenditures/Transfers	\$ -	\$ -	\$ -
Fund Balance (deficit)	\$ 20,236	\$ 20,176	\$ 60

INTERNAL SERVICE FUNDS

Employee Benefits Fund - Revenue increased due to an increase in charges to other city funds. Expenses increased mainly due to an increase in retirement plan expenses, sick pay/personal leave expense, workers' compensation insurance and hospitalization insurance.

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 920,639	\$ 865,597	\$ 55,042
Expenditures/Transfers	\$ 964,589	\$ 918,496	\$ 46,093
Fund Balance	\$ 79,651	\$ 123,601	\$ (43,950)

Motor Vehicle Fund - Revenue increased due to more charges to other city funds. Expenses increased due to a combination of increased operations and maintenance costs and decreases in depreciation expense.

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 573,809	\$ 479,942	\$ 93,867
Expenditures/Transfers	\$ 638,466	\$ 586,864	\$ 51,602
Fund Balance	\$ 310,600	\$ 375,257	\$ (64,657)

General Fund Budgetary Highlights

During the year ended June 30, 2014, the City amended the budget at various times throughout the year. The amendments were done to cover unbudgeted expenditures. The amendments were mainly required to reconcile actual versus budgeted levels of effort required for various maintenance activities.

The original budget for local revenue was increased to reflect an increase in payment in lieu of taxes and an increase in cable franchise fees. The original state and federal sources budget was increased to reflect the receipt of a Community Arts Grant and an increase in telecommunication fees.

The original budget for clerk expenditures increased by \$27,059 due to an oversight when creating the original budget.

Public safety saw an increase in the original budget of \$21,490 due to the purchase of cameras and computers and related installation costs, and turnout gear for the fire department.

Public works saw a decrease in the original budget by \$37,698 because the general fund budgeted for the purchase of sand and salt and then allocated the expense to the major and local street fund based on usage at the end of the year. Offsetting the decrease, was an increase in the original budget for maintenance to the City's retaining wall.

Recreation and culture had an increase in the original budget in the amount of \$45,499 to reflect additional expenditures for Porvoo Park and campground repairs and maintenance.

**City of Hancock
Management's Discussion and Analysis
June 30, 2014**

Revenue received as a whole was less than what the City had expected. Actual revenue was \$239,565 less than the final amended revenue budget due to overestimating tax revenue and sand and salt sales. Expenditures as a whole were less than what the City had expected. Actual expenditures were \$5,187 less than the final amended budget.

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 \$385,481.

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 \$127,895. 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 6% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$64,021 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 \$8,163,405.

Capital Assets and Debt Administration

The City's net investment in capital assets for the governmental and business-type activities as of June 30, 2014, amounts to \$21,367,324. Capital asset additions totaling \$863,319 includes a boardwalk, road improvements, water and sewer project, a bus, and a loader.

Additional information on the City's capital assets can be found starting on page 34 of this report.

Long-term debt: At the end of the current fiscal year, the City had total debt of \$12,483,660.

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 POSITION

June 30, 2014

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Current assets:				
Cash	\$ 680,185	\$ 198,616	\$ 878,801	\$ 64,399
Restricted cash	348,493	495,205	843,698	-
Receivables	34,339	185,617	219,956	-
Inventories	33,606	148,163	181,769	-
Prepaid expenses	56,091	2,453	58,544	-
Due from fiduciary funds	1,655	-	1,655	-
Internal balances	(46,277)	46,277	-	-
Due from other governmental units	68,953	46	68,999	34,828
Capital assets:				
Non-depreciable capital assets	427,670	-	427,670	114,288
Depreciable capital assets-Net	3,800,997	17,138,657	20,939,654	-
Total capital assets	4,228,667	17,138,657	21,367,324	114,288
Total assets	5,405,712	18,215,034	23,620,746	213,515
LIABILITIES:				
Accounts payable and accrued expenses	152,289	86,796	239,085	167
Due to other governmental units	-	833	833	-
Unearned revenue	84,661	-	84,661	-
Noncurrent liabilities:				
Bonds payable, due within one year	129,708	208,000	337,708	-
Note payable, due within one year	91,965	-	91,965	-
Bonds payable, due in more than one year	1,867,085	9,756,000	11,623,085	-
Note payable, due in more than one year	430,902	-	430,902	-
Compensated absences	365,115	-	365,115	-
Total liabilities	3,121,725	10,051,629	13,173,354	167
NET POSITION:				
Net investment in capital assets	1,709,007	7,174,657	8,883,664	-
Restricted:				
Streets and highways	(110,064)	-	(110,064)	-
CDBG	3,861	-	3,861	-
TIFA	53,312	-	53,312	-
Cemetery	178,424	-	178,424	-
Program expenses	42,418	-	42,418	-
Capital projects	20,236	-	20,236	-
Debt service	1,312	495,205	496,517	-
Unrestricted	385,481	493,543	879,024	213,348
Total net position	\$ 2,283,987	\$ 8,163,405	\$ 10,447,392	\$ 213,348

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

CITY OF HANCOCK
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenues and Changes in Net Position			Component Unit (DDA)
	Expenses	Charges for Services	Grants and Contributions Operating	Capital	Governmental	Business-Type	Total	
Primary government:								
Government activities:								
General government	\$ 1,135,759	\$ 919,395	\$ -	\$ 113,247	\$ (103,117)	\$ -	\$ (103,117)	\$ -
Public safety	751,525	2,051	-	-	(749,474)	-	(749,474)	-
Public works	2,397,009	548,919	-	339,339	(1,508,751)	-	(1,508,751)	-
Sanitation	287,391	153,769	-	-	(133,622)	-	(133,622)	-
Recreation and culture	161,053	77,201	-	10,490	(73,362)	-	(73,362)	-
Interest on long-term debt	78,817	-	-	-	(78,817)	-	(78,817)	-
Other	103,356	140,803	-	-	37,447	-	37,447	-
Total governmental activities	4,914,910	1,842,138	-	463,076	(2,609,696)	-	2,609,696	-
Business-type activities:								
Water	1,187,947	1,001,644	-	-	-	(186,303)	(186,303)	-
Sewer	988,356	937,669	-	-	-	(50,687)	(50,687)	-
Parking Meter	775	13,079	-	-	-	12,304	12,304	-
Transit	279,910	44,786	139,317	71,816	-	(23,991)	(23,991)	-
Total business-type activities	2,456,988	1,997,178	139,317	71,816	-	248,677	248,677	-
Total primary government	\$ 7,371,898	\$ 3,839,316	\$ 139,317	\$ 534,892	(2,609,696)	(248,677)	(2,858,373)	-
Component Unit (DDA)	\$ 419,914	\$ -	\$ 262,500	\$ -	-	-	-	(157,414)
General Revenues:								
Property taxes, levied for general operations					1,321,861	-	1,321,861	150,725
State shared revenue					1,230,816	-	1,230,816	-
Interest and investment earnings					1,645	558	2,203	142
Transfers					(160,837)	160,837	-	-
Gain on sale of assets					17,600	-	17,600	-
Other					263,094	4,353	267,447	1,096
Total general revenues, transfers, and special items					2,674,179	165,748	2,839,927	151,963
Change in Net Position					64,483	(82,929)	(18,446)	(5,451)
Net Position - Beginning					2,219,504	8,246,334	10,465,838	218,799
Net Position - Ending					\$ 2,283,987	\$ 8,163,405	\$ 10,447,392	\$ 213,348

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

CITY OF HANCOCK
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	Major Governmental Funds			Other	Total Governmental Funds
	General	Major Street	CDBG	Non-major	
	Fund	Fund	Fund	Funds	
ASSETS:					
Cash and cash equivalents	\$ 462,437	\$ 15,296	\$ -	\$ 175,844	\$ 653,577
Restricted cash	42,418	-	124,219	179,736	346,373
Taxes receivable	1,993	-	-	-	1,993
Accounts receivable	25,333	-	5,871	-	31,204
Due from other funds	11,453	-	-	130,000	141,453
Due from fiduciary funds	1,655	-	-	-	1,655
Due from governmental units	-	51,374	-	17,579	68,953
Inventory	11,884	-	-	-	11,884
Prepaid expenses	30,375	-	-	-	30,375
TOTAL ASSETS	\$ 587,548	\$ 66,670	\$ 130,090	\$ 503,159	\$ 1,287,467
LIABILITIES:					
Accounts payable	\$ 26,682	\$ 136	\$ 41,568	\$ 1,746	\$ 70,132
Accrued expenses	29,094	1,406	-	3,013	33,513
Due to other funds	403,877	100,737	-	319,571	824,185
Deferred revenue	-	-	84,661	-	84,661
TOTAL LIABILITIES	459,653	102,279	126,229	324,330	1,012,491
FUND BALANCES:					
Nonspendable:					
Inventories	11,884	-	-	-	11,884
Prepays	30,375	-	-	-	30,375
Restricted:					
Streets and highways	-	(35,609)	-	(74,455)	(110,064)
CDBG	-	-	3,861	-	3,861
TIFA	-	-	-	53,312	53,312
Program projects	-	-	-	178,424	178,424
Capital projects	-	-	-	20,236	20,236
Debt service	-	-	-	1,312	1,312
Assigned:					
Main street	42,418	-	-	-	42,418
Unassigned	43,218	-	-	-	43,218
	<u>127,895</u>	<u>(35,609)</u>	<u>3,861</u>	<u>178,829</u>	<u>274,976</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 587,548	\$ 66,670	\$ 130,090	\$ 503,159	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,828,176
Internal service fund is used to charge costs of equipment and operations to individual funds. The assets and liabilities are included in the governmental activities of the statement of net position.	390,251
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,209,416)</u>
Net position of governmental activities	<u>\$ 2,283,987</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 2014

	Major Governmental Funds			Other	Total
	General	Major Street	CDBG Street	Non-major Governmental Funds	Governmental Funds
Revenues:					
Taxes	\$ 1,195,072	\$ -	\$ -	\$ 126,789	\$ 1,321,861
State revenue	454,483	608,496	-	167,837	1,230,816
Federal revenue	-	113,247	339,339	-	452,586
Charges for services	372,834	-	-	134,773	507,607
Interest	1,049	348	-	77	1,474
Other revenue	81,832	-	57,131	475	139,438
Total revenues	2,105,270	722,091	396,470	429,951	3,653,782
Expenditures:					
General government	394,518	29,782	49,007	6,649	479,956
Public safety	751,525	-	-	-	751,525
Public works	259,712	745,353	347,498	334,804	1,687,367
Sanitation	287,391	-	-	-	287,391
Recreation and culture	161,053	-	-	-	161,053
Debt service	78,817	-	-	-	78,817
Other	64,503	-	-	134,773	199,276
Total expenditures	1,997,519	775,135	396,505	476,226	3,645,385
Excess (deficiency) of revenue over expenditures	107,751	(53,044)	(35)	(46,275)	8,397
Other Financing Sources (Uses)					
Operating transfers in	-	-	-	7,766	7,766
Operating transfers out	(43,730)	-	-	(124,873)	(168,603)
Total other financing sources (uses)	(43,730)	-	-	(117,107)	(160,837)
Net change in fund balance	64,021	(53,044)	(35)	(163,382)	(152,440)
Fund Balances - Beginning of Year	63,874	17,435	3,896	342,211	
Fund Balances - End of Year	\$ 127,895	\$ (35,609)	\$ 3,861	\$ 178,829	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	202,790
In the statement of activities, only the gain on the sale of equipment is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.	(8,000)
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.	118,782
Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred.	11,958
Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities.	(108,607)
Change in net assets of governmental activities	<u>\$ 64,483</u>

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

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

June 30, 2014

	Business-Type Activities Enterprise Funds				Governmental Activities	
	Major Funds			Non-major Fund		
	Sewer	Water	Transit	Parking Meter		
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 76,860	\$ 96,305	\$ 9,392	\$ 16,059	\$ 198,616	\$ 26,608
Restricted cash	179,258	315,947	-	-	495,205	2,120
Accounts receivable	85,431	90,366	9,740	80	185,617	1,142
Inventory	75,111	73,052	-	-	148,163	21,722
Due from other funds	-	70,000	-	-	70,000	717,908
Due from other governmental units	-	46	-	-	46	-
Prepaid expenses	-	650	1,803	-	2,453	25,716
Total current assets	416,660	646,366	20,935	16,139	1,100,100	795,216
General fixed assets						
Property, plant, and equipment	9,936,036	16,765,092	1,096,392	30,893	27,828,413	2,477,593
Accumulated depreciation	(5,389,654)	(4,920,001)	(349,208)	(30,893)	(10,689,756)	(2,077,102)
Total general fixed assets	4,546,382	11,845,091	747,184	-	17,138,657	400,491
TOTAL ASSETS	\$ 4,963,042	\$ 12,491,457	\$ 768,119	\$ 16,139	\$ 18,238,757	\$ 1,195,707
LIABILITIES:						
Current liabilities:						
Accounts payable	\$ 2,379	\$ 35,571	\$ 2,620	\$ -	\$ 40,570	\$ 19,377
Accrued expenses	6,189	35,996	4,026	15	46,226	181,759
Due to other funds	445	8,199	15,079	-	23,723	81,453
Due to other governmental units	833	-	-	-	833	-
Current maturities on long-term debt	33,000	175,000	-	-	208,000	91,965
Total current liabilities	42,846	254,766	21,725	15	319,352	374,554
Long-term liabilities:						
Bonds/note payable	1,966,000	7,790,000	-	-	9,756,000	430,902
TOTAL LIABILITIES	2,008,846	8,044,766	21,725	15	10,075,352	805,456
NET POSITION:						
Reserved	179,258	315,947	-	-	495,205	-
Unreserved	2,774,938	4,130,744	746,394	16,124	7,668,200	390,251
Total net position	2,954,196	4,446,691	746,394	16,124	8,163,405	390,251
TOTAL LIABILITIES AND NET POSITION	\$ 4,963,042	\$ 12,491,457	\$ 768,119	\$ 16,139	\$ 18,238,757	\$ 1,195,707

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 NET POSITION
Year Ended June 30, 2014

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds			Non-major Fund	Total	Internal Service Funds
	Sewer	Water	Transit	Parking Meter		
OPERATING REVENUES:						
Sales and charges for services	\$ 937,669	\$ 1,001,644	\$ 44,786	\$ 13,079	\$ 1,997,178	\$ 1,468,314
State revenue	-	-	106,417	-	106,417	-
Federal revenue	-	-	104,716	-	104,716	-
Other revenue	-	580	3,773	-	4,353	8,763
TOTAL OPERATING REVENUES	937,669	1,002,224	259,692	13,079	2,212,664	1,477,077
OPERATING EXPENSES:						
General administration	72,907	63,932	69,449	775	207,063	974,466
Meter reading	11,356	11,540	-	-	22,896	-
Purchased services	568,117	276,418	-	-	844,535	-
Operations and maintenance	81,610	210,363	161,507	-	453,480	465,218
Depreciation	204,656	416,456	48,954	-	670,066	140,765
TOTAL OPERATING EXPENSES	938,646	978,709	279,910	775	2,198,040	1,580,449
OPERATING INCOME (LOSS)	(977)	23,515	(20,218)	12,304	14,624	(103,372)
NON-OPERATING REVENUES (EXPENSES):						
Gain on sale of asset	-	-	-	-	-	17,200
Interest income	-	497	39	22	558	171
Interest expense	(49,710)	(209,238)	-	-	(258,948)	(22,606)
Operating transfers in	37,462	87,411	30,000	5,964	160,837	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(12,248)	(121,330)	30,039	5,986	(97,553)	(5,235)
NET INCOME (LOSS)	(13,225)	(97,815)	9,821	18,290	(82,929)	(108,607)
NET POSITION BEGINNING OF YEAR	2,967,421	4,544,506	736,573	(2,166)	8,246,334	498,858
NET POSITION END OF YEAR	<u>\$ 2,954,196</u>	<u>\$ 4,446,691</u>	<u>\$ 746,394</u>	<u>\$ 16,124</u>	<u>\$ 8,163,405</u>	<u>\$ 390,251</u>

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, 2014

	Business Type		Total
	Activities	Governmental Activities	
	Enterprise Funds	Internal Service Funds	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,967,240	\$ 1,468,314	\$ 3,435,554
Payments to suppliers	(1,144,527)	(358,397)	(1,502,924)
Internal activity-receipts (payments) to other funds	(47,207)	-	(47,207)
Payments to employees	(421,389)	(1,076,812)	(1,498,201)
Other receipts (payments)	215,486	8,763	224,249
Net cash provided by operating activities	<u>569,603</u>	<u>41,868</u>	<u>611,471</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	<u>(132,546)</u>	<u>(20,900)</u>	<u>(153,446)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Gain (loss) on sale of asset	-	199	(199)
Purchases of capital assets	(196,975)	(160,000)	(356,975)
Principal paid on capital debt	(201,000)	75,859	(125,141)
Interest paid on capital debt	<u>(258,948)</u>	<u>(17,087)</u>	<u>(276,035)</u>
Net cash (used) by capital and related financing activities	<u>(656,923)</u>	<u>(101,029)</u>	<u>(757,952)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>558</u>	<u>171</u>	<u>48,954</u>
Net cash provided by investing activities	<u>558</u>	<u>171</u>	<u>48,954</u>
Net increase (decrease) in cash and cash equivalents	45,784	(38,090)	(41,989)
Balances -- beginning of the year	<u>648,037</u>	<u>66,818</u>	<u>-</u>
Balances -- end of the year	<u>\$ 693,821</u>	<u>\$ 28,728</u>	<u>\$ 41,989</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 14,624	\$ 103,372	\$ (88,748)
Adjustments to reconcile operating income to to net cash provided (used) by operating activities:			
Depreciation expense	670,066	140,765	810,831
Changes in assets and liabilities:			
Receivables, net	(29,938)	-	(29,938)
Inventory	30,795	(1,980)	28,815
Prepaid expenses	100	315	415
Accounts and other payables	35,948	12,876	48,824
Accrued expenses	15,295	(10,066)	5,229
Due to other governmental units	<u>(105,497)</u>	<u>-</u>	<u>(105,497)</u>
Net cash provided by operating activities	<u>\$ 569,603</u>	<u>\$ 41,868</u>	<u>\$ 611,471</u>

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

CITY OF HANCOCK
FIDUCIARY FUNDS
STATEMENT OF ASSETS AND LIABILITIES
June 30, 2014

	Agency Funds		
	Agency	Payroll	Total
ASSETS:			
Cash and equivalents	\$ 1,655	\$ 24	\$ 1,679
LIABILITIES:			
Accounts payable	\$ -	\$ 24	\$ 24
Due to general fund	1,655	-	1,655
TOTAL LIABILITIES	\$ 1,655	\$ 24	\$ 1,679

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

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, 2013 is as follows:

Total assets	\$ 495,067
Total liabilities	\$ 105,785
Total net position	<u>389,282</u>
Total liabilities and net position	<u>\$ 495,067</u>
Operating income	\$ 776,347
Operating expenses	<u>842,205</u>
Net operating income	(65,858)
Net Non-operating revenues (expenses)	<u>(31,493)</u>
Net income (loss)	<u>\$ (97,351)</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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2014 (most recent year audited) shows the following:

Total Assets	\$ 14,687,894
Total Liabilities	\$ 6,916,637
Total Net Position	\$ 7,370,921
Total Revenues	\$ 2,043,330
Total Expenditures	\$ 1,982,956
Long-Term Debt	\$ 6,698,284

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

COMPONENT UNITS

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

DISCRETELY PRESENTED COMPONENT UNITS

The component units' columns in the basic financial statements include the financial data of the City's component unit, the Downtown Development Authority (DDA). This unit is reported in a separate column to emphasize that it is legally separate from the City. Complete financial statements of the DDA may be obtained from the City 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 position 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 position, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position are reported in three parts – invested in capital assets, net of related debt; restricted for debt service and other various purposes; and unrestricted net position.

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 position 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.

Community Block Development Grant (CDBG) Fund - CDBG Fund accounts for grant revenue and expenditures.

Other non-major funds include: Local Street Fund, Elevation Street TIFA Fund, Debt Service (Building Authority), Residential Capital Project., and Permanent Fund Type - The Cemetery Perpetual Care Fund.

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. The Agency Fund and Payroll Fund are the only two Trust and Agency Funds.

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 be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Other Accounting Policies

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

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

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

Property Taxes - Property taxes 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 district, the Intermediate School District, and County. Collections of other units' taxes and remittance of these collections are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Balance - Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either a.) Not in spendable form, or b.) Legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, laws or regulations of other governments. *Committed fund balance*, if any, is reported from amounts that can be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, the Board of Directors. 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 Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.
2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2014, 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.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE C - CASH

At year-end, the City's cash deposits (checking, savings and certificates of deposit) 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	\$ 680,185	\$ 198,616	\$ 878,801	\$ 64,399	\$ -
Restricted Cash	348,493	495,205	843,698	-	1,679
Total	<u>\$ 1,028,678</u>	<u>\$ 693,821</u>	<u>\$ 1,722,499</u>	<u>\$ 64,399</u>	<u>\$ 1,679</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, 2014, \$869,121 of the City's bank balance of \$1,552,421 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

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

NOTE D - TRANSFERS AND INTERFUND BALANCES

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

Fund	Transfer Out	Fund	Transfer In
General	\$ 43,730	Parking Meter	\$ 5,964
Elevation street	124,873	Transit	30,000
		Water	87,411
		Sewer	37,462
		Local	7,766
TOTALS	<u>\$ 168,603</u>	TOTALS	<u>\$ 168,603</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

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, 2014 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Local Street	\$ 130,000	General	\$ 130,000
Employee Benefits	310,079	General	270,000
		Local Street	25,000
		Transit	15,079
Subtotal	<u>310,079</u>	Subtotal	<u>310,079</u>
General Fund	11,453	Motor Vehicle	11,453
Motor Vehicle	407,829	General	3,877
		Major	100,737
		Elevation Street	2,094
		Local	292,477
		Sewer	445
		Water	8,199
Subtotal	<u>407,829</u>	Subtotal	<u>407,829</u>
Water	<u>70,000</u>	Employee Benefits	<u>70,000</u>
TOTALS	<u>\$ 859,361</u>		<u>\$ 859,361</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, 2014 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	\$ 25,333	\$ 5,871	\$ 1,142	\$ 185,617	\$ 217,963
Taxes	1,993	-	-	-	1,993
Total receivables	<u>\$ 27,326</u>	<u>\$ 5,871</u>	<u>\$ 1,142</u>	<u>\$ 185,617</u>	<u>\$ 219,956</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE F - CAPITAL ASSETS

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

	<u>Beginning</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Ending</u>
Capital assets, not being depreciated:				
Land	\$ 435,670	\$ -	\$ 8,000	\$ 427,670
Capital assets, being depreciated:				
Buildings	2,715,738	\$ -	\$ -	2,715,738
Equipment	1,137,868	-	-	1,137,868
Improvements	2,306,083	489,344	-	2,795,427
Vehicles	2,590,351	177,000	148,705	2,618,646
Subtotal	<u>8,750,040</u>	<u>\$ 666,344</u>	<u>\$ 148,705</u>	<u>9,267,679</u>
Accumulated Depreciation:				
Buildings	1,164,760	\$ 63,486	\$ -	1,228,246
Equipment	783,408	107,366	-	890,774
Improvements	1,086,867	137,401	-	1,224,268
Vehicles	2,153,034	119,065	148,705	2,123,394
Subtotal	<u>5,188,069</u>	<u>\$ 427,318</u>	<u>\$ 148,705</u>	<u>5,466,682</u>
Net depreciable capital assets	<u>3,800,997</u>			<u>3,800,997</u>
Net capital assets	<u>\$ 4,228,667</u>			<u>\$ 4,228,667</u>

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

General Fund	\$ 182,895
DDA	13,991
Major Streets Fund	77,667
Local Streets Fund	12,000
Motor Vehicle Fund	140,765
	<u>\$ 427,318</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE F - CAPITAL ASSETS (Continued)

The components of property, plant, and equipment in City proprietary funds at June 30, 2014 are summarized as follows:

PARKING METER FUND	Beginning	Additions	Deletions	Ending
Capital assets, being depreciated:				
Equipment	\$ 30,893	\$ -	\$ -	\$ 30,893
Accumulated depreciation:	30,893	\$ -	\$ -	30,893
Net capital assets	\$ -			\$ -

TRANSIT FUND	Beginning	Additions	Deletions	Ending
Capital assets, being depreciated:				
Buildings	\$ 716,473	\$ -	\$ -	\$ 716,473
Equipment	43,120	-	-	43,120
Vehicles	264,697	72,102	-	336,799
Subtotal	1,024,290	\$ 72,102	\$ -	1,096,392
Accumulated depreciation:				
Buildings	\$ 40,302	17,912	\$ -	\$ 58,214
Equipment	17,272	6,245	-	23,517
Vehicles	242,680	24,797	-	267,477
Subtotal	300,254	\$ 48,954	\$ -	349,208
Net capital assets	\$ 724,036			\$ 747,184

SEWER DISPOSAL FUND	Beginning	Additions	Deletions	Ending
Capital assets, being depreciated:				
Buildings	\$ 754,725	\$ -	\$ -	\$ 754,725
Utility system	9,143,851	37,460	-	9,181,311
Subtotal	9,898,576	\$ 37,460	\$ -	9,936,036
Accumulated depreciation:				
Buildings	\$ 688,685	18,868	\$ -	\$ 707,553
Utility system	4,496,313	185,788	-	4,682,101
Subtotal	5,184,998	\$ 204,656	\$ -	5,389,654
Net capital assets	\$ 4,713,578			\$ 4,546,382

WATER SUPPLY FUND	Beginning	Additions	Deletions	Ending
Capital assets, being depreciated:				
Buildings	\$ 1,645,692	\$ -	\$ -	\$ 1,645,692
Equipment	13,383	-	-	13,383
Land	73,500	-	-	73,500
Loan fees/lease	238,496	-	-	238,496
Utility system	14,706,608	87,413	-	14,794,021
Subtotal	16,677,679	\$ 87,413	\$ -	16,765,092
Accumulated depreciation:				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	11,374	1,338	-	12,712
Loan fees/lease	170,985	5,190	-	176,175
Utility system	2,675,494	409,928	-	3,085,422
Subtotal	4,503,545	\$ 416,456	\$ -	4,920,001
Net capital assets	\$ 12,174,134			\$ 11,845,091

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

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>
Main Street Local Pool \$ 42,418	CDBG \$ 124,219	Sewer Fund \$ 179,258
	Debt Retirement \$ 1,312	Water Fund \$ 315,947
	Employee benefits \$ 2,120	
	Cemetery \$ 178,424	

General Fund - Main Street Local Pool: In 1981, funds of a CDBG were used to establish an interest free revolving commercial loan program to assist local businesses who have exhausted other means of obtaining credit. The \$42,418 represents the balance of the commercial loan program. As of June 30, 2014, 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 \$495,205 as of June 30, 2014. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$2,120 as of June 30, 2014.

The Cemetery Perpetual Care Trust balance of \$178,424 is reserved for the perpetual care of cemetery lots.

NOTE H - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2014, for the District’s governmental funds individual major funds and non-major funds in the aggregate, are as follows:

<u>Payables</u>	<u>Governmental</u>	<u>Enterprise</u>	<u>Total Primary Government</u>
Accounts payable	\$ 89,509	\$ 40,570	\$ 130,079
Accrued expenses	62,780	46,226	109,006
Total	<u>\$ 152,289</u>	<u>\$ 86,796</u>	<u>\$ 239,085</u>

NOTE I - 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, 2014 was \$100,305 and \$264,810 respectively.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE J - 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 of 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>
2014-15	\$ 20,000	\$ 17,250	\$ 37,250
2015-16	20,000	16,250	36,250
2016-17	20,000	15,250	35,250
2017-18	20,000	14,250	34,250
2018-19	20,000	13,250	33,250
2019-24	130,000	48,000	178,000
2024-29	125,000	12,875	137,875
TOTALS	<u>\$ 355,000</u>	<u>\$ 137,125</u>	<u>\$ 492,125</u>

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>
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
2018-19	43,000	27,479	70,479
2019-24	254,000	105,356	359,356
2024-29	261,000	39,425	300,425
TOTALS	<u>\$ 707,000</u>	<u>\$ 299,846</u>	<u>\$ 1,006,846</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE J - 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>
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	\$ 298,000	\$ 46,779	\$ 344,779

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, 2014, \$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>
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
2018-19	13,000	16,459	29,459
2019-24	74,000	73,714	147,714
2024-29	91,000	57,172	148,172
2029-34	112,000	36,630	148,630
2034-37	109,000	11,509	120,509
TOTALS	\$ 445,000	\$ 266,146	\$ 711,146

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE J - 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>
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
2018-19	3,000	3,735	6,735
2019-24	15,000	16,650	31,650
2024-29	19,000	13,005	32,005
2029-34	23,000	8,415	31,415
2034-37	23,000	2,655	25,655
TOTALS	\$ 92,000	\$ 60,480	\$ 152,480

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-15	\$ 13,155	\$ 3,489	\$ 16,644
2015-16	74,085	2,965	77,050
	<u>\$ 87,240</u>	<u>\$ 6,454</u>	<u>\$ 93,694</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>
2014-15	<u>\$ 12,553</u>	<u>\$ 503</u>	<u>\$ 13,056</u>

NOTE J - LONG-TERM DEBT (Continued)

ENTERPRISE FUNDS

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>226,000</u>	<u>17,928</u>	<u>243,928</u>
TOTALS	<u>\$ 1,170,000</u>	<u>\$ 671,579</u>	<u>\$ 1,841,579</u>

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE J - 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>
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	\$ 3,570,000	\$ 1,836,397	\$ 5,406,397

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 1,999,000	\$ 1,125,513	\$ 3,124,513

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE J - 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>
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	\$ 3,225,000	\$ 1,152,375	\$ 4,377,375

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>
97 Ford and Vactor	12/1/08	\$ 124,950	12/1/14	3.55%	\$ 22,691	\$ 22,691
2009 Rear Loader	6/3/09	\$ 63,694	6/3/15	4.00%	\$ 11,676	\$ 11,676
2013 Caterpillar Loader	1/21/14	\$ 160,000	1/21/19	2.24%	\$ 160,000	\$ 30,598
2011 Snow Blower	3/2/10	\$ 91,000	2/1/19	4.00%	\$ 59,000	\$ 9,000
2011 Sander	4/20/11	\$ 187,000	10/1/26	4.125%	\$ 112,000	\$ 7,000
2011 Grader	4/20/11	\$ 130,000	4/1/26	4.00%	\$ 157,500	\$ 11,000

As of June 30, 2014, the aggregate maturities of loans payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-15	\$ 91,965	\$ 18,136	\$ 110,101
2015-16	59,284	15,090	74,374
2016-17	61,484	13,260	74,744
2017-18	62,701	11,354	74,055
2018-19	63,933	9,411	73,344
2019-20	73,000	6,992	79,992
2020-21	94,500	6,141	100,641
2021-26	16,000	16,153	32,153
TOTALS	\$ 522,867	\$ 96,537	\$ 619,404

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE J - LONG-TERM DEBT (Continued)

Long-term debt liabilities for governmental activities, are reported in and liquidated through the General and Employee Benefit funds for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/13	Additions	Retired	Balance 6/30/14	Current Maturities
GOVERNMENTAL ACTIVITIES					
1997 Building Authority Bonds	\$ 370,000	\$ -	\$ 15,000	\$ 355,000	\$ 20,000
1998 Building Authority Bonds	739,000	-	32,000	707,000	34,000
USDA Community Facilities Loan	333,000	-	35,000	298,000	37,000
Superior National Bank - Land	99,931	-	12,691	87,240	13,155
Superior National Bank - Vehicle	24,644	-	12,091	12,553	12,553
2008A Building Authority Bonds	455,000	-	10,000	445,000	11,000
2008B Building Authority Bonds	94,000	-	2,000	92,000	2,000
	<u>2,115,575</u>	<u>-</u>	<u>118,782</u>	<u>1,996,793</u>	<u>129,708</u>
ENTERPRISE FUNDS					
2011A Water Supply System Bonds	1,189,000	-	19,000	1,170,000	19,000
2011B Water Supply System Bonds	3,630,000	-	60,000	3,570,000	61,000
2010 Sanitary Sewage Disposal Bonds	2,031,000	-	32,000	1,999,000	33,000
2008 Water Supply System Bond	3,315,000	-	90,000	3,225,000	95,000
	<u>10,165,000</u>	<u>-</u>	<u>201,000</u>	<u>9,964,000</u>	<u>208,000</u>
INTERNAL SERVICE FUND					
Installment Loans	447,008	160,000	84,141	522,867	91,965
TOTALS	<u>\$ 12,727,583</u>	<u>\$ 160,000</u>	<u>\$ 403,923</u>	<u>\$ 12,483,660</u>	<u>\$ 429,673</u>
Accrued compensated absences	<u>\$ 387,326</u>	<u>\$ -</u>	<u>\$ 22,211</u>	<u>\$ 365,115</u>	

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

<u>GOVERNMENTAL ACTIVITIES</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-15	\$ 129,708	\$ 89,562	\$ 219,270
2015-16	182,085	84,298	266,383
2016-17	113,000	76,915	189,915
2017-18	119,000	71,268	190,268
2018-19	124,000	65,875	189,875
2019-24	566,000	247,729	813,729
2024-29	496,000	122,477	618,477
2029-34	135,000	45,045	180,045
2034-39	132,000	14,164	146,164
TOTALS	<u>\$ 1,996,793</u>	<u>\$ 817,333</u>	<u>\$ 2,814,126</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE J - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-15	\$ 91,965	\$ 18,136	\$ 110,101
2015-16	59,284	15,090	74,374
2016-17	61,484	13,260	74,744
2017-18	62,701	11,354	74,055
2018-19	63,933	9,411	73,344
2019-20	73,000	6,992	79,992
2020-21	94,500	6,141	100,641
2021-26	16,000	16,153	32,153
TOTALS	<u>\$ 522,867</u>	<u>\$ 96,537</u>	<u>\$ 619,404</u>

ENTERPRISE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	226,700	455,700
2019-20	233,000	220,975	453,975
2020-21	241,000	215,149	456,149
2021-26	1,294,000	982,593	2,276,593
2026-31	1,461,000	812,617	2,273,617
2031-36	1,661,000	620,025	2,281,025
2036-41	1,523,000	406,061	1,929,061
2041-46	1,156,000	246,400	1,402,400
2046-51	1,307,000	94,247	1,401,247
TOTALS	<u>\$ 9,964,000</u>	<u>\$ 4,785,864</u>	<u>\$ 14,749,864</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE K - 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, 2014 is as follows:

	<u>Parking Meter</u>	<u>Transit</u>	<u>Sewer</u>	<u>Water</u>
Operating revenues	\$ 13,079	\$ 259,692	\$ 937,669	\$ 1,002,224
Depreciation	\$ -	\$ 48,954	\$ 204,656	\$ 416,456
Income (loss) from operations	\$ 12,304	\$ (20,218)	\$ (977)	\$ 23,515
Non-operating revenues	\$ 5,986	\$ 30,039	\$ 37,462	\$ 87,908
Non-operating expenses	\$ -	\$ -	\$ (49,710)	\$ (209,238)
Net Income (loss)	\$ 18,290	\$ 9,821	\$ (13,225)	\$ (97,815)
Property, plant & equipment				
Additions	\$ -	\$ 72,102	\$ 37,460	\$ 87,413
Total assets	\$ 16,139	\$ 768,119	\$ 4,963,042	\$ 12,491,457
Net working capital surplus (deficit)	\$ 16,124	\$ (790)	\$ 373,814	\$ 391,600
Long-term liabilities:				
Payable from operating revenues	\$ -	\$ -	\$ 1,966,000	\$ 7,790,000
Net investment in capital assets	\$ -	\$ 747,184	\$ 454,682	\$ 11,845,091
Reserved net position	\$ -	\$ -	\$ 179,258	\$ 315,947
Unrestricted net position	\$ 16,124	\$ 746,394	\$ 2,774,938	\$ 4,130,744
Total net position	\$ 16,124	\$ 746,394	\$ 2,954,196	\$ 4,446,691
Net cash provided (used) by:				
Operating activities	\$ 12,319	\$ 20,367	\$ 77,681	\$ 459,236
Noncapital financing activities	\$ 964	\$ 45,079	\$ 33,493	\$ 53,010
Capital & related financing activities	\$ -	\$ 72,102	\$ 119,170	\$ (465,651)
Investing activities	\$ 22	\$ 39	\$ -	\$ 497
Beginning cash	\$ 2,754	\$ 16,009	\$ 264,114	\$ 365,160
Ending cash	\$ 16,059	\$ 9,392	\$ 256,118	\$ 412,252

NOTE L - 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.

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 \$100,120, 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:

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE L - RESERVES AND RESTRICTED ASSETS (Continued)

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

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

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

At June 30, 2014, 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	\$ 59,070	\$ 141,022
Repair and Replacement	30,036	116,635
Junior lien bond and interest redemption	48,625	49,788
	<u>\$ 137,731</u>	<u>\$ 307,445</u>
<u>Sewer Fund</u>		
Bond Reserve Account	\$ 27,768	\$ 42,232
Repair and Replacement Account	41,576	62,239
Bond and Interest Redemption Account 2008	21,152	74,787
	<u>\$ 90,496</u>	<u>\$ 179,258</u>

NOTE M - TRANSIT FUND

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

The following are required Michigan Department of Transportation disclosures:

- Management provides assurance that the City of Hancock Transit has one approved cost allocation plan, which was adhered to in the preparation of the City of Hancock’s financial statements.
- The methodology used for compiling miles and other nonfinancial information used to allocate costs has been reviewed and the recording method has been found to be adequate and reliable.
- The depreciation expense reported in 51300 equals the ineligible depreciation reported in 55007. Therefore, the depreciation assurance regarding approval of useful life is not required.
- No operating expenses are subtracted out as ineligible because no capital money was used to pay for operating expenses.
- The Hancock Transit has not received auxiliary or non transportation revenue.
- The Transit Fund did not incur, nor pay, any 50201 pension costs or 50202 other post-employment benefits.

The Department of Transportation required schedules are located on pages 65 through 69.

NOTE N - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2014, the Downtown Development District (DDD), the Elevation Street City(ESD), and the MTEPS (Smart Zone) City. The taxes on the DDD and the ESD Citys 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 was funded for the first 2 years by a state grant. Thereafter, it is 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 2013 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2014, via the Local Development Finance Authority – the financing entity. Summary of TIF City data as of June 30, 2014:

	<u>Downtown Development</u>	<u>TIF District Local Street (Elevation)</u>	<u>MTEPS</u>
Base year	1984	1993	1999
State Equalized Value (SEV) base year			
Real property	\$ 9,792,200	\$ 143,000	\$ 48,229,352
Personal property	\$ 1,662,280	\$ -	\$ 2,911,983
Current year SEV			
Real property	\$ 15,865,024	\$ 1,405,585	\$ 81,460,725
Personal property	\$ 1,774,300	\$ 367,532	\$ 4,843,742
Increase (Decrease) of taxable value			
Real	\$ 6,072,824	\$ 1,262,585	\$ 33,231,373
Personal property	\$ 112,020	\$ 367,532	\$ 1,931,759
Authorized tax mills levied-Homestead	20.5021	23.05	3.00
Non-homestead	-	-	12.0
Tax revenue collected	\$ 150,725	\$ 35,564	\$ 272,138

NOTE O - 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, 2013 the rate, as a percent of annual covered payroll, was 10.72%. 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.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014

NOTE O - PENSION PLAN (Continued)

Annual Pension Cost: For the year ended June 30, 2014, the City's required and actual pension cost was \$69,361. The annual required contribution percentage was determined as a part of the actuarial valuation on December 31, 2013, 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 June 30</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual pension cost (APC)	\$ 66,877	\$ 63,332	\$ 69,361
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	<u>Valuation as of December 31</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actuarial value of assets	\$ 1,821,701	\$ 1,992,065	\$ 2,181,008
Actuarial accrued liability (entry age)	\$ 2,384,979	\$ 2,550,428	\$ 2,873,501
Unfunded actuarial liability (UAAL)	\$ 563,278	\$ 558,363	\$ 692,493
Funded ratio	76%	78%	76%
Covered payroll	\$ 624,361	\$ 595,138	\$ 660,339
UAAL as a percentage of covered payroll	90%	94%	105%

The unfunded accrued liability of the plan as of December 31, 2013 was \$692,493.

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, 2014, after adjustment the City made weekly contributions of \$107.50 per week from July 1 through December 31 and \$114 from January 1 through June 30, 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 P - 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. The City relies on a third party for investment and administration of the plan, therefore the 457 plan assets are excluded from the financial statements.

NOTE Q - DEFICIT FUND BALANCE

The financial statements for the Major Street Fund and Local Street Fund had a fund deficit at June 30, 2014 of \$35,609 and \$74,455 respectively.

NOTE R - 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, 2014, The City owed Portage Lake Water and Sewage Authority \$833, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due to other governmental units.

NOTE S - RISK MANAGEMENT

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

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

Management estimates that the amount of actual or potential claims against the City as of June 30, 2014 will not materially affect the financial condition of the City. Therefore, the financial statements contain no provision for estimated claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE T - SUBSEQUENT EVENTS

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

On May 20, 2014 the City obligated a grant in the amount of \$15,000 for the purchase of a police vehicle. The vehicle had not yet been purchased as of June 30, 2014.

On September 17, 2014 the City closed on a grant with the State of Michigan in the amount of \$250,000 for the interior and exterior demolition and rehabilitation of the building located at 119 Quincy Street in Hancock.

CITY OF HANCOCK
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2013

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
REVENUES:				
Local sources	\$ 1,843,089	\$ 1,878,669	\$ 1,640,297	\$ (238,372)
State and federal sources	449,626	466,166	464,973	(1,193)
TOTAL REVENUE	<u>2,292,715</u>	<u>2,344,835</u>	<u>2,105,270</u>	<u>(239,565)</u>
EXPENDITURES:				
General government				
Board/Legislative	9,744	12,983	12,718	265
Manager	79,394	87,432	87,650	(218)
Clerk	47,738	74,797	70,007	4,790
Treasurer	47,843	56,932	56,475	457
Legal, accounting, and audit	30,550	30,550	27,224	3,326
Assessor	29,434	33,785	30,182	3,603
Planning and professional services	2,600	5,000	4,806	194
Elections	5,687	5,687	4,835	852
Building and grounds	55,959	61,427	57,759	3,668
Cemetery	30,749	34,547	42,862	(8,315)
Public safety	735,526	757,016	751,525	5,491
Public works	285,008	247,310	259,712	(12,402)
Sanitation	296,751	296,751	287,391	9,360
Recreation and culture	115,291	160,790	161,053	(263)
Debt service	78,239	78,239	78,817	(578)
Other	43,380	59,460	64,503	(5,043)
TOTAL EXPENDITURES	<u>1,893,893</u>	<u>2,002,706</u>	<u>1,997,519</u>	<u>5,187</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	398,822	342,129	107,751	(234,378)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	-	-
Operating transfers out	(178,953)	(192,683)	(43,730)	148,953
	<u>(178,953)</u>	<u>(192,683)</u>	<u>(43,730)</u>	<u>148,953</u>
NET CHANGE IN FUND BALANCE	<u>\$ 219,869</u>	<u>\$ 149,446</u>	64,021	<u>\$ (85,425)</u>
FUND BALANCE - BEGINNING OF YEAR			<u>63,874</u>	
FUND BALANCE - END OF YEAR			<u>\$ 127,895</u>	

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES:				
State	\$ 436,500	\$ 529,000	\$ 608,496	\$ 79,496
Federal	-	-	113,247	113,247
Interest	1,100	1,100	348	(752)
TOTAL REVENUE	437,600	530,100	722,091	191,991
EXPENDITURES:				
General government administration	17,323	28,636	29,782	(1,146)
Highway and streets:				
Construction	38,629	38,628	145,798	(107,170)
State trunkline maintenance	190,709	349,562	343,510	6,052
Routine maintenance	39,951	39,951	43,594	(3,643)
Traffic services	2,382	4,600	13,593	(8,993)
Snow and ice control	140,002	187,600	194,692	(7,092)
Sweeping and flushing	1,303	2,350	4,166	(1,816)
TOTAL EXPENDITURES	430,299	651,327	775,135	(123,808)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,301	(121,227)	(53,044)	68,183
NET CHANGE IN FUND BALANCE	<u>\$ 7,301</u>	<u>\$ (121,227)</u>	(53,044)	<u>\$ 68,183</u>
FUND BALANCE - BEGINNING OF YEAR			<u>17,435</u>	
FUND BALANCE - END OF YEAR			<u>\$ (35,609)</u>	

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT BLOCK GRANT FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
REVENUES:				
Federal	\$ 300,000	\$ 300,000	\$ 339,339	\$ 39,339
Other revenue	-	165,000	57,131	(107,869)
TOTAL REVENUE	300,000	465,000	396,470	(68,530)
EXPENDITURES:				
General government	55,000	55,000	49,007	5,993
Public works	245,000	300,000	347,498	(47,498)
TOTAL EXPENDITURES	300,000	355,000	396,505	(41,505)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	110,000	(35)	(110,035)
NET CHANGE IN FUND BALANCE	\$ -	\$ 110,000	(35)	\$ (110,035)
FUND BALANCE - BEGINNING OF YEAR			3,896	
FUND BALANCE - END OF YEAR			\$ 3,861	

CITY OF HANCOCK
SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2014

CITY OF HANCOCK
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue Fund		Debt Service	Capital Project	Permanent Fund	Total
	Local Street	Elevation Street TIF	Building Authority	Sylvan Estates	Cemetery Perpetual Care	
ASSETS:						
Cash	\$ 97,392	\$ 58,216	\$ -	\$ 20,236	\$ -	\$ 175,844
Restricted cash	-	-	1,312	-	178,424	179,736
Due from other funds	130,000	-	-	-	-	130,000
Due from other governmental units	17,579	-	-	-	-	17,579
Total assets	\$ 244,971	\$ 58,216	\$ 1,312	\$ 20,236	\$ 178,424	\$ 503,159
LIABILITIES:						
Accounts payable	\$ 136	\$ 1,610	\$ -	\$ -	\$ -	\$ 1,746
Accrued expenses	1,813	1,200	-	-	-	3,013
Due to other funds	317,477	2,094	-	-	-	319,571
Total liabilities	319,426	4,904	-	-	-	324,330
FUND EQUITY:						
Restricted	(74,455)	53,312	1,312	20,236	178,424	178,829
TOTAL FUND EQUITY	(74,455)	53,312	1,312	20,236	178,424	178,829
TOTAL LIABILITIES AND FUND EQUITY	\$ 244,971	\$ 58,216	\$ 1,312	\$ 20,236	\$ 178,424	\$ 503,159

CITY OF HANCOCK
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2014

	Special Revenue Fund		Debt Service	Capital Project	Permanent Fund	Totals
	Local Street	Elevation Street TIF	Building Authority	Sylvan Estates	Cemetery Perpetual Care	
REVENUES:						
Current taxes	\$ 91,225	\$ 35,564	\$ -	\$ -	\$ -	\$ 126,789
State	167,837	-	-	-	-	167,837
Charges for services	-	-	134,773	-	-	134,773
Interest	163	46	7	60	(199)	77
Other revenue	-	-	-	-	475	475
Total revenues	<u>259,225</u>	<u>35,610</u>	<u>134,780</u>	<u>60</u>	<u>276</u>	<u>429,951</u>
EXPENDITURES:						
General government administration	6,642	-	-	-	-	6,642
Highway and streets:						
Construction	14,961	-	-	-	-	14,961
Routine maintenance	72,134	-	-	-	-	72,134
Traffic services	3,353	-	-	-	-	3,353
Snow and ice control	243,527	-	-	-	-	243,527
Sweeping and flushing	829	-	-	-	-	829
Other	-	-	134,773	-	-	134,773
State grant expenditures	-	-	7	-	-	7
Total expenditures	<u>341,446</u>	<u>-</u>	<u>134,780</u>	<u>-</u>	<u>-</u>	<u>476,226</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(82,221)</u>	<u>35,610</u>	<u>-</u>	<u>60</u>	<u>276</u>	<u>(46,275)</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in (out)	7,766	(124,873)	-	-	-	(117,107)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(74,455)</u>	<u>(89,263)</u>	<u>-</u>	<u>60</u>	<u>276</u>	<u>(163,382)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>142,575</u>	<u>1,312</u>	<u>20,176</u>	<u>178,148</u>	<u>342,211</u>
FUND BALANCE, END OF YEAR	<u>\$ (74,455)</u>	<u>\$ 53,312</u>	<u>\$ 1,312</u>	<u>\$ 20,236</u>	<u>\$ 178,424</u>	<u>\$ 178,829</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEET
June 30, 2014

	Sewer Fund	Water Fund	Transit	Parking Meter	Total
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 76,860	\$ 96,305	\$ 9,392	\$ 16,059	\$ 198,616
Restricted cash	179,258	315,947	-	-	495,205
Accounts receivable	85,431	90,366	9,740	80	185,617
Due from other funds	-	70,000	-	-	70,000
Due from other government	-	46	-	-	46
Inventory	75,111	73,052	-	-	148,163
Prepaid expenses	-	650	1,803	-	2,453
Total current assets	416,660	646,366	20,935	16,139	1,100,100
Property, plant, and equipment	9,936,036	16,765,092	1,096,392	30,893	27,828,413
Accumulated depreciation & amortization	(5,389,654)	(4,920,001)	(349,208)	(30,893)	(10,689,756)
	<u>4,546,382</u>	<u>11,845,091</u>	<u>747,184</u>	<u>-</u>	<u>17,138,657</u>
TOTAL ASSETS	\$ 4,963,042	\$ 12,491,457	\$ 768,119	\$ 16,139	\$ 18,238,757

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEET (CONTINUED)
June 30, 2014

	Sewer Disposal System	Water Supply System	Transit	Parking Meter	Total
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ 2,379	\$ 35,571	\$ 2,620	\$ -	\$ 40,570
Accrued expenses	6,189	35,996	4,026	15	46,226
Due to other funds	445	8,199	15,079	-	23,723
Due to other governmental units	833	-	-	-	833
Current maturities on long term debt	33,000	175,000	-	-	208,000
Total current liabilities	42,846	254,766	21,725	15	319,352
Long-term liabilities:					
Bonds payable	1,966,000	7,790,000	-	-	9,756,000
TOTAL LIABILITIES	2,008,846	8,044,766	21,725	15	10,075,352
NET ASSETS:					
Reserved	179,258	315,947	-	-	495,205
Unreserved	2,774,938	4,130,744	746,394	16,124	7,668,200
Total net assets	2,954,196	4,446,691	746,394	16,124	8,163,405
TOTAL LIABILITIES AND NET ASSETS	\$ 4,963,042	\$ 12,491,457	\$ 768,119	\$ 16,139	\$ 18,238,757

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year Ended June 30, 2014

	Sewer Fund	Water Fund	Transit	Parking Meter	Total
OPERATING REVENUES:					
Sales and charges for services	\$ 937,669	\$ 1,001,644	\$ 44,786	\$ 13,079	\$ 1,997,178
State Grant	-	-	106,417	-	106,417
Federal Grant	-	-	104,716	-	104,716
Other revenue	-	580	3,773	-	4,353
TOTAL OPERATING REVENUES	937,669	1,002,224	259,692	13,079	2,212,664
OPERATING EXPENSES:					
General administration	72,907	63,932	69,449	775	207,063
Meter reading	11,356	11,540	-	-	22,896
Purchased services	568,117	276,418	-	-	844,535
Operations and maintenance	81,610	210,363	161,507	-	453,480
Depreciation	204,656	416,456	48,954	-	670,066
TOTAL OPERATING EXPENSES	938,646	978,709	279,910	775	2,198,040
OPERATING INCOME (LOSS)	(977)	23,515	(20,218)	12,304	14,624
NON-OPERATING REVENUES (EXPENSES):					
Interest income	-	497	39	22	558
Interest expense	(49,710)	(209,238)	-	-	258,948
Operating transfers in	37,462	87,411	30,000	5,964	160,837
TOTAL NON-OPERATING REVENUES (EXPENSES)	(12,248)	(121,330)	30,039	5,986	(97,553)
NET INCOME (LOSS)	(13,225)	(97,815)	9,821	18,290	(82,929)
NET ASSETS (DEFICIT), BEGINNING OF THE YEAR	2,967,421	4,544,506	736,573	(2,166)	8,246,334
NET ASSETS (DEFICIT), END OF YEAR	\$ 2,954,196	\$ 4,446,691	\$ 746,394	\$ 16,124	\$ 8,163,405

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBING STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

	Enterprise Funds				
	Major Funds			Non-major Fund	
	Sewer	Water	Transit	Parking Meter	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 923,856	\$ 995,219	\$ 35,086	\$ 13,079	\$ 1,967,240
Payments to suppliers	(741,006)	(341,728)	(61,744)	(49)	(1,144,527)
Internal activity-receipts (payments) to other funds	(15,590)	(31,617)	-	-	(47,207)
Payments to employees	(89,579)	(163,218)	(167,881)	(711)	(421,389)
Other receipts (payments)	-	580	214,906	-	215,486
Net cash provided by operating activities	77,681	459,236	20,367	12,319	569,603
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies and transfers to other funds	33,493	53,010	45,079	964	132,546
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(37,460)	(87,413)	(72,102)	-	(196,975)
Principal paid on capital debt	(32,000)	(169,000)	-	-	(201,000)
Interest paid on capital debt	(49,710)	(209,238)	-	-	(258,948)
Net cash (used) by capital and related financing activities	119,170	(465,651)	(72,102)	-	(656,923)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	-	497	39	22	558
Net cash provided by investing activities	-	497	39	22	558
Net (decrease) in cash and cash equivalents	(7,996)	47,092	(6,617)	13,305	45,784
Balances -- beginning of the year	264,114	365,160	16,009	2,754	648,037
Balances -- end of the year	\$ 256,118	\$ 412,252	\$ 9,392	\$ 16,059	\$ 693,821
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (977)	\$ 23,515	\$ (20,218)	\$ 12,304	\$ 14,624
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	204,656	416,456	48,954	-	670,066
Changes in assets and liabilities:					
Receivables, net	(13,813)	(6,425)	(9,700)	-	(29,938)
Inventory	(13,479)	(17,316)	-	-	(30,795)
Prepaid expenses	-	-	(100)	-	(100)
Accounts and other payables	2,379	31,099	2,470	-	35,948
Accrued expenses	4,412	11,907	(1,039)	15	15,295
Due to other governmental units	(105,497)	-	-	-	(105,497)
Net cash provided by operating activities	\$ 77,681	\$ 459,236	\$ 20,367	\$ 12,319	\$ 569,603

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET

June 30, 2014

	<u>Employee</u>	<u>Motor</u>	<u>Total</u>
	<u>Benefit</u>	<u>Vehicle</u>	
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 17,706	\$ 8,902	\$ 26,608
Restricted cash	2,120	-	2,120
Accounts receivable	-	1,142	1,142
Due from other funds	310,079	407,829	717,908
Inventory	-	21,722	21,722
Prepaid expenses	7,297	18,419	25,716
Total current assets	<u>337,202</u>	<u>458,014</u>	<u>795,216</u>
Fixed Assets:			
Equipment	-	2,477,593	2,477,593
Accumulated depreciation & amortization	-	(2,077,102)	(2,077,102)
Total Fixed Assets	<u>-</u>	<u>400,491</u>	<u>400,491</u>
TOTAL ASSETS	<u>\$ 337,202</u>	<u>\$ 858,505</u>	<u>\$ 1,195,707</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 13,512	\$ 5,865	\$ 19,377
Due to other funds	70,000	11,453	81,453
Accrued sick and vacation	169,601	-	169,601
Accrued wages payable	4,438	2,201	6,639
Accrued interest	-	5,519	5,519
Current maturities on long term debt	-	91,965	91,965
Total current liabilities	<u>257,551</u>	<u>117,003</u>	<u>374,554</u>
Long-term liabilities:			
Notes payable	<u>-</u>	<u>430,902</u>	<u>430,902</u>
TOTAL LIABILITIES	<u>257,551</u>	<u>547,905</u>	<u>805,456</u>
RETAINED EARNINGS:			
Unreserved	<u>79,651</u>	<u>310,600</u>	<u>390,251</u>
Total retained earnings	<u>79,651</u>	<u>310,600</u>	<u>390,251</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 337,202</u>	<u>\$ 858,505</u>	<u>\$ 1,195,707</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year ended June 30, 2014

	<u>Employee</u> <u>Benefit</u>	<u>Motor</u> <u>Vehicle</u>	<u>Totals</u>
OPERATING REVENUES:			
Charges for services	\$ 919,395	\$ 548,919	\$ 1,468,314
Other revenue	1,137	7,626	8,763
TOTAL OPERATING REVENUES	<u>920,532</u>	<u>556,545</u>	<u>1,477,077</u>
OPERATING EXPENSES:			
General government administration	162	9,877	10,039
Garage maintenance	-	114,781	114,781
Operations and maintenance	-	350,437	350,437
Depreciation	-	140,765	140,765
Benefit payments:			
Payroll taxes	140,157	-	140,157
Retirement plan expense	134,212	-	134,212
Holiday pay	38,967	-	38,967
Sick pay/personal leave	67,508	-	67,508
Vacation pay	77,673	-	77,673
Workers' compensation insurance	76,597	-	76,597
Hospitalization insurance	392,267	-	392,267
Employee life insurance	480	-	480
Longevity pay	20,784	-	20,784
Employee picnic	600	-	600
Other	15,182	-	15,182
TOTAL OPERATING EXPENSES	<u>964,589</u>	<u>615,860</u>	<u>1,580,449</u>
OPERATING INCOME (LOSS)	(44,057)	(59,315)	(103,372)
NON-OPERATING REVENUES (EXPENSES):			
Gain on sale of assets	-	17,200	17,200
Interest income	107	64	171
Interest expense	-	(22,606)	22,606
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>107</u>	<u>(5,342)</u>	<u>(5,235)</u>
NET INCOME (LOSS)	(43,950)	(64,657)	(108,607)
RETAINED EARNINGS, BEGINNING OF YEAR	<u>123,601</u>	<u>375,257</u>	<u>498,858</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 79,651</u>	<u>\$ 310,600</u>	<u>\$ 390,251</u>

CITY OF HANCOCK
INTERNAL SERVICES FUNDS
COMBINING STATEMENT OF CASH FLOW
Year Ended June 30, 2014

	Employee Benefit	Motor Vehicle	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 919,395	\$ 548,919	\$ 1,468,314
Payments to suppliers	9,096	(367,493)	(358,397)
Payments to employees	(974,344)	(102,468)	(1,076,812)
Other receipts (payments)	1,137	7,626	8,763
Net cash provided by operating activities	(44,716)	86,584	41,868
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	19,921	979	(20,900)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Gain (loss) on sale of asset	-	199	199
Purchases of capital assets	-	(160,000)	(160,000)
Principal paid on capital debt	-	75,859	75,859
Interest paid on capital debt	-	(17,087)	(17,087)
Net cash (used) by capital and related financing activities	-	(101,029)	(101,029)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	107	64	171
Net cash provided by investing activities	107	64	171
Net (decrease) in cash and cash equivalents	(24,688)	(13,402)	(38,090)
Balances -- beginning of the year	44,514	22,304	66,818
Balances -- end of the year	\$ 19,826	\$ 8,902	\$ 28,728
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (44,057)	\$ (59,315)	\$ (103,372)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-	140,765	140,765
Changes in assets and liabilities:			
Inventory	-	1,980	1,980
Prepaid expenses	589	(904)	(315)
Accounts and other payables	8,669	4,207	12,876
Accrued expenses	(9,917)	(149)	10,066
Net cash provided by operating activities	\$ (44,716)	\$ 86,584	\$ 41,868

CITY OF HANCOCK
TRANSIT FUND SUPPLEMENTAL INFORMATION
June 30, 2014

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
For the Year Ended June 30, 2014

	07/01/13 through 09/30/13	10/01/13 through 06/30/14	Total
Farebox receipts- passenger fares	\$ 10,556	\$ 34,231	\$ 44,787
Contract Fares	2,350	1,423	3,773
State Operating Assistance*	-	79,026	79,026
Federal Section 5311**	5,328	27,572	32,900
Federal RTAP	-	1,790	1,790
Local Operating Assistance***	15,901	30,000	45,901
Interest Income	12	28	40
Total Operating Revenue	<u>\$ 34,147</u>	<u>\$ 174,070</u>	<u>\$ 208,217</u>

	10/01/12 through 06/30/13	07/01/13 through 09/30/13	Total
Farebox receipts- passenger fares	\$ 30,789	\$ 10,556	\$ 41,345
Contract Fares	31,022	2,350	33,372
State Operating Assistance	79,835	-	79,835
Federal Section 5311	40,626	5,328	45,954
Federal RTAP	744	-	744
Local Operating Assistance	20,000	15,901	35,901
Interest Income	30	12	42
Total Operating Revenue	<u>\$ 203,046</u>	<u>\$ 34,147</u>	<u>\$ 237,193</u>

* State revenue on page 21 of audit report exceeds total of State operating assistance by \$27,391. Of this amount, \$9,700 is due to an adjusting journal entry made during the audit to record a receivable. In addition, on page 21 local operating assistance of \$15,901 and Federal Rtap in the amount of \$1,790 are included on the State revenue line.

** Federal revenue on page 21 of audit report exceeds total Federal Section 5311 above due to a federal grant in the amount of \$71,816 which is not required to be reported on quarterly MDOT reports.

*** As noted above the \$15,901 is included on the State revenue line of the audit report on page 21. The remaining \$30,000 is an operating transfer in on page 21 of the audit report.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
For the Year Ended June 30, 2014

	07/01/13 through 09/30/13				10/01/13 through 06/30/14				Total			
	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total
Labor:												
Wages -operations	\$ 17,498	\$ 0	\$ 0	\$ 17,498	\$ 57,977	\$ 0	\$ 0	\$ 57,977	\$ 75,475	\$ 0	\$ 0	\$ 75,475
Other salaries and wages	-	5,117	3,866	8,983	0	9,456	17,007	26,463	-	14,573	20,873	35,446
Dispatchers wages	1,850	0	0	1,850	5,550	0	0	5,550	7,400	-	-	7,400
Fringe benefits	4,770	4,789	4,113	13,672	13,029	8,132	13,689	34,850	17,799	12,921	17,802	48,522
Services:												
Advertising	0	0	0	0	0	0	458	458	0	0	458	458
Audit costs	0	0	0	0	0	0	500	500	0	0	0	0
Other	14	1,266	584	1,864	740	3,886	1,439	6,065	754	5,152	2,023	7,929
Materials and supplies:												
Fuel and lubricants	7,141	0	0	7,141	22,535	0	0	22,535	29,676	0	0	29,676
Tires and tubes	0	0	0	0	1,585	0	0	1,585	1,585	0	0	1,585
Major supplies	0	2,336	0	2,336	52	3,622	0	3,674	52	5,958	0	6,010
Other	0	0	0	0	0	1,688		1,688	0	1,688	0	1,688
Utilities	0	0	894	894	0	0	9,652	9,652	0	0	10,546	10,546
Insurance	1,703	0	0	1,703	258	0	0	258	1,961	0	0	1,961
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	2,713	2,713	0	0	2,713	2,713
Dues & Subscriptions	0	0	0	0	0	0	809	809	0	0	809	809
Other	146	60	266	472	54	20	138	212	200	80	404	684
Depreciation	0	0	0	0	48,954	0	0	48,954	48,954	0	0	48,954
	<u>33,122</u>	<u>13,568</u>	<u>9,723</u>	<u>56,413</u>	<u>150,734</u>	<u>26,804</u>	<u>46,405</u>	<u>223,943</u>	<u>183,856</u>	<u>40,372</u>	<u>55,628</u>	<u>279,856</u>
Less:												
Ineligible expenses- RTAP	-	-	-	0	-	-	1,790	1,790	0	0	1,790	1,790
Deprecation	-	-	-	0	48,954	-	-	48,954	48,954	0	0	48,954
	<u>\$ 33,122</u>	<u>\$ 13,568</u>	<u>\$ 9,723</u>	<u>\$ 56,413</u>	<u>\$ 101,780</u>	<u>\$ 26,804</u>	<u>\$ 44,615</u>	<u>\$ 173,199</u>	<u>\$ 134,902</u>	<u>\$ 40,372</u>	<u>\$ 53,838</u>	<u>\$ 229,112</u>

Total expenses in the amount of \$279,856 are less than total operating expenses on page 21 by \$54. The difference is due to transit dues of \$700 in which approximately, 8%, (\$56), was not eligible for reimbursement and was not included on the quarterly reports and \$2 in rounding.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Reporting period October 1, 2012 through September 30, 2013

	10/01/12 through 06/30/13				07/01/13 through 09/30/13				Total			
	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total
Labor:												
Wages -operations	\$ 58,031	\$ 0	\$ 0	\$ 58,031	\$ 17,498	\$ 0	\$ 0	\$ 17,498	\$ 75,529	\$ 0	\$ 0	\$ 75,529
Other salaries and wages	0	13,720	14,236	27,956	-	5,117	3,866	8,983	0	18,837	18,102	36,939
Dispatchers wages	5,550	0	0	5,550	1,850	-	-	1,850	7,400	0	0	7,400
Fringe benefits	12,922	11,409	11,455	35,786	4,770	4,789	4,113	13,672	17,692	16,198	15,568	49,458
Services:												
Advertising	204	0	168	372	-	-	-	0	204	-	168	372
Audit costs	0	0	0	0	-	-	-	0	0	0	0	0
Other	988	2,823	1,474	5,285	14	1,266	584	1,864	1,002	4,089	2,058	7,149
Materials and supplies:												
Fuel and lubricants	22,142	0	0	22,142	7,141	-	-	7,141	29,283	0	0	29,283
Tires and tubes	1,145	0	0	1,145	-	-	-	0	1,145	0	0	1,145
Major supplies	0	5,566	0	5,566	-	2,336	-	2,336	0	7,902	0	7,902
Other	0	0	0	0	-	-	-	0	0	0	0	0
Utilities	0	0	10,719	10,719	-	-	894	894	0	0	11,613	11,613
Insurance	243	0	0	243	1,703	-	-	1,703	1,946	0	0	1,946
Operating lease and rentals	0	0	0	0	-	-	-	0	0	0	0	0
Miscellaneous expenses:												
Travel	0	0	472	472	-	-	-	0	0	0	472	472
Dues & Subscriptions	0	0	815	815	-	-	-	0	0	0	815	815
Other	20	43	106	169	146	60	266	472	166	103	372	641
Depreciation	68,323	0	0	68,323	-	-	-	0	68,323	0	0	68,323
	<u>169,568</u>	<u>33,561</u>	<u>39,445</u>	<u>242,574</u>	<u>33,122</u>	<u>13,568</u>	<u>9,723</u>	<u>56,413</u>	<u>202,690</u>	<u>47,129</u>	<u>49,168</u>	<u>298,987</u>
Less:												
Ineligible expenses- RTAP	0	0	744	744	0	0	0	0	0	0	744	744
Deprecation	68,323	0	0	68,323	0	0	0	0	68,323	0	0	68,323
	<u>\$ 101,245</u>	<u>\$ 33,561</u>	<u>\$ 38,701</u>	<u>\$ 173,507</u>	<u>\$ 33,122</u>	<u>\$ 13,568</u>	<u>\$ 9,723</u>	<u>\$ 56,413</u>	<u>\$ 134,367</u>	<u>\$ 47,129</u>	<u>\$ 48,424</u>	<u>\$ 229,920</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
For the Year Ended June 30, 2014

<u>NON URBAN AREAS</u>	<u>7/01/13 Through 09/30/13</u>	<u>10/01/13 Through 6/30/14</u>	<u>Total</u>
STATE OF MICHIGAN			
Total Eligible Expenses	\$ 56,413	\$ 173,507	<u>\$ 229,920</u>
Reimbursement Rate %	<u>36.2643%</u>	<u>38.4886%</u>	
Eligible operating assistance	<u>\$ 20,458</u>	<u>\$ 66,780</u>	<u>\$ 87,238</u>
FEDERAL SECTION 5311			
Total Eligible Expenses	\$ 56,413	\$ 173,507	<u>\$ 229,920</u>
Reimbursement Rate %	<u>16.0000%</u>	<u>16.0000%</u>	
Eligible operating assistance	<u>\$ 9,026</u>	<u>\$ 27,761</u>	<u>\$ 36,787</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
For the Year Ended June 30, 2014

<u>Quarter Ending:</u>	<u>Miles</u>
September 30, 2013	15,670
December 31, 2013	15,757
March 31, 2014	15,789
June 30, 2014	15,479
Total Miles	<u><u>62,695</u></u>

**CITY OF HANCOCK
FEDERAL AWARDS PROGRAMS
JUNE 30, 2014**

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

310 Sheldon Avenue, Houghton, Michigan 49931

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 18, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as item 2014-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-2 and 2014-3.

City of Hancock's Response to Findings

City of Hancock's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hancock's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

December 18, 2014

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hancock's compliance with the types of compliance requirements described in the *OMB 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, 2014. The City of Hancock's major federal programs are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs.

Management Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Hancock's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Hancock's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City of Hancock is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Hancock's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance 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 the 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* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

December 18, 2014

CITY OF HANCOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2014

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Michigan State Housing Development Authority Rental Rehabilitation Grant	14.228	\$ 339,339
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	32,900
AARA Bus Grant	20.509	71,816
Federal Transit Capital Investment Grants		
Highway research planning & construction	20.205	<u>113,247</u>
Total expenditures of federal awards		<u>\$ 557,302</u>

CITY OF HANCOCK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2014

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>\$ 557,302</u>
Federal awards per financial statements:	
Federal awards governmental funds	\$ 452,586
Federal awards enterprise funds	<u>104,716</u>
Total federal awards per financial statements	<u>\$ 557,302</u>

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2014

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>
Michigan State Housing Development Authority Rental Rehabilitation Grant	14.228
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2014
(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-1 – 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.

Instances of Non-compliance

2014-2 - 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, 2014, 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.

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2014
(Continued)

2014-3 - Deficit Net Position

Condition/Criteria: At June 30, 2014 the City of Hancock had an unrestricted equity deficit in their Major Street Fund and Local Street Fund in the amount of \$35,609 and \$74,455 respectively. 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 a draft corrective action plan to be approved at their next regularly scheduled board meeting.

Cause of Condition/Effect: Expenditures exceed revenue.

View of Responsible Officials: Upon board approval, money will be transferred from the General Fund to the Major Street Fund and Local Street Fund to eliminate the deficit. Contact Person(s) Responsible for Correction: Glenn Anderson, City Manager.

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

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock for the year ended June 30, 2014. 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 July 22, 2014. 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, 2014. 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 judgements.

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 is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2014.

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.

Other Matters

We applied certain limited procedures to the budgetary comparison schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on RSI.

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

Restriction on Use

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

It has been a pleasure to provide audit services to the City of Hancock. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

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

December 18, 2014