

CITY OF HANCOCK
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2018

CITY OF HANCOCK

June 30, 2018

ADMINISTRATION

City Manager..... Glenn Anderson
Clerk/Treasurer..... Mary Babcock

BOARD MEMBERS

Mayor..... Lisa McKenzie
Ward II..... Ron Blau
Ward II..... Dan Seguin
Ward III..... Paul LaBine

At Large..... Joe Bauman
At Large..... John Haeussler
At Large..... Ted Belej

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RUKKILA | NEGRO AND ASSOCIATES

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension requirements on pages 7 through 15 and 57 through 61 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 combining, individual major, and nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The prior year comparative information on pages 72 and 74 has been derived from the City's 2017 audit report dated December 22, 2017 in which we expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information and the related notes to the financial statements.

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

December 17, 2018

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

This section of City of Hancock's annual financial report presents management's discussion and analysis of the City's financial activities during the fiscal year ended June 30, 2018. The analysis focuses on the City's financial performance as a whole. It is intended to be read as part of the City's financial statements, which immediately follows this section.

Financial Highlights

- The assets of the City of Hancock's primary government exceeded its liabilities at year end by \$16,455,821 (net position).
- The City of Hancock's total net position increased by \$881,989.
- The City of Hancock had charges for services of \$1,625,568 in governmental activities and \$2,089,059 for business-type activities and \$5,944,079 and \$3,024,287 in expenses for governmental and business-type activities respectively during the year ended June 30, 2018.
- At the close of the fiscal year, the City of Hancock's governmental activities reported a combined ending net position balance of \$7,692,429. This is an increase of \$643,529.
- At the end of the current fiscal year, the fund balance for the general fund was \$232,411. General fund operating transfers to other funds were \$138,145 in 2018 compared to \$35,000 in the prior year, an increase of \$103,145.

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.
- The City implemented GASB No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27. This statement changed how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide. Reflected on these statements is the liability for the unfunded liability for the active and retired members of the MERS Defined Benefit Program.

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.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

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 and Major Street 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 and Water Funds are 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, Non-major governmental funds, Proprietary Funds and Internal Service 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.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

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 and Water funds qualify as major funds.

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

Component Units - The City has one discretely presented component included in this report, the Downtown Development Authority (DDA). Although legally, separate, this component unit is important because the City is financially accountable for the DDA. This component unit is shown in a separate column. The Building Authority of the City is a blended component unit. The Authority is reported as if it were part of the City's operations because its primary purpose is that of 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	
	2018	2017	2018	2017
Assets				
Current Assets	\$ 1,082,875	\$ 1,148,657	\$ 1,443,061	\$ 1,719,995
Capital assets - net	9,954,795	9,573,583	18,887,174	19,049,526
Total assets	<u>11,037,670</u>	<u>10,722,240</u>	<u>20,330,235</u>	<u>20,769,521</u>
Deferred outflows of resources - pension	454,683	511,678	75,697	82,684
Liabilities				
Current liabilities	360,256	293,034	526,148	684,665
Noncurrent liabilities	3,260,899	3,820,755	11,098,173	11,633,109
Total liabilities	<u>3,621,155</u>	<u>4,113,789</u>	<u>11,624,321</u>	<u>12,317,774</u>
Deferred inflows of resources - pension	87,092	293,034	18,219	9,499
Net position				
Net investment in capital assets	7,924,635	7,278,866	7,784,174	7,690,526
Restricted:				
Streets and highways	197,647	76,594	-	-
CDBG	39,880	10,575	-	-
Cemetery	180,732	180,173	-	-
Parks and recreation	11,256	42,418	-	-
Capital projects	42,705	42,641	-	-
Program projects	20,373	20,342	-	-
Debt service	1,331	1,328	478,654	400,135
Unrestricted	(726,130)	(561,619)	500,564	434,271
Total net position	<u>\$ 7,692,429</u>	<u>\$ 7,091,318</u>	<u>\$ 8,763,392</u>	<u>\$ 8,524,932</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Overview of the Financial Statements - (Continued)

	Results of Operations			
	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Program Revenue:				
Charges for services	\$ 1,625,568	\$ 1,827,508	\$ 2,089,059	\$ 2,143,084
Operating grants and contributions	176,273	191,097	564,274	359,027
Capital grants and contributions	1,465,052	8,271,732	380,331	1,824,880
General Revenue:				
Property taxes	1,672,280	1,584,705	-	-
State shared revenue	1,492,280	1,313,358	-	-
Other	330,555	305,565	30,486	3,880
Transfers	-	53,401	198,597	-
Total revenues	<u>6,762,008</u>	<u>13,547,366</u>	<u>3,262,747</u>	<u>4,330,871</u>
Functions/program expenses				
General government	1,469,521	1,830,448	-	-
Public safety	959,174	906,642	-	-
Public works	2,653,911	5,474,364	3,024,287	2,717,821
Sanitation	196,344	221,983	-	-
Recreation	304,277	258,562	-	-
Community and economic development	220,116	231,883	-	-
Interest on long-term debt	109,235	77,832	-	-
Other	31,501	64,759	-	-
Transfers	174,400	-	-	53,401
Total expenses	<u>6,118,479</u>	<u>9,066,473</u>	<u>3,024,287</u>	<u>2,771,222</u>
Change in net position	643,529	4,480,893	238,460	1,559,649
Net position - Beginning	<u>7,048,900</u>	<u>2,568,007</u>	<u>8,524,932</u>	<u>6,965,283</u>
Net position - Ending	<u>\$ 7,692,429</u>	<u>\$ 7,048,900</u>	<u>\$ 8,763,392</u>	<u>\$ 8,524,932</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Overview of the Financial Statements - (Continued)

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

	<u>2018</u>	<u>% of total</u>	<u>2017</u>	<u>% of total</u>
Revenues				
Charges for services	\$ 1,625,568	24.0 %	\$ 1,827,508	13.4 %
Property taxes	1,672,280	24.7 %	1,584,705	11.7 %
State shared revenue	1,492,280	22.1 %	1,313,358	9.7 %
Grants and contributions	1,641,325	24.3 %	8,462,829	62.5 %
Other revenues	330,555	4.9 %	305,565	2.3 %
Transfers in	-	- %	53,401	0.4 %
Total revenues	<u>\$ 6,762,008</u>	<u>100.0 %</u>	<u>\$ 13,547,366</u>	<u>100.0 %</u>
Expenditures				
General government	\$ 1,469,521	23.9 %	\$ 1,830,448	20.1 %
Public safety	959,174	15.7 %	906,642	10.0 %
Public works	2,653,911	43.4 %	5,474,364	60.4 %
Sanitation	196,344	3.2 %	221,983	2.4 %
Recreation and culture	304,277	5.0 %	258,562	2.9 %
Community development	220,116	3.6 %	231,883	2.6 %
Interest expense	109,235	1.8 %	77,832	0.9 %
Other	31,501	0.5 %	64,759	0.7 %
Transfers out	174,400	2.9 %	-	- %
Total expenditures	<u>\$ 6,118,479</u>	<u>100.0 %</u>	<u>\$ 9,066,473</u>	<u>100.0 %</u>

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

	<u>2018</u>	<u>% of total</u>	<u>2017</u>	<u>% of total</u>
Revenues				
Charges for services	\$ 2,089,059	64.0	\$ 2,143,084	50.0
Grants and contributions	944,605	29.0	2,183,907	51.1
Other	30,486	0.9	3,880	0.1
Transfers	198,597	6.1	(53,401)	(1.2)
Total revenues	<u>\$ 3,262,747</u>	<u>100.0</u>	<u>\$ 4,277,470</u>	<u>100.0</u>
Expenditures				
Water	\$ 1,194,629	39.5	\$ 1,265,741	46.6
Sewer	1,524,689	50.4	1,182,749	43.5
Parking Meter	-	-	3,349	0.1
Transit	304,969	10.1	265,982	9.8
Total expenditures	<u>\$ 3,024,287</u>	<u>100.0</u>	<u>\$ 2,717,821</u>	<u>100.0</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Significant Transactions and Changes in Individual Funds

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

	2018	2017	Change
General Fund			
Revenues/Transfers/Other	\$ 2,544,615	\$ 2,747,768	\$ (203,153)
Expenditures/Transfers/Other	\$ 2,417,557	\$ 2,801,191	\$ (383,634)
Fund Balance	\$ 232,411	\$ 105,353	\$ 127,058

The General Fund saw an decrease in revenues of \$203,153 and a decrease in expenditures of \$383,634. The decrease in revenues was mainly due to the combination of increases in taxes and loan proceeds received in the prior year. The decrease in expenditures is mainly due to the combination of decreases in general government, public safety, public works and sanitation, and increases in recreation and culture and debt service.

SPECIAL REVENUE FUNDS	2018	2017	Change
Major Street Fund			
Revenues/Transfers/Other	\$ 1,441,320	\$ 4,190,244	\$ (2,748,924)
Expenditures/Transfers/Other	\$ 1,416,997	\$ 4,229,753	\$ (2,812,756)
Fund Balance	\$ 62,400	\$ 38,077	\$ 24,323
Local Street Fund			
Revenues/Transfers/Other	\$ 351,926	\$ 299,273	\$ 52,653
Expenditures/Transfers/Other	\$ 279,443	\$ 291,435	\$ (11,992)
Fund Balance	\$ 135,247	\$ 56,757	\$ 78,490
CDBG Fund			
Revenues/Transfers/Other	\$ 258,604	\$ 230,538	\$ 28,066
Expenditures/Transfers/Other	\$ 220,116	\$ 231,883	\$ (11,767)
Fund Balance	\$ 39,880	\$ 1,392	\$ 38,488
Elevation Street TIF Fund			
Revenues/Transfers/Other	\$ 10,044	\$ 3	\$ 10,041
Expenditures/Transfers/Other	\$ -	\$ 16,941	\$ (16,941)
Fund Balance	\$ -	\$ (10,044)	\$ 10,044

Major Street Fund - The decrease in revenue is due to a reduction in state and federal revenue grants received for a project that was nearly complete in the prior year. Expenditures decreased due to a combination of decreases in expenditures related to the state and federal grants and increases in winter maintenance and snow hauling.

Local Street Fund - The increase in revenues is mainly due to an increase in state sources. The decrease in expenses is mainly due to an decrease in construction and an increase in winter maintenance.

CDBG - The increase in revenues is mainly due to a reimbursement from homeowner's who had previously had improvements made to their home through the CDBG fund and sold their home prior to the end of their contract requiring them to reimburse the City for improvements made to their home. The decrease in expenses is due to fewer grant related expenses than in prior year.

Elevation Street - Increase in revenues from prior year is due to transfers. The board has decided to close the fund resulting in no expenses in the current year.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Significant Transactions and Changes in Individual Funds (Continued)

ENTERPRISE FUNDS	2018	2017	Change
Sewer Fund			
Revenues/Transfers/Other	1,606,945	\$ 1,182,126	424,819
Expenditures/Transfers/Other	1,524,689	\$ 1,182,749	341,940
Fund Balance	\$ 2,660,807	\$ 2,578,551	82,256
Water Fund			
Revenues/Transfers/Other	1,385,050	\$ 2,882,371	(1,497,321)
Expenditures/Transfers/Other	1,194,629	\$ 1,265,741	(71,112)
Fund Balance	5,474,602	\$ 5,284,181	190,421
Transit Fund			
Revenues/Transfers/Other	299,108	\$ 267,668	31,440
Expenditures/Transfers/Other	304,969	\$ 265,982	38,987
Fund Balance	627,983	\$ 633,844	(5,861)
Parking Meter Fund			
Revenues/Transfers/Other	-	\$ 8,760	(8,760)
Expenditures/Transfers/Other	-	\$ 3,349	(3,349)
Fund Balance	-	\$ 28,356	(28,356)

Sewer Fund - The Sewer Fund's revenues increased due to a combination of an increase in state sources, charges for services, and transfers in. Expenses increased due to a combination of increases in general administration, purchased services, operations and maintenance and decreases in depreciation and transfers out.

Water Fund - The Water Fund's revenues decreased due to the majority of the 2016 water bond project taking place in the prior year resulting in less federal sources in current year. Charges for services also decreased from the prior year. Expenses decreased from prior year due to a combination of decreases in operations and maintenance and transfers out and increases in general administration and depreciation.

Transit Fund - The Transit Fund revenues increased mainly due to a combination of increases in charges for services, federal sources, and transfers and a decrease in state sources. Expenses increased due to a combination of increases in operations and maintenance and depreciation and decreases in general administration.

Parking Meter Fund - The decrease in revenues and expenditures is due to the closing of the fund.

DEBT SERVICE (BUILDING AUTHORITY)	2018	2017	Change
Revenues/Transfers/Other	\$ 132,885	\$ 124,376	\$ 8,509
Expenditures/Transfers/Other	\$ 132,882	\$ 124,373	\$ 8,509
Fund Balance	\$ 1,331	\$ 1,328	\$ 3

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

CAPITAL PROJECTS (SYLVAN ESTATES)	2018	2017	Change
Revenues/Transfers/Other	\$ 31	\$ 30	\$ 1
Expenditures/Transfers/Other	\$ -	\$ -	\$ -
Fund Balance	\$ 20,373	\$ 20,342	\$ 31

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

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Significant Transactions and Changes in Individual Funds (Continued)

INTERNAL SERVICE FUNDS

Employee Benefits Fund - Revenue decreased due to a decrease in transfers in from other funds and decreases in charges for services from other city funds. Expenses decreased mainly due to a combination of a decrease in retirement, vacation pay, and hospitalization insurance and increases in payroll taxes and longevity pay.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues/Transfers/Other	\$ 803,611	\$ 1,004,674	\$ (201,063)
Expenditures/Transfers/Other	\$ 868,850	\$ 921,735	\$ (52,885)
Fund Balance	\$ 108,527	\$ 173,766	\$ (65,239)

Motor Vehicle Fund - Revenue decreased due to lower charges to other city funds and gain on sale of assets in prior year. Expenses decreased due to a reduction in operations and maintenance costs.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues/Transfers/Other	\$ 430,489	\$ 537,912	\$ (107,423)
Expenditures/Transfers/Other	\$ 481,526	\$ 553,358	\$ (71,832)
Fund Balance	\$ 44,991	\$ 96,028	\$ (51,037)

General Fund Budgetary Highlights

During the year ended June 30, 2018, there was one budget amendment.

Financial Analysis

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined unassigned fund balances of \$137,363.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$232,411. 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 10% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$127,058 during the fiscal year.

Proprietary Funds - The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Net position at the end of the year amounted to \$8,763,392.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Capital Assets and Debt Administration

The City's net capital assets for the governmental and business-type activities as of June 30, 2018, amounts to \$28,841,969. Capital asset additions totaling \$5,229,196 includes road improvements, bus, all terrain vehicle, playground equipment, fire hall roof replacement, and water and sewer improvements.

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

Long-term Debt – At the end of the current fiscal year, the City had total debt of \$13,157,823.

Additional information on the City's long-term debt can be found starting on page 39 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, 2018

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 535,268	\$ 492,575	\$ 1,027,843	\$ 23,974
Restricted cash	279,819	478,654	758,473	-
Receivables	13,614	284,376	297,990	-
Inventories	65,567	116,281	181,848	-
Prepaid expenses	42,741	1,781	44,522	-
Due from fiduciary funds	36	-	36	-
Due from other funds	20,423	(57,802)	(37,379)	37,379
Due from government units	125,407	127,196	252,603	-
Capital assets - net	9,954,795	18,887,174	28,841,969	-
Total assets	11,037,670	20,330,235	31,367,905	61,353
Deferred outflows of resources - pension	454,683	75,697	530,380	3,615
Liabilities				
Accounts payable and accrued expense	87,092	262,906	349,998	13,206
Due to other governmental units	-	242	242	-
Bonds payable, due in one year	136,000	263,000	399,000	-
Note payable, due in one year	137,164	-	137,164	-
Unamortized premium on the issuance of bonds	24,663	-	24,663	-
Bonds payable, due in more than one year	1,246,000	10,840,000	12,086,000	-
Note payable, due in more than one year	510,996	-	510,996	-
Net pension liability	1,270,241	212,185	1,482,426	10,123
Accrued benefits	208,999	45,988	254,987	762
Total liabilities	3,621,155	11,624,321	15,245,476	24,091
Deferred inflows of resources - pension	178,769	18,219	196,988	257
Net position				
Net investment in capital assets	7,924,635	7,784,174	15,708,809	-
Restricted				
Streets and highways	197,647	-	197,647	-
CDBG	39,880	-	39,880	-
Cemetery	180,732	-	180,732	-
Main Street	42,705	-	42,705	-
Parks and recreation	11,256	-	11,256	-
Capital projects	20,373	-	20,373	-
Debt service	1,331	478,654	479,985	-
Unassigned	(726,130)	500,564	(225,566)	40,620
Total net position	\$ 7,692,429	\$ 8,763,392	\$ 16,455,821	\$ 40,620

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

CITY OF HANCOCK
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Grants and Contributions		Primary Government			Component Unit (DDA)
			Operating	Capital	Governmental	Business-Type	Total	
Government Activities								
General government	\$ 1,469,521	\$ 803,599	\$ -	\$ 11,748	\$ (654,174)	\$ -	\$ (654,174)	\$ -
Public safety	959,174	3,301	-	-	(955,873)	-	(955,873)	-
Public works	2,653,911	425,082	-	1,437,604	(791,225)	-	(791,225)	-
Sanitation	196,344	114,558	-	-	(81,786)	-	(81,786)	-
Recreation and culture	304,277	125,575	-	-	(178,702)	-	(178,702)	-
Community and economic development	220,116	-	176,273	15,700	(28,143)	-	(28,143)	-
Interest on long-term debt	109,235	-	-	-	(109,235)	-	(109,235)	-
Other	31,501	153,453	-	-	121,952	-	121,952	-
Total governmental activities	<u>5,944,079</u>	<u>1,625,568</u>	<u>176,273</u>	<u>1,465,052</u>	<u>(2,677,186)</u>	<u>-</u>	<u>(2,677,186)</u>	<u>-</u>
Business-type activities:								
Water	1,194,629	1,061,401	-	306,200	-	172,972	172,972	-
Sewer	1,524,689	985,764	428,485	-	-	(110,440)	(110,440)	-
Transit	304,969	41,894	135,789	74,131	-	(53,155)	(53,155)	-
Total business-type activities	<u>3,024,287</u>	<u>2,089,059</u>	<u>564,274</u>	<u>380,331</u>	<u>-</u>	<u>9,377</u>	<u>9,377</u>	<u>-</u>
Total primary government	<u>\$ 8,968,366</u>	<u>\$ 3,714,627</u>	<u>\$ 740,547</u>	<u>\$ 1,845,383</u>	<u>(2,677,186)</u>	<u>9,377</u>	<u>(2,667,809)</u>	<u>-</u>
Component Unit	<u>\$ 399,661</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,293</u>	<u>-</u>	<u>-</u>	<u>(311,368)</u>	<u>(311,368)</u>
General revenues:								
Property taxes, levied for general operations					1,672,280	-	1,672,280	290,600
State shared revenue					1,492,280	-	1,492,280	-
Interest income and investment earnings					3,402	5,062	8,464	113
Operating transfers in (out)					(174,400)	198,597	24,197	(24,197)
Gain (loss) on sale of assets					-	-	-	7,000
Other revenues					327,153	25,424	352,577	4,695
Total general revenues, transfers, and special items					<u>3,320,715</u>	<u>229,083</u>	<u>3,549,798</u>	<u>278,211</u>
Change in net position					643,529	238,460	881,989	(33,157)
Net position - Beginning of year					<u>7,048,900</u>	<u>8,524,932</u>	<u>15,573,832</u>	<u>73,777</u>
Net position - End of year					<u>\$ 7,692,429</u>	<u>\$ 8,763,392</u>	<u>\$ 16,455,821</u>	<u>\$ 40,620</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2018

	<u>Major Governmental Funds</u>			Total
	<u>General Fund</u>	<u>Major Street</u>	<u>Non Major</u>	<u>Governmental</u>
Assets				
Cash and cash equivalents	\$ 253,656	\$ 37,105	\$ 128,778	\$ 419,539
Restricted cash	42,705	-	228,943	271,648
Accounts receivable	13,614	-	-	13,614
Due from other funds	-	8,017	-	8,017
Due from fiduciary funds	36	-	-	36
Due from government units	8,556	89,805	27,046	125,407
Inventories	14,374	15,176	2,069	31,619
Prepaid expenses	26,713	-	-	26,713
Total assets	<u>\$ 359,654</u>	<u>\$ 150,103</u>	<u>\$ 386,836</u>	<u>\$ 896,593</u>
Liabilities				
Accounts payable	\$ 14,125	\$ 3,663	\$ 160	\$ 17,948
Accrued expenses	17,765	3,944	2,113	23,822
Due to other funds	<u>95,353</u>	<u>80,096</u>	<u>7,000</u>	<u>182,449</u>
Total liabilities	<u>127,243</u>	<u>87,703</u>	<u>9,273</u>	<u>224,219</u>
Fund balances				
Nonspendable:				
Inventories	14,374	15,176	2,069	31,619
Prepays	26,713	-	-	26,713
Restricted:				
Streets and highways	-	47,224	133,178	178,333
Parks and recreation	11,256	-	-	11,256
CDBG	-	-	39,880	39,880
Cemetery	-	-	180,732	180,732
Capital projects	-	-	20,373	20,373
Debt service	-	-	1,331	1,331
Assigned:				
Main Street	42,705	-	-	42,705
Unassigned	<u>137,363</u>	<u>-</u>	<u>-</u>	<u>137,363</u>
Total fund balances	<u>232,411</u>	<u>62,400</u>	<u>377,563</u>	<u>672,374</u>
Total liabilities and fund balances	<u>\$ 359,654</u>	<u>\$ 150,103</u>	<u>\$ 386,836</u>	<u>\$ 896,593</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION (Continued)
June 30, 2018

Fund Balance Reported in Governmental Funds	\$ 672,374
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds	9,746,428
Net pension liability	(1,270,241)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date	275,914
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.	173,365
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,905,411)</u>
Net position of governmental activities	<u>\$ 7,692,429</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	<u>Major Governmental Funds</u>			Total
	<u>General Fund</u>	<u>Major Street</u>	<u>Non Major</u>	<u>Governmental</u>
Revenues				
Property taxes	\$ 1,544,404	\$ -	\$ 127,876	\$ 1,672,280
State sources	515,189	884,373	223,987	1,623,549
Federal sources	-	521,174	176,273	697,447
Charges for services	396,887	-	-	396,887
Interest income	1,587	521	1,227	3,335
Other revenues	80,485	24,456	215,213	320,154
Total revenues	<u>2,538,552</u>	<u>1,430,524</u>	<u>744,576</u>	<u>4,713,652</u>
Expenditures				
General government	392,042	27,755	29,735	449,532
Public safety	959,174	-	-	959,174
Public works	248,755	1,389,242	469,824	2,107,821
Sanitation	196,382	-	-	196,382
Recreation and culture	304,277	-	-	304,277
Debt service	109,235	-	-	109,235
Other	69,547	-	133,453	203,000
Total expenditures	<u>2,279,412</u>	<u>1,416,997</u>	<u>633,012</u>	<u>4,329,421</u>
Excess (deficiency) of revenues over expenditures	<u>259,140</u>	<u>13,527</u>	<u>111,564</u>	<u>384,231</u>
Other financing sources (uses)				
Proceeds on sale of assets	5,010	-	-	5,010
Increase/(decrease) in fair value	1,053	-	-	1,053
Operating transfers in (out)	(138,145)	10,796	16,051	(111,298)
Total other financing sources (uses)	<u>(132,082)</u>	<u>10,796</u>	<u>16,051</u>	<u>(105,235)</u>
Net change in fund balances	127,058	24,323	127,615	278,996
Fund balances - Beginning of year	<u>105,353</u>	<u>38,077</u>	<u>249,948</u>	<u>393,378</u>
Fund balances - End of year	<u>\$ 232,411</u>	<u>\$ 62,400</u>	<u>\$ 377,563</u>	<u>\$ 672,374</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 278,996

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

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	429,173
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.	181,910
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds	(141,149)
This amount represents the current year bond premium amortization expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	2,466
Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred.	(6,391)
The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government wide statements.	11,748
Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities.	<u>(113,224)</u>
Change in net position of governmental activities	<u><u>\$ 643,529</u></u>

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

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2018

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds		Non-Major Funds			Internal Service Fund
	Sewer Fund	Water Fund	Transit fund	Parking Meter Fund	Total	
Assets						
Cash and cash equivalents	\$ 384,634	\$ 101,529	\$ 6,412	\$ -	\$ 492,575	\$ 115,729
Restricted cash	124,503	354,151	-	-	478,654	8,171
Accounts receivable	111,748	95,697	76,931	-	284,376	-
Inventories	40,079	76,202	-	-	116,281	33,948
Due from other funds	21,714	-	-	-	21,714	194,855
Due from government units	127,196	-	-	-	127,196	-
Prepaid expenses	-	-	1,781	-	1,781	16,028
Capital assets - net	3,930,764	14,214,152	742,258	-	18,887,174	208,367
Total assets	4,740,638	14,841,731	827,382	-	20,409,751	577,098
Deferred outflows of resources - pension	24,522	25,861	25,314	-	75,697	8,774
Liabilities						
Accounts payable	144,919	2,578	76,151	-	223,648	18,005
Accrued expenses	18,957	49,064	17,225	-	85,246	11,998
Due to other funds	-	21,714	57,802	-	79,516	-
Due to other governmental units	242	-	-	-	242	-
Current maturities on long-term debt	36,000	227,000	-	-	263,000	83,708
Net pension liability	69,345	73,184	69,656	-	212,185	24,967
Bonds/note payable	1,828,000	9,012,000	-	-	10,840,000	290,022
Total liabilities	2,097,463	9,385,540	220,834	-	11,703,837	428,700
Deferred inflows of resources - pension	6,890	7,450	3,879	-	18,219	3,654
Net Position						
Reserved	124,503	354,151	-	-	478,654	8,171
Unreserved	2,536,304	5,120,451	627,983	-	8,284,738	145,347
Total net position	\$ 2,660,807	\$ 5,474,602	\$ 627,983	\$ -	\$ 8,763,392	\$ 153,518

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

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2018

	Business-Type Activities Enterprise Funds				Total	Governmental Activities
	Major Funds		Non-major Fund			Internal Service Fund
	Sewer Fund	Water Fund	Transit fund	Parking Meter Fund		
Operating revenues:						
Charges for services	\$ 985,764	\$ 1,061,401	\$ 41,894	\$ -	\$ 2,089,059	\$ 1,228,681
State sources	428,485	-	104,586	-	533,071	-
Federal sources	-	306,200	105,334	-	411,534	-
Other revenues	4,953	8,186	12,285	-	25,424	936
Total operating revenues	<u>1,419,202</u>	<u>1,375,787</u>	<u>264,099</u>	<u>-</u>	<u>3,059,088</u>	<u>1,229,617</u>
Operating expenses						
General administration	49,133	89,531	68,548	-	207,212	803,810
Meter reading	1,930	8,784	-	-	10,714	-
Purchased services	647,987	215,168	-	-	863,155	-
Operations and maintenance	622,400	185,942	193,241	-	1,001,583	390,191
Depreciation	160,982	477,546	43,180	-	681,708	75,409
Total operating expenses	<u>1,482,432</u>	<u>976,971</u>	<u>304,969</u>	<u>-</u>	<u>2,764,372</u>	<u>1,269,410</u>
Operating income (loss)	<u>(63,230)</u>	<u>398,816</u>	<u>(40,870)</u>	<u>-</u>	<u>294,716</u>	<u>(39,793)</u>
Non-operating revenues (expenses)						
Interest income	1,722	3,331	9	-	5,062	67
Interest expense	(42,257)	(217,658)	-	-	(259,915)	(13,448)
Operating transfers in (out)	186,021	5,932	35,000	(28,356)	198,597	(63,102)
Total non-operating revenues (expenses)	<u>145,486</u>	<u>(208,395)</u>	<u>35,009</u>	<u>(28,356)</u>	<u>(56,256)</u>	<u>(76,483)</u>
Net income (loss)	82,256	190,421	(5,861)	(28,356)	238,460	(116,276)
Net position (deficit), beginning of the year	<u>2,578,551</u>	<u>5,284,181</u>	<u>633,844</u>	<u>28,356</u>	<u>8,524,932</u>	<u>269,794</u>
Net position (deficit), end of year	<u>\$ 2,660,807</u>	<u>\$ 5,474,602</u>	<u>\$ 627,983</u>	<u>\$ -</u>	<u>\$ 8,763,392</u>	<u>\$ 153,518</u>

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

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2018

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 2,974,933	\$ 1,230,785	\$ 4,205,718
Payments to suppliers	(2,389,250)	(1,189,452)	(3,578,702)
Payments to employees	458,302	(841)	457,461
Net cash provided by operating activities	<u>1,043,985</u>	<u>40,492</u>	<u>1,084,477</u>
Cash flows from noncapital financing activities			
Operating subsidies and transfers to other funds	<u>166,491</u>	<u>(25,832)</u>	<u>140,659</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	(519,355)	(15,700)	(535,055)
Principal paid on capital debt	(256,000)	(82,648)	(338,648)
Interest paid on capital debt	<u>(259,915)</u>	<u>(13,448)</u>	<u>(273,363)</u>
Net cash (used) by capital and related financing activities	<u>(1,035,270)</u>	<u>(111,796)</u>	<u>(1,147,066)</u>
Cash flows from investing activities			
Interest and dividends	<u>5,062</u>	<u>67</u>	<u>5,129</u>
Net (decrease) in cash	180,268	(97,069)	83,199
Balances - beginning of the year	<u>790,961</u>	<u>220,969</u>	<u>1,011,930</u>
Balances - end of the year	<u>\$ 971,229</u>	<u>\$ 123,900</u>	<u>\$ 1,095,129</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 294,716	\$ (39,793)	\$ 334,509
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	681,708	75,409	757,117
Change in assets and liabilities			
Receivables, net	(91,142)	-	(91,142)
Due from other governmental units	607,846	73	607,919
Deferred outflows and inflows	15,707	3,420	19,127
Inventory	(27,051)	(3,503)	(30,554)
Prepaid expenses	(109)	(981)	(1,090)
Net pension liability	(4,260)	(368)	(4,628)
Accounts and other payables	(420,440)	7,076	(413,364)
Accrued expenses	<u>(12,990)</u>	<u>(841)</u>	<u>(13,831)</u>
Net cash provided by operating activities	<u>\$ 1,043,985</u>	<u>\$ 40,492</u>	<u>\$ 1,084,477</u>

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

CITY OF HANCOCK
FIDUCIARY FUNDS
STATEMENT OF ASSETS AND LIABILITIES
June 30, 2018

	<u>Agency Fund</u>	<u>Payroll Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 54	\$ 14,941	\$ 14,995
Total Assets	<u>\$ 54</u>	<u>\$ 14,941</u>	<u>\$ 14,995</u>
Liabilities			
Accounts payable	\$ -	\$ 14,941	\$ 14,941
Due to other governmental funds	36	-	36
Due to other governmental units	18	-	18
Total Liabilities	<u>\$ 54</u>	<u>\$ 14,941</u>	<u>\$ 14,995</u>

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

HANCOCK HOUSING COMMISSION

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

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, 2017 is as follows:

Total Assets	\$ 702,612
Total Liabilities	\$ 61,644
Total Net Position	\$ 640,968
Total Revenues	\$ 694,916
Total Expenses	\$ 720,531
Net Operating loss	\$ (25,652)

Portage Lake Water and Sewage Authority

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

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

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

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authority's financial information for the year ended June 30, 2018 (most recent year audited) shows the following:

Total Assets	\$ 12,633,282
Total Liabilities	\$ 3,960,525
Total Net Position	\$ 8,672,757
Total Revenues	\$ 2,163,213
Total Expenses	\$ 1,780,456
Long-Term Debt	\$ 3,543,556

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 a financing vehicle for the construction of City facilities.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the City.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The City does not allocate indirect costs.

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

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

Governmental Funds – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The City reports the following major governmental funds:

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPES

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

The City reports the following proprietary funds:

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

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

FIDUCIARY FUND TYPES

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

**CITY OF HANCOCK
 NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Accounting Policies

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

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

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

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

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

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.
2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2018, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE C - CASH AND INVESTMENTS

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

	<u>Governmental</u>	<u>Enterprise Fund</u>	<u>Total</u>	<u>Component Unit</u>	<u>Fiduciary Fund</u>
Cash and cash equivalents	\$ 535,268	\$ 492,575	\$ 1,027,843	\$ 23,974	\$ -
Restricted cash	279,819	478,654	758,473	-	14,995
Total cash	<u>\$ 815,087</u>	<u>\$ 971,229</u>	<u>\$ 1,786,316</u>	<u>\$ 23,974</u>	<u>\$ 14,995</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, 2018, \$1,228,057 of the City’s bank balance of \$1,912,132 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.

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE D - TRANSFERS AND INTERFUND BALANCES

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

Fund	Transfer In	Fund	Transfer Out
General fund	\$ 63,355	General fund	\$ 201,500
Major street	10,796	Employee benefit	67,518
Local street	6,007	Parking meter	28,356
Elevation street TIF	10,044	DDA	25,044
Motor vehicle	4,416		
Transit	35,000		
Sewer	186,021		
Water	5,932		
DDA	847		
Total	<u>\$ 322,418</u>	Total	<u>\$ 322,418</u>

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, 2018 are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General Fund	\$ 36	General Fund	\$ 95,353
Employee Benefits	93,288	Major Street	80,096
Motor Vehicle Fund	101,567	Transit fund	57,802
Sewer Fund	21,714	Water Fund	21,714
DDA	37,379	CDBG	7,000
Major Street	8,017	Agency Fund	36
Total	<u>\$ 262,001</u>	Total	<u>\$ 262,001</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.

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE E - CAPITAL ASSETS

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

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated				
Land	\$ 427,670	\$ 11,748	\$ -	\$ 439,418
Capital assets, being depreciated				
Buildings	2,722,138	\$ 40,792	\$ -	2,762,930
Equipment	1,190,497	84,468	-	1,274,965
Improvements	8,660,156	800,861	-	9,461,017
Vehicles	2,823,714	-	-	2,823,714
Subtotal	<u>15,396,505</u>	<u>\$ 926,121</u>	<u>\$ -</u>	<u>16,322,626</u>
Accumulated depreciation				
Building	1,418,700	\$ 64,329	\$ -	1,483,029
Equipment	1,067,793	42,174	-	1,109,967
Improvements	1,707,142	306,994	-	2,014,136
Vehicles	2,056,957	143,160	-	2,200,117
Subtotal	<u>6,250,592</u>	<u>\$ 556,657</u>	<u>\$ -</u>	<u>6,807,249</u>
Net capital assets being depreciated	<u>9,145,913</u>			<u>9,515,377</u>
Net capital assets	<u>\$ 9,573,583</u>			<u>\$ 9,954,795</u>

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

General Fund	\$ 205,504
Building Authority	58,793
Major Streets Fund	203,438
Local Streets Fund	13,513
Motor Vehicle Fund	75,409
	<u>\$ 556,657</u>

The components of property, plant, and equipment in City proprietary funds at June 30, 2018 are summarized as follows:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
TRANSIT FUND				
Capital assets, being depreciated				
Buildings	\$ 716,473	\$ -	\$ -	\$ 716,473
Equipment	43,120	-	-	43,120
Vehicles	410,131	74,331	-	484,462
Subtotal	<u>1,169,724</u>	<u>\$ 74,331</u>	<u>\$ -</u>	<u>1,244,055</u>
Accumulated depreciation:				
Buildings	111,948	\$ 17,912	\$ -	129,860
Equipment	39,867	3,253	-	43,120
Vehicles	306,802	22,015	-	328,817
Subtotal	<u>458,617</u>	<u>\$ 43,180</u>	<u>\$ -</u>	<u>501,797</u>
Net capital assets	<u>\$ 711,107</u>			<u>\$ 742,258</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE E - CAPITAL ASSETS (Continued)

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
SEWER DISPOSAL FUND				
Capital assets, being depreciated				
Buildings	\$ 754,725	\$ -	\$ -	\$ 754,725
Vehicles	7,500	-	-	7,500
Utility system	9,181,311	138,744	-	9,320,055
Subtotal	<u>9,943,536</u>	<u>\$ 138,744</u>	<u>\$ -</u>	<u>10,082,280</u>
Accumulated depreciation:				
Buildings	754,726	\$ -	\$ -	754,726
Vehicles	500	1,500	-	2,000
Utility system	5,235,308	159,482	-	5,394,790
Subtotal	<u>5,990,534</u>	<u>\$ 160,982</u>	<u>\$ -</u>	<u>6,151,516</u>
Net capital assets	<u>\$ 3,953,002</u>			<u>\$ 3,930,764</u>
WATER SUPPLY FUND				
Capital assets, not being depreciated				
Construction in progress	\$ 3,783,720	\$ -	\$ 3,783,720	\$ -
Capital assets, being depreciated				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	13,383	-	-	13,383
Vehicles	7,500	-	-	7,500
Land	73,500	-	-	73,500
Loan fees/lease	238,496	-	-	238,496
Utility system	14,794,021	4,090,000	-	18,884,021
Subtotal	<u>16,772,592</u>	<u>\$ 4,090,000</u>	<u>\$ -</u>	<u>20,862,592</u>
Accumulated depreciation:				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	13,381	-	-	13,381
Vehicles	500	500	-	1,000
Loan fees/lease	191,745	5,015	-	196,760
Utility system	4,319,576	472,031	-	4,791,607
Subtotal	<u>6,170,894</u>	<u>\$ 477,546</u>	<u>\$ -</u>	<u>6,648,440</u>
Net capital assets	<u>\$ 14,385,418</u>			<u>\$ 14,214,152</u>

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE F - RESTRICTED CASH

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

General Fund		Other Funds		Enterprise Funds	
Main Street Local	\$ 42,705	CDBG	\$ 46,880	Water Fund	\$ 124,503
		Debt Retirement	\$ 1,331	Sewer Fund	\$ 354,151
		Employee Benefits	\$ 8,171		
		Cemetery Perpetual	\$ 180,732		

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 \$42,705 represents the balance of the commercial loan program. As of June 30, 2018, 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 \$478,654 as of June 30, 2018. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$8,171 as of June 30, 2018.

The Cemetery Perpetual Care Trust balance of \$180,732 is reserved for the perpetual care of cemetery lots.

NOTE G - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2018, for the District’s governmental funds individual major funds and non-major funds in the aggregate, are as follows:

Payables	Governmental	Enterprise	Total
Accounts payable	\$ 35,953	\$ 223,648	\$ 259,601
Accrued expenses	51,139	39,258	90,397
Total	<u>\$ 87,092</u>	<u>\$ 262,906</u>	<u>\$ 349,998</u>

NOTE H - ACCUMULATED UNPAID VACATION AND SICK LEAVE

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

Accumulated unpaid vacation and sick leave at June 30, 2018 was \$57,002 and \$151,997 respectively

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE I - LONG TERM DEBT

GOVERNMENTAL ACTIVITIES

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 38,066	\$ 6,048	\$ 44,114
2019-2020	3,898	5,101	8,999
2020-2021	39,952	4,130	44,082
2021-2022	40,946	3,136	44,082
2022-2023	41,966	2,116	44,082
2023-2024	43,018	1,071	44,089
	<u>\$ 207,846</u>	<u>\$ 21,602</u>	<u>\$ 229,448</u>

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 30,000	\$ 8,015	\$ 38,015
2019-2020	25,000	7,115	32,115
2020-2021	25,000	6,365	31,365
2021-2022	25,000	5,765	30,765
2022-2023	30,000	5,165	35,165
2023-2024	30,000	4,310	34,310
2024-2025	30,000	3,455	33,455
2025-2026	30,000	2,600	32,600
2026-2027	35,000	1,400	36,400
	<u>\$ 260,000</u>	<u>\$ 44,190</u>	<u>\$ 304,190</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE I - LONG TERM DEBT (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 45,000	\$ 17,552	\$ 62,552
2019-2020	50,000	16,202	66,202
2020-2021	50,000	14,703	64,703
2021-2022	50,000	13,503	63,503
2022-2023	55,000	12,303	67,303
2023-2024	55,000	10,735	65,735
2024-2025	55,000	9,168	64,168
2025-2026	60,000	7,600	67,600
2026-2027	65,000	5,200	70,200
2027-2028	65,000	2,600	67,600
	<u>\$ 550,000</u>	<u>\$ 109,566</u>	<u>\$ 659,566</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 45,000	\$ 2,700	\$ 47,700
2020-2021	45,000	1,350	46,350
	<u>\$ 90,000</u>	<u>\$ 4,050</u>	<u>\$ 94,050</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 13,000	\$ 16,459	\$ 29,459
2020-2021	14,000	15,923	29,923
2021-2022	14,000	15,345	29,345
2022-2023	15,000	14,768	29,768
2023-2024	15,000	14,149	29,149
2024-2025	16,000	13,530	29,530
2025-2026	17,000	12,870	29,870
2026-2027	17,000	12,169	29,169
2027-2028	18,000	11,468	29,468
2028-2029	19,000	10,725	29,725
2029-2030	20,000	9,941	29,941
2030-2031	21,000	9,116	30,116
2031-2032	22,000	8,250	30,250
2032-2037	121,000	27,225	148,225
2037-2038	57,000	3,546	60,546
	<u>\$ 399,000</u>	<u>\$ 195,484</u>	<u>\$ 594,484</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE I - LONG TERM DEBT (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 3,000	\$ 3,735	\$ 6,735
2019-2020	3,000	3,600	6,600
2020-2021	3,000	3,465	6,465
2021-2022	3,000	3,330	6,330
2022-2023	3,000	3,195	6,195
2023-2024	3,000	3,060	6,060
2024-2025	3,000	2,925	5,925
2025-2026	4,000	2,790	6,790
2026-2027	4,000	2,610	6,610
2027-2028	4,000	2,430	6,430
2028-2029	4,000	2,250	6,250
2029-2030	4,000	2,070	6,070
2030-2031	4,000	1,890	5,890
2031-2036	26,000	6,300	32,300
2036-2037	12,000	810	12,810
	<u>\$ 83,000</u>	<u>\$ 44,460</u>	<u>\$ 127,460</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 15,390	\$ 1,255	\$ 16,645
2019-2020	16,111	640	16,751
	<u>\$ 31,501</u>	<u>\$ 1,895</u>	<u>\$ 33,396</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE I - LONG TERM DEBT (Continued)

ENTERPRISE FUNDS

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

Fiscal Year	Principal	Interest	Total
2018-2019	\$ 21,000	\$ 28,612	\$ 49,612
2019-2020	22,000	28,061	50,061
2020-2021	22,000	27,484	49,484
2021-2022	23,000	26,906	49,906
2022-2023	24,000	26,302	50,302
2023-2024	24,000	25,672	49,672
2024-2025	25,000	25,042	50,042
2025-2026	25,000	24,386	49,386
2026-2031	137,000	111,641	248,641
2031-2036	156,000	92,689	248,689
2036-2041	180,000	71,006	251,006
2041-2046	205,000	46,069	251,069
2046-2051	226,000	17,928	243,928
	\$ 1,090,000	\$ 551,798	\$ 1,641,798

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE I - LONG TERM DEBT (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 67,000	\$ 78,755	\$ 145,755
2019-2020	69,000	77,164	146,164
2020-2021	71,000	75,525	146,525
2021-2022	72,000	73,839	145,839
2022-2023	74,000	72,129	146,129
2023-2024	76,000	70,371	146,371
2024-2025	77,000	68,566	145,566
2025-2026	79,000	66,738	145,738
2026-2031	425,000	304,594	729,594
2031-2036	478,000	251,679	729,679
2036-2041	539,000	192,066	731,066
2041-2046	605,000	125,044	730,044
2046-2051	684,000	49,634	733,634
	<u>\$ 3,316,000</u>	<u>\$ 1,506,104</u>	<u>\$ 4,822,104</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 36,000	\$ 48,458	\$ 84,458
2019-2020	37,000	47,500	84,500
2020-2021	38,000	46,515	84,515
2021-2022	39,000	45,504	84,504
2022-2023	40,000	44,467	84,467
2023-2024	41,000	43,404	84,404
2024-2025	42,000	42,315	84,315
2025-2026	43,000	41,200	84,200
2026-2031	234,000	188,132	422,132
2031-2036	267,000	155,282	422,282
2036-2041	304,000	117,864	421,864
2041-2046	346,000	75,287	421,287
2046-2051	397,000	26,685	423,685
	<u>\$ 1,864,000</u>	<u>\$ 922,613</u>	<u>\$ 2,786,613</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE I - LONG TERM DEBT (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 105,000	\$ 70,875	\$ 175,875
2019-2020	105,000	68,250	173,250
2020-2021	110,000	65,625	175,625
2021-2022	110,000	62,875	172,875
2022-2023	115,000	60,125	175,125
2023-2024	120,000	57,250	177,250
2024-2025	120,000	54,250	174,250
2025-2026	125,000	51,250	176,250
2026-2031	665,000	208,250	873,250
2031-2036	760,000	120,375	880,375
2036-2041	500,000	25,125	525,125
	<u>\$ 2,835,000</u>	<u>\$ 844,250</u>	<u>\$ 3,679,250</u>

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 33,000	\$ 33,723	\$ 66,723
2019-2020	34,000	33,145	67,145
2020-2021	35,000	32,550	67,550
2021-2022	36,000	31,938	67,938
2022-2023	36,000	31,308	67,308
2023-2024	37,000	30,678	67,678
2024-2025	38,000	30,030	68,030
2025-2026	39,000	29,365	68,365
2026-2031	206,000	136,343	342,343
2031-2036	230,000	117,512	347,512
2036-2041	255,000	96,512	351,512
2041-2046	283,000	73,273	356,273
2046-2051	315,000	47,407	362,407
2051-2056	350,000	18,671	368,671
	<u>\$ 1,927,000</u>	<u>\$ 742,455</u>	<u>\$ 2,669,455</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE I - LONG TERM DEBT (Continued)

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2019	\$ 1,000	\$ 1,242	\$ 2,242
2019-2020	1,000	1,225	2,225
2020-2021	1,000	1,207	2,207
2021-2022	1,000	1,190	2,190
2022-2023	1,000	1,173	2,173
2023-2024	1,000	1,155	2,155
2024-2025	1,000	1,138	2,138
2025-2026	1,000	1,120	2,120
2026-2031	7,000	5,320	12,320
2031-2036	10,000	4,550	14,550
2036-2041	10,000	3,675	13,675
2041-2046	10,000	2,800	12,800
2046-2051	10,000	1,925	11,925
2051-2056	16,000	1,050	17,050
	<u>\$ 71,000</u>	<u>\$ 28,770</u>	<u>\$ 99,770</u>

INTERNAL SERVICE FUNDS - INSTALLMENT LOANS

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

<u>Purpose of Note</u>	<u>Date</u>	<u>Original</u>	<u>Maturity</u>	<u>Interest</u>	<u>Balance</u>	<u>Current</u>
2017 Western Star Sander/Scraper	12/15/16	\$ 145,595	12/15/23	2.49 %	\$ 126,299	\$ 19,777
2013 Caterpillar Loader	1/21/14	\$ 160,000	1/21/19	2.24 %	33,431	33,431
2011 Snow Blower	3/2/10	\$ 91,000	2/1/19	4.00 %	21,000	10,000
2011 Sander	4/20/11	\$ 187,000	10/1/26	4.13 %	82,000	8,500
2011 Grader	4/20/11	\$ 130,000	4/1/26	4.00 %	111,000	12,000
Total					<u>\$ 373,730</u>	<u>\$ 83,708</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE I - LONG TERM DEBT (Continued)

Long-term debt liabilities for governmental activities, are reported in and liquidated through all funds for the fiscal year ended June 30, 2018, was as follows:

	Balance July 01, 2017	Increase	Decrease	Balance June 30, 2018	Current Portion
GOVERNMENTAL ACTIVITIES					
Superior National Bank - Fire truck	\$ 280,000	\$ -	\$ 37,071	\$ 242,929	\$ 38,066
2015 Refunding Bond:					
Fire Hall	285,000	-	25,000	260,000	30,000
Public Works Garage	595,000	-	45,000	550,000	45,000
Fire Truck	135,000	-	45,000	90,000	45,000
Superior National Bank - Land	46,340	-	14,839	31,501	15,390
2008A Building Authority Bonds	411,000	-	12,000	399,000	13,000
2008B Building Authority Bonds	86,000	-	3,000	83,000	3,000
Premium on bond	27,129	-	2,466	24,663	-
	<u>1,865,469</u>	<u>-</u>	<u>184,376</u>	<u>1,681,093</u>	<u>189,456</u>
ENTERPRISE FUNDS					
2010 Sanitary Sewage Disposal Bonds	1,899,000	-	35,000	1,864,000	36,000
2011A Water Supply System Bonds	1,111,000	-	21,000	1,090,000	21,000
2011B Water Supply System Bonds	3,382,000	-	66,000	3,316,000	67,000
2016A Water Revenue Bond	1,960,000	-	33,000	1,927,000	33,000
2016B Water Revenue Bond	72,000	-	1,000	71,000	1,000
2008 Water Supply System Bond	2,935,000	-	100,000	2,835,000	105,000
	<u>11,359,000</u>	<u>-</u>	<u>256,000</u>	<u>11,103,000</u>	<u>263,000</u>
INTERNAL SERVICE FUND					
Installment Loans	456,377	-	82,647	373,730	83,708
TOTALS	<u>\$ 13,680,846</u>	<u>\$ -</u>	<u>\$ 523,023</u>	<u>\$ 13,157,823</u>	<u>\$ 536,164</u>
Accrued compensated absences	<u>\$ 261,208</u>	<u>\$ -</u>	<u>\$ 86,685</u>	<u>\$ 174,523</u>	

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE I - LONG TERM DEBT (Continued)

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

GOVERNMENTAL ACTIVITIES			
Fiscal Year	Principal	Interest	Total
2018-2019	\$ 189,456	\$ 55,764	\$ 245,220
2019-2020	192,092	49,931	242,023
2020-2021	131,952	44,008	175,960
2021-2022	133,946	40,502	174,448
2022-2023	144,966	36,928	181,894
2023-2024	147,018	32,706	179,724
2024-2025	105,000	28,418	133,418
2025-2026	111,000	25,159	136,159
2026-2027	122,000	20,678	142,678
2027-2028	88,000	15,755	103,755
2028-2029	24,000	12,191	36,191
2029-2030	25,000	11,186	36,186
2030-2031	26,000	10,140	36,140
2031-2036	147,000	33,525	180,525
2036-2042	69,000	4,356	73,356
	<u>\$ 1,656,430</u>	<u>\$ 421,247</u>	<u>\$ 2,077,677</u>

INTERNAL SERVICE FUNDS			
Fiscal Year	Principal	Interest	Total
2018-2019	\$ 83,708	\$ 12,556	\$ 96,264
2019-2020	52,270	10,084	62,354
2020-2021	43,274	8,288	51,562
2021-2022	44,791	6,859	51,650
2022-2023	46,322	5,376	51,698
2023-2024	48,365	3,840	52,205
2024-2025	27,000	2,229	29,229
2025-2026	28,000	1,135	29,135
	<u>\$ 373,730</u>	<u>\$ 50,367</u>	<u>\$ 424,097</u>

ENTERPRISE FUNDS			
Fiscal Year	Principal	Interest	Total
2018-2019	\$ 263,000	\$ 261,665	\$ 524,665
2019-2020	268,000	255,345	523,345
2020-2021	277,000	248,906	525,906
2021-2022	281,000	242,252	523,252
2022-2023	290,000	235,504	525,504
2023-2024	299,000	228,530	527,530
2024-2025	303,000	221,341	524,341
2025-2026	312,000	214,059	526,059
2026-2031	1,674,000	954,280	2,628,280
2031-2036	1,901,000	742,087	2,643,087
2036-2041	1,788,000	506,248	2,294,248
2041-2046	1,449,000	322,473	1,771,473
2046-2051	1,632,000	143,579	1,775,579
2051-2056	366,000	19,721	385,721
	<u>\$ 11,103,000</u>	<u>\$ 4,595,990</u>	<u>\$ 15,698,990</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE J - PENSION PLAN

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

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

Employees covered by benefit terms - At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

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

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

Net Pension Liability - The City's Net Pension Liability reported as of June 30, 2018 was measured as of December 31, 2017 and was determined by an annual actuarial valuation as of that date.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/16	\$ 4,017,433	\$ 2,497,079	\$ 1,520,354
Service cost	67,495	-	67,495
Interest on total pension liability	316,010	-	316,010
Changes in benefits	-	-	-
Difference between expected and actual experience	36,297	-	36,297
Changes in assumptions	-	-	-
Employer contributions	-	103,116	(103,116)
Employee contributions	-	22,597	(22,597)
Net investment income	-	327,073	(327,073)
Benefit payments, including employee refunds	(202,111)	(202,111)	-
Administrative expense	-	(5,180)	5,180
Other changes	-	-	-
Net changes	<u>217,691</u>	<u>245,496</u>	<u>(27,805)</u>
Balances as of 12/31/17	<u>\$ 4,235,124</u>	<u>\$ 2,742,575</u>	<u>\$ 1,492,549</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE J - PENSION PLAN (Continued)

Actuarial assumptions - The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2017, the measurement date, for each major asset class summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
Global equity	55.5%	8.65%
Global fixed income	18.5%	3.76%
Real assets	13.5%	9.72%
Diversifying strategies	12.5%	7.5%

Discount rate - The discount rate used to measure the total pension liability is 8.0% for 2017. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE J - PENSION PLAN (Continued)

	1% Decrease <u>7.0%</u>	Current Discount Rate <u>8.0%</u>	1% Increase <u>9.0%</u>
Net pension liability of the City	\$ 1,995,024	\$ 1,492,549	\$ 1,069,704

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

Pension expense and deferred outflows of resources and deferred inflows of resources and deferred inflows of resources related to pensions - For the year ended June 30, 2018 the City recognized pension expense of \$253,935. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflow <u>of Resources</u>	Deferred Inflow <u>of Resources</u>
Differences in experience	\$ 164,797	\$ 1,175
Differences in assumptions	171,758	-
Excess (deficit) investment returns	147,187	196,070
Contributions subsequent to the measurement date	<u>50,253</u>	<u>-</u>
Total	<u>\$ 533,995</u>	<u>\$ 197,245</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2019.

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

<u>Year ended</u>	<u>Amount</u>
2018	\$ 60,604
2019	60,604
2020	52,756
2021	8,926
2022	24,849
Thereafter	<u>78,758</u>
	<u>\$ 286,497</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE K - ENTERPRISE FUNDS - SEGMENT INFORMATION

The City maintains four Enterprise Funds which provide water, sewer, transit and parking meter services. Segment information for the year ended June 30, 2018 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Transit</u>	<u>Parking Meter</u>
Operating revenues	\$ 1,419,202	\$ 1,375,787	\$ 264,099	\$ -
Depreciation	\$ 160,982	\$ 477,546	\$ 43,180	\$ -
Income (loss) from operations	\$ (63,230)	\$ 398,816	\$ (40,870)	\$ -
Non-operating revenues (expenses)	\$ 145,486	\$ (208,395)	\$ 35,009	\$ (28,356)
Net income (loss)	\$ 82,256	\$ 190,421	\$ (5,861)	\$ (28,356)
Property, plant & equipment additions	\$ 138,744	\$ 306,280	\$ 74,331	\$ -
Total assets	\$ 4,740,638	\$ 14,841,731	\$ 827,382	\$ -
Net working capital surplus (deficit)	\$ 609,756	\$ 327,223	\$ (66,054)	\$ -
Long-term liabilities:				
Payable from operating revenues	\$ 1,897,345	\$ 9,085,184	\$ 69,656	\$ -
Net investment in capital assets	\$ 3,930,764	\$ 14,214,152	\$ 742,258	\$ -
Reserved net position	\$ 124,503	\$ 354,151	\$ -	\$ -
Unreserved net position	\$ 2,536,304	\$ 5,120,451	\$ 627,983	\$ -
Total net position	\$ 2,660,807	\$ 5,474,602	\$ 627,983	\$ -
Net cash provided (used) by:				
Operating activities	\$ 179,718	\$ 860,196	\$ 4,071	\$ -
Noncapital financing activities	\$ 164,307	\$ (44,500)	\$ 75,040	\$ (28,356)
Capital & related financing activities	\$ (216,001)	\$ (744,938)	\$ (74,331)	\$ -
Investing activities	\$ 1,722	\$ 3,331	\$ 9	\$ -
Beginning cash	\$ 379,391	\$ 381,591	\$ 1,623	\$ 28,356
Ending cash	\$ 509,137	\$ 455,680	\$ 6,412	\$ -

NOTE L - RESERVES AND RESTRICTED ASSETS

Water Fund

2011A and 2011B Water Supply System Revenue Bonds

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

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

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

NOTE L - RESERVES AND RESTRICTED ASSETS (Continued)

2016A and 2016B Water Supply System Revenue Bonds

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

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

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

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

Sewer Fund

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

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

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

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

At June 30, 2018, the City had established these accounts and had restricted cash, as required, as follows:

	<u>Required</u>	<u>Amount Funded</u>
Water Fund		
<u>2011A and 2011B Water Supply System Revenue Bonds</u>		
Bond Reserve Account	\$ 137,830	\$ 137,830
Repair and Replacement Account	70,084	70,084
Bond and Interest Redemption Account	48,592	48,592
	<u>\$ 256,506</u>	<u>\$ 256,506</u>
<u>2016A and 2016B Water Supply System Revenue Bonds</u>		
Bond Reserve Account	\$ 15,600	\$ 15,600
Repair and Replacement Account	64,804	64,804
Bond and Interest Redemption Account	17,241	17,241
	<u>\$ 97,645</u>	<u>\$ 97,645</u>
Sewer Fund		
Bond Reserve Account	\$ 61,944	\$ 61,944
Repair and Replacement Account	41,576	41,576
Bond and Interest Redemption Account	20,983	20,983
	<u>\$ 124,503</u>	<u>\$ 124,503</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2018

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.
- Pension costs incurred for the defined benefit retirement plan administered by MERS were calculated pursuant to the MERS GASB 68 Implementation Guide. The total pension expense recognized as calculated in STEP 6 of the guide is \$253,935. Of this amount \$3,496 was expensed on the books of the Transit Fund and \$2,733 was reported on line 50200 Fringes. The difference of \$763 is due to a pension liability adjustment made at year-end that had not been reflected on the quarterly transit reports.
- 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 72 through 76.

NOTE N - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2018, the Downtown Development District (DDD), the Elevation Street City(ESD), and the MTEPS (Smart Zone) City. The taxes on the DDD and the ESD City's 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 2016 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2018, via the Local Development Finance Authority – the financing entity.

**CITY OF HANCOCK
 NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE N - TAX INCREMENT FINANCING (Continued)

Summary of TIF City data as of June 30, 2018:

	<u>DDD</u>	<u>MTEPS</u>
Base year	1984	1999
State Equalized Value (SEV) base year		
Real Property	9,779,700	48,229,352
Personal Property	-	2,911,983
Current year SEV		
Real Property	21,747,508	108,333,627
Personal Property	-	7,202,232
Increase (Decrease) of taxable value		
Real Property	11,967,808	60,104,275
Personal Property	-	4,290,249
Authorized tax mills levied - Homestead	21	3
Non-homestead	-	12
Tax revenue collected	290,600	500,361

NOTE O - 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, 2018, The Portage Lake Water and Sewage Authority owed the City \$5,028, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due from other governmental units.

NOTE P - 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, 2018 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.

**CITY OF HANCOCK
 NOTES TO FINANCIAL STATEMENTS - June 30, 2018**

NOTE Q - FEDERAL AWARDS RECONCILIATION

	<u>Amount</u>
Governmental Funds	\$ 697,447
Enterprise Funds	411,534
Subtotal	<u>1,108,981</u>
Less MDOT Revenue (see note below)	521,174
Total federal revenue	<u><u>\$ 587,807</u></u>

The Michigan Department of Transportation (MDOT) requires that the city report all Federal and State grants pertaining to their city. During the fiscal year ended June 30, 2018, the Federal aid expended by the City was \$521,174 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the City, as they are included in MDOT's Single Audit.

NOTE R - 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 July 19, 2017 the City signed a grant agreement with the Department of Natural Resources for \$294,000 with payments being made on a reimbursement basis and requiring a 26% match from the City. The grant proceeds are to be used for a project which includes the construction of a recreational pier, kayak launch, ADA accessible paths and parking, and native landscaping. As of June 30, 2018 the City had only incurred engineering costs related to the project. The project will be completed in the following fiscal year.
- On September 17, 2018 the City signed a grant agreement with the Michigan Department of Transportation for \$75,000 to purchase two transit busses.
- On August 2, 2018 the Federal Emergency Management Agency, FEMA, declared a state of emergency for the City of Hancock as a result of storm damage occurring from June 16-18, 2018. Recovery efforts will be funded by FEMA and the Federal Highway Administration (FHWA). Both federal agencies require local matching funds with FEMA requiring a twenty-five percent local match and FHWA requiring a twenty percent local match. The State of Michigan has agreed to fund the City's twenty-five percent FEMA local match. The City of Hancock is still evaluating options for funding the required FHWA local match. As of the date of this report, no costs have been determined.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HANCOCK
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Property taxes	\$ 1,612,219	\$ 1,582,750	\$ 1,544,404	\$ (38,346)
Licenses & permits	107	100	5	(95)
State sources	501,807	503,042	515,189	12,147
Charges for services	373,880	371,800	396,887	25,087
Interest income	1,562	1,548	1,587	39
Other revenues	78,056	80,600	80,480	(120)
Total revenues	<u>2,567,631</u>	<u>2,539,840</u>	<u>2,538,552</u>	<u>(1,288)</u>
Expenditures				
General government				
Council	19,550	33,750	27,452	6,298
City manager	102,781	67,830	66,351	1,479
Clerk	68,719	67,610	62,924	4,686
Treasurer	63,392	69,950	62,402	7,548
Accounting	33,968	23,750	23,579	171
Assessor	28,017	29,150	28,881	269
Planning	36,414	6,500	5,704	796
Elections	14,770	2,100	1,635	465
Building and grounds	69,917	68,620	68,401	219
Cemetery	42,983	41,400	44,713	(3,313)
Public safety	956,253	937,555	959,174	(21,619)
Public works	313,346	316,045	248,755	67,290
Recreation and culture	416,230	338,750	304,277	34,473
Sanitation	214,113	203,250	196,382	6,868
Debt service	78,429	107,100	109,235	(2,135)
Other	59,123	73,850	69,547	4,303
Total expenditures	<u>2,518,005</u>	<u>2,387,210</u>	<u>2,279,412</u>	<u>107,798</u>
Excess (deficiency) of revenues over expenditures	49,626	152,630	259,140	106,510
Other financing sources (uses)				
Increase/(decrease) in fair value	-	-	1,053	1,053
Proceeds on sale of assets	1,018	5,000	5,010	10
Operating transfers in (out)	(30,000)	(105,000)	(138,145)	(33,145)
Total other financing sources (uses)	<u>(28,982)</u>	<u>(100,000)</u>	<u>(132,082)</u>	<u>(34,188)</u>
Net change in fund balances	<u>\$ 20,644</u>	<u>\$ 52,630</u>	127,058	<u>\$ 72,322</u>
Fund balances - Beginning of year			<u>105,353</u>	
Fund balances - End of year			<u>\$ 232,411</u>	

CITY OF HANCOCK
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
Revenues				
State sources	\$ 612,174	\$ 698,700	\$ 884,373	\$ 185,673
Federal sources	-	-	521,174	521,174
Interest income	102	450	521	71
Other revenues	37,886	100	24,456	24,356
Total revenues	<u>650,162</u>	<u>699,250</u>	<u>1,430,524</u>	<u>731,274</u>
Expenditures				
General administration	31,997	28,430	27,755	675
Highways and streets:				
Construction	99,141	82,153	724,655	(642,502)
State trunkline maintenance	272,977	314,400	370,158	(55,758)
Routine maintenance	63,531	70,300	70,544	(244)
Traffic services	14,422	15,200	13,832	1,368
Snow and ice control	158,090	168,600	204,201	(35,601)
Sweeping and flushing	3,884	3,800	5,852	(2,052)
Total expenditures	<u>644,042</u>	<u>682,883</u>	<u>1,416,997</u>	<u>(734,114)</u>
Excess (deficiency) of revenues over expenditures	6,120	16,367	13,527	(2,840)
Other financing sources (uses)				
Operating transfers in (out)	-	-	10,796	10,796
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>10,796</u>	<u>10,796</u>
Net change in fund balances	<u>\$ 6,120</u>	<u>\$ 16,367</u>	24,323	<u>\$ 7,956</u>
Fund balances - Beginning of year			<u>38,077</u>	
Fund balances - End of year			<u>\$ 62,400</u>	

CITY OF HANCOCK
SCHEDULE OF CHANGES IN THE CITY NET
PENSION LIABILITY AND RATIOS
Year Ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability				
Service cost	\$ 67,495	\$ 60,533	\$ 64,222	\$ 51,865
Interest	316,010	288,232	259,977	240,815
Difference between expected and actual experience	36,297	146,857	(1,568)	-
Changes in assumptions	-	-	229,010	-
Benefit payments, including refunds	(202,111)	(101,645)	(94,628)	(38,562)
Other changes	-	-	-	1
Net change in total pension liability	<u>217,691</u>	<u>393,977</u>	<u>457,013</u>	<u>254,119</u>
Total pension liability - beginning of year	<u>4,017,433</u>	<u>3,623,456</u>	<u>3,166,443</u>	<u>2,912,324</u>
Total pension liability - end of year	<u>\$ 4,235,124</u>	<u>\$ 4,017,433</u>	<u>\$ 3,623,456</u>	<u>\$ 3,166,443</u>
Plan fiduciary net position				
Contributions - employer	103,116	113,009	82,780	73,738
Contributions - employee	22,597	25,626	22,463	21,525
Net investment income	327,073	255,606	(34,273)	132,353
Administrative expenses	(5,180)	(5,042)	(4,966)	(4,894)
Benefit payments, including refunds	<u>(202,111)</u>	<u>(101,645)</u>	<u>(94,628)</u>	<u>(38,562)</u>
Net change in plan fiduciary net position	<u>245,496</u>	<u>287,554</u>	<u>(28,624)</u>	<u>184,160</u>
Plan fiduciary net position - beginning of year	<u>2,497,079</u>	<u>2,209,525</u>	<u>2,238,149</u>	<u>2,053,989</u>
Plan fiduciary net position - end of year	<u>\$ 2,742,575</u>	<u>\$ 2,497,079</u>	<u>\$ 2,209,525</u>	<u>\$ 2,238,149</u>
City's net pension liability - ending	<u>\$ 1,492,549</u>	<u>\$ 1,520,354</u>	<u>\$ 1,413,931</u>	<u>\$ 928,294</u>
Plan fiduciary net position as a percent of total pension	64.76 %	62.16 %	60.98 %	70.68 %
Covered employee payroll	\$ 634,354	\$ 618,951	\$ 696,554	\$ 562,531
City's net pension liability as a percent of covered employee	235.29 %	245.63 %	202.99 %	165.02 %

CITY OF HANCOCK
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Year Ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial determined contributions	\$ 103,116	\$ 113,009	\$ 82,780	\$ 73,741
Contributions in relation to the actuarially determined contributions	<u>103,116</u>	<u>113,009</u>	<u>82,780</u>	<u>73,741</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 634,354	\$ 618,951	\$ 696,554	\$ 562,531
Contributions as a percentage of covered-employee payroll	16 %	18 %	12 %	13 %

CITY OF HANCOCK
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2018

NOTE A - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATE

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

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

CITY OF HANCOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2018

	<u>Local Street</u>	<u>CDBG</u>	<u>Elevation Street TIF</u>	<u>Building Authority</u>	<u>Sylvan Estates</u>	<u>Cemetery Perpetual</u>	<u>Total</u>
Assets							
Cash and cash equivalents	\$ 108,405	\$ -	\$ -	\$ -	\$ 20,373	\$ -	\$ 128,778
Restricted cash	-	46,880	-	1,331	-	180,732	228,943
Due from government units	27,046	-	-	-	-	-	27,046
Inventories	2,069	-	-	-	-	-	2,069
Total assets	<u>\$ 137,520</u>	<u>\$ 46,880</u>	<u>\$ -</u>	<u>\$ 1,331</u>	<u>\$ 20,373</u>	<u>\$ 180,732</u>	<u>\$ 386,836</u>
Liabilities							
Accounts payable	\$ 160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160
Accrued expenses	2,113	-	-	-	-	-	2,113
Due to other funds	-	7,000	-	-	-	-	7,000
Total liabilities	<u>2,273</u>	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,273</u>
Fund balances							
Restricted	135,247	39,880	-	1,331	20,373	180,732	377,563
Total fund balances	<u>135,247</u>	<u>39,880</u>	<u>-</u>	<u>1,331</u>	<u>20,373</u>	<u>180,732</u>	<u>377,563</u>
Total liabilities and fund balances	<u>\$ 137,520</u>	<u>\$ 46,880</u>	<u>\$ -</u>	<u>\$ 1,331</u>	<u>\$ 20,373</u>	<u>\$ 180,732</u>	<u>\$ 386,836</u>

CITY OF HANCOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2018

	<u>Local Street</u>	<u>CDBG</u>	<u>Elevation Street TIF</u>	<u>Building Authority</u>	<u>Sylvan Estates</u>	<u>Cemetery Perpetual</u>	<u>Total</u>
Revenues							
Property taxes	\$ 127,876	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,876
State sources	223,987	-	-	-	-	-	223,987
Federal sources	-	176,273	-	-	-	-	176,273
Interest income	63	-	-	3	31	1,130	1,227
Miscellaneous income	-	82,331	-	-	-	-	82,331
Rentals	-	-	-	132,882	-	-	132,882
Total revenues	<u>351,926</u>	<u>258,604</u>	<u>-</u>	<u>132,885</u>	<u>31</u>	<u>1,130</u>	<u>744,576</u>
Expenditures							
General administration	7,197	22,538	-	-	-	-	29,735
Public works	272,246	197,578	-	-	-	-	469,824
Highways and streets:							
Other	-	-	-	132,882	-	571	133,453
Total expenditures	<u>279,443</u>	<u>220,116</u>	<u>-</u>	<u>132,882</u>	<u>-</u>	<u>571</u>	<u>633,012</u>
Excess (deficiency) of revenues over expenditures	72,483	38,488	-	3	31	559	111,564
Other financing sources (uses)							
Operating transfers in (out)	6,007	-	10,044	-	-	-	16,051
Total other financing sources (uses)	<u>6,007</u>	<u>-</u>	<u>10,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,051</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	78,490	38,488	10,044	3	31	559	127,615
Fund balances - Beginning of year	<u>56,757</u>	<u>1,392</u>	<u>(10,044)</u>	<u>1,328</u>	<u>20,342</u>	<u>180,173</u>	<u>249,948</u>
Fund balances - End of year	<u>\$ 135,247</u>	<u>\$ 39,880</u>	<u>\$ -</u>	<u>\$ 1,331</u>	<u>\$ 20,373</u>	<u>\$ 180,732</u>	<u>\$ 377,563</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2018

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Parking Meter Fund</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 384,634	\$ 101,529	\$ 6,412	\$ -	\$ 492,575
Restricted cash	124,503	354,151	-	-	478,654
Accounts receivable	111,748	95,697	76,931	-	284,376
Due from other funds	21,714	-	-	-	21,714
Due from government units	127,196	-	-	-	127,196
Inventories	40,079	76,202	-	-	116,281
Prepaid expenses	-	-	1,781	-	1,781
Capital assets - net	<u>3,930,764</u>	<u>14,214,152</u>	<u>742,258</u>	<u>-</u>	<u>18,887,174</u>
Total assets	<u>4,740,638</u>	<u>14,841,731</u>	<u>827,382</u>	<u>-</u>	<u>20,409,751</u>
Deferred outflow of resources - pension					
	24,522	25,861	25,314	-	75,697
Liabilities					
Accounts payable	144,919	2,578	76,151	-	223,648
Accrued expenses	18,957	49,064	17,225	-	85,246
Due to other funds	-	21,714	57,802	-	79,516
Due to other governmental units	242	-	-	-	242
Current maturities	36,000	227,000	-	-	263,000
Net pension liability	69,345	73,184	69,656	-	212,185
Bonds payable	<u>1,828,000</u>	<u>9,012,000</u>	<u>-</u>	<u>-</u>	<u>10,840,000</u>
Total liabilities	<u>2,097,463</u>	<u>9,385,540</u>	<u>220,834</u>	<u>-</u>	<u>11,703,837</u>
Deferred inflow of resources - pension					
	6,890	7,450	3,879	-	18,219
Net position					
Reserved	124,503	354,151	-	-	478,654
Unreserved	<u>2,536,304</u>	<u>5,120,451</u>	<u>627,983</u>	<u>-</u>	<u>8,284,738</u>
Total net position	<u>\$ 2,660,807</u>	<u>\$ 5,474,602</u>	<u>\$ 627,983</u>	<u>\$ -</u>	<u>\$ 8,763,392</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2018

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Parking Meter Fund</u>	<u>Total</u>
Operating revenues					
Charges for services	\$ 985,764	\$ 1,061,401	\$ 41,894	\$ -	\$ 2,089,059
State sources	428,485	-	104,586	-	533,071
Federal sources	-	306,200	105,334	-	411,534
Other revenues	4,953	8,186	12,285	-	25,424
Total operating revenues	<u>1,419,202</u>	<u>1,375,787</u>	<u>264,099</u>	<u>-</u>	<u>3,059,088</u>
Operating expenses					
General administration	49,133	89,531	68,548	-	207,212
Meter reading	1,930	8,784	-	-	10,714
Purchased services	647,987	215,168	-	-	863,155
Operations and maintenance	622,400	185,942	193,241	-	1,001,583
Depreciation	160,982	477,546	43,180	-	681,708
Total operating expenses	<u>1,482,432</u>	<u>976,971</u>	<u>304,969</u>	<u>-</u>	<u>2,764,372</u>
Operating income (loss)	<u>(63,230)</u>	<u>398,816</u>	<u>(40,870)</u>	<u>-</u>	<u>294,716</u>
Non-operating revenues (expenses)					
Interest income	1,722	3,331	9	-	5,062
Interest expense	(42,257)	(217,658)	-	-	(259,915)
Operating transfers in (out)	186,021	5,932	35,000	(28,356)	198,597
Total non-operating revenues (expenses)	<u>145,486</u>	<u>(208,395)</u>	<u>35,009</u>	<u>(28,356)</u>	<u>(56,256)</u>
Net income (loss)	82,256	190,421	(5,861)	(28,356)	238,460
Net position, beginning of year	<u>2,578,551</u>	<u>5,284,181</u>	<u>633,844</u>	<u>28,356</u>	<u>8,524,932</u>
Net position, end of year	<u>\$ 2,660,807</u>	<u>\$ 5,474,602</u>	<u>\$ 627,983</u>	<u>\$ -</u>	<u>\$ 8,763,392</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Parking Meter Fund</u>	<u>Total</u>
Cash flows from operating activities					
Receipts from customers	\$ 1,411,455	\$ 1,374,136	\$ 189,342	\$ -	\$ 2,974,933
Payments to suppliers	(1,354,184)	(654,816)	(380,250)	-	(2,389,250)
Payments to employees	122,447	140,876	194,979	-	458,302
Net cash provided by operating activities	<u>179,718</u>	<u>860,196</u>	<u>4,071</u>	<u>-</u>	<u>1,043,985</u>
Cash flows from noncapital financing activities					
Operating subsidies and transfers to other funds	<u>164,307</u>	<u>(44,500)</u>	<u>75,040</u>	<u>(28,356)</u>	<u>166,491</u>
Cash flows from capital and related financing activities					
Purchases of capital assets	(138,744)	(306,280)	(74,331)	-	(519,355)
Principal paid on capital debt	(35,000)	(221,000)	-	-	(256,000)
Interest paid on capital debt	<u>(42,257)</u>	<u>(217,658)</u>	<u>-</u>	<u>-</u>	<u>(259,915)</u>
Net cash (used) by capital and related financing activities	<u>(216,001)</u>	<u>(744,938)</u>	<u>(74,331)</u>	<u>-</u>	<u>(1,035,270)</u>
Cash flows from investing activities					
Interest and dividends	<u>1,722</u>	<u>3,331</u>	<u>9</u>	<u>-</u>	<u>5,062</u>
Net (decrease) in cash	129,746	74,089	4,789	(28,356)	180,268
Balances - beginning of the year	<u>379,391</u>	<u>381,591</u>	<u>1,623</u>	<u>28,356</u>	<u>790,961</u>
Balances - end of the year	<u>\$ 509,137</u>	<u>\$ 455,680</u>	<u>\$ 6,412</u>	<u>\$ -</u>	<u>\$ 971,229</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (63,230)	\$ 398,816	\$ (40,870)	\$ -	\$ 294,716
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	160,982	477,546	43,180	-	681,708
Change in assets and liabilities:					
Receivables, net	(10,068)	(4,143)	(76,931)	-	(91,142)
Due to/from other governmental units	49,597	558,249	-	-	607,846
Deferred outflows and inflows	6,216	6,736	2,755	-	15,707
Inventory	(9,749)	(17,302)	-	-	(27,051)
Prepaid expenses	-	-	(109)	-	(109)
Net pension liability	(1,103)	(1,165)	(1,992)	-	(4,260)
Accounts and other payables	47,480	(543,950)	76,030	-	(420,440)
Accrued expenses	<u>(407)</u>	<u>(14,591)</u>	<u>2,008</u>	<u>-</u>	<u>(12,990)</u>
Net cash provided by operating activities	<u>\$ 179,718</u>	<u>\$ 860,196</u>	<u>\$ 4,071</u>	<u>\$ -</u>	<u>\$ 1,043,985</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING NET POSITION
June 30, 2018

	<u>Employee Benefits</u>	<u>Motor Vehicle Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 28,841	\$ 86,888	\$ 115,729
Restricted cash	8,171	-	8,171
Due from other funds	93,288	101,567	194,855
Inventories	-	33,948	33,948
Prepaid expenses	-	16,028	16,028
Capital assets - net	-	208,367	208,367
Total assets	<u>130,300</u>	<u>446,798</u>	<u>577,098</u>
Deferred outflows of resources - pension	-	8,774	8,774
Liabilities			
Accounts payable	14,648	3,357	18,005
Accrued expenses	7,125	753	7,878
Accrued interest payable	-	4,120	4,120
Net pension liability	-	24,967	24,967
Current maturities	-	83,708	83,708
Notes payable	-	290,022	290,022
Total liabilities	<u>21,773</u>	<u>406,927</u>	<u>428,700</u>
Deferred inflows of resources - pension	-	3,654	3,654
Net position			
Reserved	8,171	-	8,171
Unreserved	100,356	44,991	145,347
Total net position	<u>\$ 108,527</u>	<u>\$ 44,991</u>	<u>\$ 153,518</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2018

	Employee Benefits	Motor Vehicle Fund	Total
Operating revenues			
Charges for services	\$ 803,599	\$ 425,082	\$ 1,228,681
Other revenues	-	936	936
Total operating revenues	<u>803,599</u>	<u>426,018</u>	<u>1,229,617</u>
Operating expenses			
General administration	-	2,478	2,478
Garage maintenance	-	114,897	114,897
Operations and maintenance	-	275,294	275,294
Depreciation	-	75,409	75,409
Benefit payments:			
Payroll taxes	25,835	-	25,835
Retirement plan expense	100,493	-	100,493
Holiday pay	44,565	-	44,565
Sickpay/personal leave	17,374	-	17,374
Vacation pay	52,354	-	52,354
Workers' compensation insurance	70,127	-	70,127
Hospitalization insurance	394,847	-	394,847
Employee life insurance	494	-	494
Longevity pay	84,359	-	84,359
Other	10,884	-	10,884
Total operating expenses	<u>801,332</u>	<u>468,078</u>	<u>1,269,410</u>
Operating income (loss)	<u>2,267</u>	<u>(42,060)</u>	<u>(39,793)</u>
Non-operating revenues (expenses)			
Gain on sale of assets	-	-	-
Interest income	12	55	67
Interest expense	-	(13,448)	(13,448)
Operating transfers in (out)	(67,518)	4,416	(63,102)
Total non-operating revenues (expenses)	<u>(67,506)</u>	<u>(8,977)</u>	<u>(76,483)</u>
Net income (loss)	(65,239)	(51,037)	(116,276)
Net Position- Beginning of year	<u>173,766</u>	<u>96,028</u>	<u>269,794</u>
Net Position - End of year	<u>\$ 108,527</u>	<u>\$ 44,991</u>	<u>\$ 153,518</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOW
Year Ended June 30, 2018

	<u>Employee Benefits</u>	<u>Motor Vehicle Fund</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 803,599	\$ 427,186	\$ 1,230,785
Payments to suppliers	(797,721)	(391,731)	(1,189,452)
Payments to employees	383	(1,224)	(841)
Net cash provided by operating activities	<u>6,261</u>	<u>34,231</u>	<u>40,492</u>
Cash flows from noncapital financing activities			
Operating subsidies and transfers to other funds	<u>(54,535)</u>	<u>28,703</u>	<u>(25,832)</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	-	(15,700)	(15,700)
Principal paid on capital debt	-	(82,648)	(82,648)
Interest paid on capital debt	-	(13,448)	(13,448)
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(111,796)</u>	<u>(111,796)</u>
Cash flows from investing activities			
Interest and dividends	<u>12</u>	<u>55</u>	<u>67</u>
Net (decrease) in cash	(48,262)	(48,807)	(97,069)
Balances - beginning of the year	85,274	135,695	220,969
Balances - end of the year	<u>\$ 37,012</u>	<u>\$ 86,888</u>	<u>\$ 123,900</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 2,267	\$ (42,060)	\$ (39,793)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-	75,409	75,409
Change in assets and liabilities:	:		
Due to/from other governmental units	-	73	73
Deferred outflows and inflows	-	3,420	3,420
Inventory	-	(3,503)	(3,503)
Prepaid expenses	-	(981)	(981)
Net pension liability	-	(368)	(368)
Accounts and other payables	3,611	3,465	7,076
Accrued expenses	383	(1,224)	(841)
Net cash provided by operating activities	<u>\$ 6,261</u>	<u>\$ 34,231</u>	<u>\$ 40,492</u>

**CITY OF HANCOCK
TRANSIT FUND SUPPLEMENTAL INFORMATION
June 30, 2018**

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
Year Ended June 30, 2018

	07/01/17 through 09/30/17	10/01/17 through 06/30/18	Total
Farebox receipts - passenger fares	\$ 9,714	\$ 32,180	\$ 41,894
Charter Service	-	-	-
Contract Fares	-	-	-
State Operating Assistance*	40,477	49,283	89,760
Federal Section 5311**	11,471	32,372	43,843
Federal RTAP	-	-	-
Local Operating Assistance	-	35,000	35,000
Interest Income***	-	5	5
Total Operating Revenue****	\$ 61,662	\$ 148,840	\$ 210,502

	10/01/16 through 06/30/17	07/01/17 through 09/30/17	Total
Farebox receipts - passenger fares	\$ 32,181	\$ 9,714	\$ 41,895
Charter Service	-	-	-
Contract Fares	-	-	-
State Operating Assistance	73,422	40,477	113,899
Federal Section 5311	31,695	11,471	43,166
Federal RTAP	2,954	-	2,954
Local Operating Assistance	5,000	-	5,000
Interest Income	9	-	9
Total Operating Revenue	\$ 145,261	\$ 61,662	\$ 206,923

* State revenue is \$14,826 less than what's reported on page 23 due to the exclusion of the state portion of the transit bus grant.

** Federal revenue is \$62,884 lower than what's reported on page 23 due to the exclusion of the federal portion of the transit bus grant in the amount of \$59,305. Additionally, RTAP revenue of \$2,186 is included on the federal revenue line on page 23.

*** Interest income is lower by \$5 than what's reported on page 23 due to rounding.

**** Total operating revenue on page 23 includes \$12,285 from an insurance reimbursement that is not included in total revenue as reported above.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Year Ended June 30, 2018

	07/01/17 through 09/30/17				10/01/17 through 06/30/18				Total			
	Operations	Maint.	Gen. Admin	Total	Operations	Maint.	Gen. Admin	Total	Operations	Maint.	Gen. Admin	Total
Labor:												
Wages - operations	\$ 22,214	\$ 1,862	\$ 7,668	\$ 31,744	\$ 77,952	\$ 10,256	\$ 7,253	\$ 95,461	\$ 100,166	\$ 12,118	\$ 14,921	\$ 127,205
Other salaries and wages	-	-	-	-	-	-	-	-	-	-	-	-
Dispatchers wages	-	-	-	-	13,770	-	-	13,770	13,770	-	-	13,770
Fringe benefits	7,064	1,631	4,701	13,396	37,157	7,060	1,830	46,047	44,221	8,691	6,531	59,443
Services:												
Advertising	-	-	-	-	-	-	280	280	-	-	280	280
Audit costs	-	-	-	-	-	-	3,424	3,424	-	-	3,424	3,424
Other	-	-	-	-	-	-	3,066	3,066	-	-	3,066	3,066
Materials and supplies:												
Fuel and lubricants	5,878	-	-	5,878	16,855	-	-	16,855	22,733	-	-	22,733
Tires and tubes	-	-	-	-	2,333	-	-	2,333	2,333	-	-	2,333
Major Supplies	-	-	-	-	-	-	-	-	-	-	-	-
Other	721	1,897	283	2,901	2,553	5,730	722	9,005	3,274	7,627	1,005	11,906
Utilities	-	-	920	920	-	-	7,521	7,521	-	-	8,441	8,441
Insurance	-	-	-	-	-	3,962	-	3,962	-	3,962	-	3,962
Operating lease and rentals	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous expense:												
Travel	-	-	1,258	1,258	-	-	(324)	(324)	-	-	934	934
Dues & Subscriptions	-	-	294	294	-	-	1,049	1,049	-	-	1,343	1,343
RTAP	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
	<u>35,877</u>	<u>5,390</u>	<u>15,124</u>	<u>56,391</u>	<u>150,620</u>	<u>27,008</u>	<u>24,821</u>	<u>202,449</u>	<u>186,497</u>	<u>32,398</u>	<u>39,945</u>	<u>258,840</u>
Less:												
Ineligible expenses - pension	-	-	-	-	-	-	-	-	-	-	-	-
Ineligible expenses - RTAP	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 35,877</u>	<u>\$ 5,390</u>	<u>\$ 15,124</u>	<u>\$ 56,391</u>	<u>\$ 150,620</u>	<u>\$ 27,008</u>	<u>\$ 24,821</u>	<u>\$ 202,449</u>	<u>\$ 186,497</u>	<u>\$ 32,398</u>	<u>\$ 39,945</u>	<u>\$ 258,840</u>

Total expenses in the amount of \$258,840 are less than total operating expenses on page 23 by \$45,366 of which \$43,180 is due to depreciation expense reported on page 23 but not reported above. Of the remaining difference, \$2,186 is due to RTAP expenses reported on page 23 but not reported above and \$763 in pension expense due to change in pension liability at year-end and not reported above.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Reporting period October 1, 2016 through September 30, 2017

	10/01/16 through 06/30/17				07/01/17 through 09/30/17				Total			
	Operations	Maint.	Gen. Admin	Total	Operations	Maint.	Gen. Admin	Total	Operations	Maint.	Gen. Admin	Total
Labor:												
Wages - operations	\$ 79,039	\$ 8,461	\$ 23,858	\$ 111,358	\$ 22,214	\$ 1,862	\$ 7,668	\$ 31,744	\$ 9,815	\$ 9,815	\$ 31,526	\$ 51,156
Other salaries and wages	-	-	-	-	-	-	-	-	12,775	6,461	-	19,236
Dispatchers wages	-	-	-	-	-	-	-	-	-	-	-	-
Fringe benefits	5,137	7,546	20,424	33,107	7,064	1,631	4,701	13,396	10,971	13,903	25,125	49,999
Services:												
Advertising	-	-	270	270	-	-	-	-	-	620	270	890
Audit costs	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	496	496	-	-	-	-	3,686	332	496	4,514
Materials and supplies:												
Fuel and lubricants	14,797	-	-	14,797	5,878	-	-	5,878	-	-	-	-
Tires and tubes	1,930	-	-	1,930	-	-	-	-	-	-	-	-
Major Supplies	-	-	-	-	-	-	-	-	8,313	-	-	8,313
Other	2,418	4,926	187	7,531	721	1,897	283	2,901	-	248	470	718
Utilities	-	-	7,290	7,290	-	-	920	920	-	6,202	8,210	14,412
Insurance	-	1,833	-	1,833	-	-	-	-	-	-	-	-
Operating lease and rentals	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous expense:												
Travel	1,041	-	1,152	2,193	-	-	1,258	1,258	-	2,497	2,410	4,907
Dues & Subscriptions	-	-	350	350	-	-	294	294	-	165	644	809
RTAP	-	-	1,690	1,690	-	-	-	-	-	-	1,690	1,690
Other	-	820	-	820	-	-	-	-	57	148	-	205
Depreciation	-	-	35,169	35,169	-	-	-	-	-	-	35,169	35,169
	<u>104,362</u>	<u>23,586</u>	<u>90,886</u>	<u>218,834</u>	<u>35,877</u>	<u>5,390</u>	<u>15,124</u>	<u>56,391</u>	<u>45,617</u>	<u>40,391</u>	<u>106,010</u>	<u>192,018</u>
Less:												
Ineligible expenses - pension	-	-	669	669	-	-	-	-	-	-	669	669
Ineligible expenses - RTAP	-	-	1,690	1,690	-	-	-	-	-	-	1,690	1,690
Depreciation	-	-	35,169	35,169	-	-	-	-	-	-	35,169	35,169
	<u>\$ 104,362</u>	<u>\$ 23,586</u>	<u>\$ 54,027</u>	<u>\$ 181,306</u>	<u>\$ 35,877</u>	<u>\$ 5,390</u>	<u>\$ 15,124</u>	<u>\$ 56,391</u>	<u>\$ 45,617</u>	<u>\$ 40,391</u>	<u>\$ 69,151</u>	<u>\$ 155,159</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
Year Ended June 30, 2018

<u>NON URBAN AREAS</u>	<u>07/01/17 through 09/30/17</u>	<u>10/01/17 through 06/30/18</u>	<u>Total</u>
STATE OF MICHIGAN			
Total Eligible Expenses	\$ 56,391	\$ 202,449	<u>\$ 258,840</u>
Reimbursement Rate %	<u>39.1981 %</u>	<u>39.1981 %</u>	
Eligible operating assistance*	<u>\$ 22,104</u>	<u>\$ 79,356</u>	<u>\$ 101,460</u>
FEDERAL SECTION 5311			
Total Eligible Expenses	\$ 56,391	\$ 202,449	<u>\$ 258,840</u>
Reimbursement Rate %	<u>18.5000 %</u>	<u>18.5000 %</u>	
Eligible operating assistance	<u>\$ 10,432</u>	<u>\$ 37,453</u>	<u>\$ 47,885</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
Year Ended June 30, 2018

<u>Quarter Ending</u>	<u>Miles</u>
September 30, 2017	16,521
December 31, 2017	16,550
March 31, 2018	16,873
June 30, 2018	<u>16,152</u>
Total Miles	<u><u>66,096</u></u>

COMMUNICATIONS SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

310 Sheldon Avenue, Houghton, Michigan 49931
906.482.6601 906.482.9046 fax www.rukkilanegro.com

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, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 12, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Hancock are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018. 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 estimate affecting the City of Hancock's financial statements is current depreciation.

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 in determining that it is 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 17, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Restriction on Use

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

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

December 17, 2018

**CITY OF HANCOCK
COMMENTS AND RECOMMENDATIONS - June 30, 2018**

In planning and performing our audit of the financial statements of the City of Hancock as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

ADDITIONAL COMMENTS AND RECOMMENDATIONS

During our audit we became aware of an opportunity for strengthening internal controls and operating efficiencies. The following item summarizes our comment and suggestion regarding this matter.

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

Michigan law prohibits spending amounts in excess of appropriations (budgeted amounts). As noted in our audit report on pages 57 and 58, there were several instances of spending amounts greater than budgeted.

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