

**CITY OF HANCOCK
HOUGHTON COUNTY, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

June 30, 2015



CITY OF HANCOCK

JUNE 30, 2015

ADMINISTRATION

City Manager Glenn Anderson
Clerk/Treasurer Karen Haischer

BOARD MEMBERS

Mayor Lisa McKenzie
Ward II Kevin Hodur
Ward III John Slivon
Mayor Pro-Tem Ted Belej
At Large Joe Bauman
At Large Mary Tuisku
At Large Ron Blau

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2015, 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 pages 6 through 15 and 51 through 56 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 Township's basic financial statements. The combining and individual major fund financial statements are presented for purposes of additional analysis and not a required part of the basic financial statements.

The combining and individual major 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 major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The prior year comparative information on pages 67 and 69 has been derived from the City's 2014 audit report dated December 18, 2014 in which we expressed unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information and the related notes to the financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 28, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

December 28, 2015

**City of Hancock
Management's Discussion and Analysis
June 30, 2015**

This section of the City of Hancock's annual Financial Report presents Management's Discussion and Analysis of the City's financial activities during the fiscal year ended June 30, 2015. The analysis focuses on the City's financial performance as a whole. It is intended to be read as part of the City's financial statements, which immediately follow this section.

Financial Highlights

- The assets of the City of Hancock exceeded its liabilities at year end by \$9,225,654 (net position).
- The City of Hancock's total net position decreased by \$415,693.
- The City of Hancock had charges for services of \$1,775,426 in governmental activities and \$2,019,383 for business-type activities and \$5,225,344 and \$2,692,041 in expenses for governmental and business-type activities respectively during the year ended June 30, 2015.
- At the close of the fiscal year, the City of Hancock's governmental activities funds reported a combined ending net position balance of \$1,651,759. This is an increase of \$55,117.
- At the end of the current fiscal year, the fund balance for the general fund was \$200,782. General fund operating transfers to other funds were \$192,718 in 2015 compared to \$43,730 in the prior year, an increase of \$148,988.

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.

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, Major Street Fund, and Local Street Fund meet this requirement.

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

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

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

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

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

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

Overview of the Financial Statements - (Continued)

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

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

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

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

Summary of Net Position

	Governmental Activities		Business-type Activities	
	2015	2014	2015	2014
Assets				
Current and other assets	\$ 1,036,022	\$ 1,177,045	\$ 1,077,664	\$ 1,076,377
Capital assets - Net of accumulated depreciation	4,099,949	4,228,667	16,475,872	17,138,657
Total Assets	5,135,971	5,405,712	17,553,536	18,215,034
Deferred outflows of resources - Pension	75,347	39,321	13,013	6,790
Liabilities				
Current liabilities	143,945	236,950	93,179	87,629
Noncurrent liabilities	3,415,614	3,611,441	10,074,451	10,089,490
Total Liabilities	3,559,559	3,848,391	10,167,630	10,177,119
Net Position				
Invested in capital assets - net of related debt	1,801,943	1,709,007	6,719,872	7,174,657
Restricted for streets and highways	(23,737)	(110,064)	-	-
Restricted for CDBG	2,737	3,861	-	-
Restricted for TIFA	480	53,312	-	-
Restricted for the cemetery	180,342	178,424	-	-
Restricted for program services	42,509	42,418	-	-
Restricted for capital projects	20,279	20,236	-	-
Restricted for debt service	1,319	1,312	524,476	495,205
Unrestricted	(374,113)	(301,864)	329,547	374,843
Total Net Position	\$ 1,651,759	\$ 1,596,642	\$ 7,573,895	\$ 8,044,705

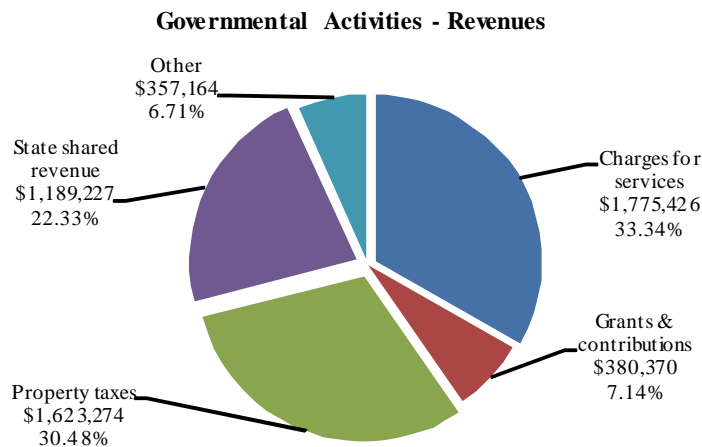
**City of Hancock
Management's Discussion and Analysis
June 30, 2015**

Results of Operations

	Governmental Activities		Business-type Activities	
	2015	2014	2015	2014
<u>Revenues</u>				
Program Revenue:				
Charges for services	\$ 1,775,426	\$ 1,842,138	\$ 2,019,383	\$ 1,997,178
Grants and contributions	-	-	128,249	139,317
Capital grants and contributions	380,370	463,076	-	71,816
General Revenue:				
Property taxes	1,623,274	1,321,861	-	-
State shared revenue	1,189,227	1,230,816	-	-
Other	357,164	282,339	3,599	4,911
Transfers	-	-	70,000	160,837
Total Revenue	5,325,461	5,140,230	2,221,231	2,374,059
<u>Functions/Program Expenses</u>				
General government	1,368,865	1,135,759	-	-
Public safety	833,688	751,525	-	-
Public works	2,002,072	2,397,009	2,692,041	2,456,988
Sanitation	286,913	287,391	-	-
Recreation and culture	220,067	161,053	-	-
Community and economic development	358,708	-	-	-
Interest on long-term debt	78,579	78,817	-	-
Other	76,452	103,356	-	-
Transfers	45,000	160,837	-	-
Total Expenses	5,270,344	5,075,747	2,692,041	2,456,988
Change in Net Position	55,117	64,483	(470,810)	(82,929)
Net Position - Beginning, as restated	1,596,642	1,532,159	8,044,705	8,127,634
Net Position - Ending	<u>\$ 1,651,759</u>	<u>\$ 1,596,642</u>	<u>\$ 7,573,895</u>	<u>\$ 8,044,705</u>

See Note M of the Notes to the Financial Statements of this report for additional information of the implementation of GASB Statement No. 68 and the corresponding restatement of the beginning net position for the governmental activities.

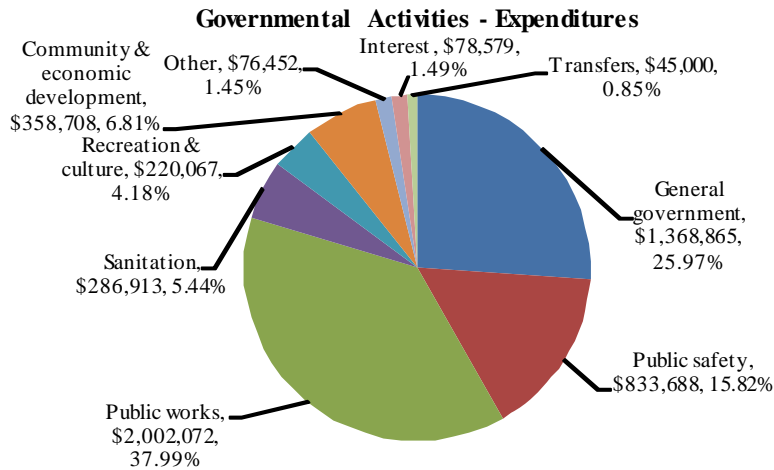
The following two charts highlight the City's governmental activities by revenues and expenses.



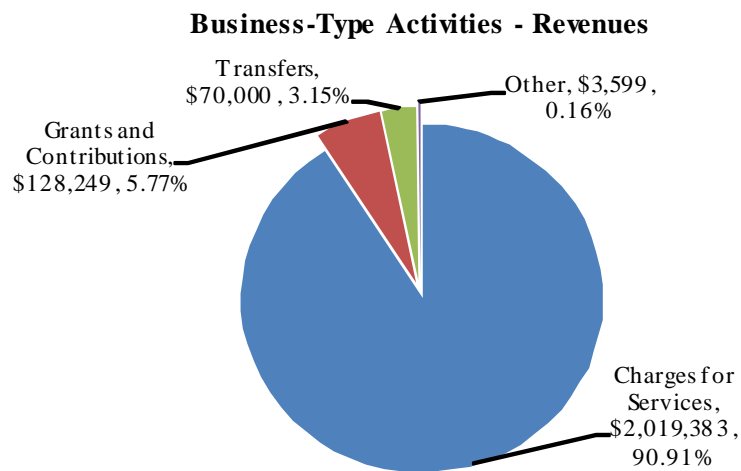
**City of Hancock
Management's Discussion and Analysis
June 30, 2015**

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

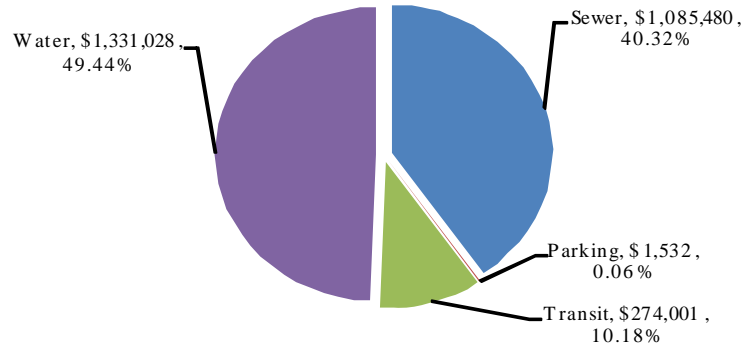
The general area expenses represent City hall activities. The major, local, and motor vehicle expenses are included in the public works area. Police and fire expenses are included in public safety.



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



Business-Type Activities - Expenditures



Significant Transactions and Changes in Individual Funds

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

GENERAL FUND	Current Year	Prior Year	Change
Revenues/Transfers	\$ 2,789,918	\$ 2,105,270	\$ 684,648
Expenditures/Transfers	\$ 2,717,031	\$ 2,041,249	\$ 675,782
Fund Balance	\$ 200,782	\$ 127,895	\$ 72,887

The General Fund saw an increase in revenues of \$684,648 and an increase in expenditures of \$675,782. The increase in revenue is mainly due to increases in taxes, state shared revenue, and contributions. The increase in expenditures is mainly due to increases in general government, public safety, public works, recreation and culture, and community and economic development.

SPECIAL REVENUE FUNDS	Current Year	Prior Year	Change
Major Street Fund:			
Revenues/Transfers	\$ 597,146	\$ 722,091	\$ (124,945)
Expenditures/Transfers	\$ 585,274	\$ 775,135	\$ (189,861)
Fund Balance (Deficit)	\$ (23,737)	\$ 17,435	\$ (41,172)
Local Street Fund:			
Revenues/Transfers	\$ 466,663	\$ 266,991	\$ 199,672
Expenditures/Transfers	\$ 392,208	\$ 341,446	\$ 50,762
Fund Balance (Deficit)	\$ -	\$ -	\$ -
CDBG Fund:			
Revenues/Transfers	\$ 97,005	\$ 590,844	\$ (493,839)
Expenditures/Transfers	\$ 98,129	\$ 590,844	\$ (492,715)
Fund Balance	\$ 2,737	\$ 3,896	\$ 35
Elevation Street TIF Fund:			
Revenues/Transfers	\$ 37,423	\$ 34,736	\$ 2,687
Expenditures/Transfers	\$ 90,255	\$ 105,385	\$ (15,130)
Fund Balance	\$ 480	\$ 142,575	\$ (142,095)

Significant Transactions and Changes in Individual Funds - (Continued)

Major Street Fund - The decrease in revenue is due to decreases in state and federal revenue. Expenditures decreased due to a decreases in general government and public works.

Local Street Fund - The increase in revenues of \$199,672 is due to a combination of an increase in state revenue, taxes, and an increase in transfers in. The increase in expenses is mainly due to the combination of an increase in construction and routine maintenance and a decrease in snow and ice control.

CDBG Fund - The CDBG fund had a decrease in revenues and expenses due to the receipt of grant funds and related expenses in the prior year. The grant was closed out in the current year resulting in less grant proceeds and related expenses.

Elevation Street - Decrease in expenditures/transfers is due to less transfers out than in prior year.

<u>ENTERPRISE FUNDS</u>	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
<u>Parking Meter Fund</u>			
Revenues/Transfers	\$ 6,464	\$ 19,065	\$ (12,601)
Expenses/Transfers	\$ 1,532	\$ 775	\$ 757
Retained Earnings	\$ 21,056	\$ 16,124	\$ 4,932
<u>Transit Fund</u>			
Revenues/Transfers	\$ 244,487	\$ 289,731	\$ (45,244)
Expenses/Transfers	\$ 274,001	\$ 279,910	\$ (5,909)
Retained Earnings	\$ 677,747	\$ 656,842	\$ 20,905
<u>Sewer Fund</u>			
Revenues/Transfers	\$ 983,398	\$ 975,131	\$ 8,267
Expenses/Transfers	\$ 1,085,480	\$ 988,356	\$ 97,124
Retained Earnings	\$ 2,813,385	\$ 2,865,541	\$ (52,156)
<u>Water Fund</u>			
Revenues/Transfers	\$ 986,882	\$ 1,090,132	\$ (103,250)
Expenses/Transfers	\$ 1,331,028	\$ 1,187,947	\$ 143,081
Retained Earnings	\$ 4,061,707	\$ 4,353,164	\$ (291,457)

Parking Meter Fund - The Parking Meter Fund showed a decrease in revenue due to a decrease in charges for services and transfers in and an increase in expenses due to higher general administration costs.

Transit Fund - The Transit Fund revenues decreased due to the combination of decreases in state and federal revenue and an increase in operating transfers in. Expenses decreased due to a combination of increases in general administration and operations and maintenance and a decrease in depreciation expense.

Sewer Fund - The Sewer Fund's revenues increased due to a combination of an increase in charges for services and a decrease in operating transfers in. Expenses increased due to a combination of increases in purchased services and operations and maintenance and decreases in general administration and interest expense.

Water Fund - The Water Fund's revenues/transfers decreased due to a decrease in charges for services and operating transfers in. Expenses increased due to a combination of increases in general administration, purchased services, and operations and maintenance and a decrease in interest expense.

**City of Hancock
Management's Discussion and Analysis
June 30, 2015**

Significant Transactions and Changes in Individual Funds - (Continued)

DEBT SERVICE (BUILDING AUTHORITY)			
	Current Year	Prior Year	Change
Revenues/Transfers	\$ 139,904	\$ 134,780	\$ 5,124
Expenditures/Transfers	\$ 139,897	\$ 134,780	\$ 5,117
Fund Balance	\$ 1,319	\$ 1,312	\$ 7
CAPITAL PROJECTS - SYLVAN ESTATES			
	Current Year	Prior Year	Change
Revenues/Transfers	\$ 43	\$ 88	\$ (45)
Expenditures/Transfers	\$ -	\$ -	\$ -
Fund Balance (deficit)	\$ 20,279	\$ 20,176	\$ 103

INTERNAL SERVICE FUNDS

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

	Current Year	Prior Year	Change
Revenues/Transfers	\$ 929,512	\$ 920,639	\$ 8,873
Expenses/Transfers	\$ 969,222	\$ 964,589	\$ 4,633
Fund Balance	\$ 39,941	\$ 79,651	\$ (39,710)

Motor Vehicle Fund - Revenue decreased due to fewer charges to other city funds. Expenses decreased due to a combination of a decrease in garage maintenance and operations and maintenance and an increase in general government administration and depreciation.

	Current Year	Prior Year	Change
Revenues/Transfers	\$ 503,902	\$ 573,809	\$ (69,907)
Expenses/Transfers	\$ 617,999	\$ 638,466	\$ (20,467)
Fund Balance	\$ 196,964	\$ 310,600	\$ (113,636)

General Fund Budgetary Highlights

During the year ended June 30, 2015, the City amended the budget at various times throughout the year. The amendments were done to cover unbudgeted expenditures. The amendments were mainly required to reconcile actual versus budgeted levels of effort required for various maintenance activities.

Public safety saw an increase in the original budget of \$21,700 due to additional expenditures in training, education, travel, and capital outlay in the police department and additional purchase of equipment in the fire department.

Recreation and culture had an increase in the original budget in the amount of \$35,214 due to the replacement of fencing at three baseball fields and the replacement of a bridge on the cross country ski trails.

Financial Analysis

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

As of the end of the current fiscal year, the City's governmental funds reported combined unrestricted fund balances of (\$374,113).

The General Fund is the main operating fund of the City. At the end of the current fiscal year, fund balance of the General Fund was \$200,782. 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 7% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$72,887 during the fiscal year.

Proprietary Funds: The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Fund equity at the end of the year amounted to \$7,573,895.

Capital Assets and Debt Administration

The City's net investment in capital assets for the governmental and business-type activities as of June 30, 2015, amounts to \$20,575,821. Capital asset additions totaling \$297,820 includes road improvements, vehicles, software, and equipment.

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

Long-term debt: At the end of the current fiscal year, the City had total debt of \$12,053,978.

Additional information on the City's long-term debt can be found starting on page 36 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
Year Ended June 30, 2015

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Cash	\$ 582,777	\$ 196,760	\$ 779,537	\$ 93,661
Restricted cash	235,041	524,476	759,517	-
Receivables	16,988	187,985	204,973	20,000
Inventories	43,909	137,952	181,861	-
Prepaid expenses	54,593	1,636	56,229	500
Due from component unit	76	-	76	-
Due from fiduciary funds	3,248	-	3,248	-
Internal balances	(21,638)	21,638	-	-
Due from other governmental units	121,028	7,217	128,245	-
Capital assets-Net	4,099,949	16,475,872	20,575,821	114,288
TOTAL ASSETS	5,135,971	17,553,536	22,689,507	228,449
DEFERRED OUTFLOWS OF RESOURCES - Pension	75,347	13,013	88,360	641
LIABILITIES:				
Accounts payable and accrued expenses	143,945	93,179	237,124	942
Due to primary government	-	-	-	76
Due to other governmental units	-	7,758	7,758	-
Bonds payable, due within one year	121,681	211,000	332,681	-
Note payable, due within one year	60,284	-	60,284	-
Bonds payable, due in more than one year	1,745,423	9,545,000	11,290,423	-
Note payable, due in more than one year	370,618	-	370,618	-
Net pension liability	785,890	135,717	921,607	6,684
Compensated absences	331,718	-	331,718	-
TOTAL LIABILITIES	3,559,559	9,992,654	13,552,213	7,702
NET POSITION:				
Net investment in capital assets	1,801,943	6,719,872	8,521,815	-
Restricted for:				
Streets and highways	(23,737)	-	(23,737)	-
CDBG	2,737	-	2,737	-
TIFA	480	-	480	-
Cemetery	180,342	-	180,342	-
Program expenses	42,509	-	42,509	-
Capital projects	20,279	-	20,279	-
Debt service	1,319	524,476	525,795	-
Unrestricted	(374,113)	329,547	(44,566)	221,388
TOTAL NET POSITION	\$ 1,651,759	\$ 7,573,895	\$ 9,225,654	\$ 221,388

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

CITY OF HANCOCK
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenues and Changes in Net Position			Component Unit (DDA)
	Expenses	Charges for Services	Grants and Contributions Operating	Capital	Governmental	Business-Type	Total	
Primary government:								
Government activities:								
General government	\$ 1,368,865	\$ 929,408	\$ -	\$ -	(439,457)	\$ -	(439,457)	\$ -
Public safety	833,688	1,589	-	15,000	(817,099)	-	(817,099)	-
Public works	2,002,072	474,553	-	6,662	(1,520,857)	-	(1,520,857)	-
Sanitation	286,913	153,870	-	-	(133,043)	-	(133,043)	-
Recreation and culture	220,067	73,105	-	-	(146,962)	-	(146,962)	-
Community and economic development	358,708	-	-	358,708	-	-	-	-
Interest on long-term debt	78,579	-	-	-	(78,579)	-	(78,579)	-
Other	76,452	142,901	-	-	66,449	-	66,449	197
Total governmental activities	5,225,344	1,775,426	-	380,370	(3,069,548)	-	3,069,548	197
Business-type activities:								
Water	1,331,028	986,056	-	-	-	(344,972)	(344,972)	-
Sewer	1,085,480	983,026	-	-	-	(102,454)	(102,454)	-
Parking Meter	1,532	6,423	-	-	-	4,891	4,891	-
Transit	274,001	43,878	128,249	-	-	(101,874)	(101,874)	-
Total business-type activities	2,692,041	2,019,383	128,249	-	-	544,409	544,409	-
Total primary government	\$ 7,917,385	\$ 3,794,809	\$ 128,249	\$ 380,370	(3,069,548)	(544,409)	(3,613,957)	-
Component Unit (DDA)	\$ 142,463	\$ -	\$ -	\$ -	-	-	-	(142,463)
General Revenues:								
Property taxes, levied for general operations					1,623,274	-	1,623,274	180,054
State shared revenue					1,189,227	-	1,189,227	-
Interest and investment earnings					3,345	651	3,996	298
Transfers					(45,000)	70,000	25,000	(25,000)
Gain on sale of assets					4,100	-	4,100	-
Other					349,719	2,948	352,667	1,194
Total general revenues, transfers, and special items					3,124,665	73,599	3,198,264	156,546
Change in Net Position					55,117	(470,810)	(415,693)	13,886
Net Position - Beginning					1,596,642	8,044,705	9,641,347	207,502
Net Position - Ending					\$ 1,651,759	\$ 7,573,895	\$ 9,225,654	\$ 221,388

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

CITY OF HANCOCK
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	Major Governmental Funds			Other	Total Governmental Funds
	General	Major Street	Local Street	Non-major	
	Fund	Fund	Fund	Funds	
ASSETS:					
Cash and cash equivalents	\$ 353,186	\$ 68,734	\$ 28,873	\$ 20,759	\$ 471,552
Restricted cash	42,509	-	-	184,398	226,907
Taxes receivable	3,263	-	-	-	3,263
Accounts receivable	13,725	-	-	-	13,725
Due from other funds	-	-	4,888	-	4,888
Due from fiduciary funds	3,248	-	-	-	3,248
Due from governmental units	51,930	47,918	21,180	-	121,028
Inventory	12,492	-	-	-	12,492
Prepaid expenses	29,269	-	-	-	29,269
TOTAL ASSETS	\$ 509,622	\$ 116,652	\$ 54,941	\$ 205,157	\$ 886,372
LIABILITIES:					
Accounts payable	\$ 37,039	\$ 3,738	\$ 345	-	\$ 41,122
Accrued expenses	31,875	2,621	1,700	-	36,196
Due to other funds	239,926	134,030	52,896	-	426,852
TOTAL LIABILITIES	308,840	140,389	54,941	-	504,170
FUND BALANCES:					
Nonspendable:					
Inventories	12,492	-	-	-	12,492
Prepays	29,269	-	-	-	29,269
Restricted:					
Streets and highways	-	(23,737)	-	-	(23,737)
CDBG	-	-	-	2,737	2,737
TIFA	-	-	-	480	480
Program projects	-	-	-	180,342	180,342
Capital projects	-	-	-	20,279	20,279
Debt service	-	-	-	1,319	1,319
Assigned:					
Main street	42,509	-	-	-	42,509
Unassigned	116,512	-	-	-	116,512
TOTAL FUND BALANCES	200,782	(23,737)	-	205,157	382,202
TOTAL LIABILITIES AND FUND BALANCES	\$ 509,622	\$ 116,652	\$ 54,941	\$ 205,157	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,782,212
Net Pension Liability	(785,890)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date.	75,347
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.	236,905
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(2,039,017)
Net position of governmental activities	<u>\$ 1,651,759</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 2015

	Major Governmental Funds			Other	Total
	General	Major Street	Local Street Fund	Non-major Governmental Funds	Governmental Funds
REVENUES:					
Taxes	\$ 1,472,049	\$ -	\$ 113,923	\$ 37,302	\$ 1,623,274
State revenue	651,676	561,060	175,199	-	1,387,935
Federal revenue	-	-	-	6,662	6,662
Charges for services	370,519	-	-	139,897	510,416
Interest	659	257	177	2,089	3,182
Contributions	175,000	-	-	-	175,000
Other revenue	120,015	220	-	90,343	210,578
TOTAL REVENUES	2,789,918	561,537	289,299	276,293	3,917,047
EXPENDITURES:					
General government	414,830	26,546	6,827	9,143	457,346
Public safety	833,688	-	-	-	833,688
Public works	273,154	558,728	385,381	88,986	1,306,249
Sanitation	286,913	-	-	-	286,913
Recreation and culture	220,067	-	-	-	220,067
Community and economic development	358,708	-	-	-	358,708
Debt service	78,579	-	-	-	78,579
Other	58,374	-	-	139,897	198,271
TOTAL EXPENDITURES	2,524,313	585,274	392,208	238,026	3,739,821
Excess (deficiency) of revenue over expenditures	265,605	(23,737)	(102,909)	38,267	177,226
OTHER FINANCING SOURCES (USES):					
Operating transfers in (out)	(192,718)	35,609	177,364	(90,255)	70,000
TOTAL OTHER FINANCING SOURCES (USES)	(192,718)	35,609	177,364	(90,255)	70,000
NET CHANGE IN FUND BALANCE	72,887	11,872	74,455	(51,988)	107,226
FUND BALANCES - BEGINNING OF YEAR	127,895	(35,609)	(74,455)	257,145	
FUND BALANCE - END OF YEAR	\$ 200,782	\$ (23,737)	\$ -	\$ 205,157	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	(45,964)
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.	129,689
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds	23,198
Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred.	40,710
Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities.	(153,346)
Change in net assets of governmental activities	<u>\$ 55,117</u>

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

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

June 30, 2015

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds		Non-major Fund			Internal Service Funds
	Sewer	Water	Transit	Parking Meter	Total	
ASSETS:						
Cash and cash equivalents	\$ 128,168	\$ 33,504	\$ 13,204	\$ 21,884	\$ 196,760	\$ 111,225
Restricted cash	208,677	315,799	-	-	524,476	8,134
Accounts receivable	92,482	95,423	-	80	187,985	-
Inventory	63,109	74,843	-	-	137,952	31,417
Due from other funds	-	70,000	-	-	70,000	470,326
Due from other governmental units	-	-	7,217	-	7,217	-
Due from component unit	-	-	-	-	-	76
Prepaid expenses	-	-	1,636	-	1,636	25,324
Capital assets-Net	4,341,101	11,427,847	706,924	-	16,475,872	317,737
TOTAL ASSETS	4,833,537	12,017,416	728,981	21,964	17,601,898	964,239
DEFERRED OUTFLOWS OF RESOURCES						
Pension	4,246	4,477	4,290	-	13,013	1,494
LIABILITIES:						
Accounts payable	-	45,274	1,887	609	47,770	29,062
Accrued expenses	5,583	34,715	4,894	217	45,409	197,370
Due to other funds	776	43,504	4,000	82	48,362	70,000
Due to other governmental units	7,758	-	-	-	7,758	-
Current maturities on long-term debt	33,000	178,000	-	-	211,000	60,284
Net pension liability	44,281	46,693	44,743	-	135,717	15,595
Bonds/note payable	1,933,000	7,612,000	-	-	9,545,000	370,618
TOTAL LIABILITIES	2,024,398	7,960,186	55,524	908	10,041,016	742,929
NET POSITION:						
Reserved	208,677	315,799	-	-	524,476	-
Unreserved	2,604,708	3,745,908	677,747	21,056	7,049,419	222,804
TOTAL NET POSITION	\$ 2,813,385	\$ 4,061,707	\$ 677,747	\$ 21,056	\$ 7,573,895	\$ 222,804

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

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN NET POSITION
Year Ended June 30, 2015

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds		Non-major Fund			Internal Service Funds
	Sewer	Water	Transit	Parking	Total	
				Meter		
OPERATING REVENUES:						
Sales and charges for services	\$ 983,026	\$ 986,056	\$ 43,878	\$ 6,423	\$ 2,019,383	\$ 1,403,961
State revenue	-	-	89,583	-	89,583	-
Federal revenue	-	-	38,666	-	38,666	-
Other revenue	-	614	2,334	-	2,948	290
TOTAL OPERATING REVENUES	983,026	986,670	174,461	6,423	2,150,580	1,404,251
OPERATING EXPENSES:						
General administration	56,010	77,198	69,991	1,532	204,731	994,074
Meter reading	11,519	11,616	-	-	23,135	-
Purchased services	603,360	299,037	-	-	902,397	-
Operations and maintenance	164,776	330,440	163,750	-	658,966	432,763
Depreciation	205,281	417,244	40,260	-	662,785	143,299
TOTAL OPERATING EXPENSES	1,040,946	1,135,535	274,001	1,532	2,452,014	1,570,136
OPERATING INCOME (LOSS)	(57,920)	(148,865)	(99,540)	4,891	(301,434)	(165,885)
NON-OPERATING REVENUES (EXPENSES):						
Gain on sale of asset	-	-	-	-	-	4,000
Interest income	372	212	26	41	651	163
Interest expense	(44,534)	(195,493)	-	-	(240,027)	(17,085)
Operating transfers in	-	-	70,000	-	70,000	25,000
TOTAL NON-OPERATING REVENUES (EXPENSES)	(44,162)	(195,281)	70,026	41	(169,376)	12,078
NET INCOME (LOSS)	(102,082)	(344,146)	(29,514)	4,932	(470,810)	(153,807)
NET POSITION BEGINNING OF YEAR	2,915,467	4,405,853	707,261	16,124	8,044,705	376,611
NET POSITION END OF YEAR	\$ 2,813,385	\$ 4,061,707	\$ 677,747	\$ 21,056	\$ 7,573,895	\$ 222,804

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

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	<u>Business Type</u>	<u>Governmental</u>	
	<u>Activities</u>	<u>Activities</u>	
	<u>Enterprise</u>	<u>Internal Service</u>	
	<u>Funds</u>	<u>Funds</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,017,015	\$ 1,405,103	\$ 3,422,118
Payments to suppliers	(1,189,007)	(330,942)	(1,519,949)
Internal activity-receipts (payments) to other funds	(80,578)	-	(80,578)
Payments to employees	(497,770)	(1,078,344)	(1,576,114)
Other receipts (payments)	131,197	290	131,487
Net cash provided (used) by operating activities	<u>380,857</u>	<u>(3,893)</u>	<u>376,964</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating subsidies and transfers to other funds	<u>94,639</u>	<u>261,053</u>	<u>355,692</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Gain (loss) on sale of asset	-	4,000	(4,000)
Purchases of capital assets	-	(60,545)	(60,545)
Principal paid on capital debt	(208,000)	(91,965)	(299,965)
Interest paid on capital debt	(240,732)	(18,182)	(258,914)
Net cash provided (used) by capital and related financing activities	<u>(448,732)</u>	<u>(166,692)</u>	<u>(615,424)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends	<u>651</u>	<u>163</u>	<u>814</u>
Net cash provided (used) by investing activities	<u>651</u>	<u>163</u>	<u>814</u>
Net increase (decrease) in cash and cash equivalents	27,415	90,631	118,046
BALANCES - BEGINNING OF THE YEAR	<u>693,821</u>	<u>28,728</u>	<u>722,549</u>
BALANCES - BEGINNING OF THE YEAR	<u>\$ 721,236</u>	<u>\$ 119,359</u>	<u>\$ 840,595</u>
Reconciliation of operating income (loss) to net cash provided (used)			
net cash provided (used) by operating activities:			
Operating income (loss)	\$ (301,434)	\$ 165,885	\$ (467,319)
Adjustments to reconcile operating income to net cash provided (used)			
by operating activities:			
Depreciation expense	662,785	143,299	806,084
Changes in assets and liabilities:			
Receivables, net	(2,368)	(1,142)	(1,226)
Deferred outflows	6,223	714	6,937
Due from other governmental units	(7,171)	-	(7,171)
Inventory	(10,211)	9,695	(516)
Prepaid expenses	(817)	(392)	(1,209)
Accounts and other payables	17,427	10,860	28,287
Accrued expenses	(112)	16,708	16,596
Due to other governmental units	6,925	-	6,925
Net cash provided (used) by operating activities	<u>\$ 380,857</u>	<u>\$ (3,893)</u>	<u>\$ 376,964</u>

CITY OF HANCOCK
FIDUCIARY FUNDS
STATEMENT OF ASSETS AND LIABILITIES
June 30, 2015

	Agency Funds		
	Agency	Payroll	Total
ASSETS:			
Cash and equivalents	\$ 3,384	\$ 24	\$ 3,408
LIABILITIES:			
Accounts payable	\$ -	\$ 24	\$ 24
Due to general fund	3,248	-	3,248
Due to other governmental units	136	-	136
TOTAL LIABILITIES	\$ 3,384	\$ 24	\$ 3,408

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Hancock (the primary government) and its component unit. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The criteria and guidelines of the Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the City. The primary criterion for inclusion is the degree of oversight responsibility over such entities by the City's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity.

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

Hancock Housing Commission

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Audited financial information of the Hancock Housing Commission as of and for the year ended December 31, 2014 is as follows:

Total assets	\$	573,323
Total liabilities	\$	158,644
Total net position	\$	414,679
Total revenues	\$	758,493
Total expenditures	\$	739,885
Net operating income	\$	18,495
Long-term debt	\$	-

Portage Lake Water and Sewage Authority

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2015 (most recent year audited) shows the following:

Total assets	\$ 14,248,495
Total liabilities	\$ 6,233,227
Total net position	\$ 8,015,267
Total revenues	\$ 2,186,208
Total expenditures	\$ 1,942,198
Long-term debt	\$ 5,963,102

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

COMPONENT UNITS

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

DISCRETELY PRESENTED COMPONENT UNITS

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

BLENDED COMPONENT UNITS

City of Hancock Building Authority

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The City does not allocate indirect costs.

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPES

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

The City reports the following proprietary funds:

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

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

The City reports the following major proprietary funds:

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

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

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.

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

Other Accounting Policies

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

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

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

Property Taxes - Property taxes on tax roll properties attach as an enforceable lien on property as of December 31, are levied annually on July 1, and are due on August 10. A one percent (1%) penalty per month is added to the tax liability for taxes not paid by August 10.

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

Fund	Purpose	Mills
General	Operating	13.4215
General	Fire	.7806

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.

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 Board of Directors. A formal resolution of the Board is required to establish, modify or rescind a fund balance commitment. The City reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

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

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

Inventory - Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund consists of expendable supplies. The individual inventory supplies are recorded as an asset when purchased.

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

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

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

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

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 city. 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, 2015, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE C - CASH

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

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units	Fiduciary Funds
Unrestricted	\$ 582,777	\$ 196,760	\$ 779,537	\$ 93,661	\$ -
Restricted Cash	235,041	524,476	759,517	-	3,408
Total	<u>\$ 817,818</u>	<u>\$ 721,236</u>	<u>\$ 1,539,054</u>	<u>\$ 93,661</u>	<u>\$ 3,408</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, 2015, \$1,018,323 of the City’s bank balance of \$1,804,479 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution’s trust department or agent, but not in the City’s name.

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

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

NOTE D - TRANSFERS AND INTERFUND BALANCES

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

Fund	Transfer Out	Fund	Transfer In
General	\$ 192,718	Major street	\$ 35,609
Elevation street	90,255	Local street	177,364
DDA	25,000	Motor Vehicle	25,000
		Transit	70,000
TOTALS	<u>\$ 307,973</u>	TOTALS	<u>\$ 307,973</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE D - TRANSFERS AND INTERFUND BALANCES (Continued)

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

The amounts of interfund receivables and payables at June 30, 2015 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Local Street	<u>\$ 4,888</u>	General	<u>\$ 4,888</u>
Employee Benefits	250,988	General	229,843
		Water	17,141
		Transit	4,000
		Parking meter	4
Subtotal	<u>250,988</u>	Subtotal	<u>250,988</u>
Motor Vehicle	219,338	General	5,195
		Major	134,030
		Local	52,896
		Sewer	776
		Water	26,363
		Parking meter	78
Subtotal	<u>219,338</u>	Subtotal	<u>219,338</u>
Water	<u>70,000</u>	Employee Benefits	<u>70,000</u>
TOTALS	<u>\$ 545,214</u>		<u>\$ 545,214</u>

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

NOTE E - RECEIVABLES

The detail of receivables at June 30, 2015 are as follows:

<u>Receivables</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Accounts	\$ 13,725	\$ 187,985	\$ 201,710
Taxes	3,263	-	3,263
Total	<u>\$ 16,988</u>	<u>\$ 187,985</u>	<u>\$ 204,973</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE F - CAPITAL ASSETS

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

	<u>Beginning</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Ending</u>
Capital assets, not being depreciated:				
Land	\$ 427,670	\$ -	\$ -	\$ 427,670
Capital assets, being depreciated:				
Buildings	2,715,738	\$ -	\$ -	2,715,738
Equipment	1,137,868	30,021	-	1,167,889
Improvements	2,795,427	169,835	-	2,965,262
Vehicles	2,618,646	97,964	-	2,716,610
Subtotal	<u>9,267,679</u>	<u>\$ 297,820</u>	<u>\$ -</u>	<u>9,565,499</u>
Accumulated Depreciation:				
Buildings	1,228,246	\$ 63,485	\$ -	1,291,731
Equipment	890,774	97,784	-	988,558
Improvements	1,224,268	153,386	-	1,377,654
Vehicles	2,123,394	111,883	-	2,235,277
Subtotal	<u>5,466,682</u>	<u>\$ 426,538</u>	<u>\$ -</u>	<u>5,893,220</u>
Net depreciable capital assets	<u>3,800,997</u>			<u>3,672,279</u>
Net capital assets	<u>\$ 4,228,667</u>			<u>\$ 4,099,949</u>

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

General Fund	\$ 164,417
DDA	22,300
Major Streets Fund	84,524
Local Streets Fund	12,000
Motor Vehicle Fund	143,297
	<u>\$ 426,538</u>

The components of property, plant, and equipment in City proprietary funds at June 30, 2015 are summarized as follows:

PARKING METER FUND		<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Capital assets, being depreciated:					
Equipment	\$ 30,893	\$ -	\$ -	\$ -	\$ 30,893
Accumulated depreciation:	30,893	\$ -	\$ -	\$ -	30,893
Net capital assets	<u>\$ -</u>				<u>\$ -</u>
TRANSIT FUND		<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Capital assets, being depreciated:					
Buildings	\$ 716,473	\$ -	\$ -	\$ -	\$ 716,473
Equipment	43,120	-	-	-	43,120
Vehicles	336,799	-	-	-	336,799
Subtotal	<u>1,096,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,096,392</u>
Accumulated depreciation:					
Buildings	\$ 58,214	17,912	\$ -	\$ -	\$ 76,126
Equipment	23,517	6,246	-	-	29,763
Vehicles	267,477	16,102	-	-	283,579
Subtotal	<u>349,208</u>	<u>\$ 40,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>389,468</u>
Net capital assets	<u>\$ 747,184</u>				<u>\$ 706,924</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE F - CAPITAL ASSETS (Continued)

SEWER DISPOSAL FUND		<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Capital assets, being depreciated:					
Buildings		\$ 754,725	\$ -	\$ -	\$ 754,725
Utility system		<u>9,181,311</u>	<u>-</u>	<u>-</u>	<u>9,181,311</u>
Subtotal		<u>9,936,036</u>	<u>\$ -</u>	<u>\$ -</u>	<u>9,936,036</u>
Accumulated depreciation:					
Buildings		\$ 707,553	18,868	\$ -	\$ 726,421
Utility system		<u>4,682,101</u>	<u>186,413</u>	<u>-</u>	<u>4,868,514</u>
Subtotal		<u>5,389,654</u>	<u>\$ 205,281</u>	<u>\$ -</u>	<u>5,594,935</u>
Net capital assets		<u>\$ 4,546,382</u>			<u>\$ 4,341,101</u>
WATER SUPPLY FUND		<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Capital assets, being depreciated:					
Buildings		\$ 1,645,692	\$ -	\$ -	\$ 1,645,692
Equipment		13,383	-	-	13,383
Land		73,500	-	-	73,500
Loan fees/lease		238,496	-	-	238,496
Utility system		<u>14,794,021</u>	<u>-</u>	<u>-</u>	<u>14,794,021</u>
Subtotal		<u>16,765,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>16,765,092</u>
Accumulated depreciation:					
Buildings		1,645,692	\$ -	-	1,645,692
Equipment		12,712	669	-	13,381
Loan fees/lease		176,175	5,190	-	181,365
Utility system		<u>3,085,422</u>	<u>411,385</u>	<u>-</u>	<u>3,496,807</u>
Subtotal		<u>4,920,001</u>	<u>\$ 417,244</u>	<u>\$ -</u>	<u>5,337,245</u>
Net capital assets		<u>\$ 11,845,091</u>			<u>\$ 11,427,847</u>

NOTE G - RESTRICTED ASSETS AND RESERVE FUND/EQUITY BALANCES

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

<u>General Fund</u>	<u>Other Funds</u>	<u>Enterprise Funds</u>
Main Street Local Pool \$ 42,509	CDBG \$ 2,737	Sewer Fund \$ 208,677
	Debt Retirement \$ 1,319	Water Fund \$ 315,799
	Employee benefits \$ 8,134	
	Cemetery \$ 180,342	

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 \$42,509 represents the balance of the commercial loan program. As of June 30, 2015, 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 \$524,476 as of June 30, 2015. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$8,134 as of June 30, 2015.

The Cemetery Perpetual Care Trust balance of \$180,342 is reserved for the perpetual care of cemetery lots.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE H - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2015, for the District's governmental funds individual major funds and non-major funds in the aggregate, are as follows:

Payables	Governmental	Enterprise	Total Primary Government
Accounts payable	\$ 70,184	\$ 47,770	\$ 117,954
Accrued expenses	82,156	45,409	127,565
Total	<u>\$ 152,340</u>	<u>\$ 93,179</u>	<u>\$ 245,519</u>

NOTE I - ACCUMULATED UNPAID VACATION AND SICK LEAVE

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

Accumulated unpaid vacation and sick leave at June 30, 2015 was \$100,465 and \$231,253 respectively.

NOTE J - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

1997 Building Authority Bonds: On August 15, 1997, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$533,800 to fund the construction of a new fire hall. The bond was issued in a single denomination of \$533,800 at an interest of 5.0% per annum with principal amounts payable August 1 and interest payable semi-annually on February 1 and August 1.

Year	Principal	Interest	Total
2015-16	\$ 20,000	\$ 16,250	\$ 36,250
2016-17	20,000	15,250	35,250
2017-18	20,000	14,250	34,250
2018-19	20,000	13,250	33,250
2019-20	25,000	12,125	37,125
2020-25	105,000	41,375	146,375
2025-29	125,000	7,375	132,375
TOTALS	<u>\$ 335,000</u>	<u>\$ 119,875</u>	<u>\$ 454,875</u>

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

Year	Principal	Interest	Total
2015-16	\$ 36,000	\$ 32,775	\$ 68,775
2016-17	38,000	31,113	69,113
2017-18	41,000	29,355	70,355
2018-19	43,000	27,479	70,479
2019-20	45,000	25,484	70,484
2020-25	269,000	93,622	362,622
2025-29	201,000	25,675	226,675
TOTALS	<u>\$ 673,000</u>	<u>\$ 265,503</u>	<u>\$ 938,503</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE J - LONG-TERM DEBT (Continued)

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 39,000	\$ 10,355	\$ 49,355
2016-17	41,000	8,640	49,640
2017-18	43,000	6,839	49,839
2018-19	45,000	4,952	49,952
2019-20	46,000	3,001	49,001
2020-21	47,000	1,008	48,008
TOTALS	\$ 261,000	\$ 34,795	\$ 295,795

2008A Building Authority Bonds: On June 18, 2008, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$500,000 to fund City Hall Renovations. As of June 30, 2015, \$490,210 of the bonds was issued at an interest rate of 4.125% per annum with principal amounts payable June 1 and interest payable semi-annually on June 1 and December 1.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 11,000	\$ 17,903	\$ 28,903
2016-17	12,000	17,449	29,449
2017-18	12,000	16,954	28,954
2018-19	13,000	16,459	29,459
2020-21	14,000	15,923	29,923
2021-26	77,000	70,661	147,661
2026-31	95,000	53,419	148,419
2031-36	116,000	32,010	148,010
2036-37	84,000	7,012	91,012
TOTALS	\$ 434,000	\$ 247,790	\$ 681,790

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 2,000	\$ 4,050	\$ 6,050
2016-17	2,000	3,960	5,960
2017-18	3,000	3,870	6,870
2018-19	3,000	3,735	6,735
2019-20	3,000	3,600	6,600
2020-25	15,000	15,975	30,975
2025-29	20,000	12,150	32,150
2029-34	24,000	7,380	31,380
2034-37	18,000	1,620	19,620
TOTALS	\$ 90,000	\$ 56,340	\$ 146,340

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE J - LONG-TERM DEBT (Continued)

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

Year	Principal	Interest	Total
2015-16	\$ 13,680	\$ 2,963	\$ 15,527
2016-17	14,227	2,416	16,643
2017-18	14,796	1,847	16,643
2018-19	15,388	1,255	16,643
2019-20	16,013	640	16,653
TOTALS	<u>\$ 74,104</u>	<u>\$ 9,121</u>	<u>\$ 83,225</u>

ENTERPRISE FUNDS

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

Year	Principal	Interest	Total
2015-16	\$ 20,000	\$ 30,214	\$ 50,214
2016-17	20,000	29,689	49,689
2017-18	21,000	29,164	50,164
2018-19	21,000	28,612	49,612
2019-20	22,000	28,061	50,061
2020-21	22,000	27,484	49,484
2021-26	121,000	128,310	249,310
2026-31	137,000	111,641	248,641
2031-36	156,000	92,689	248,689
2036-41	180,000	71,006	251,006
2041-46	205,000	46,069	251,069
2046-51	226,000	17,928	243,928
TOTALS	<u>\$ 1,151,000</u>	<u>\$ 640,867</u>	<u>\$ 1,791,867</u>

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE J - LONG-TERM DEBT (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 63,000	\$ 83,339	\$ 146,339
2016-17	64,000	81,843	145,843
2017-18	66,000	80,323	146,323
2018-19	67,000	78,755	145,755
2019-20	69,000	77,164	146,164
2020-21	71,000	75,525	146,525
2021-26	378,000	351,643	729,643
2026-31	425,000	304,594	729,594
2031-36	478,000	251,679	729,679
2036-41	539,000	192,066	731,066
2041-46	605,000	125,044	730,044
2046-51	684,000	49,634	733,634
TOTALS	\$ 3,509,000	\$ 1,751,609	\$ 5,260,609

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 33,000	\$ 51,175	\$ 84,175
2016-17	34,000	50,295	84,295
2017-18	35,000	49,389	84,389
2018-19	36,000	48,458	84,458
2019-20	37,000	47,500	84,500
2020-21	38,000	46,515	84,515
2021-26	205,000	216,890	421,890
2026-31	234,000	188,132	422,132
2031-36	267,000	155,282	422,282
2036-41	304,000	117,864	421,864
2041-46	346,000	75,287	421,287
2046-51	397,000	26,685	423,685
TOTALS	\$ 1,966,000	\$ 1,073,472	\$ 3,039,472

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE J - LONG-TERM DEBT (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 95,000	\$ 78,250	\$ 173,250
2016-17	100,000	75,875	175,875
2017-18	100,000	73,375	173,375
2018-19	105,000	70,875	175,875
2019-20	105,000	68,250	173,250
2020-21	110,000	65,625	175,625
2021-26	590,000	285,750	875,750
2026-31	665,000	208,250	873,250
2031-36	760,000	120,375	880,375
2036-43	500,000	25,125	525,125
TOTALS	\$ 3,130,000	\$ 1,071,750	\$ 4,201,750

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>
2013 Caterpillar Loader	1/21/14	\$ 160,000	1/21/19	2.24%	\$ 129,402	\$ 31,284
2011 Snow Blower	3/2/10	\$ 91,000	2/1/19	4.00%	\$ 50,000	\$ 9,000
2011 Sander	4/20/11	\$ 187,000	10/1/26	4.125%	\$ 105,000	\$ 7,500
2011 Grader	4/20/11	\$ 130,000	4/1/26	4.00%	\$ 146,500	\$ 11,500

As of June 30, 2015, the aggregate maturities of loans payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 59,284	\$ 15,090	\$ 74,374
2016-17	61,484	13,260	74,744
2017-18	62,701	11,354	74,055
2018-19	63,933	9,411	73,344
2019-20	73,000	6,992	79,992
2020-21	94,500	6,141	100,641
2021-26	16,000	16,153	32,153
TOTALS	\$ 430,902	\$ 78,401	\$ 509,303

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE J - LONG-TERM DEBT (Continued)

Long-term debt liabilities for governmental activities, are reported in and liquidated through the General and Employee Benefit funds for the fiscal year ended June 30, 2015, was as follows:

	Balance 7/1/14	Additions	Retired	Balance 6/30/15	Current Maturities
GOVERNMENTAL ACTIVITIES					
USDA Building Authority Bonds	\$ 355,000	\$ -	\$ 20,000	\$ 335,000	\$ 20,000
USDA Building Authority Bonds	707,000	-	34,000	673,000	36,000
USDA Community Facilities Loan	298,000	-	37,000	261,000	39,000
Superior National Bank - Land	87,240	-	13,136	74,104	13,681
Superior National Bank - Vehicle	12,553	-	12,553	-	-
2008A Building Authority Bonds	445,000	-	11,000	434,000	11,000
2008B Building Authority Bonds	92,000	-	2,000	90,000	2,000
	<u>1,996,793</u>	<u>-</u>	<u>129,689</u>	<u>1,867,104</u>	<u>121,681</u>
ENTERPRISE FUNDS					
2011A Water Supply System Bonds	1,170,000	-	19,000	1,151,000	20,000
2011B Water Supply System Bonds	3,570,000	-	61,000	3,509,000	63,000
2010 Sanitary Sewage Disposal Bonds	1,999,000	-	33,000	1,966,000	33,000
2008 Water Supply System Bond	3,225,000	-	95,000	3,130,000	95,000
	<u>9,964,000</u>	<u>-</u>	<u>208,000</u>	<u>9,756,000</u>	<u>211,000</u>
INTERNAL SERVICE FUND					
Installment Loans	522,867	-	91,965	430,902	60,284
TOTALS	<u>\$ 12,483,660</u>	<u>\$ -</u>	<u>\$ 429,654</u>	<u>\$ 12,054,006</u>	<u>\$ 392,965</u>
Accrued compensated absences	<u>\$ 365,115</u>	<u>\$ -</u>	<u>\$ 33,397</u>	<u>\$ 331,718</u>	

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

GOVERNMENTAL ACTIVITIES

Year	Principal	Interest	Total
2015-16	\$ 121,680	\$ 84,296	\$ 205,976
2016-17	127,227	78,828	206,055
2017-18	133,796	73,115	206,911
2018-19	139,388	67,130	206,518
2019-20	149,013	60,773	209,786
2020-25	513,000	222,641	735,641
2025-30	441,000	98,619	539,619
2030-35	140,000	39,390	179,390
2035-39	102,000	8,632	110,632
TOTALS	<u>\$ 1,867,104</u>	<u>\$ 733,424</u>	<u>\$ 2,600,528</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE J - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 59,284	\$ 15,090	\$ 74,374
2016-17	61,484	13,260	74,744
2017-18	62,701	11,354	74,055
2018-19	63,933	9,411	73,344
2019-20	73,000	6,992	79,992
2020-21	94,500	6,141	100,641
2021-26	16,000	16,153	32,153
TOTALS	\$ 430,902	\$ 78,401	\$ 509,303

ENTERPRISE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-16	\$ 211,000	\$ 242,978	\$ 453,978
2016-17	218,000	237,702	455,702
2017-18	222,000	232,251	454,251
2018-19	229,000	226,700	455,700
2019-20	233,000	220,975	453,975
2020-25	241,000	215,149	456,149
2025-30	1,294,000	982,593	2,276,593
2030-35	1,461,000	812,617	2,273,617
2035-40	1,661,000	620,025	2,281,025
2036-41	1,523,000	406,061	1,929,061
2041-46	1,156,000	246,400	1,402,400
2046-51	1,307,000	94,247	1,401,247
TOTALS	\$ 9,756,000	\$ 4,537,698	\$ 14,293,698

NOTE K - 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 there are no member contributions to the plan.

Employees covered by benefit terms - At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>11</u>
Total employees covered by MERS	<u><u>15</u></u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE K - PENSION PLAN (Continued)

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 12.65% based on annual payroll for open divisions.

Net Pension Liability - The City's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability 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 12/31/13	\$ 2,912,324	\$ 2,053,989	\$ 858,335
Service cost	51,865	-	51,865
Interest on total pension liability	240,815	-	240,815
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	95,266	(95,266)
Employee Contributions	-	-	-
Net investment income	-	132,353	(132,353)
Benefit payments, including employee refunds	(38,562)	(38,562)	-
Administrative expense	-	(4,894)	4,894
Other changes	1	-	1
Net changes	254,119	184,163	69,956
Balances as of 12/31/14	<u>\$ 3,166,443</u>	<u>\$ 2,238,152</u>	<u>\$ 928,291</u>

Actuarial assumptions - The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%	
Salary increases	4.5%	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	10.0%	Gross of pension plan investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008.

NOTE K - PENSION PLAN (Continued)

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, 2014, the measurement date, for each major asset class summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity	57.5%	5.0%
Global Fixed Income	20.0%	2.2%
Real Assets	12.5%	4.2%
Diversifying Strategies	10.0%	6.6%

Discount rate - The discount rate used to measure the total pension liability is 8.25% for 2014 and will be 8% in 2015 and thereafter. 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 8.25%, as well as what the City's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	<u>1% Decrease 7.25%</u>	<u>Current Discount Rate 8.25%</u>	<u>1% Increase 9.25%</u>
Net pension liability of the City	\$ 1,315,034	\$ 928,291	\$ 600,002

NOTE L - 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, 2015 the City recognized pension expense of \$125,983. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
Excess (deficit) investment returns	39,238	-
Contributions subsequent to the measurement date	49,763	-
Total	<u>\$ 89,001</u>	<u>\$ -</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, 2015.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE L - PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)

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>
2015	\$ 7,847
2016	7,847
2017	7,847
2018	7,847
2019	<u>7,850</u>
Thereafter	<u>\$ 39,238</u>

NOTE M - CHANGE IN ACCOUNTING PRINCIPLE

The net position of the governmental and enterprise activities were restated to reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 changed how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide. GASB Statement No. 71 addressed the issue of contributions made to the defined benefit pension plan after the measurement date for the year in which GASB Statement No. 68 is implemented.

The total amount of the adjustment was \$811,891 as follows:

	<u>ENTERPRISE FUNDS</u>			
	<u>Governmental Activities</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit Fund</u>
Net Position - June 30, 2014 - as previously reported	\$ 1,973,387	\$ 2,954,196	\$ 4,446,691	\$ 746,394
Adjustment for implementation of GASB Statement No. 68	(673,705)	(38,729)	(40,838)	(39,133)
Net Position - June 30, 2014 - As restated	<u>\$ 1,299,682</u>	<u>\$ 2,915,467</u>	<u>\$ 4,405,853</u>	<u>\$ 707,261</u>

	<u>Internal Service Fund</u>	<u>Component Unit DDA</u>
	Net Position - June 30, 2014 - as previously reported	\$ 310,600
Adjustment for implementation of GASB Statement No. 68	(13,640)	(5,846)
Net Position - June 30, 2014 - As restated	<u>\$ 296,960</u>	<u>\$ 207,502</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE N - ENTERPRISE FUNDS

SEGMENT INFORMATION - The City maintains four Enterprise Funds which provide water, sewer, parking, and transit services. Segment information for the year ended June 30, 2015 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Transit</u>	<u>Parking Meter</u>
Operating revenues	\$ 983,026	\$ 986,670	\$ 174,461	\$ 6,423
Depreciation	\$ 205,281	\$ 417,244	\$ 40,260	\$ -
Income (loss) from operations	\$ (57,920)	\$ (148,865)	\$ (99,540)	\$ 4,891
Non-operating revenues	\$ 372	\$ 212	\$ 70,026	\$ 41
Non-operating expenses	\$ (44,534)	\$ (195,493)	\$ -	\$ -
Net Income (loss)	\$ (102,082)	\$ (344,146)	\$ (29,514)	\$ 4,932
Property, plant & equipment				
Additions	\$ -	\$ -	\$ -	\$ -
Total assets	\$ 4,833,537	\$ 12,017,416	\$ 728,981	\$ 21,964
Net working capital surplus (deficit)	\$ 445,319	\$ 288,076	\$ 11,276	\$ 21,056
Long-term liabilities:				
Payable from operating revenues	\$ 1,977,281	\$ 7,658,693	\$ 44,743	\$ -
Net investment in capital assets	\$ 4,341,101	\$ 11,427,847	\$ 706,924	\$ -
Reserved net position	\$ 208,677	\$ 315,799	\$ -	\$ -
Unrestricted net position	\$ 2,604,708	\$ 3,745,908	\$ 677,747	\$ 21,056
Total net position	\$ 2,813,385	\$ 4,061,707	\$ 677,747	\$ 21,056
Net cash provided (used) by:				
Operating activities	\$ 157,630	\$ 272,660	\$ (55,135)	\$ 5,702
Noncapital financing activities	\$ 331	\$ 35,305	\$ 58,921	\$ 82
Capital & related financing activities	\$ (77,606)	\$ (371,126)	\$ -	\$ -
Investing activities	\$ 372	\$ 212	\$ 26	\$ 41
Beginning cash	\$ 256,118	\$ 412,252	\$ 9,392	\$ 16,059
Ending cash	\$ 336,845	\$ 349,303	\$ 13,204	\$ 21,884

NOTE N - RESERVES AND RESTRICTED ASSETS

Water Fund

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

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

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

Repair and Replacement Account - Quarterly transfers are to be made in the sum of not less than \$7,425.50, with the annual requirement equal to \$29,702. Until the balance in the Bond Reserve Account reaches \$140,933, the quarterly transfer will be \$2,503.

NOTE N - RESERVES AND RESTRICTED ASSETS (Continued)

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, 2015, the City had established these accounts and had restricted cash, as required, as follows:

	<u>Required</u>	<u>Amount Funded</u>
<u>Water Fund</u>		
Bond Reserve	\$ 78,760	\$ 140,933
Repair and Replacement	40,048	116,905
Junior lien bond and interest redemption	<u>48,388</u>	<u>49,459</u>
	<u>\$ 167,196</u>	<u>\$ 307,297</u>
<u>Sewer Fund</u>		
Bond Reserve Account	\$ 36,312	\$ 52,295
Repair and Replacement Account	41,576	71,595
Bond and Interest Redemption Account 2008	<u>20,935</u>	<u>84,787</u>
	<u>\$ 98,823</u>	<u>\$ 208,677</u>

NOTE O - TRANSIT FUND

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

The following are required Michigan Department of Transportation disclosures:

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

The Department of Transportation required schedules are located on pages 67 through 71.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE P - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2015, the Downtown Development District (DDD), the Elevation Street City(ESD), and the MTEPS (Smart Zone) City. The taxes on the DDD and the ESD Citys are levied based on the increase of the state equalized value of the properties from the base year to the current year and are levied on both real and personal property. The DDD expanded the base year in 1993 from the 1984 initial base year. The tax revenues generated from the DDD and the ESD are recorded in the Downtown Development Authority Fund and Elevation Street TIFA Fund respectively.

On April 11, 2001, The Michigan Economic Development Corporation approved the application for a Smart Park that was submitted by the Michigan Tech Enterprise Smart Zone (MTEPS). The MTEPS is a partnership between Michigan Technological University, the City of Hancock and the City of Houghton. The MTEPS was funded for the first 2 years by a state grant. Thereafter, it is funded through a tax increment financing City which includes the entire Cities of Hancock and Houghton. The tax is levied annually with the school millage only and will continue until the year 2017. The Smart Zone TIF plan will not affect either City’s current tax revenue. The tax revenue levied for the summer 2013 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2015, via the Local Development Finance Authority – the financing entity. Summary of TIF City data as of June 30, 2015:

	<u>Downtown Development</u>	<u>TIF District Local Street (Elevation)</u>	<u>MTEPS</u>
Base year	1984	1993	1999
State Equalized Value (SEV) base year			
Real property	\$ 9,792,200	\$ 143,000	\$ 48,229,352
Personal property	\$ 1,662,280	\$ -	\$ 2,911,983
Current year SEV			
Real property	\$ 17,180,522	\$ 1,551,151	\$ 100,516,271
Personal property	\$ 1,373,144	\$ 301,609	\$ 87,966,030
Increase (Decrease) of taxable value			
Real	\$ 7,388,322	\$ 1,408,151	\$ 52,286,919
Personal property	\$ (289,136)	\$ 301,609	\$ 5,882,593
Authorized tax mills levied-Homestead	20.5021	23.05	3.00
Non-homestead	-	-	12.0
Tax revenue collected	\$ 180,054	\$ 37,302	\$ 512,288

NOTE Q - DEFICIT FUND BALANCE

The financial statements for the Major Street Fund had a fund deficit at June 30, 2015 of \$23,737.

NOTE R - RELATED PARTY TRANSACTIONS

The Portage Lake Water and Sewage Authority is a jointly governed organization consisting of five members, of which two are appointed by the respective City Councils of Houghton and Hancock, and the fifth member appointed by the other four members. The entity is not a component unit of the City. Further financial information is detailed in Note A of these financial statements. As of June 30, 2015, The City owed Portage Lake Water and Sewage Authority \$7,758, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due to other governmental units.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015

NOTE S - RISK MANAGEMENT

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

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

Management estimates that the amount of actual or potential claims against the City as of June 30, 2015 will not materially affect the financial condition of the City. Therefore, the financial statements contain no provision for estimated claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE T - SUBSEQUENT EVENTS

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

On July 15, 2015 the City signed a grant agreement with the Michigan Strategic Fund in the amount of \$176,390 for the Vollwerth's job expansion project.

On October 7, 2015 the City finalized the refinancing of the 1997 and 1998 Building Authority Bonds and the U.S. Department of Agriculture Communities Facilities Loan for an expected savings of \$84,322. During the fiscal year ending June 30, 2016 principal payments totaling \$70,000 are expected to be paid on the new bonds.

A portion of the proceeds were used to pay certain costs of issuance relating to the refunding of the prior debt. Source and uses of funds to service the old debt and complete the refunding were as follows:

<u>Sources of funds:</u>	
Par amount of bonds	\$ 1,240,000
Reoffering Premium	32,062
Total sources	<u>\$ 1,272,062</u>
 <u>Uses of Funds:</u>	
Purchased with bond proceeds	\$ 1,213,435
Underwriter's Discount	20,795
Insurance	4,316
Bond Counsel Fee	19,500
Rating Fee	9,500
Issuance Costs	4,516
Total uses	<u>\$ 1,272,062</u>

CITY OF HANCOCK
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2013

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
REVENUES:				
Local sources	\$ 2,091,283	\$ 2,138,300	\$ 2,138,242	\$ (58)
State and federal sources	503,658	504,407	651,676	147,269
TOTAL REVENUE	2,594,941	2,642,707	2,789,918	147,211
EXPENDITURES:				
General government				
Board/Legislative	10,231	12,701	17,668	(4,967)
Manager	83,364	88,384	87,787	597
Clerk	50,125	52,569	68,120	(15,551)
Treasurer	50,235	50,909	54,628	(3,719)
Legal, accounting, and audit	89,577	89,577	40,536	49,041
Assessor	44,856	46,619	26,312	20,307
Planning and professional services	2,730	6,100	4,224	1,876
Elections	5,971	14,405	17,733	(3,328)
Building and grounds	58,757	58,807	59,876	(1,069)
Cemetery	37,761	39,666	37,946	1,720
Public safety	809,678	831,378	833,688	(2,310)
Public works	299,259	299,259	273,154	26,105
Sanitation	311,589	312,275	286,913	25,362
Recreation and culture	151,056	186,270	220,067	(33,797)
Community and economic development	-	-	358,708	(358,708)
Debt service	82,151	82,150	78,579	3,571
Other	55,547	61,265	58,374	2,891
TOTAL EXPENDITURES	2,142,887	2,232,334	2,524,313	(291,979)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	452,054	410,373	265,605	(144,768)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(239,163)	(356,994)	(192,718)	164,276
	(239,163)	(356,994)	(192,718)	164,276
NET CHANGE IN FUND BALANCE	\$ 212,891	\$ 53,379	72,887	\$ 19,508
FUND BALANCE - BEGINNING OF YEAR			127,895	
FUND BALANCE - END OF YEAR			\$ 200,782	

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
REVENUES:				
State	\$ 458,325	\$ 459,325	\$ 561,060	\$ 101,735
Federal	-	-	-	-
Interest	1,155	1,155	257	(898)
Other revenue	-	-	220	220
TOTAL REVENUE	459,480	460,480	561,537	101,057
EXPENDITURES:				
General government administration	18,189	19,589	26,546	(6,957)
Highway and streets:				
Construction	40,560	40,561	35,194	5,367
State trunkline maintenance	200,244	215,488	291,395	(75,907)
Routine maintenance	41,949	54,849	55,299	(450)
Traffic services	2,501	7,800	6,596	1,204
Snow and ice control	147,002	147,002	169,056	(22,054)
Sweeping and flushing	1,368	1,458	1,188	270
TOTAL EXPENDITURES	451,813	486,747	585,274	(98,527)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,667	(26,267)	(23,737)	2,530
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	35,609	35,609	-
NET CHANGE IN FUND BALANCE	\$ 7,667	\$ 9,342	11,872	\$ 2,530
FUND BALANCE - BEGINNING OF YEAR			(35,609)	
FUND BALANCE - END OF YEAR			<u>\$ (23,737)</u>	

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources	\$ 93,450	\$ 93,450	\$ 113,923	\$ 20,473
State and federal	148,050	148,050	175,199	27,149
Interest	210	210	177	(33)
TOTAL REVENUE	241,710	241,710	289,299	47,589
EXPENDITURES:				
General government administration	7,052	7,052	6,827	225
Highway and streets:				
Construction	73,637	73,637	140,495	(66,858)
Routine maintenance	65,346	76,146	76,955	(809)
Traffic services	2,380	2,380	2,340	40
Snow and ice control	225,076	225,076	163,281	61,795
Sweeping and flushing	736	2,050	2,310	(260)
TOTAL EXPENDITURES	374,227	386,341	392,208	(5,867)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(132,517)	(144,631)	(102,909)	41,722
OTHER FINANCING SOURCES (USES)				
Operating transfers in	150,000	232,221	177,364	(54,857)
NET CHANGE IN FUND BALANCE	\$ 17,483	\$ 87,590	74,455	\$ (13,135)
FUND BALANCE - BEGINNING OF YEAR			(74,455)	
FUND BALANCE - END OF YEAR			<u>\$ -</u>	

CITY OF HANCOCK
SCHEDULE OF CHANGES IN THE CITY NET
PENSION LIABILITY AND RATIOS
For the Year Ended June 30, 2015

	2014
Total Pension Liability	
Service cost	\$ 51,865
Interest	240,815
Benefit payments, including refunds	(38,562)
Other changes	1
Net change in total pension liability	254,119
Total pension liability - beginning of year	2,912,324
Total pension liability - end of year	\$ 3,166,443
Plan fiduciary net position	
Contributions - Employer	\$ 95,266
Net investment income	132,353
Administrative expenses	(4,894)
Benefit payments, including refunds	(38,562)
Net change in plan fiduciary net position	184,163
Plan fiduciary net position - beginning of year	2,053,989
Plan fiduciary net position - end of year	\$ 2,238,152
City's net pension liability - ending	\$ 928,291
Plan fiduciary net position as a percent of total pension	70.68%
Covered employee payroll	562,531
City's net pension liability as a percent of covered employee	165.02%

CITY OF HANCOCK
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2015

	<u>2014</u>
Actuarial determined contributions	\$ 95,267
Contributions in relation to the actuarially determined contributions	<u>95,267</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered-employee payroll	\$ 562,531
Contributions as a percentage of covered-employee	17%

CITY OF HANCOCK
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-JUNE 30, 2015

NOTE A - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATE

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary increases	4.5%
Investment rate of return	8.0%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

CITY OF HANCOCK
SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2015

CITY OF HANCOCK
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

	<u>Special Revenue Fund</u>		<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Fund</u>	
	<u>Elevation</u>	<u>Building</u>	<u>Building</u>	<u>Sylvan</u>	<u>Cemetery</u>	
	<u>CDBG</u>	<u>Street TIF</u>	<u>Authority</u>	<u>Estates</u>	<u>Perpetual Care</u>	<u>Total</u>
ASSETS:						
Cash	\$ -	\$ 480	\$ -	\$ 20,279	\$ -	20,759
Restricted cash	2,737	-	1,319	-	180,342	184,398
Total assets	\$ 2,737	\$ 480	\$ 1,319	\$ 20,279	\$ 180,342	\$ 205,157
LIABILITIES:						
FUND EQUITY:						
Restricted	2,737	480	1,319	20,279	180,342	205,157
TOTAL FUND EQUITY	2,737	480	1,319	20,279	180,342	205,157
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,737	\$ 480	\$ 1,319	\$ 20,279	\$ 180,342	\$ 205,157

CITY OF HANCOCK
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2015

	Special Revenue Fund		Debt Service	Capital Project	Permanent Fund	Totals
	CDBG	Elevation Street TIF	Building Authority	Sylvan Estates	Cemetery Perpetual Care	
REVENUES:						
Current taxes	\$ -	\$ 37,302	\$ -	\$ -	\$ -	\$ 37,302
Federal	6,662	-	-	-	-	6,662
Charges for services	-	-	139,897	-	-	139,897
Interest	-	121	7	43	1,918	2,089
Other revenue	90,343	-	-	-	-	90,343
Total revenues	97,005	37,423	139,904	43	1,918	276,293
EXPENDITURES:						
General government administration	9,143	-	-	-	-	9,143
Public works	88,986	-	-	-	-	88,986
Highway and streets:						
Other	-	-	139,897	-	-	139,897
Total expenditures	98,129	-	139,897	-	-	238,026
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(1,124)	37,423	7	43	1,918	38,267
OTHER FINANCING SOURCES (USES):						
Operating transfers in (out)	-	(90,255)	-	-	-	(90,255)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,124)	(52,832)	7	43	1,918	(51,988)
FUND BALANCE, BEGINNING OF YEAR	3,861	53,312	1,312	20,236	178,424	257,145
FUND BALANCE, END OF YEAR	\$ 2,737	\$ 480	\$ 1,319	\$ 20,279	\$ 180,342	\$ 205,157

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2015

	Sewer Fund	Water Fund	Transit	Parking Meter	Total
ASSETS:					
Cash and cash equivalents	\$ 128,168	\$ 33,504	\$ 13,204	\$ 21,884	\$ 196,760
Restricted cash	208,677	315,799	-	-	524,476
Accounts receivable	92,482	95,423	-	80	187,985
Due from other funds	-	70,000	-	-	70,000
Due from other government	-	-	7,217	-	7,217
Inventory	63,109	74,843	-	-	137,952
Prepaid expenses	-	-	1,636	-	1,636
Capital assets - net	4,341,101	11,427,847	706,924	-	16,475,872
TOTAL ASSETS	4,833,537	12,017,416	728,981	21,964	17,601,898
DEFERRED OUTFLOWS OF RESOURCES					
Pension	4,246	4,477	4,290	-	13,013
LIABILITIES:					
Accounts payable	-	45,274	1,887	609	47,770
Accrued expenses	5,583	34,715	4,894	217	45,409
Due to other funds	776	43,504	4,000	82	48,362
Due to other governmental units	7,758	-	-	-	7,758
Current maturities on long term debt	33,000	178,000	-	-	211,000
Net pension liability	44,281	46,693	44,743	-	135,717
Bonds payable	1,933,000	7,612,000	-	-	9,545,000
TOTAL LIABILITIES	2,024,398	7,960,186	55,524	908	10,041,016
NET POSITION:					
Reserved	208,677	315,799	-	-	524,476
Unreserved	2,604,708	3,745,908	677,747	21,056	7,049,419
TOTAL NET POSITION	\$ 2,813,385	\$ 4,061,707	\$ 677,747	\$ 21,056	\$ 7,573,895

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2015

	Sewer	Water	Transit	Parking Meter	Total
OPERATING REVENUES:					
Sales and charges for services	\$ 983,026	\$ 986,056	\$ 43,878	\$ 6,423	\$ 2,019,383
State revenue	-	-	89,583	-	89,583
Federal revenue	-	-	38,666	-	38,666
Other revenue	-	614	2,334	-	2,948
TOTAL OPERATING REVENUES	983,026	986,670	174,461	6,423	2,150,580
OPERATING EXPENSES:					
General administration	56,010	77,198	69,991	1,532	204,731
Meter reading	11,519	11,616	-	-	23,135
Purchased services	603,360	299,037	-	-	902,397
Operations and maintenance	164,776	330,440	163,750	-	658,966
Depreciation	205,281	417,244	40,260	-	662,785
TOTAL OPERATING EXPENSES	1,040,946	1,135,535	274,001	1,532	2,452,014
OPERATING INCOME (LOSS)	(57,920)	(148,865)	(99,540)	4,891	(301,434)
NON-OPERATING REVENUES (EXPENSES):					
Interest income	372	212	26	41	651
Interest expense	(44,534)	(195,493)	-	-	(240,027)
Operating transfers in	-	-	70,000	-	70,000
TOTAL NON-OPERATING REVENUES (EXPENSES)	(44,162)	(195,281)	70,026	41	(169,376)
NET INCOME (LOSS)	(102,082)	(344,146)	(29,514)	4,932	(470,810)
NET POSITION BEGINNING OF YEAR	2,915,467	4,405,853	707,261	16,124	8,044,705
NET POSITION END OF YEAR	\$ 2,813,385	\$ 4,061,707	\$ 677,747	\$ 21,056	\$ 7,573,895

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	Sewer	Water	Transit	Parking Meter	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 975,975	\$ 980,999	\$ 53,618	\$ 6,423	\$ 2,017,015
Payments to suppliers	(662,592)	(450,513)	(75,757)	(145)	(1,189,007)
Internal activity-receipts (payments) to other funds	(25,359)	(55,102)	(39)	(78)	(80,578)
Payments to employees	(130,394)	(203,338)	(163,540)	(498)	(497,770)
Other receipts (payments)	-	614	130,583	-	131,197
Net cash provided by operating activities	<u>157,630</u>	<u>272,660</u>	<u>(55,135)</u>	<u>5,702</u>	<u>380,857</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies and transfers to other funds	<u>331</u>	<u>35,305</u>	<u>58,921</u>	<u>82</u>	<u>94,639</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on capital debt	(33,000)	(175,000)	-	-	(208,000)
Interest paid on capital debt	(44,606)	(196,126)	-	-	(240,732)
Net cash (used) by capital and related financing activities	<u>(77,606)</u>	<u>(371,126)</u>	<u>-</u>	<u>-</u>	<u>(448,732)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	<u>372</u>	<u>212</u>	<u>26</u>	<u>41</u>	<u>651</u>
Net cash provided by investing activities	<u>372</u>	<u>212</u>	<u>26</u>	<u>41</u>	<u>651</u>
Net (decrease) in cash and cash equivalents	80,727	(62,949)	3,812	5,825	27,415
BALANCES - BEGINNING OF THE YEAR	<u>256,118</u>	<u>412,252</u>	<u>9,392</u>	<u>16,059</u>	<u>693,821</u>
BALANCES - END OF THE YEAR	<u>\$ 336,845</u>	<u>\$ 349,303</u>	<u>\$ 13,204</u>	<u>\$ 21,884</u>	<u>\$ 721,236</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (57,920)	\$ (148,865)	\$ (99,540)	\$ 4,891	\$ (301,434)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	205,281	417,244	40,260	-	662,785
Changes in assets and liabilities:					
Receivables, net	(7,051)	(5,057)	9,740	-	(2,368)
Deferred outflows	2,031	2,141	2,051	-	6,223
Due from other governmental units	-	46	(7,217)	-	(7,171)
Inventory	12,002	(1,791)	-	-	10,211
Prepaid expenses	-	650	167	-	817
Accounts and other payables	958	13,222	2,638	609	17,427
Accrued expenses	(534)	(648)	868	202	(112)
Due to other governmental units	6,925	-	-	-	6,925
Net cash provided by operating activities	<u>\$ 157,630</u>	<u>\$ 272,660</u>	<u>\$ (55,135)</u>	<u>\$ 5,702</u>	<u>\$ 380,857</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING NET POSITION

June 30, 2015

	Employee Benefit	Motor Vehicle	Total
ASSETS:			
Cash and cash equivalents	\$ 43,985	\$ 67,240	\$ 111,225
Restricted cash	8,134	-	8,134
Due from other funds	250,988	219,338	470,326
Due from component unit	-	76	76
Inventory	-	31,417	31,417
Prepaid expenses	8,410	16,914	25,324
Capital assets-net	-	317,737	317,737
Total assets:	311,517	652,722	964,239
DEFERRED OUTFLOW OF RESOURCES - pension	-	1,494	1,494
LIABILITIES:			
Accounts payable	11,796	17,266	29,062
Due to other funds	70,000	-	70,000
Accrued sick and vacation	167,699	-	167,699
Accrued wages payable	22,081	3,168	25,249
Accrued interest	-	4,422	4,422
Net pension liability	-	15,595	15,595
Current maturities on long term debt	-	60,284	60,284
Notes payable	-	370,618	370,618
Total liability:	271,576	471,353	742,929
NET POSITION:			
Unreserved	39,941	182,863	222,804
Total net position	\$ 39,941	\$ 182,863	\$ 222,804

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year ended June 30, 2015

	<u>Employee Benefit</u>	<u>Motor Vehicle</u>	<u>Totals</u>
OPERATING REVENUES:			
Charges for services	\$ 929,408	\$ 474,553	\$ 1,403,961
Other revenue	-	290	290
	<hr/>	<hr/>	<hr/>
TOTAL OPERATING REVENUES	929,408	474,843	1,404,251
OPERATING EXPENSES:			
General government administration	-	24,852	24,852
Garage maintenance	-	107,709	107,709
Operations and maintenance	-	325,054	325,054
Depreciation	-	143,299	143,299
Benefit payments:			
Payroll taxes	126,990	-	126,990
Retirement plan expense	141,033	-	141,033
Holiday pay	40,685	-	40,685
Sick pay/personal leave	82,392	-	82,392
Vacation pay	89,861	-	89,861
Workers' compensation insurance	88,533	-	88,533
Hospitalization insurance	370,970	-	370,970
Employee life insurance	655	-	655
Longevity pay	17,937	-	17,937
Other	10,166	-	10,166
	<hr/>	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	969,222	600,914	1,570,136
OPERATING INCOME (LOSS)	(39,814)	(126,071)	(165,885)
NON-OPERATING REVENUES (EXPENSES):			
Gain on sale of assets	-	4,000	4,000
Interest income	104	59	163
Interest expense	-	(17,085)	17,085
Operating transfers in	-	25,000	25,000
	<hr/>	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES (EXPENSES)	104	11,974	12,078
NET INCOME (LOSS)	(39,710)	(114,097)	(153,807)
NET POSITION, BEGINNING OF YEAR	79,651	296,960	376,611
	<hr/>	<hr/>	<hr/>
NET POSITION, END OF YEAR	\$ 39,941	\$ 182,863	\$ 222,804

CITY OF HANCOCK
INTERNAL SERVICES FUNDS
COMBINING STATEMENT OF CASH FLOW
Year Ended June 30, 2015

	Employee Benefit	Motor Vehicle	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 929,408	\$ 475,695	\$ 1,405,103
Payments to suppliers	(2,829)	(328,113)	(330,942)
Payments to employees	(953,481)	(124,863)	(1,078,344)
Other receipts (payments)	-	290	290
Net cash provided by operating activities	<u>(26,902)</u>	<u>23,009</u>	<u>(3,893)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	<u>59,091</u>	<u>201,962</u>	<u>(261,053)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Gain (loss) on sale of asset	-	4,000	4,000
Purchases of capital assets	-	(60,545)	(60,545)
Principal paid on capital debt	-	(91,965)	(91,965)
Interest paid on capital debt	-	(18,182)	(18,182)
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(166,692)</u>	<u>(166,692)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>104</u>	<u>59</u>	<u>163</u>
Net cash provided by investing activities	<u>104</u>	<u>59</u>	<u>163</u>
Net (decrease) in cash and cash equivalents	32,293	58,338	90,631
BALANCES - BEGINNING OF THE YEAR	<u>19,826</u>	<u>8,902</u>	<u>28,728</u>
	<u>\$ 52,119</u>	<u>\$ 67,240</u>	<u>\$ 119,359</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (39,814)	\$ (126,071)	\$ (165,885)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-	143,299	143,299
Changes in assets and liabilities:			
Receivables, net	-	1,142	1,142
Deferred outflows	-	714	714
Inventory	-	(9,695)	(9,695)
Prepaid expenses	(1,113)	1,505	392
Accounts and other payables	(1,716)	12,576	10,860
Accrued expenses	15,741	967	(16,708)
Net cash provided by operating activities	<u>\$ (26,902)</u>	<u>\$ 23,009</u>	<u>\$ (3,893)</u>

CITY OF HANCOCK
TRANSIT FUND SUPPLEMENTAL INFORMATION
June 30, 2015

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
For the Year Ended June 30, 2015

	07/01/14 through 09/30/14	10/01/14 through 06/30/15	Total
Farebox receipts- passenger fares	\$ 10,468	\$ 33,410	\$ 43,878
Contract Fares	1,514	900	2,414
State Operating Assistance*	12,756	84,811	97,567
Federal Section 5311**	-	18,802	18,802
Federal RTAP	1,474	3,149	4,623
Local Operating Assistance***	10,000	60,000	70,000
Interest Income	7	20	27
Total Operating Revenue	\$ 36,219	\$ 201,092	\$ 237,311

	10/01/13 through 06/30/14	07/01/14 through 09/30/14	Total
Farebox receipts- passenger fares	\$ 34,231	\$ 10,468	\$ 44,699
Contract Fares	1,423	1,514	2,937
State Operating Assistance	79,026	12,756	91,782
Federal Section 5311	27,572	-	27,572
Federal RTAP	1,790	1,474	3,264
Local Operating Assistance	30,000	10,000	40,000
Interest Income	28	7	35
Total Operating Revenue	\$ 174,070	\$ 36,219	\$ 210,289

* State revenue on page 21 of audit report is less than total of State operating assistance by \$7,984. Of this amount, \$7,217 is due to an adjusting journal entry made during the audit to increase state revenue by recording a receivable and decreased by \$40 due to the writeoff of a receivable. In addition, on page 21 Federal Section 5311 revenue of \$19,864 was reclassified from the State revenue line to the Federal revenue and Federal Rtap in the amount of \$4,623 are included on the State revenue line.

** Federal revenue on page 21 of audit report exceeds total Federal Section 5311 above by \$19,864 due to the reclassification of Federal Section 5311 revenue from State revenue to Federal Section 5311 revenue during the audit.

*** As noted above the \$4,623 is included on the State revenue line of the audit report on page 21.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
For the Year Ended June 30, 2015

	07/01/14 through 09/30/14				10/01/14 through 06/30/15				Total			
	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total
Labor:												
Wages -operations	\$ 17,517	\$ -	\$ -	\$ 17,517	\$ 59,353	\$ -	\$ -	\$ 59,353	\$ 76,870	\$ -	\$ -	\$ 76,870
Other salaries and wages	-	2,775	3,954	6,729	-	10,170	16,197	26,367	-	12,945	20,151	33,096
Dispatchers wages	1,850	-	-	1,850	6,270	-	-	6,270	8,120	-	-	8,120
Fringe benefits	4,659	2,386	4,337	11,382	13,843	8,152	12,948	34,943	18,502	10,538	17,285	46,325
Services:												
Advertising	-	-	94	94	-	-	645	645	-	-	739	739
Audit costs	-	-	-	-	-	-	-	-	-	-	-	-
Other	164	3,115	575	3,854	1,803	4,968	1,025	7,796	1,967	8,083	1,600	11,650
Materials and supplies:												
Fuel and lubricants	6,897	-	-	6,897	17,433	-	-	17,433	24,330	-	-	24,330
Tires and tubes	49	-	-	49	1,292	-	-	1,292	1,341	-	-	1,341
Major supplies	-	2,796	-	2,796	-	9,517	-	9,517	-	12,313	-	12,313
Other	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	1,526	1,526	-	-	9,844	9,844	-	-	11,370	11,370
Insurance	1,803	-	-	1,803	234	-	-	234	2,037	-	-	2,037
Operating lease and rentals	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous expenses:												
Travel	-	-	117	117	122	-	2,760	2,882	122	-	2,877	2,999
Dues & Subscriptions	-	-	644	644	-	-	165	165	-	-	809	809
Other	60	35	99	194	134	39	51	224	194	74	150	418
Depreciation	-	-	-	-	40,260	-	-	40,260	40,260	-	-	40,260
	<u>32,999</u>	<u>11,107</u>	<u>11,346</u>	<u>55,452</u>	<u>140,744</u>	<u>32,846</u>	<u>43,635</u>	<u>217,225</u>	<u>173,743</u>	<u>43,953</u>	<u>54,981</u>	<u>272,677</u>
Less:												
Ineligible expenses- RTAP	-	-	-	-	-	-	3,149	3,149	-	-	3,149	3,149
Depreciation	-	-	-	-	40,260	-	-	40,260	40,260	-	-	40,260
	<u>\$ 32,999</u>	<u>\$ 11,107</u>	<u>\$ 11,346</u>	<u>\$ 55,452</u>	<u>\$ 100,484</u>	<u>\$ 32,846</u>	<u>\$ 40,486</u>	<u>\$ 173,816</u>	<u>\$ 133,483</u>	<u>\$ 43,953</u>	<u>\$ 51,832</u>	<u>\$ 229,268</u>

Total expenses in the amount of \$272,677 are less than total operating expenses on page 21 by \$1,324 due to the recording of pension expense in the amount of \$1,320 and rounding of \$4.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Reporting period October 1, 2013 through September 30, 2014

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

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
For the Year Ended June 30, 2015

<u>NON URBAN AREAS</u>	<u>7/01/14 Through 09/30/14</u>	<u>10/01/14 Through 6/30/15</u>	<u>Total</u>
STATE OF MICHIGAN			
Total Eligible Expenses	\$ 55,452	\$ 173,816	<u>\$ 229,268</u>
Reimbursement Rate %	<u>36.3426%</u>	<u>39.3000%</u>	
Eligible operating assistance	<u>\$ 20,153</u>	<u>\$ 68,310</u>	<u>\$ 88,462</u>
FEDERAL SECTION 5311			
Total Eligible Expenses	\$ 55,452	\$ 173,816	<u>\$ 229,268</u>
Reimbursement Rate %	<u>18.5000%</u>	<u>16.0000%</u>	
Eligible operating assistance	<u>\$ 10,259</u>	<u>\$ 27,811</u>	<u>\$ 38,069</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
For the Year Ended June 30, 2015

<u>Quarter Ending:</u>	<u>Miles</u>
September 30, 2014	16,410
December 31, 2014	16,257
March 31, 2015	16,116
June 30, 2015	15,906
Total Miles	<u><u>62,695</u></u>

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002.

Purpose of this Report

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

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

December 28, 2015

COMMUNICATION SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock for the year ended June 30, 2015. 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 October 19, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Hancock are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the City of Hancock during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 28, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Restriction on Use

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

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

We appreciate your business, thank you.

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

December 28, 2015

CITY OF HANCOCK
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2015

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

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

2015-001 - Deficit Net Position

Condition/Criteria: At June 30, 2015 the City of Hancock had an unrestricted equity deficit in their Major Street Fund in the amount of \$23,737. Public Act 275 of 1980 requires that all deficits in any fund balance of local units be disclosed and enumerated upon in the footnotes of the financial statements. In accordance with the Act, a corrective action plan for the deficit is required to be filed with the State Treasurer within 90 days of the end of the fiscal year. As of this time, the City of Hancock has a draft corrective action plan to be approved at their next regularly scheduled board meeting.

Cause of Condition/Effect: Expenditures exceed revenue.

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

2015-002 - Budget

Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that cities shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City of Hancock has actual expenditures and budgeted expenditures. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2015, the City of Hancock incurred expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

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

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

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

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