

**CITY OF HANCOCK
HOUGHTON COUNTY, MICHIGAN**

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

June 30, 2012



CITY OF HANCOCK

JUNE 30, 2012

ADMINISTRATION

City Manager Glenn Anderson
Clerk/Treasurer Karen Haischer

BOARD MEMBERS

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

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 6 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 8 |
| BASIC FINANCIAL STATEMENTS: | |
| Statement of Net Assets | 17 |
| Statement of Activities | 18 |
| Balance Sheet - Governmental Funds | 19 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 20 |
| Balance Sheet - Proprietary Funds | 21 |
| Statement of Revenues, Expenditures, and Changes in Retained Earnings - Proprietary Funds | 22 |
| Statement of Cash Flows - Proprietary Funds | 23 |
| Statement of Fiduciary Net Assets - Fiduciary Funds | 24 |
| Notes to Financial Statements | 25 |
| REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION: | |
| Budgetary Comparison Schedule - General Fund | 52 |
| Budgetary Comparison Schedule - Major Street Fund | 53 |
| SUPPLEMENTAL FINANCIAL INFORMATION: | |
| <u>General Fund:</u> | |
| Balance Sheet | 55 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 56 |
| <u>Permanent Fund - Cemetery Perpetual Care Trust:</u> | |
| Schedule of Revenues, Expenditures, and Changes in Retained Earnings - Budget and Actual | 59 |
| <u>Special Revenue Funds:</u> | |
| Combining Balance Sheet | 60 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances | 61 |
| Major Street Fund | |
| Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual | 62 |

**TABLE OF CONTENTS
(CONTINUED)**

| | <u>Page</u> |
|--|-------------|
| SUPPLEMENTAL FINANCIAL INFORMATION (Continued): | |
| <u>Special Revenue (Continued)</u> | |
| Local Street Fund | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 63 |
| Community Development Block Grant Fund | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance | 64 |
| Elevation Street TIFA | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 65 |
| <u>Debt Service (Building Authority) Fund:</u> | |
| Balance Sheet | 66 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 67 |
| <u>Residential Capital Projects:</u> | |
| Balance Sheet | 68 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 69 |
| <u>Proprietary Funds:</u> | |
| Enterprise Funds: | |
| Combining Balance Sheet | 70 |
| Combining Statement of Revenues, Expenses, and Changes in Retained Earnings | 72 |
| Combining Statement of Cash Flows | 73 |
| Sewer Disposal System Fund: | |
| Schedule of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual | 74 |
| Water Supply System Fund: | |
| Schedule of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual | 75 |
| Transit Fund: | |
| Schedule of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual | 76 |
| Parking Meter Fund | |
| Schedule of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual | 77 |

**TABLE OF CONTENTS
(CONTINUED)**

| | <u>Page</u> |
|--|-------------|
| SUPPLEMENTAL FINANCIAL INFORMATION (Continued): | |
| <u>Internal Service Funds:</u> | |
| Combining Balance Sheet | 78 |
| Combining Statement of Revenues, Expenses, and Changes in Retained Earnings | 79 |
| Combining Statement of Cash Flows | 80 |
| Employee Benefit Fund: | |
| Schedule of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual | 81 |
| Motor Vehicle Fund: | |
| Schedule of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual | 82 |
| TRANSIT FUND SUPPLEMENTAL INFORMATION: | |
| <u>MDOT-Passenger Transportation Division Schedules:</u> | |
| Operating Revenue | 84 |
| Operating Expenses | 85 |
| Computation of State and Federal Operating Assistance | 87 |
| Mileage Data Report (Unaudited) | 88 |
| FEDERAL AWARDS PROGRAMS: | |
| 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 | 90 |
| Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 | 92 |
| Schedule of Expenditures of Federal Awards | 94 |
| Notes to the Schedule of Expenditures of Federal Awards | 95 |
| Schedule of Findings and Questioned Costs | 96 |
| COMMUNICATIONS SECTION | |
| Communication with Those in Charge of Governance | 100 |

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2012, and the respective changes in financial position and, cash flows, where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2012 on our consideration of the City of Hancock's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 through 16 and 52 through 53, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hancock's financial statements as a whole. The supplemental financial information on pages 55 to 88 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 20, 2012

**City of Hancock
Management's Discussion and Analysis
June 30, 2012**

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, 2012. 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 \$9,791,893 (net assets). Of this amount, \$785,374 (unrestricted net assets) may be used to meet the government's ongoing obligations.
- The City of Hancock's total net assets increased by \$4,251,779. This was the result of \$4,399,123 in grant revenue received by the water and sewer fund.
- The City of Hancock had charges for services of \$1,615,888 in governmental activities and \$1,846,328 for business-type activities and \$4,480,272 and \$2,017,444 in expenses for governmental and business-type activities respectively during the year ended June 30, 2012.
- At the close of the fiscal year, the City of Hancock's governmental activities funds reported a combined ending net assets balance of \$2,556,102. This is a decrease of \$243,121.
- At the end of the current fiscal year, the fund balance for the general fund was \$100,206 or about 5 percent of total general fund expenditures, general fund operating transfers to other funds were \$42,000 in 2012 compared to \$87,246 in the prior year, a decrease of \$45,246.
- The City of Hancock expended \$6,261,927 in federal awards requiring the City to undergo a Single Audit. The schedule of federal expenditure awards is located on page 94. A majority of the federal expenditures was related to the water and sewer improvements.

Overview of the Financial Statements

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

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

Statement of Net Assets and the Statement of Activities

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

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

Overview of the Financial Statements - (Continued)

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

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

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

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

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

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

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

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

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

City of Hancock
Management's Discussion and Analysis
June 30, 2012

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 Assets and the Statement of Activities. The City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds. Sewer, 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 Assets

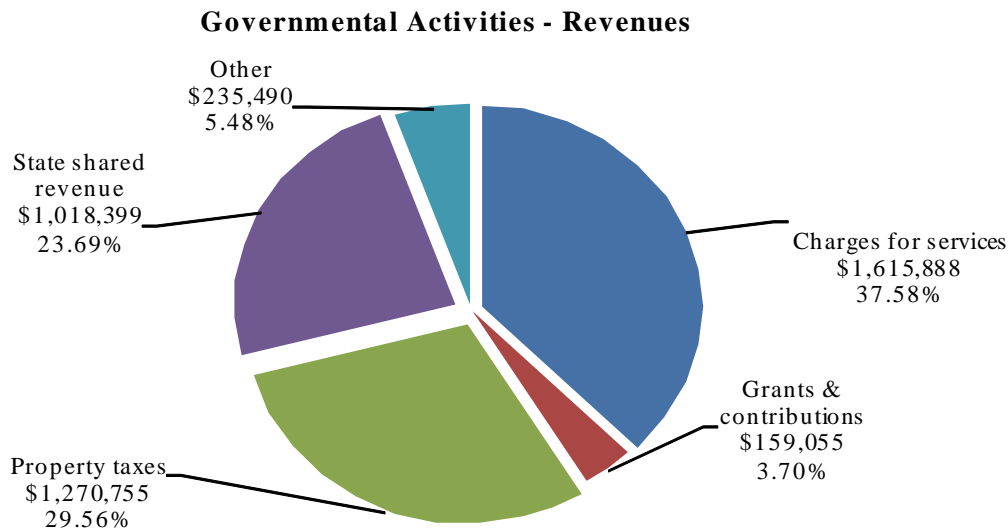
| | Governmental Activities | | Business-type Activities | |
|--|-------------------------|---------------------|--------------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Assets | | | | |
| Current and other assets | \$ 1,641,393 | \$ 1,815,401 | \$ 1,305,332 | \$ 445,576 |
| Capital assets- Net of accumulated depreciation | 4,378,573 | 4,582,512 | 16,969,044 | 11,239,490 |
| Total Assets | \$ 6,019,966 | \$ 6,397,913 | \$ 18,274,376 | \$ 11,685,066 |
| Liabilities | | | | |
| Current liabilities | \$ 513,352 | \$ 444,976 | \$ 873,585 | \$ 1,871,175 |
| Long-term liabilities | 2,950,512 | 3,153,714 | 10,165,000 | 7,073,000 |
| Total Liabilities | 3,463,864 | 3,598,690 | 11,038,585 | 8,944,175 |
| Net Assets | | | | |
| Invested in property and equipment - net of related debt | 1,617,818 | 1,633,017 | 6,607,044 | 3,971,490 |
| Restricted: | | | | |
| Streets and highways | (15,678) | 31,144 | - | - |
| CDBG | 3,896 | 106,186 | - | - |
| TIFA | 213,224 | 198,928 | - | - |
| Cemetery | 178,088 | 175,736 | - | - |
| Program services | 44,203 | | | |
| Capital projects | 20,088 | 19,909 | - | - |
| Debt service | 1,304 | 1,293 | 336,532 | 230,440 |
| Compensated absences | 386,502 | 378,909 | - | - |
| Unrestricted | 106,657 | 254,101 | 292,215 | (1,461,039) |
| Total Net Assets | 2,556,102 | 2,799,223 | 7,235,791 | 2,740,891 |
| Total Liabilities and Net Assets | \$ 6,019,966 | \$ 6,397,913 | \$ 18,274,376 | \$ 11,685,066 |

**City of Hancock
Management's Discussion and Analysis
June 30, 2012**

Results of Operations

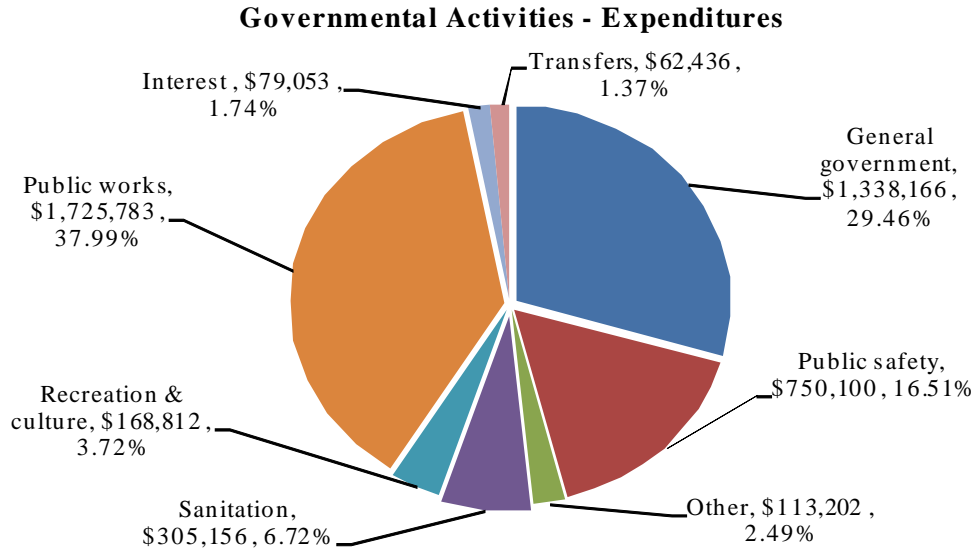
| | Governmental Activities | | Business-type Activities | |
|-----------------------------------|-------------------------|---------------------|--------------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 |
| <u>Revenues</u> | | | | |
| Program Revenue: | | | | |
| Charges for services | \$ 1,615,888 | \$ 1,712,554 | \$ 1,846,328 | \$ 1,723,548 |
| Grants and contributions | 21,288 | 292,162 | 127,069 | 190,120 |
| Capital grants and contributions | 137,767 | 235,704 | 4,399,123 | 363,314 |
| General Revenue: | | | | |
| Property taxes | 1,270,755 | 1,250,961 | - | - |
| State shared revenue | 1,018,399 | 1,047,454 | - | - |
| Other | 235,490 | 269,337 | 77,388 | 16,837 |
| Transfers | - | - | 62,436 | 36,500 |
| Total Revenue | 4,299,587 | 4,808,172 | 6,512,344 | 2,330,319 |
| <u>Functions/Program Expenses</u> | | | | |
| General government | 1,338,166 | 1,241,024 | - | - |
| Public safety | 750,100 | 721,597 | - | - |
| Public works | 1,725,783 | 1,859,877 | 2,017,444 | 1,926,925 |
| Sanitation | 305,156 | 302,128 | - | - |
| Recreation and culture | 168,812 | 375,245 | - | - |
| Interest on long-term debt | 79,053 | 79,434 | - | - |
| Other | 113,202 | 110,351 | - | - |
| Transfers | 62,436 | 36,500 | - | - |
| Total Expenses | 4,542,708 | 4,726,156 | 2,017,444 | 1,926,925 |
| Change in Net Assets | (243,121) | 82,016 | 4,494,900 | 403,394 |
| Net Assets - Beginning | 2,799,223 | 2,717,207 | 2,740,891 | 2,337,497 |
| Net Assets - Ending | <u>\$ 2,556,102</u> | <u>\$ 2,799,223</u> | <u>\$ 7,235,791</u> | <u>\$ 2,740,891</u> |

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

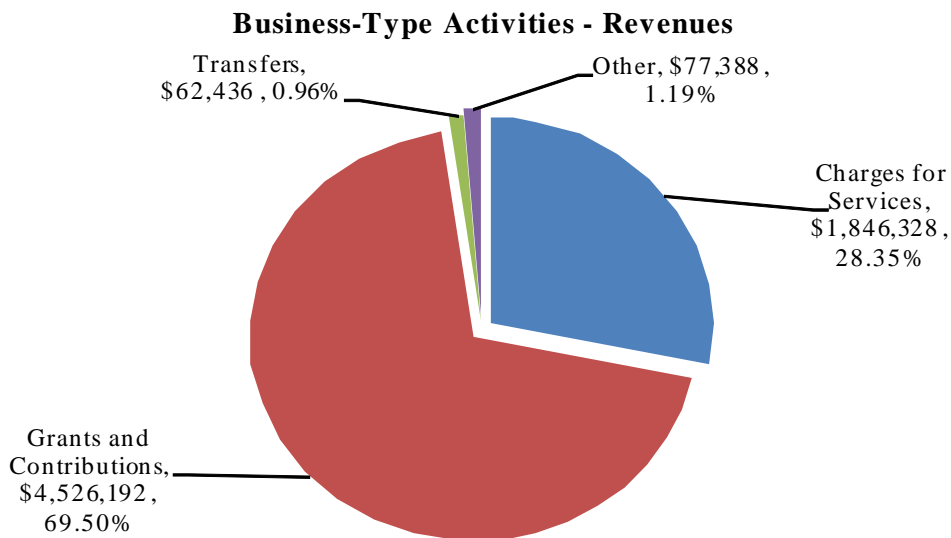


The most significant portions of the revenues for all governmental activities of the City comes from property taxes. The City's operating millage was 14.2021. Charges for services include revenue from internal service funds for employee benefits and the use of the motor vehicles, as well as garbage collection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

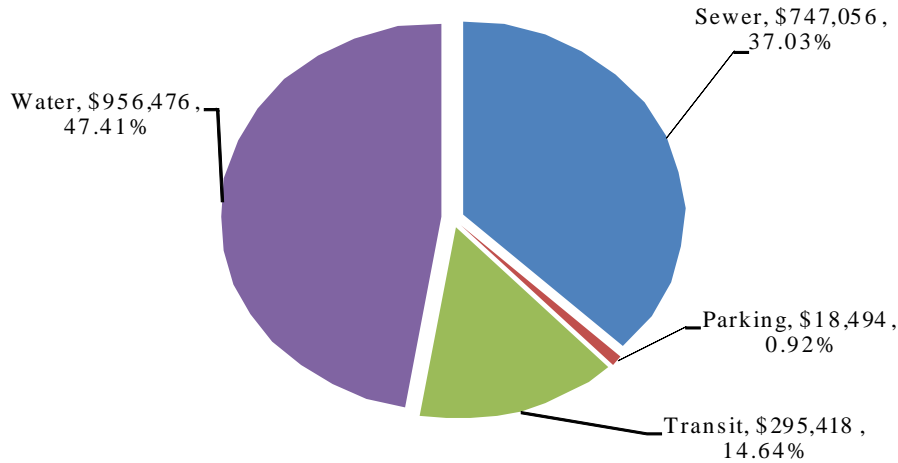
The general area expenses represent City hall activities. The major, local and motor vehicle expenses are included in the public works area. Police and fire expenses are included in public safety.



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 | \$ 2,030,877 | \$ 2,292,151 | \$ (261,274) |
| Expenditures/Transfers | \$ 1,989,862 | \$ 2,302,903 | \$ (313,041) |
| Fund Balance | \$ 100,206 | \$ 59,191 | \$ 41,015 |

The General Fund saw an increase in revenues and expenditures of \$261,274 and \$313,041, respectfully. The decrease in revenue is mainly due to less federal grant revenue received during the year. The decrease in expenditures is due to the combination of decreases in general government administration, public works, recreation and culture and increase in public safety.

| SPECIAL REVENUE FUNDS | Current Year | Prior Year | Change |
|-----------------------------------|--------------|------------|--------------|
| Major Street Fund: | | | |
| Revenues/Transfers | \$ 547,750 | \$ 498,046 | \$ 49,704 |
| Expenditures/Transfers | \$ 571,274 | \$ 467,280 | \$ 103,994 |
| Fund Balance (Deficit) | \$ 7,620 | \$ 31,144 | \$ (23,524) |
| Local Street Fund: | | | |
| Revenues/Transfers | \$ 232,029 | \$ 264,710 | \$ (32,681) |
| Expenditures/Transfers | \$ 255,327 | \$ 264,906 | \$ (9,579) |
| Fund Balance (Deficit) | \$ (23,298) | \$ - | \$ (23,298) |
| CDBG Fund: | | | |
| Revenues/Transfers | \$ 6,662 | \$ 247,959 | \$ (241,297) |
| Expenditures/Transfers | \$ 108,952 | \$ 322,917 | \$ (213,965) |
| Fund Balance | \$ 3,896 | \$ 106,186 | \$ (102,290) |
| Elevation Street TIF Fund: | | | |
| Revenues/Transfers | \$ 34,732 | \$ 26,897 | \$ 7,835 |
| Expenditures/Transfers | \$ 20,436 | \$ - | \$ - |
| Fund Balance | \$ 213,224 | \$ 198,928 | \$ 14,296 |

**City of Hancock
Management's Discussion and Analysis
June 30, 2012**

Significant Transactions and Changes in Individual Funds - (Continued)

Major Street Fund - The increase in revenues/transfers of \$49,704 is due to grant revenue in the current year in the amount of \$94,266 and a reduction in revenue from the state. Expenses/transfers increased by \$103,994 due to the expenditure of grant revenue for improvements to Campus Drive.

Local Street Fund - The decrease in revenues/transfers is due to a decrease in transfers. The decrease in expenses are from a decrease in snow and ice control and a decrease in construction costs.

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

| ENTERPRISE FUNDS | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|---------------------------|---------------------|-------------------|---------------|
| Parking Meter Fund | | | |
| Revenues/Transfers | \$ 13,080 | \$ 22,091 | \$ 13,140 |
| Expenditures/Transfers | \$ 18,494 | \$ 21,798 | \$ (3,304) |
| Retained Earnings | \$ (11,395) | \$ (5,981) | \$ (5,414) |
| Transit Fund | | | |
| Revenues/Transfers | \$ 233,928 | \$ 627,752 | \$ (393,824) |
| Expenditures/Transfers | \$ 295,418 | \$ 268,497 | \$ 26,921 |
| Retained Earnings | \$ 792,419 | \$ 853,909 | \$ (61,490) |
| Sewer Fund | | | |
| Revenues/Transfers | \$ 2,461,723 | \$ 682,182 | \$ 1,779,541 |
| Expenditures/Transfers | \$ 747,056 | \$ 700,340 | \$ 46,716 |
| Retained Earnings | \$ 2,737,099 | \$ 1,022,431 | \$ 1,714,668 |
| Water Fund | | | |
| Revenues/Transfers | \$ 3,803,613 | \$ 998,294 | \$ 2,805,319 |
| Expenditures/Transfers | \$ 956,476 | \$ 936,292 | \$ 20,184 |
| Retained Earnings | \$ 3,717,668 | \$ 893,333 | \$ 2,824,335 |

Parking Meter Fund - The Parking Meter Fund showed a decrease in revenues and transfers due to a decrease in charges for services and transfers. Expenses decreased due to a decrease in general administration costs.

Transit Fund - The Transit Fund had a decrease in revenues due to federal grants received in prior year, and not in current year. Expenditures showed an increase due to an increase in operations and maintenance and depreciation.

Sewer Fund - The Sewer Fund's revenues/transfers increased due to an increase in charges for services and grant revenue. Expenditures increased due to increases in operations and maintenance.

Water Fund - The Water Funds revenues increased due to an increase in charges for services and grant revenue. The increase in expenditures is from an increase in interest expense.

| DEBT SERVICE (BUILDING AUTHORITY) | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|--------------------------------------|---------------------|-------------------|---------------|
| Revenues/Transfers | \$ 136,060 | \$ 137,581 | \$ (1,521) |
| Expenditures/Transfers | \$ 136,049 | \$ 137,571 | \$ (1,522) |
| Fund Balance | \$ 1,304 | \$ 1,293 | \$ 11 |

Significant Transactions and Changes in Individual Funds - (Continued)

| RESIDENTIAL CAPITAL PROJECTS | | | |
|------------------------------|---------------------|-------------------|---------------|
| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
| Revenues/Transfers | \$ 179 | \$ 218 | \$ (39) |
| Expenditures/Transfers | \$ - | \$ 165 | \$ (165) |
| Fund Balance (deficit) | \$ 20,088 | \$ 19,909 | \$ 53 |

Decrease in revenues is due to decrease in interest. The decrease in expenditures is due to a decrease in general administration costs.

INTERNAL SERVICE FUNDS

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

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|------------------------|---------------------|-------------------|---------------|
| Revenues/Transfers | \$ 877,046 | \$ 924,859 | \$ (47,813) |
| Expenditures/Transfers | \$ 876,359 | \$ 864,629 | \$ 11,730 |
| Fund Balance | \$ 176,500 | \$ 175,813 | \$ 687 |

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

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|------------------------|---------------------|-------------------|---------------|
| Revenues/Transfers | \$ 431,900 | \$ 464,098 | \$ (32,198) |
| Expenditures/Transfers | \$ 586,377 | \$ 550,647 | \$ 35,730 |
| Fund Balance | \$ 482,179 | \$ 636,656 | \$ (154,477) |

General Fund Budgetary Highlights

During the year ended June 30, 2012, 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.

Revenue received as a whole was less than what the City had expected. Actual revenue was \$167,645 less than the final amended revenue budget. Expenditures as a whole were also less than what the City had expected. Actual expenditures were \$148,356 less than the final amended budget.

Financial Analysis

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

As of the end of the current fiscal year, the City's governmental funds reported combined unrestricted fund balances of \$493,159.

Financial Analysis - (Continued)

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 \$100,206. 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 5% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$41,015 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 \$7,235,791.

Capital Assets and Debt Administration

The City's net investment in capital assets for the governmental and business-type activities as of June 30, 2012, amounts to \$21,347,617. Capital asset additions totaling \$6,371,839 includes water and sewer improvements, beach project, police vehicle, snowmobile, and road improvements.

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

Long-term debt: At the end of the current fiscal year, the City had total debt of \$13,122,755. This total amount is backed by the full faith and credit of the City.

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

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the City Manager at 399 Quincy Street, Hancock, Michigan 49930 or call (906) 482-1121.

CITY OF HANCOCK
STATEMENT OF NET ASSETS

June 30, 2012

| | Primary Government | | | Component Unit (DDA) |
|---|----------------------------|-----------------------------|----------------------|-------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS: | | | | |
| CURRENT ASSETS: | | | | |
| Cash | \$ 832,325 | \$ 123,845 | \$ 956,170 | \$ 112,651 |
| Restricted cash | 406,297 | 336,925 | 743,222 | - |
| Receivables | 135,994 | 165,642 | 301,636 | 18,500 |
| Inventories | 57,123 | 100,479 | 157,602 | - |
| Prepaid expenses | 82,936 | 2,357 | 85,293 | - |
| Due from fiduciary funds | 1,533 | - | 1,533 | - |
| Internal balances | 51,959 | (51,959) | - | - |
| Due from other governmental units | 73,226 | 628,043 | 701,269 | - |
| TOTAL CURRENT ASSETS | 1,641,393 | 1,305,332 | 2,946,725 | 131,151 |
| NONCURRENT ASSETS: | | | | |
| Non-depreciable capital assets | 435,670 | - | 435,670 | 114,288 |
| Depreciable capital assets-Net | 3,942,903 | 16,969,044 | 20,911,947 | - |
| TOTAL NONCURRENT ASSETS | 4,378,573 | 16,969,044 | 21,347,617 | 114,288 |
| TOTAL ASSETS | \$ 6,019,966 | \$ 18,274,376 | \$ 24,294,342 | \$ 245,439 |
| LIABILITIES: | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable and accrued expenses | \$ 137,801 | \$ 639,298 | \$ 777,099 | \$ 3,645 |
| Deferred revenue | 178,806 | 37,287 | 216,093 | - |
| Bonds payable, current maturities | 116,779 | 197,000 | 313,779 | - |
| Note payable, current maturities | 80,967 | - | 80,967 | - |
| TOTAL CURRENT LIABILITIES | 514,353 | 873,585 | 1,387,938 | 3,645 |
| NONCURRENT LIABILITIES: | | | | |
| Bonds payable, less current maturities | 2,115,995 | 10,165,000 | 12,280,995 | - |
| Note payable, less current maturities | 447,014 | - | 447,014 | - |
| Compensated absences | 386,502 | - | 386,502 | - |
| TOTAL NONCURRENT LIABILITIES | 2,949,511 | 10,165,000 | 13,114,511 | - |
| TOTAL LIABILITIES | 3,463,864 | 11,038,585 | 14,502,449 | 3,645 |
| NET ASSETS: | | | | |
| Invested in capital assets, net of related debt | 1,617,818 | 6,607,044 | 8,224,862 | - |
| Restricted: | | | | |
| Streets and highways | (15,678) | - | (15,678) | - |
| CDBG | 3,896 | - | 3,896 | - |
| TIFA | 213,224 | - | 213,224 | - |
| Cemetery | 178,088 | - | 178,088 | - |
| Program expenses | 44,203 | - | 44,203 | - |
| Capital projects | 20,088 | - | 20,088 | - |
| Debt service | 1,304 | 336,532 | 337,836 | - |
| Unrestricted | 493,159 | 292,215 | 785,374 | 241,794 |
| | 2,556,102 | 7,235,791 | 9,791,893 | 241,794 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 6,019,966 | \$ 18,274,376 | \$ 24,294,342 | \$ 245,439 |

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

CITY OF HANCOCK
STATEMENT OF ACTIVITIES
June 30, 2012

| FUNCTIONS/PROGRAMS | Program Revenues | | | | Net (Expense) Revenues and Changes in Net Assets | | | |
|--|------------------|----------------------|------------------------------------|--------------|--|----------------------------------|--------------|----------------------|
| | Expenses | Charges for Services | Grants and Contributions Operating | Capital | Governmental | Primary Government Business-Type | Total | Component Unit (DDA) |
| Primary government: | | | | | | | | |
| Government activities: | | | | | | | | |
| General government | \$ 1,338,166 | \$ 876,763 | \$ 13,000 | \$ 137,767 | \$ (310,636) | \$ - | \$ (310,636) | \$ - |
| Public safety | 750,100 | 3,127 | - | - | (746,973) | - | (746,973) | - |
| Public works | 1,725,783 | 376,222 | - | - | (1,349,561) | - | (1,349,561) | - |
| Sanitation | 305,156 | 167,753 | - | - | (137,403) | - | (137,403) | - |
| Recreation and culture | 168,812 | 82,339 | 8,288 | - | (78,185) | - | (78,185) | - |
| Interest on long-term debt | 79,053 | - | - | - | (79,053) | - | (79,053) | - |
| Other | 113,202 | 109,684 | - | - | (3,518) | - | (3,518) | - |
| Total governmental activities | 4,480,272 | 1,615,888 | 21,288 | 137,767 | (2,705,329) | - | 2,705,329 | - |
| Business-type activities: | | | | | | | | |
| Water | 956,476 | 1,023,290 | - | 2,716,723 | - | 2,783,537 | 2,783,537 | - |
| Sewer | 747,056 | 773,105 | - | 1,682,400 | - | 1,708,449 | 1,708,449 | - |
| Parking Meter | 18,494 | 11,070 | - | - | - | (7,424) | (7,424) | - |
| Transit | 295,418 | 38,863 | 127,069 | - | - | (129,486) | (129,486) | - |
| Total business-type activities | 2,017,444 | 1,846,328 | 127,069 | 4,399,123 | - | (4,355,076) | (4,355,076) | - |
| Total primary government | \$ 6,497,716 | \$ 3,462,216 | \$ 148,357 | \$ 4,536,890 | (2,705,329) | 4,355,076 | 1,649,747 | - |
| Component Unit (DDA) | \$ 136,201 | \$ - | \$ - | \$ - | - | - | - | (136,201) |
| General Revenues: | | | | | | | | |
| Property taxes, levied for general operations | | | | | 1,270,755 | - | 1,270,755 | 142,040 |
| State shared revenue | | | | | 1,018,399 | - | 1,018,399 | - |
| Interest and investment earnings | | | | | 8,279 | 1,835 | 10,114 | 846 |
| Transfers | | | | | (62,436) | 62,436 | - | - |
| Gain on sale of assets | | | | | 12,801 | 2,305 | 15,106 | - |
| Other | | | | | 214,410 | 73,248 | 287,658 | 667 |
| Total general revenues, transfers, and special items | | | | | 2,462,208 | 139,824 | 2,602,032 | 143,553 |
| Change in Net Assets | | | | | (243,121) | 4,494,900 | 4,251,779 | 7,352 |
| Net Assets - Beginning | | | | | 2,799,223 | 2,740,891 | 5,540,114 | 234,442 |
| Net Assets - Ending | | | | | \$ 2,556,102 | \$ 7,235,791 | \$ 9,791,893 | \$ 241,794 |

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

CITY OF HANCOCK
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

| | Major Governmental Funds | | Other Non-major | Total |
|--|--------------------------|-------------------|--------------------|---------------------|
| | General | Major Street | Government | Governmental |
| | Fund | Fund | Funds | Funds |
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 367,810 | \$ 101,791 | \$ 300,779 | \$ 770,380 |
| Restricted cash | 42,107 | - | 362,094 | 404,201 |
| Taxes receivable | 57,936 | - | 51,048 | 108,984 |
| Accounts receivable | 25,868 | - | - | 25,868 |
| Due from other funds | 95,583 | - | 192,630 | 288,213 |
| Due from fiduciary funds | 1,533 | - | - | 1,533 |
| Due from governmental units | 18,317 | 37,974 | 16,935 | 73,226 |
| Inventory | 20,259 | - | - | 20,259 |
| Prepaid expenses | 29,072 | - | - | 29,072 |
| TOTAL ASSETS | \$ 658,485 | \$ 139,765 | \$ 923,486 | \$ 1,721,736 |
| LIABILITIES: | | | | |
| Accounts payable | \$ 39,261 | \$ 9,280 | \$ 2,090 | \$ 50,631 |
| Accrued expenses | 28,728 | 966 | 2,614 | 32,308 |
| Due to other funds | 490,290 | 121,899 | 346,674 | 958,863 |
| Deferred revenue | - | - | 178,806 | 178,806 |
| TOTAL LIABILITIES | 558,279 | 132,145 | 530,184 | 1,220,608 |
| FUND BALANCES: | | | | |
| Nonspendable: | | | | |
| Inventories | 20,259 | - | - | 20,259 |
| Prepays | 29,072 | - | - | 29,072 |
| Restricted: | | | | |
| Streets and highways | - | 7,620 | (23,298) | (15,678) |
| CDBG | - | - | 3,896 | 3,896 |
| TIFA | - | - | 213,224 | 213,224 |
| Program projects | 42,107 | - | 178,088 | 220,195 |
| Capital projects | - | - | 20,088 | 20,088 |
| Debt service | - | - | 1,304 | 1,304 |
| Unassigned | 8,768 | - | - | 8,768 |
| | 100,206 | 7,620 | 393,302 | 501,128 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 658,485 | \$ 139,765 | \$ 923,486 | |

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

| | |
|---|---------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 3,868,020 |
| Internal service fund is used to charge costs of equipment and operations to individual funds. The assets and liabilities are included in the governmental activities of the statement of net assets. | 658,679 |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds. | (2,471,725) |
| Net assets of governmental activities | <u>\$ 2,556,102</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 2012

| | <u>Major Governmental Funds</u> | | Other Non-major Governmental | Total Governmental |
|---|---------------------------------|-----------------|------------------------------------|-----------------------|
| | General | Major Street | Funds | Funds |
| Revenues: | | | | |
| Taxes | \$ 1,147,952 | \$ - | \$ 122,803 | \$ 1,270,755 |
| State revenue | 422,209 | 452,793 | 143,397 | 1,018,399 |
| Federal revenue | 21,288 | 94,266 | - | 115,554 |
| Charges for services | 362,149 | - | 136,228 | 498,377 |
| Interest | 6,168 | 691 | 949 | 7,808 |
| Other revenue | 71,111 | - | 8,637 | 79,748 |
| Total revenues | <u>2,030,877</u> | <u>547,750</u> | <u>412,014</u> | <u>2,990,641</u> |
| Expenditures: | | | | |
| General government | 396,880 | 21,831 | 6,631 | 425,342 |
| Public safety | 750,100 | - | - | 750,100 |
| Public works | 190,462 | 549,443 | 357,648 | 1,097,553 |
| Sanitation | 305,156 | - | - | 305,156 |
| Recreation and culture | 168,812 | - | - | 168,812 |
| Debt service | 79,053 | - | - | 79,053 |
| Other | 57,399 | - | 136,049 | 193,448 |
| Total expenditures | <u>1,947,862</u> | <u>571,274</u> | <u>500,328</u> | <u>3,019,464</u> |
| Excess (deficiency) of revenue over expenditures | <u>83,015</u> | <u>(23,524)</u> | <u>(88,314)</u> | <u>(28,823)</u> |
| Other Financing Sources (Uses) | | | | |
| Operating transfers out | <u>(42,000)</u> | - | <u>(20,436)</u> | <u>(62,436)</u> |
| Total other financing sources (uses) | <u>(42,000)</u> | - | <u>(20,436)</u> | <u>(62,436)</u> |
| Net change in fund balance | 41,015 | (23,524) | (108,750) | (91,259) |
| Fund Balances - Beginning of Year | <u>59,191</u> | <u>31,144</u> | <u>502,052</u> | |
| Fund Balances - End of Year | <u>\$ 100,206</u> | <u>\$ 7,620</u> | <u>\$ 393,302</u> | |

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

Governmental funds do not record depreciation and report capital outlays as expenditures.

 This amount represents depreciation. (94,364)

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. 110,414

Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred. (14,122)

Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities. (153,790)

Change in net assets of governmental activities \$ (243,121)

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

CITY OF HANCOCK
PROPRIETARY FUNDS
BALANCE SHEET
Year Ended June 30, 2012

| | Business-Type Activities Enterprise Funds | | | | | Governmental Activities |
|---|--|----------------------|-------------------|-----------------|----------------------|----------------------------|
| | Major Funds | | | | Non-major Fund | Internal Service Funds |
| | Sewer | Water | Transit | Parking | Total | |
| | | | | Meter | | |
| ASSETS: | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 30,967 | \$ 68,395 | \$ 22,377 | \$ 2,106 | \$ 123,845 | \$ 61,945 |
| Restricted cash | 120,159 | 216,766 | - | - | 336,925 | 2,096 |
| Accounts receivable | 71,781 | 93,741 | 40 | 80 | 165,642 | 1,142 |
| Inventory | 43,587 | 56,892 | - | - | 100,479 | 36,864 |
| Due from other funds | 37,287 | 71,146 | - | - | 108,433 | 816,909 |
| Due from other governmental units | 169,220 | 458,823 | - | - | 628,043 | - |
| Prepaid expenses | - | 650 | 1,707 | - | 2,357 | 53,864 |
| Total current assets | 473,001 | 966,413 | 24,124 | 2,186 | 1,465,724 | 972,820 |
| General fixed assets | | | | | | |
| Property, plant, and equipment | 9,583,162 | 15,816,989 | 1,024,290 | 30,893 | 26,455,334 | 2,438,798 |
| Accumulated depreciation | (5,036,456) | (4,187,010) | (231,931) | (30,893) | (9,486,290) | (1,928,245) |
| Total general fixed assets | 4,546,706 | 11,629,979 | 792,359 | - | 16,969,044 | 510,553 |
| TOTAL ASSETS | \$ 5,019,707 | \$ 12,596,392 | \$ 816,483 | \$ 2,186 | \$ 18,434,768 | \$ 1,483,373 |
| LIABILITIES: | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ 125,628 | \$ 477,814 | \$ 2,433 | \$ - | \$ 605,875 | \$ 22,993 |
| Accrued expenses | 4,629 | 24,720 | 3,738 | 336 | 33,423 | 179,420 |
| Due to other funds | 53,064 | 76,190 | 17,893 | 13,245 | 160,392 | 94,300 |
| Deferred revenue | 37,287 | - | - | - | 37,287 | - |
| Current maturities on long-term debt | 31,000 | 166,000 | - | - | 197,000 | 80,967 |
| Total current liabilities | 251,608 | 744,724 | 24,064 | 13,581 | 1,033,977 | 377,680 |
| Long-term liabilities: | | | | | | |
| Bonds/note payable | 2,031,000 | 8,134,000 | - | - | 10,165,000 | 447,014 |
| TOTAL LIABILITIES | 2,282,608 | 8,878,724 | 24,064 | 13,581 | 11,198,977 | 824,694 |
| NET ASSETS: | | | | | | |
| Reserved | 119,766 | 216,766 | - | - | 336,532 | 2,096 |
| Unreserved | 2,617,333 | 3,500,902 | 792,419 | (11,395) | 6,899,259 | 656,583 |
| Total net assets | 2,737,099 | 3,717,668 | 792,419 | (11,395) | 7,235,791 | 658,679 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 5,019,707 | \$ 12,596,392 | \$ 816,483 | \$ 2,186 | \$ 18,434,768 | \$ 1,483,373 |

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

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN RETAINED EARNINGS
Year Ended June 30, 2012

| | Business-Type Activities Enterprise Funds | | | | | Governmental Activities |
|--|--|---------------------|-------------------|--------------------|---------------------|------------------------------|
| | Major Funds | | | Non-major Fund | Total | Internal Service Funds |
| | Sewer | Water | Transit | Parking Meter | | |
| | Sewer | Water | Transit | Parking Meter | Total | Internal Service Funds |
| OPERATING REVENUES: | | | | | | |
| Sales and charges for services | \$ 773,105 | \$ 1,023,290 | \$ 38,863 | \$ 11,070 | \$ 1,846,328 | \$ 1,252,985 |
| State revenue | - | - | 113,745 | - | 113,745 | - |
| Federal revenue | 1,682,400 | 2,716,723 | 37,324 | - | 4,436,447 | 43,501 |
| Other revenue | - | 47,701 | 1,547 | - | 49,248 | 4,967 |
| TOTAL OPERATING REVENUES | 2,455,505 | 3,787,714 | 191,479 | 11,070 | 6,445,768 | 1,301,453 |
| OPERATING EXPENSES: | | | | | | |
| General administration | 35,853 | 63,017 | 61,697 | 18,494 | 179,061 | 898,700 |
| Meter reading | 11,160 | 11,171 | - | - | 22,331 | - |
| Purchased services | 427,930 | 186,649 | - | - | 614,579 | - |
| Operations and maintenance | 134,586 | 276,176 | 156,625 | - | 567,387 | 374,300 |
| Depreciation | 98,318 | 227,652 | 77,096 | - | 403,066 | 166,475 |
| TOTAL OPERATING EXPENSES | 707,847 | 764,665 | 295,418 | 18,494 | 1,786,424 | 1,439,475 |
| OPERATING INCOME (LOSS) | 1,747,658 | 3,023,049 | (103,939) | (7,424) | 4,659,344 | (138,022) |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | |
| Gain on sale of asset | - | - | 2,305 | - | 2,305 | 7,022 |
| Interest income | 87 | 1,594 | 144 | 10 | 1,835 | 471 |
| Interest expense | (39,209) | (191,811) | - | - | (231,020) | (23,261) |
| Operating transfers in | 6,131 | 14,305 | 40,000 | 2,000 | 62,436 | - |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | (32,991) | (175,912) | 42,449 | 2,010 | (164,444) | (15,768) |
| NET INCOME (LOSS) | 1,714,667 | 2,847,137 | (61,490) | (5,414) | 4,494,900 | (153,790) |
| NET ASSETS BEGINNING OF YEAR | 1,022,432 | 870,531 | 853,909 | (5,981) | 2,740,891 | 812,469 |
| NET ASSETS END OF YEAR | \$ 2,737,099 | \$ 3,717,668 | \$ 792,419 | \$ (11,395) | \$ 7,235,791 | \$ 658,679 |

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, 2012

| | Business Type Activities | Governmental Activities | |
|--|-----------------------------|----------------------------|---------------------|
| | Enterprise Funds | Internal Service Funds | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 1,844,395 | \$ 1,252,985 | \$ 3,097,380 |
| Payments to suppliers | (2,393,820) | 328,001 | 2,721,821 |
| Internal activity-receipts (payments) to other funds | (51,538) | - | 51,538 |
| Payments to employees | (498,475) | 976,789 | 1,475,264 |
| Other receipts (payments) | 4,599,440 | 48,468 | 4,647,908 |
| Net cash provided by operating activities | <u>3,500,002</u> | <u>(3,337)</u> | <u>3,496,665</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating subsidies and transfers to other funds | <u>(65,249)</u> | <u>(76,123)</u> | <u>(10,874)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Proceeds from capital debt | 3,289,000 | - | (3,289,000) |
| Gain (loss) on sale of asset | 2,305 | (7,022) | (9,327) |
| Purchases of capital assets | 6,132,620 | (56,900) | (6,189,520) |
| Principal paid on capital debt | (195,000) | 78,326 | 273,326 |
| Interest paid on capital debt | <u>(231,020)</u> | <u>(23,261)</u> | <u>(254,281)</u> |
| Net cash (used) by capital and related financing activities | <u>(3,267,335)</u> | <u>(151,465)</u> | <u>(3,418,800)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends | <u>1,835</u> | <u>(471)</u> | <u>77,096</u> |
| Net cash provided by investing activities | <u>1,835</u> | <u>471</u> | <u>77,096</u> |
| Net increase (decrease) in cash and cash equivalents | 169,253 | (78,208) | 11,643 |
| Balances -- beginning of the year | <u>291,517</u> | <u>142,249</u> | <u>-</u> |
| Balances -- end of the year | <u>\$ 460,770</u> | <u>\$ 64,041</u> | <u>\$ (11,643)</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ 4,659,344 | \$ 138,022 | \$ 4,521,322 |
| Adjustments to reconcile operating income to to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 403,066 | 166,475 | 569,541 |
| Changes in assets and liabilities: | | | |
| Receivables, net | (1,933) | - | (1,933) |
| Due from other governmental units | (577,373) | - | (577,373) |
| Inventory | 16,518 | (2,071) | (18,589) |
| Prepaid expenses | (30) | (9,386) | (9,356) |
| Accounts and other payables | (999,560) | (45,874) | (1,045,434) |
| Accrued expenses | <u>(30)</u> | <u>2,627</u> | <u>2,597</u> |
| Net cash provided by operating activities | <u>\$ 3,500,002</u> | <u>\$ (3,337)</u> | <u>\$ 3,496,665</u> |

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

CITY OF HANCOCK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

| | Agency Funds | | |
|--------------------------|--------------|---------|----------|
| | Agency | Payroll | Total |
| ASSETS: | | | |
| Cash and equivalents | \$ 1,533 | \$ 4 | \$ 1,537 |
| LIABILITIES: | | | |
| Accounts payable | \$ - | \$ 4 | 4 |
| Due to general fund | 1,533 | - | 1,533 |
| TOTAL LIABILITIES | \$ 1,533 | \$ 4 | \$ 1,537 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

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, 2011 is as follows:

| | |
|---------------------------------------|---------------------|
| Total assets | \$ 710,179 |
| Total liabilities | \$ 249,814 |
| Total equity | 460,365 |
| Total liabilities and surplus | <u>\$ 710,179</u> |
| Operating income | \$ 737,202 |
| Operating expenses | <u>913,968</u> |
| Net operating income | (176,766) |
| Net Non-operating revenues (expenses) | <u>1,635</u> |
| Net income (loss) | <u>\$ (175,131)</u> |

Portage Lake Water and Sewage Authority

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

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2012 (most recent year audited) shows the following:

| | |
|--------------------|---------------|
| Total Assets | \$ 15,748,697 |
| Total Liabilities | \$ 8,556,906 |
| Total Equity | \$ 7,191,791 |
| Total Revenues | \$ 2,042,171 |
| Total Expenditures | \$ 1,868,996 |
| Long-Term Debt | \$ 7,442,930 |

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

COMPONENT UNITS

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

DISCRETELY PRESENTED COMPONENT UNITS

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

BLENDED COMPONENT UNITS

City of Hancock Building Authority

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City first utilizes restricted resources to finance qualifying activities.

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

The City does not allocate indirect costs.

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

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

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

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

The City reports the following major governmental funds:

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPES

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

The City reports the following proprietary funds:

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

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

The City reports the following major proprietary funds:

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

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

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

FIDUCIARY FUND TYPES

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

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

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

Other Accounting Policies

Cash and cash equivalents - Cash and equivalents include amounts in demand deposits and certificates of deposit.

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.
2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2012, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

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

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

NOTE C - CASH

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 | \$ 832,325 | \$ 124,238 | \$ 956,563 | \$ 112,651 | \$ - |
| Restricted Cash | 406,297 | 336,532 | 742,829 | - | 1,537 |
| Total deposits and investments | <u>\$ 1,238,622</u> | <u>\$ 460,770</u> | <u>\$ 1,699,392</u> | <u>\$ 112,651</u> | <u>\$ 1,537</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE C - CASH AND INVESTMENTS (Continued)

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, 2012, \$288,317 of the City’s bank balance of \$1,501,912 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the City’s name.

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

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

NOTE D - TRANSFERS AND INTERFUND BALANCES

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

| <u>Fund</u> | <u>Transfer Out</u> | <u>Fund</u> | <u>Transfer In</u> |
|------------------|-------------------------|---------------|-------------------------|
| General | \$ 42,000 | Parking Meter | \$ 2,000 |
| Elevation street | 20,436 | Transit | 40,000 |
| | | Water | 14,305 |
| | | Sewer | 6,131 |
| TOTALS | <u>\$ 62,436</u> | TOTALS | <u>\$ 62,436</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

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, 2012 are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|-------------------|---------------------------------|-------------------|------------------------------|
| Local Street | 192,630 | General | \$ 192,630 |
| Subtotal | <u>192,630</u> | Subtotal | <u>192,630</u> |
| Employee Benefits | 371,125 | General | 270,000 |
| | | Parking | 13,245 |
| | | Transit | 17,880 |
| | | Water | 70,000 |
| Subtotal | <u>371,125</u> | Subtotal | <u>371,125</u> |
| Motor Vehicle | 445,784 | General | 27,660 |
| | | Major | 65,437 |
| | | Elevation Street | 7,623 |
| | | Local | 285,797 |
| | | Transit | 13 |
| | | Sewer | 53,064 |
| | | Water | 6,190 |
| Subtotal | <u>445,784</u> | Subtotal | <u>445,784</u> |
| Sewer | 37,287 | Elevation Street | 37,287 |
| Subtotal | <u>37,287</u> | | <u>37,287</u> |
| Water | 71,146 | Employee Benefits | 70,000 |
| | | Elevation Street | 1,146 |
| Subtotal | <u>71,146</u> | | <u>71,146</u> |
| General | 95,583 | Motor Vehicle | 24,300 |
| | | Major | 56,462 |
| | | Local Street | 14,821 |
| Subtotal | <u>95,583</u> | Subtotal | <u>95,583</u> |
| TOTALS | <u>\$ 1,213,555</u> | TOTALS | <u>\$ 1,213,555</u> |

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE E - RECEIVABLES

The detail of receivables at June 30, 2012 are as follows:

| <u>Receivables</u> | <u>General</u> | <u>Special Revenue</u> | <u>Internal Service</u> | <u>Enterprise</u> | <u>Total Primary Government</u> |
|--------------------|------------------|------------------------|-------------------------|-------------------|---------------------------------|
| Accounts | \$ 25,868 | \$ | \$ 1,142 | \$ 165,642 | \$ 192,652 |
| Taxes | 57,936 | 51,048 | - | - | 108,984 |
| Total receivables | <u>\$ 83,804</u> | <u>\$ 51,048</u> | <u>\$ 1,142</u> | <u>\$ 165,642</u> | <u>\$ 301,636</u> |

NOTE F - CAPITAL ASSETS

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

| | <u>Balance 6/30/11</u> | <u>Additions</u> | <u>Subtractions</u> | <u>Balance 6/30/12</u> |
|--------------------------------|----------------------------|-------------------|---------------------|----------------------------|
| Land | \$ 435,670 | \$ - | \$ - | \$ 435,670 |
| Depreciable Capital Assets | | | | |
| Buildings | 2,715,738 | - | - | 2,715,738 |
| Equipment | 1,098,646 | 12,994 | - | 1,111,640 |
| Improvements | 2,135,233 | 140,450 | - | 2,275,683 |
| Vehicles | 2,546,468 | 85,775 | 52,392 | 2,579,851 |
| Subtotal | <u>8,496,085</u> | <u>\$ 239,219</u> | <u>\$ 52,392</u> | <u>8,682,912</u> |
| Accumulated Depreciation | | | | |
| Buildings | 1,036,381 | \$ 64,424 | \$ - | 1,100,805 |
| Equipment | 482,500 | 156,931 | - | 639,431 |
| Improvements | 847,597 | 112,691 | - | 960,288 |
| Vehicles | <u>1,982,765</u> | <u>109,112</u> | <u>52,392</u> | <u>2,039,485</u> |
| Subtotal | <u>4,349,243</u> | <u>\$ 443,158</u> | <u>\$ 52,392</u> | <u>4,740,009</u> |
| Net depreciable capital assets | <u>4,146,842</u> | | | <u>3,942,903</u> |
| Net capital assets | <u>\$ 4,582,512</u> | | | <u>\$ 4,378,573</u> |

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

| | |
|--------------------|-------------------|
| General Fund | \$ 189,228 |
| DDA | 3,745 |
| Major Streets Fund | 71,710 |
| Local Streets Fund | 12,000 |
| Motor Vehicle Fund | <u>166,475</u> |
| | <u>\$ 443,158</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE F - CAPITAL ASSETS (Continued)

The components of property, plant, and equipment in City proprietary funds at June 30, 2012 are summarized as follows:

| PARKING METER FUND | | Beginning | Additions | Deletions | Ending |
|---------------------------|--|--------------|--------------|-----------|---------------|
| Equipment | | \$ 30,893 | \$ - | \$ - | \$ 30,893 |
| Accumulated depreciation | | 30,893 | \$ - | \$ - | 30,893 |
| Net capital assets | | \$ - | | | \$ - |
| | | | | | |
| TRANSIT FUND | | Beginning | Additions | Deletions | Ending |
| Construction in progress | | \$ - | \$ - | \$ - | \$ - |
| Buildings | | 716,473 | - | - | 716,473 |
| Equipment | | 43,120 | - | - | 43,120 |
| Vehicles | | 350,593 | - | - | 350,593 |
| Subtotal | | 1,110,186 | \$ - | \$ - | 1,110,186 |
| Accumulated depreciation: | | | | | |
| Buildings | | \$ 4,478 | \$ 17,912 | \$ - | \$ 22,390 |
| Equipment | | 4,782 | 6,245 | - | 11,027 |
| Vehicles | | 231,471 | 52,939 | - | 284,410 |
| Subtotal | | 240,731 | \$ 77,096 | \$ - | 317,827 |
| Net capital assets | | \$ 869,455 | | | \$ 792,359 |
| | | | | | |
| SEWER DISPOSAL FUND | | Beginning | Additions | Deletions | Ending |
| Buildings | | \$ 754,725 | \$ - | \$ - | \$ 754,725 |
| Construction in progress | | 1,403,252 | 2,385,875 | - | 3,789,127 |
| Utility system | | 5,033,179 | 6,131 | - | 5,039,310 |
| Subtotal | | 7,191,156 | \$ 2,392,006 | \$ - | 9,583,162 |
| Accumulated depreciation: | | | | | |
| Buildings | | \$ 650,949 | \$ 18,868 | \$ - | \$ 669,817 |
| Utility system | | 4,287,189 | 79,450 | - | 4,366,639 |
| Subtotal | | 4,938,138 | \$ 98,318 | \$ - | 5,036,456 |
| Net capital assets | | \$ 2,253,018 | | | \$ 4,546,706 |
| | | | | | |
| WATER SUPPLY FUND | | Beginning | Additions | Deletions | Ending |
| Buildings | | \$ 1,645,692 | \$ - | \$ - | \$ 1,645,692 |
| Construction in progress | | 2,671,794 | 3,679,672 | - | 6,351,466 |
| Equipment | | 13,383 | - | - | 13,383 |
| Land | | 73,500 | - | - | 73,500 |
| Loan fees/lease | | 238,496 | - | - | 238,496 |
| Utility system | | 7,433,510 | 60,942 | - | 7,494,452 |
| Subtotal | | 12,076,375 | \$ 3,740,614 | \$ - | 15,816,989 |
| Accumulated depreciation: | | | | | |
| Buildings | | 1,645,692 | \$ - | \$ - | 1,645,692 |
| Equipment | | 8,698 | 1,338 | - | 10,036 |
| Loan fees/lease | | 160,605 | 5,190 | - | 165,795 |
| Utility system | | 2,144,363 | 221,124 | - | 2,365,487 |
| Subtotal | | 3,959,358 | \$ 3,968,266 | \$ - | 4,187,010 |
| Net capital assets | | \$ 8,117,017 | | | \$ 11,629,979 |

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 \$ 42,107 | CDBG \$ 182,702 | Sewer Fund \$ 119,766 |
| | Debt Retirement \$ 1,304 | Water Fund \$ 216,766 |
| | Employee benefits \$ 2,096 | |
| | Cemetery \$ 178,088 | |

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 \$42,107 represents the balance of the commercial loan program. As of June 30, 2012, 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 \$336,532 as of June 30, 2012. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$2,096 as of June 30, 2012.

The Cemetery Perpetual Care Trust balance of \$178,088 is reserved for the perpetual care of cemetery lots.

NOTE H - ACCUMULATED UNPAID VACATION AND SICK LEAVE

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

Accumulated unpaid vacation and sick leave at June 30, 2012 was \$102,807 and \$283,695 respectively.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|-------------------|-------------------|-------------------|
| 2012-13 | \$ 15,000 | \$ 19,625 | \$ 34,625 |
| 2013-14 | 15,000 | 18,875 | 33,875 |
| 2014-15 | 20,000 | 18,125 | 38,125 |
| 2015-16 | 20,000 | 17,250 | 37,250 |
| 2016-17 | 20,000 | 16,250 | 36,250 |
| 2017-18 | 20,000 | 15,250 | 35,250 |
| 2018-19 | 20,000 | 14,250 | 34,250 |
| 2019-24 | 130,000 | 54,250 | 184,250 |
| 2024-28 | 125,000 | 19,875 | 144,875 |
| TOTALS | <u>\$ 385,000</u> | <u>\$ 193,750</u> | <u>\$ 578,750</u> |

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|-------------------|-------------------|---------------------|
| 2012-13 | \$ 31,000 | \$ 37,264 | \$ 68,264 |
| 2013-14 | 32,000 | 35,839 | 67,839 |
| 2014-15 | 34,000 | 34,343 | 68,343 |
| 2015-16 | 36,000 | 32,775 | 68,775 |
| 2016-17 | 38,000 | 31,113 | 69,113 |
| 2017-18 | 41,000 | 29,355 | 70,355 |
| 2018-23 | 240,000 | 116,447 | 356,447 |
| 2023-28 | 318,000 | 55,813 | 373,813 |
| TOTALS | <u>\$ 770,000</u> | <u>\$ 372,949</u> | <u>\$ 1,142,949</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - LONG-TERM DEBT (Continued)

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

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|-------------------|------------------|-------------------|
| 2012-13 | \$ 35,000 | \$ 15,029 | \$ 50,029 |
| 2013-14 | 35,000 | 13,528 | 48,528 |
| 2014-15 | 37,000 | 11,984 | 48,984 |
| 2015-16 | 39,000 | 10,355 | 49,355 |
| 2016-17 | 41,000 | 8,640 | 49,640 |
| 2017-18 | 43,000 | 6,839 | 49,839 |
| 2018-19 | 45,000 | 4,952 | 49,952 |
| 2019-20 | 46,000 | 3,001 | 49,001 |
| 2020-21 | 47,000 | 1,008 | 48,008 |
| TOTALS | \$ 368,000 | \$ 75,337 | \$ 443,337 |

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, 2012, \$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> |
|---------------|-------------------|-------------------|-------------------|
| 2012-13 | \$ 10,000 | \$ 19,181 | \$ 29,181 |
| 2013-14 | 10,000 | 18,769 | 28,769 |
| 2014-15 | 11,000 | 18,356 | 29,356 |
| 2015-16 | 11,000 | 17,903 | 28,903 |
| 2016-17 | 12,000 | 17,449 | 29,449 |
| 2017-18 | 12,000 | 16,954 | 28,954 |
| 2018-23 | 71,000 | 76,643 | 147,643 |
| 2023-28 | 87,000 | 60,761 | 147,761 |
| 2028-33 | 108,000 | 41,085 | 149,085 |
| 2033-37 | 133,000 | 16,995 | 149,995 |
| TOTALS | \$ 465,000 | \$ 304,096 | \$ 769,096 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - LONG-TERM DEBT (Continued)

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|------------------|------------------|-------------------|
| 2012-13 | \$ 2,000 | \$ 4,320 | \$ 6,320 |
| 2013-14 | 2,000 | 4,230 | 6,230 |
| 2014-15 | 2,000 | 4,140 | 6,140 |
| 2015-16 | 2,000 | 4,050 | 6,050 |
| 2016-17 | 2,000 | 3,960 | 5,960 |
| 2017-18 | 3,000 | 3,870 | 6,870 |
| 2018-23 | 15,000 | 17,325 | 32,325 |
| 2023-28 | 18,000 | 13,815 | 31,815 |
| 2028-33 | 22,000 | 9,405 | 31,405 |
| 2033-37 | 28,000 | 3,915 | 31,915 |
| TOTALS | \$ 96,000 | \$ 69,030 | \$ 165,030 |

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.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-------------------|------------------|-------------------|
| 2012-13 | \$ 12,162 | \$ 4,482 | \$ 16,644 |
| 2013-14 | 12,648 | 3,996 | 16,644 |
| 2014-15 | 13,154 | 3,490 | 16,138 |
| 2015-16 | 74,548 | 2,964 | 77,512 |
| | <u>\$ 112,512</u> | <u>\$ 14,932</u> | <u>\$ 126,938</u> |

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2012-13 | \$ 11,617 | \$ 1,450 | \$ 13,067 |
| 2013-14 | 12,081 | 986 | 13,067 |
| 2014-15 | 12,564 | 503 | 13,067 |
| | <u>\$ 36,262</u> | <u>\$ 2,939</u> | <u>\$ 39,201</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - LONG-TERM DEBT (Continued)

ENTERPRISE FUNDS

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-------------------|---------------------|
| 2012-13 | \$ 18,000 | \$ 31,684 | \$ 49,684 |
| 2013-14 | 19,000 | 31,211 | 50,211 |
| 2014-15 | 19,000 | 30,712 | 49,712 |
| 2015-16 | 20,000 | 30,214 | 50,214 |
| 2016-17 | 20,000 | 29,689 | 49,689 |
| 2017-18 | 21,000 | 29,164 | 50,164 |
| 2018-19 | 21,000 | 28,612 | 49,612 |
| 2019-20 | 22,000 | 28,061 | 50,061 |
| 2020-21 | 22,000 | 27,484 | 49,484 |
| 2021-26 | 121,000 | 128,310 | 249,310 |
| 2026-31 | 137,000 | 111,641 | 248,641 |
| 2031-36 | 156,000 | 92,689 | 248,689 |
| 2036-41 | 180,000 | 71,006 | 251,006 |
| 2041-46 | 205,000 | 46,069 | 251,069 |
| 2046-51 | 226,000 | 17,928 | 243,928 |
| TOTALS | <u>\$ 1,207,000</u> | <u>\$ 734,474</u> | <u>\$ 1,941,474</u> |

2011B Water Supply System Junior Lien Revenue and Revenue Refunding Bond: On June 21, 2011, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$3,745,000 for the purpose of constructing improvements to the water supply system and to refund prior bonds. The bond was issued in a single denomination of \$500,000 at an interest rate of 2.375% per annum with principal amounts payable May 1 and interest payable semi-annually on December 1 and May 1. As of June 30, 2012 \$1,620,000 of the bond had been issued. Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after June 1, 2012, at par plus accrued interest to the date fixed for prepayment. Bonds are financed with the United States Development Authority.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - LONG-TERM DEBT (Continued)

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|----------------------------|----------------------------|----------------------------|
| 2012-13 | \$ 58,000 | \$ 87,590 | \$ 145,590 |
| 2013-14 | 60,000 | 86,213 | 146,213 |
| 2014-15 | 61,000 | 84,788 | 145,788 |
| 2015-16 | 63,000 | 83,339 | 146,339 |
| 2016-17 | 64,000 | 81,843 | 145,843 |
| 2017-18 | 66,000 | 80,323 | 146,323 |
| 2018-19 | 67,000 | 78,755 | 145,755 |
| 2019-20 | 69,000 | 77,164 | 146,164 |
| 2020-21 | 71,000 | 75,525 | 146,525 |
| 2021-26 | 378,000 | 351,643 | 729,643 |
| 2026-31 | 425,000 | 304,594 | 729,594 |
| 2031-36 | 478,000 | 251,679 | 729,679 |
| 2036-41 | 539,000 | 192,066 | 731,066 |
| 2041-46 | 605,000 | 125,044 | 730,044 |
| 2046-51 | <u>684,000</u> | <u>49,634</u> | <u>733,634</u> |
| TOTALS | \$ <u>3,688,000</u> | \$ <u>2,010,200</u> | \$ <u>5,698,200</u> |

2010 Sanitary Sewage Disposal System: On December 8, 2010 the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$2,092,000 for the purpose of constructing improvements to the sanitary sewage system. The bond is at an interest rate of 2.25% per annum with principal amounts payable December 1 and interest payable semi-annually on June 1 and December 1. As of June 30, 2011 \$928,000 of the bond had been issued. Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after December 1, 2011, at par plus accrued interest to the date fixed for prepayment. Bonds are financed with the United States Development Authority.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|----------------------------|----------------------------|----------------------------|
| 2012-13 | \$ 31,000 | \$ 53,721 | \$ 84,721 |
| 2013-14 | 32,000 | 52,894 | 84,894 |
| 2014-15 | 33,000 | 52,041 | 85,041 |
| 2015-16 | 33,000 | 51,175 | 84,175 |
| 2016-17 | 34,000 | 50,295 | 84,295 |
| 2017-18 | 35,000 | 49,389 | 84,389 |
| 2018-19 | 36,000 | 48,458 | 84,458 |
| 2019-20 | 37,000 | 47,500 | 84,500 |
| 2020-21 | 38,000 | 46,515 | 84,515 |
| 2021-26 | 205,000 | 216,890 | 421,890 |
| 2026-31 | 234,000 | 188,132 | 422,132 |
| 2031-36 | 267,000 | 155,282 | 422,282 |
| 2036-41 | 304,000 | 117,864 | 421,864 |
| 2041-46 | 346,000 | 75,287 | 421,287 |
| 2046-51 | <u>397,000</u> | <u>26,685</u> | <u>423,685</u> |
| TOTALS | \$ <u>2,062,000</u> | \$ <u>1,232,128</u> | \$ <u>3,294,128</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - LONG-TERM DEBT (Continued)

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|---------------------|---------------------|---------------------|
| 2012-13 | \$ 90,000 | \$ 85,125 | \$ 175,125 |
| 2013-14 | 90,000 | 82,875 | 172,875 |
| 2014-15 | 95,000 | 80,625 | 175,625 |
| 2015-16 | 95,000 | 78,250 | 173,250 |
| 2016-17 | 100,000 | 75,875 | 175,875 |
| 2017-18 | 100,000 | 73,375 | 173,375 |
| 2018-19 | 105,000 | 70,875 | 175,875 |
| 2019-20 | 105,000 | 68,250 | 173,250 |
| 2020-21 | 110,000 | 65,625 | 175,625 |
| 2021-26 | 590,000 | 285,750 | 875,750 |
| 2026-31 | 665,000 | 208,250 | 873,250 |
| 2031-36 | 760,000 | 120,375 | 880,375 |
| 2036-43 | 500,000 | 25,125 | 525,125 |
| TOTALS | \$ 3,405,000 | \$ 1,320,375 | \$ 4,725,375 |

INTERNAL SERVICE FUNDS - INSTALLMENT LOANS

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

| <u>Purpose of Note</u> | <u>Date</u> | <u>Original</u> | <u>Maturity</u> | <u>Interest</u> | <u>Balance</u> | <u>Current</u> |
|------------------------|-------------|-----------------|-----------------|-----------------|----------------|----------------|
| Cat end loader | 12/21/07 | \$ 150,065 | 12/1/13 | 3.85% | \$ 50,021 | \$ 25,011 |
| 97 Ford and Vactor | 12/1/08 | \$ 124,950 | 12/1/14 | 3.55% | \$ 65,741 | \$ 21,154 |
| 2009 Rear Loader | 6/3/09 | \$ 63,694 | 6/3/15 | 4.00% | \$ 33,719 | \$ 10,802 |
| 2011 Snow Blower | 3/2/10 | \$ 91,000 | 2/1/19 | 4.00% | \$ 76,000 | \$ 8,000 |
| 2011 Sander | 4/20/11 | \$ 187,000 | 10/1/26 | 4.125% | \$ 124,500 | \$ 6,000 |
| 2011 Grader | 4/20/11 | \$ 130,000 | 4/1/26 | 4.00% | \$ 178,000 | \$ 10,000 |

As of June 30, 2012, the aggregate maturities of loans payable are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|-------------------|-------------------|-------------------|
| 2012-13 | \$ 80,967 | \$ 20,905 | \$ 101,872 |
| 2013-14 | 84,149 | 17,791 | 101,940 |
| 2014-15 | 61,365 | 14,552 | 75,917 |
| 2015-16 | 28,000 | 12,191 | 40,191 |
| 2016-17 | 29,500 | 11,062 | 40,562 |
| 2017-18 | 30,000 | 9,873 | 39,873 |
| 2018-19 | 30,500 | 8,663 | 39,163 |
| 2019-20 | 73,000 | 6,992 | 79,992 |
| 2020-21 | 94,500 | 6,141 | 100,641 |
| 2021-26 | 16,000 | 16,153 | 32,153 |
| TOTALS | \$ 527,981 | \$ 124,323 | \$ 652,304 |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - LONG-TERM DEBT (Continued)

Changes in long-term debt principal are summarized below:

| | Balance 6/30/11 | Additions | Retired | Balance 6/30/12 | Current Maturities |
|-------------------------------------|----------------------|------------------|-------------------|----------------------|-----------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| 1997 Building Authority Bonds | \$ 400,000 | \$ - | \$ 15,000 | \$ 385,000 | \$ 15,000 |
| 1998 Building Authority Bonds | 799,000 | - | 29,000 | 770,000 | 31,000 |
| USDA Community Facilities Loan | 401,000 | - | 33,000 | 368,000 | 35,000 |
| Superior National Bank - Land | 123,756 | - | 11,244 | 112,512 | 12,162 |
| Superior National Bank - Vehicle | 47,432 | - | 11,170 | 36,262 | 11,617 |
| 2008A Building Authority Bonds | 474,000 | - | 9,000 | 465,000 | 10,000 |
| 2008B Building Authority Bonds | 98,000 | - | 2,000 | 96,000 | 2,000 |
| | <u>2,343,188</u> | <u>-</u> | <u>110,414</u> | <u>2,232,774</u> | <u>116,779</u> |
| ENTERPRISE FUNDS | | | | | |
| 2011A Water Supply System Bonds | 1,225,000 | - | 18,000 | 1,207,000 | 18,000 |
| 2011B Water Supply System Bonds | 1,620,000 | 2,125,000 | 57,000 | 3,688,000 | 58,000 |
| 2010 Sanitary Sewage Disposal Bonds | 928,000 | 1,165,000 | 31,000 | 2,062,000 | 31,000 |
| 1997 Water System Bonds | - | - | - | - | - |
| 1998 Water System Bonds | - | - | - | - | - |
| 2008 Water Supply System Bond | 3,495,000 | - | 90,000 | 3,405,000 | 90,000 |
| | <u>7,268,000</u> | <u>3,290,000</u> | <u>196,000</u> | <u>10,362,000</u> | <u>197,000</u> |
| INTERNAL SERVICE FUND | | | | | |
| Installment Loans | 606,307 | - | 78,326 | 527,981 | 80,967 |
| TOTALS | <u>\$ 10,217,495</u> | <u>\$ -</u> | <u>\$ 384,740</u> | <u>\$ 13,122,755</u> | <u>\$ 394,746</u> |

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

GOVERNMENTAL ACTIVITIES

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------|---------------------|---------------------|---------------------|
| 2012-13 | \$ 116,779 | \$ 101,351 | \$ 218,130 |
| 2013-14 | 118,729 | 96,223 | 214,952 |
| 2014-15 | 129,718 | 90,941 | 220,659 |
| 2015-16 | 182,548 | 85,297 | 267,845 |
| 2016-17 | 113,000 | 77,412 | 190,412 |
| 2017-18 | 119,000 | 72,268 | 191,268 |
| 2018-23 | 584,000 | 229,617 | 813,617 |
| 2023-28 | 578,000 | 187,640 | 765,640 |
| 2028-33 | 130,000 | 71,373 | 201,373 |
| 2033-38 | 161,000 | 20,910 | 181,910 |
| TOTALS | <u>\$ 2,232,774</u> | <u>\$ 1,033,032</u> | <u>\$ 3,265,806</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE I - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUNDS

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-------------------|-------------------|-------------------|
| 2012-13 | \$ 80,967 | \$ 20,905 | \$ 101,872 |
| 2013-14 | 84,149 | 17,791 | 101,940 |
| 2014-15 | 61,365 | 14,552 | 75,917 |
| 2015-16 | 28,000 | 12,191 | 40,191 |
| 2016-17 | 29,500 | 11,062 | 40,562 |
| 2017-18 | 30,000 | 9,873 | 39,873 |
| 2018-19 | 30,500 | 8,663 | 39,163 |
| 2019-20 | 32,000 | 6,992 | 38,992 |
| 2020-21 | 65,500 | 6,141 | 71,641 |
| 2021-26 | 86,000 | 15,153 | 101,153 |
| TOTALS | <u>\$ 527,981</u> | <u>\$ 123,323</u> | <u>\$ 651,304</u> |

ENTERPRISE FUNDS

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|----------------------|---------------------|----------------------|
| 2012-13 | \$ 197,000 | \$ 258,120 | \$ 455,120 |
| 2013-14 | 201,000 | 253,193 | 454,193 |
| 2014-15 | 208,000 | 248,166 | 456,166 |
| 2015-16 | 211,000 | 242,978 | 453,978 |
| 2016-17 | 218,000 | 237,702 | 455,702 |
| 2017-18 | 222,000 | 232,251 | 454,251 |
| 2018-19 | 229,000 | 483,575 | 712,575 |
| 2019-20 | 233,000 | 408,600 | 641,600 |
| 2020-21 | 241,000 | 324,024 | 565,024 |
| 2021-26 | 1,294,000 | 778,718 | 2,072,718 |
| 2026-31 | 1,461,000 | 608,617 | 2,069,617 |
| 2031-36 | 1,661,000 | 499,650 | 2,160,650 |
| 2036-41 | 1,523,000 | 380,936 | 1,903,936 |
| 2041-46 | 1,156,000 | 246,400 | 1,402,400 |
| 2046-51 | 1,307,000 | 94,247 | 1,401,247 |
| TOTALS | <u>\$ 10,362,000</u> | <u>\$ 5,297,177</u> | <u>\$ 15,659,177</u> |

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE J - ENTERPRISE FUNDS

SEGMENT INFORMATION - The City maintains four Enterprise Funds which provide water, sewer, parking, and transit services. Segment information for the year ended June 30, 2012 is as follows:

| | <u>Parking Meter</u> | <u>Transit</u> | <u>Sewer</u> | <u>Water</u> |
|---|----------------------|----------------|--------------|----------------|
| Operating revenues | \$ 11,070 | \$ 191,479 | \$ 2,455,505 | \$ 3,787,717 |
| Depreciation | \$ - | \$ 77,096 | \$ 98,318 | \$ 227,652 |
| Income (loss) from operations | \$ (7,424) | \$ (103,939) | \$ 1,747,658 | \$ 3,023,049 |
| Non-operating revenues | \$ 2,010 | \$ 42,449 | \$ 6,218 | \$ 15,899 |
| Non-operating expenses | \$ - | \$ - | \$ 39,209 | \$ 191,811 |
| Net Income (loss) | \$ (5,414) | \$ (61,490) | \$ 1,714,667 | \$ 2,847,137 |
| Property, plant & equipment | | | | |
| Additions | \$ - | \$ - | \$ 2,392,006 | \$ 3,740,614 |
| Total assets | \$ 2,186 | \$ 816,483 | \$ 5,019,707 | \$ 12,596,392 |
| Net working capital surplus (deficit) | \$ (11,395) | \$ 60 | \$ 221,393 | \$ 221,689 |
| Long-term liabilities: | | | | |
| Payable from operating revenues | \$ - | \$ - | \$ 2,031,000 | \$ 8,134,000 |
| Invested in capital assets, net of related debt | \$ - | \$ 792,359 | \$ 2,484,706 | \$ 3,329,979 |
| Reserved net assets | \$ - | \$ - | \$ 119,766 | \$ 216,766 |
| Unrestricted net assets | \$ (11,395) | \$ 792,419 | \$ 2,617,333 | \$ 3,500,902 |
| Total net assets | \$ (11,395) | \$ 792,419 | \$ 2,737,882 | \$ 3,717,668 |
| Net cash provided (used) by: | | | | |
| Operating activities | \$ (7,526) | \$ (28,682) | \$ 1,434,510 | \$ 2,101,700 |
| Noncapital financing activities | \$ 8,245 | \$ 40,893 | \$ (90,398) | \$ 23,989 |
| Capital & related financing activities | \$ - | \$ 2,305 | \$ 1,297,215 | \$ (1,972,425) |
| Investing activities | \$ 10 | \$ 144 | \$ 87 | \$ 1,594 |
| Beginning cash | \$ 1,377 | \$ 7,717 | \$ 104,142 | \$ 178,281 |
| Ending cash | \$ 2,106 | \$ 22,377 | \$ 151,126 | \$ 285,161 |

NOTE K - RESERVES AND RESTRICTED ASSETS

Water Fund

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

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

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

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

Sewer Fund

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE K - RESERVES AND RESTRICTED ASSETS (Continued)

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

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

Repair and Replacement Improvement Account - The general purpose account as of December 2011 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, 2012, 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 | \$ 19,690 | \$ 101,486 |
| Repair and Replacement | 10,012 | 56,315 |
| Junior lien bond and interest redemption | 48,568 | 50,422 |
| | <u>\$ 78,270</u> | <u>\$ 208,223</u> |
| <u>Sewer Fund</u> | | |
| Bond Reserve Account | \$ 10,680 | \$ 22,146 |
| Repair and Replacement Account | 41,577 | 43,236 |
| Bond and Interest Redemption Account 2008 | 21,079 | 54,787 |
| | <u>\$ 73,336</u> | <u>\$ 120,169</u> |

NOTE L - TRANSIT FUND

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

The following are required Michigan Department of Transportation disclosures:

- Management provides assurance that the City of Hancock Transit has one approved cost allocation plan, which was adhered to in the preparation of the City of Hancock’s financial statements.
- The methodology used for compiling miles and other nonfinancial information used to allocate costs has been reviewed and the recording method has been found to be adequate and reliable
- The depreciation expense reported in 51300 equals the ineligible depreciation reported in 55007. Therefore, the depreciation assurance regarding approval of useful life is not required.
- No operating expenses are subtracted out as ineligible because no capital money was used to pay for operating expenses.
- The Hancock Transit has not received auxiliary or non transportation revenue.
- 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 84 through 88.

NOTE M - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2012, 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 will be funded for the first 2 years by a state grant. Thereafter, it will be funded through a tax increment financing City which includes the entire Cities of Hancock and Houghton. The tax is levied annually with the school millage only and will continue until the year 2017. The Smart Zone TIF plan will not affect either City’s current tax revenue. The tax revenue levied for the summer 2012 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2012, via the Local Development Finance Authority – the financing entity. Summary of TIF City data as of June 30, 2012:

| | <u>Downtown Development</u> | <u>TIF District Local Street (Elevation)</u> | <u>MTEPS</u> |
|---------------------------------------|---------------------------------|--|---------------|
| | 1984 | 1993 | 1999 |
| Base year | | | |
| State Equalized Value (SEV) base year | | | |
| Real property | \$ 9,826,000 | \$ 143,000 | \$ 48,229,352 |
| Personal property | \$ 1,662,280 | \$ - | \$ 2,911,983 |
| Current year SEV | | | |
| Real property | \$ 15,561,663 | \$ 1,406,976 | \$ 77,059,702 |
| Personal property | \$ 1,763,081 | \$ 318,632 | \$ 4,922,115 |
| Increase (Decrease) of taxable value | | | |
| Real | \$ 5,735,663 | \$ 1,263,976 | \$ 28,830,350 |
| Personal property | \$ 100,801 | \$ 318,632 | \$ 1,858,295 |
| Authorized tax mills levied-Homestead | 20.4682 | 23.02 | 3.00 |
| Non-homestead | - | - | 11.89 |
| Tax revenue collected | \$ 133,626 | \$ 25,887 | \$ 251,143 |

NOTE N - PENSION PLAN

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

Funding Policy: The City is required to contribute to the plan at an actuarially determined rate. As of July 1, 2011 the rate, as a percent of annual covered payroll, was 11.35%. Plan members are required to contribute 3.3% of their annual covered salary. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2012

NOTE N - PENSION PLAN (Continued)

Annual Pension Cost: For the year ended June 30, 2012, the City's required and actual pension cost was \$66,877. The annual required contribution percentage was determined as a part of the actuarial valuation on December 31, 2011, using the entry age normal cost method. Significant actuarial assumptions used include a net investment rate of return on assets of 8 percent per year compounded annually, projected salary increases of 4.5 percent per year compounded annually due to inflation, and additional projected salary increases ranging from 0 to 4.5 percent per year depending on an age to reflect merit and longevity. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Any unfunded actuarial liability is amortized by a level percent of payroll contributions over a period of 30 years.

Three-year Trend Information:

| | <u>Fiscal Year Ended March 31</u> | | |
|-------------------------------|-----------------------------------|-------------|-------------|
| | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| Annual pension cost (APC) | \$ 74,411 | \$ 80,007 | \$ 66,877 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |

| | <u>Valuation as of December 31</u> | | |
|---|------------------------------------|--------------|--------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| Actuarial value of assets | \$1,445,619 | \$ 1,636,274 | \$ 1,821,701 |
| Actuarial accrued liability (entry age) | \$2,040,960 | \$ 2,181,334 | \$ 2,384,979 |
| Unfunded actuarial liability (UAAL) | \$ 595,341 | \$ 545,060 | \$ 563,278 |
| Funded ratio | 71% | 75% | 76% |
| Covered payroll | \$ 622,844 | \$ 626,872 | \$ 624,361 |
| UAAL as a percentage of covered payroll | 96% | 87% | 90% |

The unfunded accrued liability of the plan as of December 31, 2011 was \$563,278.

Defined Contribution Pension Union Agreement

The City provides pension benefits for all Teamster employees per the signed union bargaining agreement. For the year ending June 30, 2012, after adjustment the City made weekly contributions of \$94 per week from July 1 through December 31 and \$101 from January 1 through June 30, per participant to a defined contribution plan based on years of service.

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

NOTE O - DEFERRED COMPENSATION PLAN

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

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

NOTE P - DEFICIT FUND BALANCE

The financial statements for the Parking Meter Fund and Local Street Fund had a fund deficit at June 30, 2012 of \$11,395 and \$23,298 respectively.

NOTE Q - RELATED PARTY TRANSACTIONS

The Portage Lake Water and Sewage Authority is a jointly governed organization consisting of five members, of which two are appointed by the respective City Councils of Houghton and Hancock, and the fifth member appointed by the other four members. The entity is not a component unit of the City. Further financial information is detailed in Note A of these financial statements. As of June 30, 2012, Portage Lake Water and Sewage Authority owed The City of Hancock \$40,620, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due from other governmental units.

NOTE R - RISK MANAGEMENT

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

NOTE S - PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to record an increase in accrued interest and a decrease in beginning net assets for \$22,802 in the Water Fund.

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 April 12, 2012, the City closed on a Hancock Rental Rehabilitation grant in the amount of \$298,780. The project did not begin until after June 30, 2012.

CITY OF HANCOCK
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2011

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | Actual (GAAP Basis) | Variance Final to Actual |
|--|-------------------------|---------------------|------------------------|-----------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Local sources | \$ 1,657,653 | \$ 1,661,287 | \$ 1,587,380 | \$ (73,907) |
| State and federal sources | 385,026 | 537,235 | 443,497 | (93,738) |
| TOTAL REVENUE | <u>2,042,679</u> | <u>2,198,522</u> | <u>2,030,877</u> | <u>(167,645)</u> |
| EXPENDITURES: | | | | |
| General government | | | | |
| Board/Legislative | 9,462 | 10,262 | 10,255 | 7 |
| Manager | 78,037 | 81,175 | 84,818 | (3,643) |
| Clerk | 46,045 | 55,554 | 60,404 | (4,850) |
| Treasurer | 46,639 | 47,446 | 51,981 | (4,535) |
| Legal, accounting, and audit | 26,300 | 34,000 | 32,304 | 1,696 |
| Assessor | 34,434 | 35,181 | 34,978 | 203 |
| Planning and professional services | 1,700 | 4,400 | 4,433 | (33) |
| Elections | 5,675 | 8,325 | 12,386 | (4,061) |
| Building and grounds | 56,898 | 56,998 | 60,107 | (3,109) |
| Cemetery | 30,503 | 35,258 | 45,214 | (9,956) |
| Public safety | 715,834 | 740,284 | 750,100 | (9,816) |
| Public works | 236,662 | 243,710 | 190,462 | 53,248 |
| Sanitation | 304,639 | 305,340 | 305,156 | 184 |
| Recreation and culture | 114,372 | 299,433 | 168,812 | 130,621 |
| Debt service | 86,212 | 86,212 | 79,053 | 7,159 |
| Other | 47,334 | 52,640 | 57,399 | (4,759) |
| TOTAL EXPENDITURES | <u>1,840,746</u> | <u>2,096,218</u> | <u>1,947,862</u> | <u>148,356</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 201,933 | 102,304 | 83,015 | (19,289) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers out | (202,449) | (208,449) | (42,000) | 166,449 |
| | <u>(202,449)</u> | <u>(208,449)</u> | <u>(42,000)</u> | <u>166,449</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ (516)</u> | <u>\$ (106,145)</u> | 41,015 | <u>\$ 313,609</u> |
| FUND BALANCE - BEGINNING OF YEAR | | | <u>59,191</u> | |
| FUND BALANCE - END OF YEAR | | | <u>\$ 100,206</u> | |

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual (GAAP Basis)</u> | <u>Variance Final to Actual</u> |
|--|-------------------------|--------------------|--------------------------------|-------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| State | \$ 413,500 | \$ 415,025 | \$ 452,793 | \$ 37,768 |
| Federal | - | - | 94,266 | \$ 94,266 |
| Interest | 1,100 | 1,100 | 691 | (409) |
| TOTAL REVENUE | <u>414,600</u> | <u>416,125</u> | <u>547,750</u> | <u>131,625</u> |
| EXPENDITURES: | | | | |
| General government administration | 17,250 | 45,250 | 21,831 | 23,419 |
| Highway and streets: | | | | |
| Construction | 30,614 | 39,300 | 162,952 | (123,652) |
| State trunkline maintenance | 190,306 | 210,704 | 213,236 | (2,532) |
| Routine maintenance | 39,811 | 48,411 | 45,495 | 2,916 |
| Traffic services | 2,380 | 3,852 | 3,883 | (31) |
| Snow and ice control | 139,666 | 127,482 | 121,740 | 5,742 |
| Sweeping and flushing | 1,300 | 1,300 | 2,137 | (837) |
| TOTAL EXPENDITURES | <u>421,327</u> | <u>476,299</u> | <u>571,274</u> | <u>(94,975)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (6,727) | (60,174) | (23,524) | 36,650 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | 10,000 | 10,000 | - | 10,000 |
| NET CHANGE IN FUND BALANCE | <u>\$ 3,273</u> | <u>\$ (50,174)</u> | <u>(23,524)</u> | <u>\$ 46,650</u> |
| FUND BALANCE - BEGINNING OF YEAR | | | <u>31,144</u> | |
| FUND BALANCE - END OF YEAR | | | <u>\$ 7,620</u> | |

CITY OF HANCOCK
SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2012

CITY OF HANCOCK
GENERAL FUND
BALANCE SHEET
June 30, 2012

| | 2012 |
|--|-----------------------|
| ASSETS: | |
| Cash and cash equivalents | \$ 367,810 |
| Receivables | |
| Delinquent taxes | 57,936 |
| Service customers (includes unbilled) | 14,514 |
| Other | 11,354 |
| Due from other funds | 95,583 |
| Due from fiduciary funds | 1,533 |
| Due from government units | 18,317 |
| Prepaid expenses | 29,072 |
| Inventory | 20,259 |
| Restricted cash | 42,107 |
| TOTAL ASSETS | \$ 658,485 |
| LIABILITIES: | |
| Accounts payable | \$ 39,261 |
| Accrued expenses | 28,728 |
| Due to other funds | 490,290 |
| TOTAL LIABILITIES | 558,279 |
| FUND BALANCES: | |
| Nonspendable: | |
| Inventories | 20,259 |
| Prepays | 29,072 |
| Restricted: | |
| Program projects | 42,107 |
| Unassigned | 8,768 |
| TOTAL FUND BALANCES | 100,206 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 658,485 |

CITY OF HANCOCK
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

| REVENUES: | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|----------------------------------|------------------|------------------|------------------|
| Current taxes: | | | |
| Property taxes | \$ 1,039,310 | \$ 1,026,309 | \$ (13,001) |
| Personal property taxes | 60,000 | 60,416 | 416 |
| Penalties & interest on tax | 9,500 | 8,462 | (1,038) |
| Payments in lieu of tax | 17,000 | 9,544 | (7,456) |
| Tax administration fees | <u>42,000</u> | <u>43,221</u> | <u>1,221</u> |
| Total current taxes | <u>1,167,810</u> | <u>1,147,952</u> | <u>19,858</u> |
| State and federal revenue: | | | |
| Federal Grant | 31,740 | 21,288 | (10,452) |
| Police training | 1,076 | 1,515 | 439 |
| Sales tax | 335,646 | 416,169 | 80,523 |
| Liquor tax | 4,950 | 4,525 | (425) |
| Other | <u>163,823</u> | <u>-</u> | <u>(163,823)</u> |
| Total state and federal revenue | <u>537,235</u> | <u>443,497</u> | <u>(93,738)</u> |
| Charges for services: | | | |
| Vault service | 3,700 | 3,485 | (215) |
| Burial open and close | 8,800 | 12,125 | 3,325 |
| Garbage collection | 170,500 | 167,753 | (2,747) |
| Campground revenue | 81,000 | 81,584 | 584 |
| Beach rental fees | 700 | 755 | 55 |
| Other charges | 94,597 | 90,720 | (3,877) |
| Cemetery lots | <u>4,075</u> | <u>2,600</u> | <u>(1475)</u> |
| Total charges for services | <u>363,372</u> | <u>359,022</u> | <u>4,350</u> |
| Fines, forfeitures and penalties | <u>3,500</u> | <u>3,127</u> | <u>(373)</u> |
| Rentals: | | | |
| Interest income | 5,900 | 6,168 | 268 |
| Cemetery interest | 1,200 | 1,329 | 129 |
| Land rents | 1,100 | 600 | (500) |
| Office rental | <u>7,620</u> | <u>7,620</u> | <u>-</u> |
| Total Rentals | <u>15,820</u> | <u>15,717</u> | <u>(103)</u> |
| Other revenue: | | | |
| Sale of assets | 5,600 | 5,600 | - |
| Parks Round-up contributions | 110 | 48 | (62) |
| Sand and salt sales | 64,000 | 781 | (63,219) |
| Cable franchise fee | 26,000 | 32,606 | 6,606 |
| Reimbursement | 7,500 | 15,371 | 7,871 |
| Licenses and permits | 525 | 535 | 10 |
| Miscellaneous | <u>7,050</u> | <u>6,621</u> | <u>(429)</u> |
| Total other revenue | <u>110,785</u> | <u>61,562</u> | <u>(49,223)</u> |
| TOTAL REVENUES | <u>2,198,522</u> | <u>2,030,877</u> | <u>(167,645)</u> |

CITY OF HANCOCK
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---|----------------|----------------|-----------------|
| EXPENDITURES: | | | |
| General government administration: | | | |
| Legislative | 8,980 | 8,953 | 27 |
| City manager | 81,175 | 84,818 | (3,643) |
| Planning and professional services | 4,400 | 4,433 | (33) |
| Clerk | 55,554 | 60,404 | (4,850) |
| Treasurer | 47,446 | 51,981 | (4,535) |
| Attorney | 10,000 | 8,754 | 1,246 |
| Assessor | 35,181 | 34,978 | 203 |
| Elections | 8,325 | 12,386 | (4,061) |
| Accounting and computer services | 24,000 | 23,550 | 450 |
| Board of review | 1,282 | 1,302 | (20) |
| Building and grounds | 56,998 | 60,107 | (3,109) |
| Cemetery | 35,258 | 45,214 | (9,956) |
| Total general government administration | <u>368,599</u> | <u>396,880</u> | <u>(28,281)</u> |
| Public safety: | | | |
| Police | 638,800 | 664,688 | (25,888) |
| Fire | 101,484 | 85,412 | 16,072 |
| Total public safety | <u>740,284</u> | <u>750,100</u> | <u>(9,816)</u> |
| Public works: | | | |
| Department of public works | 95,571 | 80,893 | 14,678 |
| Inventory sand/calcium | 61,194 | (1) | 61,195 |
| Winter maintenance | 230 | - | 230 |
| Equipment rental-street lighting | 85,000 | 107,857 | (22,857) |
| Sidewalks and curbs | 1,715 | 1,713 | 2 |
| Total public works | <u>243,710</u> | <u>190,462</u> | <u>53,248</u> |
| Sanitation: | | | |
| Garbage collection | 180,548 | 178,107 | 2,441 |
| Landfill | 92,558 | 97,696 | (5,138) |
| Spring and fall cleanup | 32,234 | 29,353 | 2,881 |
| Total sanitation | <u>305,340</u> | <u>305,156</u> | <u>184</u> |
| Culture and recreation: | | | |
| Parks | 31,531 | 35,718 | (4,187) |
| Beach | 177,275 | 38,050 | 139,225 |
| Campground | 64,462 | 69,901 | (5,439) |
| Ski trails | 23,915 | 22,489 | 1,426 |
| Skating rinks | 2,250 | 2,654 | (404) |
| Total culture and recreation | <u>299,433</u> | <u>168,812</u> | <u>130,621</u> |

CITY OF HANCOCK
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|---------------------|-------------------|---------------------|
| Debt service | <u>86,212</u> | <u>79,053</u> | <u>7,159</u> |
| Other: | | | |
| Community promotion | <u>22,640</u> | <u>28,585</u> | <u>(5,945)</u> |
| Insurance | <u>30,000</u> | <u>28,814</u> | <u>1,186</u> |
| Total other | <u>52,640</u> | <u>57,399</u> | <u>(4,759)</u> |
| TOTAL EXPENDITURES | <u>2,096,218</u> | <u>1,947,862</u> | <u>148,356</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>102,304</u> | <u>83,015</u> | <u>19,289</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating transfers out | <u>(208,449)</u> | <u>(42,000)</u> | <u>166,449</u> |
| TOTAL OTHER FINANCING SOURCES (USES): | <u>(208,449)</u> | <u>(42,000)</u> | <u>(166,449)</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (106,145)</u> | 41,015 | <u>\$ (147,160)</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>59,191</u> | |
| FUND BALANCE, END OF YEAR | | <u>\$ 100,206</u> | |

CITY OF HANCOCK
CEMETERY PERPETUAL CARE TRUST FUND
SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year ended June 30, 2012

| | 2012 |
|--|------------|
| OPERATING REVENUES: | |
| Other revenue | \$ 1,975 |
| TOTAL OPERATING REVENUES | 1,975 |
| OPERATING EXPENSES: | |
| OPERATING INCOME (LOSS) | 1,975 |
| NON-OPERATING REVENUES (EXPENSES): | |
| Interest income | 377 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 377 |
| NET INCOME (LOSS) | 2,352 |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | 175,736 |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | \$ 178,088 |

CITY OF HANCOCK
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2012

| | Major Street | Local Street | Community Development Block Grant | Elevation Street TIF | Total |
|--|-------------------|-------------------|---|-------------------------|-------------------|
| ASSETS: | | | | | |
| Cash | \$ 101,791 | \$ 18,215 | \$ - | \$ 262,476 | \$ 382,482 |
| Restricted cash | - | - | 182,702 | - | 182,702 |
| Taxes receivable | - | 51,003 | - | 45 | 51,048 |
| Due from other funds | - | 192,630 | - | - | 192,630 |
| Due from other governmental units | 37,974 | 16,935 | - | - | 54,909 |
| Total assets | \$ 139,765 | \$ 278,783 | \$ 182,702 | \$ 262,521 | \$ 863,771 |
| LIABILITIES: | | | | | |
| Accounts payable | \$ 9,280 | \$ - | \$ - | \$ 2,090 | \$ 11,370 |
| Accrued expenses | 966 | 1,463 | - | 1,151 | 3,580 |
| Due to other funds | 121,899 | 300,618 | - | 46,056 | 468,573 |
| Deferred revenue | - | - | 178,806 | - | 178,806 |
| Total liabilities | 132,145 | 302,081 | 178,806 | 49,297 | 662,329 |
| FUND EQUITY: | | | | | |
| Restricted: | | | | | |
| Streets and highways | 7,620 | (23,298) | - | - | (15,678) |
| CDBG | - | - | 3,896 | - | 3,896 |
| TIFA | - | - | - | 213,224 | 213,224 |
| TOTAL FUND EQUITY | 7,620 | (23,298) | 3,896 | 213,224 | 201,442 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 139,765 | \$ 278,783 | \$ 182,702 | \$ 262,521 | \$ 863,771 |

CITY OF HANCOCK
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES June 30, 2012

| REVENUES: | Major Street | Local Street | Community Development Block Grant | Elevation Street TIF | Totals |
|---|-----------------|--------------------|---|-------------------------|-------------------|
| Current taxes | \$ - | \$ 88,328 | \$ - | \$ 34,475 | \$ 122,803 |
| State | 452,793 | 143,397 | - | - | 596,190 |
| Federal | 94,266 | - | - | - | 94,266 |
| Interest | 691 | 304 | - | 257 | 1,252 |
| Other revenue | - | - | 6,662 | - | 6,662 |
| Total revenues | <u>547,750</u> | <u>232,029</u> | <u>6,662</u> | <u>34,732</u> | <u>821,173</u> |
| EXPENDITURES: | | | | | |
| General government administration | 21,831 | 6,621 | - | - | 28,452 |
| Highway and streets: | | | | | |
| Construction | 162,952 | 42,007 | - | - | 204,959 |
| State trunkline maintenance | 213,236 | - | - | - | 213,236 |
| Routine maintenance | 45,495 | 70,467 | - | - | 115,962 |
| Traffic services | 3,883 | 4,624 | - | - | 8,507 |
| Snow and ice control | 121,740 | 130,316 | - | - | 252,056 |
| Sweeping and flushing | 2,137 | 1,292 | - | - | 3,429 |
| State grant expenditures | - | - | 108,952 | - | 108,952 |
| Total expenditures | <u>571,274</u> | <u>255,327</u> | <u>108,952</u> | <u>-</u> | <u>935,553</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | <u>(23,524)</u> | <u>(23,298)</u> | <u>(102,290)</u> | <u>34,732</u> | <u>(114,380)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Operating transfers in (out) | - | - | - | (20,436) | (20,436) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>(23,524)</u> | <u>(23,298)</u> | <u>(102,290)</u> | <u>14,296</u> | <u>(134,816)</u> |
| FUND BALANCE, BEGINNING OF YEAR | <u>31,144</u> | <u>-</u> | <u>106,186</u> | <u>198,928</u> | <u>336,258</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 7,620</u> | <u>\$ (23,298)</u> | <u>\$ 3,896</u> | <u>\$ 213,224</u> | <u>\$ 201,442</u> |

CITY OF HANCOCK
MAJOR STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|--------------------|-----------------|--------------------|
| REVENUES: | | | |
| State | \$ 415,025 | \$ 452,793 | \$ 37,768 |
| Federal | - | 94,266 | 94,266 |
| Interest | <u>1,100</u> | <u>691</u> | <u>(409)</u> |
| TOTAL REVENUES | <u>416,125</u> | <u>547,750</u> | <u>(131,625)</u> |
| EXPENDITURES: | | | |
| General government administration | <u>45,250</u> | <u>21,831</u> | <u>23,419</u> |
| Highway and streets: | | | |
| Construction | 39,300 | 162,952 | (123,652) |
| State trunkline maintenance | 210,704 | 213,236 | (2,532) |
| Routine maintenance | 48,411 | 45,495 | 2,916 |
| Traffic services | 3,852 | 3,883 | (31) |
| Snow and ice control | 127,482 | 121,740 | 5,742 |
| Sweeping and flushing | <u>1,300</u> | <u>2,137</u> | <u>(837)</u> |
| Total highway and streets | <u>431,049</u> | <u>549,443</u> | <u>(118,394)</u> |
| TOTAL EXPENDITURES | <u>476,299</u> | <u>571,274</u> | <u>(94,975)</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>(60,174)</u> | <u>(23,524)</u> | <u>(36,650)</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating transfers in | <u>10,000</u> | <u>-</u> | <u>(10,000)</u> |
| TOTAL OTHER FINANCING SOURCES (USES): | <u>10,000</u> | <u>-</u> | <u>(10,000)</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (50,174)</u> | <u>(23,524)</u> | <u>\$ (26,650)</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>31,144</u> | |
| FUND BALANCE, END OF YEAR | | <u>\$ 7,620</u> | |

CITY OF HANCOCK
LOCAL STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|-------------------|--------------------|-------------------|
| REVENUES: | | | |
| Taxes | \$ 90,000 | \$ 88,328 | \$ (1,672) |
| State and federal | 143,500 | 143,397 | (103) |
| Income revenue | <u>300</u> | <u>304</u> | <u>4</u> |
| TOTAL REVENUES | <u>233,800</u> | <u>232,029</u> | <u>1,771</u> |
| EXPENDITURES: | | | |
| General government administration | <u>6,783</u> | <u>6,621</u> | <u>162</u> |
| Highway and streets: | | | |
| Construction | 38,000 | 42,007 | (4,007) |
| Routine maintenance | 67,873 | 70,467 | (2,594) |
| Traffic services | 4,165 | 4,624 | (459) |
| Snow and ice control | 128,100 | 130,316 | (2,216) |
| Sweeping and flushing | <u>700</u> | <u>1,292</u> | <u>(592)</u> |
| Total highway and streets | <u>238,838</u> | <u>248,706</u> | <u>(9,868)</u> |
| TOTAL EXPENDITURES | <u>245,621</u> | <u>255,327</u> | <u>(9,706)</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>(11,821)</u> | <u>(23,298)</u> | <u>11,477</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating transfers in | <u>130,000</u> | <u>-</u> | <u>(130,000)</u> |
| TOTAL OTHER FINANCING SOURCES (USES): | <u>130,000</u> | <u>-</u> | <u>(130,000)</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ 118,179</u> | <u>(23,298)</u> | <u>\$ 141,477</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>-</u> | |
| FUND BALANCE, END OF YEAR | | <u>\$ (23,298)</u> | |

CITY OF HANCOCK
COMMUNITY DEVELOPMENT BLOCK GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2012

| | <u>Budget</u> | <u>2012</u> | <u>Variance</u> |
|--|--------------------|------------------|------------------|
| REVENUES: | | | |
| Federal grant | \$ 80,000 | \$ - | \$ (80,000) |
| Other revenue | <u>1,800</u> | <u>6,662</u> | <u>4,862</u> |
| TOTAL REVENUES | <u>81,800</u> | <u>6,662</u> | <u>75,138</u> |
| EXPENDITURES: | | | |
| Administration | 4,500 | 10 | 4,490 |
| Construction | <u>105,000</u> | <u>108,942</u> | <u>(3,942)</u> |
| TOTAL EXPENDITURES | <u>109,500</u> | <u>108,952</u> | <u>548</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>(27,700)</u> | <u>(102,290)</u> | <u>74,590</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating transfers in | - | - | - |
| Operating transfers out | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL OTHER FINANCING SOURCES (USES): | <u>-</u> | <u>-</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (27,700)</u> | <u>(102,290)</u> | <u>\$ 74,590</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>106,186</u> | |
| FUND BALANCE, END OF YEAR | | <u>\$ 3,896</u> | |

CITY OF HANCOCK
ELEVATION STREET TIFA
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|--------------------|-------------------|------------------|
| REVENUES: | | | |
| Taxes | \$ - | \$ 34,475 | \$ 34,475 |
| Interest | - | 257 | 257 |
| TOTAL REVENUES | <u>-</u> | <u>34,732</u> | <u>34,732</u> |
| EXPENDITURES: | | | |
| General government administration | <u>17,333</u> | <u>-</u> | <u>17,333</u> |
| TOTAL EXPENDITURES | <u>17,333</u> | <u>-</u> | <u>17,333</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(17,333)</u> | 34,732 | <u>17,399</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating transfers out | <u>-</u> | <u>(20,436)</u> | <u>(20,436)</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (17,333)</u> | 14,296 | <u>\$ 37,835</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>198,928</u> | |
| FUND BALANCE, END OF YEAR | | <u>\$ 213,224</u> | |

CITY OF HANCOCK
DEBT SERVICE (BUILDING AUTHORITY) FUND
BALANCE SHEET
June 30, 2012

| | <u>2012</u> |
|-------------------------|-----------------|
| ASSETS: | |
| Cash | <u>\$ 1,304</u> |
| | |
| FUND BALANCES: | |
| Assigned - debt service | <u>\$ 1,304</u> |

CITY OF HANCOCK
DEBT SERVICE (BUILDING AUTHORITY) FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|-----------------|-----------------|-----------------|
| REVENUES: | | | |
| Rental income | \$ 115,000 | \$ 136,049 | \$ 21,049 |
| Interest income | <u>10</u> | <u>11</u> | <u>1</u> |
| TOTAL REVENUES | <u>115,010</u> | <u>136,060</u> | <u>(21,050)</u> |
| EXPENDITURES: | | | |
| Bond principal | 44,000 | 55,000 | (11,000) |
| Bond interest and other expense | <u>70,000</u> | <u>81,049</u> | <u>(11,049)</u> |
| TOTAL EXPENDITURES | <u>114,000</u> | <u>136,049</u> | <u>(22,049)</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ 1,010</u> | 11 | <u>\$ 999</u> |
| FUND BALANCE, BEGINNING OF YEAR | | <u>1,293</u> | |
| FUND BALANCE, END OF YEAR | | <u>\$ 1,304</u> | |

CITY OF HANCOCK
RESIDENTIAL CAPITAL PROJECTS
BALANCE SHEET
June 30, 2012

| | <u>2012</u> |
|-------------------------------|------------------|
| ASSETS: | |
| Cash | <u>\$ 20,088</u> |
| FUND BALANCES: | |
| Restricted - capital projects | <u>\$ 20,088</u> |

CITY OF HANCOCK
RESIDENTIAL CAPITAL PROJECTS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|------------------|------------------|------------------|
| REVENUES: | | | |
| Other revenue: | | | |
| Lot sales | \$ 175 | \$ 179 | \$ 4 |
| Other income | <u>34,000</u> | <u>-</u> | <u>(34,000)</u> |
| TOTAL REVENUES | <u>34,175</u> | <u>179</u> | <u>(33,996)</u> |
| | | | |
| EXPENDITURES: | | | |
| Construction | <u>14,059</u> | <u>-</u> | <u>14,059</u> |
| | | | |
| TOTAL EXPENDITURES | <u>14,059</u> | <u>-</u> | <u>14,059</u> |
| | | | |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>20,116</u> | <u>179</u> | <u>19,937</u> |
| | | | |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ 20,116</u> | <u>179</u> | <u>\$ 19,937</u> |
| | | | |
| FUND BALANCE, BEGINNING OF YEAR | | <u>19,909</u> | |
| | | | |
| FUND BALANCE, END OF YEAR | | <u>\$ 20,088</u> | |

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEET
June 30, 2012

| | Sewer Disposal System | Water Supply System | Transit | Parking Meter | Total |
|---|-----------------------------|---------------------------|-------------------|------------------|----------------------|
| ASSETS: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 30,967 | \$ 68,395 | \$ 22,377 | \$ 2,106 | \$ 123,845 |
| Restricted cash | 120,159 | 216,766 | - | - | 336,925 |
| Accounts receivable | 71,781 | 93,741 | 40 | 80 | 165,642 |
| Due from other funds | 37,287 | 71,146 | - | - | 108,433 |
| Due from other government | 169,220 | 458,823 | - | - | 628,043 |
| Inventory | 43,587 | 56,892 | - | - | 100,479 |
| Prepaid expenses | - | 650 | 1,707 | - | 2,357 |
| Total current assets | 473,001 | 966,413 | 24,124 | 2,186 | 1,465,724 |
| Property, plant, and equipment | 9,583,162 | 15,816,989 | 1,024,290 | 30,893 | 26,455,334 |
| Accumulated depreciation & amortization | <u>(5,036,456)</u> | <u>(4,187,010)</u> | <u>(231,931)</u> | <u>(30,893)</u> | <u>(9,486,290)</u> |
| | <u>4,546,706</u> | <u>11,629,979</u> | <u>792,359</u> | <u>-</u> | <u>16,969,044</u> |
| TOTAL ASSETS | \$ 5,019,707 | \$ 12,596,392 | \$ 816,483 | \$ 2,186 | \$ 18,434,768 |

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEET (CONTINUED)

June 30, 2012

| | Sewer Disposal System | Water Supply System | Transit | Parking Meter | Total |
|---|-----------------------------|---------------------------|-------------------|------------------|----------------------|
| LIABILITIES: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 125,628 | \$ 477,814 | \$ 2,433 | \$ - | \$ 605,875 |
| Accrued expenses | 4,629 | 24,720 | 3,738 | 336 | 33,423 |
| Due to other funds | 53,064 | 76,190 | 17,893 | 13,245 | 160,392 |
| Deferred revenue | 37,287 | - | - | - | 37,287 |
| Current maturities on long term debt | 31,000 | 166,000 | - | - | 197,000 |
| Total current liabilities | <u>251,608</u> | <u>744,724</u> | <u>24,064</u> | <u>13,581</u> | <u>1,033,977</u> |
| Long-term liabilities: | | | | | |
| Bonds payable | <u>2,031,000</u> | <u>8,134,000</u> | <u>-</u> | <u>-</u> | <u>10,165,000</u> |
| TOTAL LIABILITIES | <u>2,282,608</u> | <u>8,878,724</u> | <u>24,064</u> | <u>13,581</u> | <u>11,198,977</u> |
| NET ASSETS: | | | | | |
| Reserved | 119,766 | 216,766 | - | - | 336,532 |
| Unreserved | 2,617,333 | 3,500,902 | 792,419 | (11,395) | 6,899,259 |
| Total net assets | <u>2,737,099</u> | <u>3,717,668</u> | <u>792,419</u> | <u>(11,395)</u> | <u>7,235,791</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 5,019,707</u> | <u>\$ 12,596,392</u> | <u>\$ 816,483</u> | <u>\$ 2,186</u> | <u>\$ 18,434,768</u> |

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

June 30, 2012

| | Sewer Fund | Water Fund | Transit | Parking Meter | Total |
|--|---------------------|---------------------|-------------------|--------------------|---------------------|
| OPERATING REVENUES: | | | | | |
| Sales and charges for services | \$ 773,105 | \$ 1,023,290 | \$ 38,863 | \$ 11,070 | \$ 1,846,328 |
| State Grant | - | - | 89,745 | - | 89,745 |
| Federal Grant | 1,682,400 | 2,716,723 | 37,324 | - | 4,436,447 |
| Other revenue | - | 47,701 | 25,547 | - | 73,248 |
| TOTAL OPERATING REVENUES | 2,455,505 | 3,787,714 | 191,479 | 11,070 | 6,445,768 |
| OPERATING EXPENSES: | | | | | |
| General administration | 35,853 | 63,017 | 61,697 | 18,494 | 179,061 |
| Meter reading | 11,160 | 11,171 | - | - | 22,331 |
| Purchased services | 427,930 | 186,649 | - | - | 614,579 |
| Operations and maintenance | 134,586 | 276,176 | 156,625 | - | 567,387 |
| Depreciation | 98,318 | 227,652 | 77,096 | - | 403,066 |
| TOTAL OPERATING EXPENSES | 707,847 | 764,665 | 295,418 | 18,494 | 1,786,424 |
| OPERATING INCOME (LOSS) | 1,747,658 | 3,023,049 | (103,939) | (7,424) | 4,659,344 |
| NON-OPERATING REVENUES (EXPENSES): | | | | | |
| Gain on sale of asset | - | - | 2,305 | - | 2,305 |
| Interest income | 87 | 1,594 | 144 | 10 | 1,835 |
| Interest expense | (39,209) | (191,811) | - | - | 231,020 |
| Operating transfers in | 6,131 | 14,305 | 40,000 | 2,000 | 62,436 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | (32,991) | (175,912) | 42,449 | 2,010 | (164,444) |
| NET INCOME (LOSS) | 1,714,667 | 2,847,137 | (61,490) | (5,414) | 4,494,900 |
| NET ASSETS (DEFICIT), BEGINNING OF THE YEAR | 1,022,432 | 870,531 | 853,909 | (5,981) | 2,740,891 |
| NET ASSETS (DEFICIT), END OF YEAR | \$ 2,737,099 | \$ 3,717,668 | \$ 792,419 | \$ (11,395) | \$ 7,235,791 |

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBING STATEMENT OF CASH FLOWS
Year Ended June 30, 2012

| | Enterprise Funds | | | |
|---|---------------------|---------------------|--------------------|-------------------|
| | Major Funds | | | Non-major Fund |
| | Sewer | Water | Transit | Parking Meter |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$ 767,099 | \$ 1,027,363 | \$ 38,863 | \$ 11,070 |
| Payments to suppliers | (876,870) | (1,457,292) | (58,423) | (1,235) |
| Internal activity-receipts (payments) to other funds | (20,263) | (31,262) | (13) | - |
| Payments to employees | (117,856) | (201,533) | (161,725) | (17,361) |
| Other receipts (payments) | 1,682,400 | 2,764,424 | 152,616 | - |
| Net cash provided by operating activities | <u>1,434,510</u> | <u>2,101,700</u> | <u>(28,682)</u> | <u>(7,526)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Operating subsidies and transfers to other funds | <u>(90,398)</u> | <u>(23,989)</u> | <u>40,893</u> | <u>8,245</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from capital debt | 1,164,000 | 2,125,000 | - | - |
| Gain (loss) on sale of asset | - | - | 2,305 | - |
| Purchases of capital assets | (2,392,006) | (3,740,614) | - | - |
| Principal paid on capital debt | (30,000) | (165,000) | - | - |
| Interest paid on capital debt | (39,209) | (191,811) | - | - |
| Net cash (used) by capital and related financing activities | <u>1,297,215</u> | <u>(1,972,425)</u> | <u>2,305</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest and dividends | 87 | 1,594 | 144 | 10 |
| Net cash provided by investing activities | <u>87</u> | <u>1,594</u> | <u>144</u> | <u>10</u> |
| Net (decrease) in cash and cash equivalents | 46,984 | 106,880 | 14,660 | 729 |
| Balances -- beginning of the year | 104,142 | 178,281 | 7,717 | 1,377 |
| Balances -- end of the year | <u>\$ 151,126</u> | <u>\$ 285,161</u> | <u>\$ 22,377</u> | <u>\$ 2,106</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ 1,747,658 | \$ 3,023,049 | \$ (103,939) | \$ (7,424) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 98,318 | 227,652 | 77,096 | - |
| Changes in assets and liabilities: | | | | |
| Receivables, net | (6,006) | 4,073 | - | - |
| Due from other governmental units | (118,550) | (458,823) | - | - |
| Inventory | 8,124 | 8,394 | - | - |
| Prepaid expenses | - | - | (30) | - |
| Accounts and other payables | (297,410) | (700,306) | (1,844) | - |
| Accrued expenses | 2,376 | (2,339) | 35 | (102) |
| Net cash provided by operating activities | <u>\$ 1,434,510</u> | <u>\$ 2,101,700</u> | <u>\$ (28,682)</u> | <u>\$ (7,526)</u> |

CITY OF HANCOCK
SEWER DISPOSAL SYSTEM FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|---------------------------|----------------------|---------------------------|
| OPERATING REVENUES: | | | |
| Charges for services | \$ 781,000 | \$ 773,105 | \$ (7,895) |
| Federal grant | <u>1,600,000</u> | <u>1,682,400</u> | <u>82,400</u> |
| TOTAL OPERATING REVENUES | <u>2,381,000</u> | <u>2,455,505</u> | <u>74,505</u> |
| OPERATING EXPENSES: | | | |
| General administration | 38,605 | 35,853 | 2,752 |
| Meter reading | 11,058 | 11,160 | (102) |
| Operations and maintenance | 2,824,623 | 134,586 | 2,690,037 |
| Share of Portage Lake W & S Auth plant expense | 501,000 | 427,930 | 73,070 |
| Depreciation | <u>-</u> | <u>98,318</u> | <u>(98,318)</u> |
| TOTAL OPERATING EXPENSES | <u>3,375,286</u> | <u>707,847</u> | <u>2,667,439</u> |
| OPERATING INCOME (LOSS) | (994,286) | 1,747,658 | (2,741,944) |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| Interest income | 1,000 | 87 | (913) |
| Interest expense | (86,155) | (39,209) | 46,946 |
| Operating transfers in | <u>-</u> | <u>6,131</u> | <u>6,131</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>(85,155)</u> | <u>(32,991)</u> | <u>(52,164)</u> |
| NET INCOME (LOSS) | <u>\$ (1,079,441)</u> | 1,714,667 | <u>\$ (2,794,108)</u> |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>1,022,432</u> | |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ 2,737,099</u> | |

CITY OF HANCOCK
WATER SUPPLY SYSTEM FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|---------------------|---------------------|---------------------|
| OPERATING REVENUES: | | | |
| Sales and charges for services | \$ 1,006,800 | \$ 1,023,290 | \$ 16,490 |
| Federal grant | 3,783,400 | 2,716,723 | (1,066,677) |
| Other revenue | 212,024 | 47,701 | (164,323) |
| | <u>5,002,224</u> | <u>3,787,714</u> | <u>1,214,510</u> |
| TOTAL OPERATING REVENUES | | | |
| OPERATING EXPENSES: | | | |
| General administration | 61,694 | 63,017 | (1,323) |
| Meter reading | 10,193 | 11,171 | (978) |
| Purchase of Water | 174,000 | 186,649 | (12,649) |
| Operations and maintenance | 262,283 | 276,176 | (13,893) |
| Depreciation | - | 227,652 | (227,652) |
| | <u>508,170</u> | <u>764,665</u> | <u>(256,495)</u> |
| TOTAL OPERATING EXPENSES | | | |
| OPERATING INCOME (LOSS) | 4,494,054 | 3,023,049 | 1,471,005 |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| Interest income | 1,400 | 1,594 | 194 |
| Interest expense | (418,261) | (191,811) | 226,450 |
| Operating transfers in | - | 14,305 | 14,305 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>(416,861)</u> | <u>(175,912)</u> | <u>(240,949)</u> |
| NET INCOME (LOSS) | <u>\$ 4,077,193</u> | 2,847,137 | <u>\$ 1,230,056</u> |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>870,531</u> | |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ 3,717,668</u> | |

CITY OF HANCOCK
TRANSIT FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|--------------------|-------------------|------------------|
| OPERATING REVENUES: | | | |
| Sales and charges for services | \$ 39,500 | \$ 38,863 | \$ (637) |
| State grant | 88,079 | 89,745 | 1,666 |
| Federal grant | 40,672 | 37,324 | (3,348) |
| Other revenue | <u>4,000</u> | <u>25,547</u> | <u>21,547</u> |
| | | | |
| TOTAL OPERATING REVENUES | <u>172,251</u> | <u>191,479</u> | <u>(19,228)</u> |
| | | | |
| OPERATING EXPENSES: | | | |
| General administration | 86,250 | 61,697 | 24,553 |
| Operations and maintenance | 154,100 | 156,625 | (2,525) |
| Depreciation | <u>-</u> | <u>77,096</u> | <u>(77,096)</u> |
| TOTAL OPERATING EXPENSES | <u>240,350</u> | <u>295,418</u> | <u>(55,068)</u> |
| | | | |
| OPERATING INCOME (LOSS) | (68,099) | (103,939) | 35,840 |
| | | | |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| Gain on sale of asset | - | 2,305 | 2,305 |
| Interest income | 200 | 144 | (56) |
| Operating transfers in | <u>54,749</u> | <u>40,000</u> | <u>(14,749)</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>54,949</u> | <u>42,449</u> | <u>(42,449)</u> |
| | | | |
| NET INCOME (LOSS) | <u>\$ (13,150)</u> | <u>(61,490)</u> | <u>\$ 48,340</u> |
| | | | |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>853,909</u> | |
| | | | |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ 792,419</u> | |

CITY OF HANCOCK
PARKING METER FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year Ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|-----------------|--------------------|------------------|
| OPERATING REVENUES: | | | |
| Charges for services: | \$ 13,000 | \$ 11,070 | \$ (1,930) |
| OPERATING EXPENSES: | | | |
| General administration | 21,187 | 18,494 | 2,693 |
| TOTAL OPERATING EXPENSES | <u>21,187</u> | <u>18,494</u> | <u>2,693</u> |
| OPERATING INCOME (LOSS) | (8,187) | (7,424) | (763) |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| Interest income | 25 | 10 | (15) |
| Operating transfers in | 13,700 | 2,000 | (11,700) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>13,725</u> | <u>2,010</u> | <u>11,715</u> |
| NET INCOME (LOSS) | <u>\$ 5,538</u> | (5,414) | <u>\$ 10,952</u> |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | | <u>(5,981)</u> | |
| RETAINED EARNINGS (DEFICIT), END OF YEAR | | <u>\$ (11,395)</u> | |

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET

June 30, 2012

| | <u>Employee</u> | <u>Motor</u> | <u>Total</u> |
|--|--------------------------|----------------------------|----------------------------|
| | <u>Benefit</u> | <u>Vehicle</u> | |
| ASSETS: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 29,228 | \$ 32,717 | \$ 61,945 |
| Restricted cash | 2,096 | - | 2,096 |
| Accounts receivable | - | 1,142 | 1,142 |
| Due from other funds | 371,125 | 445,784 | 816,909 |
| Inventory | - | 36,864 | 36,864 |
| Prepaid expenses | 38,536 | 15,328 | 53,864 |
| Total current assets | <u>440,985</u> | <u>531,835</u> | <u>972,820</u> |
| Fixed Assets: | | | |
| Equipment | - | 2,438,798 | 2,438,798 |
| Accumulated depreciation & amortization | - | (1,928,245) | (1,928,245) |
| Total Fixed Assets | <u>-</u> | <u>510,553</u> | <u>510,553</u> |
| TOTAL ASSETS | <u>\$ 440,985</u> | <u>\$ 1,042,388</u> | <u>\$ 1,483,373</u> |
| LIABILITIES: | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 16,672 | \$ 6,321 | \$ 22,993 |
| Due to other funds | 70,000 | 24,300 | 94,300 |
| Accrued sick and vacation | 172,280 | - | 172,280 |
| Accrued wages payable | 5,533 | 1,607 | 7,140 |
| Current maturities on long term debt | - | 80,967 | 80,967 |
| Total current liabilities | <u>264,485</u> | <u>113,195</u> | <u>377,680</u> |
| Long-term liabilities: | | | |
| Notes payable | - | 447,014 | 447,014 |
| TOTAL LIABILITIES | <u>264,485</u> | <u>560,209</u> | <u>824,694</u> |
| RETAINED EARNINGS: | | | |
| Reserved | 2,096 | - | 2,096 |
| Unreserved | 174,404 | 482,179 | 656,583 |
| Total retained earnings | <u>176,500</u> | <u>482,179</u> | <u>658,679</u> |
| TOTAL LIABILITIES AND RETAINED EARNINGS | <u>\$ 440,985</u> | <u>\$ 1,042,388</u> | <u>\$ 1,483,373</u> |

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year ended June 30, 2012

| | Employee Benefit | Motor Vehicle | Totals |
|--|---------------------|-------------------|-------------------|
| OPERATING REVENUES: | | | |
| Charges for services | \$ 876,763 | \$ 376,222 | \$ 1,252,985 |
| Federal revenue | - | 43,501 | 43,501 |
| Other revenue | - | 4,967 | 4,967 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL OPERATING REVENUES | 876,763 | 424,690 | 1,301,453 |
| OPERATING EXPENSES: | | | |
| General government administration | (193) | 22,341 | 22,148 |
| Garage maintenance | - | 101,470 | 101,470 |
| Operations and maintenance | - | 272,830 | 272,830 |
| Depreciation | - | 166,475 | 166,475 |
| Benefit payments: | | | |
| Payroll taxes | 124,112 | - | 124,112 |
| Retirement plan expense | 128,684 | - | 128,684 |
| Holiday pay | 39,175 | - | 39,175 |
| Sick pay/personal leave | 32,352 | - | 32,352 |
| Vacation pay | 74,692 | - | 74,692 |
| Workers' compensation insurance | 66,904 | - | 66,904 |
| Hospitalization insurance | 381,272 | - | 381,272 |
| Employee life insurance | 480 | - | 480 |
| Longevity pay | 20,192 | - | 20,192 |
| Employee picnic | 600 | - | 600 |
| Other | 8,089 | - | 8,089 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL OPERATING EXPENSES | 876,359 | 563,116 | 1,439,475 |
| OPERATING INCOME (LOSS) | 404 | (138,426) | (138,022) |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| Gain on sale of assets | - | 7,022 | 7,022 |
| Interest income | 283 | 188 | 471 |
| Interest expense | - | (23,261) | 23,261 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 283 | (16,051) | (15,768) |
| NET INCOME (LOSS) | 687 | (154,477) | (153,790) |
| RETAINED EARNINGS, BEGINNING OF YEAR | 175,813 | 636,656 | 812,469 |
| | <hr/> | <hr/> | <hr/> |
| RETAINED EARNINGS, END OF YEAR | \$ 176,500 | \$ 482,179 | \$ 658,679 |

CITY OF HANCOCK
INTERNAL SERVICES FUNDS
COMBINING STATEMENT OF CASH FLOW
Year Ended June 30, 2012

| | Employee Benefit | Motor Vehicle | Total |
|---|---------------------|--------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 876,763 | \$ 376,222 | \$ 1,252,985 |
| Payments to suppliers | 8,581 | (336,582) | (328,001) |
| Payments to employees | (873,202) | (103,587) | (976,789) |
| Other receipts (payments) | - | 48,468 | 48,468 |
| Net cash provided by operating activities | <u>12,142</u> | <u>(15,479)</u> | <u>(3,337)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating subsidies and transfers to other funds | <u>(74,610)</u> | <u>150,733</u> | <u>(76,123)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Gain (loss) on sale of asset | - | 7,022 | 7,022 |
| Purchases of capital assets | - | (56,900) | (56,900) |
| Principal paid on capital debt | - | (78,326) | (78,326) |
| Interest paid on capital debt | - | (23,261) | (23,261) |
| Net cash (used) by capital and related financing activities | <u>-</u> | <u>(151,465)</u> | <u>(151,465)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends | <u>283</u> | <u>188</u> | <u>471</u> |
| Net cash provided by investing activities | <u>283</u> | <u>188</u> | <u>471</u> |
| Net (decrease) in cash and cash equivalents | <u>(62,185)</u> | <u>(16,023)</u> | <u>(78,208)</u> |
| Balances -- beginning of the year | <u>93,509</u> | <u>48,740</u> | <u>142,249</u> |
| Balances -- end of the year | <u>\$ 31,324</u> | <u>\$ 32,717</u> | <u>\$ 64,041</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ 404 | \$ (138,426) | \$ (138,022) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation expense | - | 166,475 | 166,475 |
| Changes in assets and liabilities: | | | |
| Inventory | - | 2,071 | 2,071 |
| Prepaid expenses | 9,120 | 266 | 9,386 |
| Accounts and other payables | (732) | (45,142) | (45,874) |
| Accrued expenses | 3,350 | (723) | (2,627) |
| Net cash provided by operating activities | <u>\$ 12,142</u> | <u>\$ (15,479)</u> | <u>\$ 3,337</u> |

CITY OF HANCOCK
EMPLOYEE BENEFIT FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---|------------------|-------------------|------------------|
| OPERATING REVENUES: | | | |
| Charges for services | \$ 912,095 | \$ 876,763 | \$ (35,332) |
| Other revenue | 662 | - | (662) |
| TOTAL OPERATING REVENUES | <u>912,757</u> | <u>876,763</u> | <u>35,994</u> |
| EXPENSES: | | | |
| General government administration | 100 | (193) | 293 |
| Benefit payments: | | | |
| Payroll taxes | 115,220 | 124,112 | (8,892) |
| Retirement plan expense | 120,000 | 128,684 | (8,684) |
| Holiday pay | 37,861 | 39,175 | (1314) |
| Sick pay/personal leave | 41,939 | 32,352 | 9,587 |
| Vacation pay | 77,000 | 74,692 | 2,308 |
| Workers' compensation insurance | 53,000 | 66,904 | (13904) |
| Hospitalization insurance | 410,000 | 381,272 | 28,728 |
| Employee life insurance | 2,691 | 480 | 2,211 |
| Longevity pay | 20,199 | 20,192 | 7 |
| Employee picnic | 800 | 600 | 200 |
| Other | 7,100 | 8,089 | (989) |
| TOTAL OPERATING EXPENSES | <u>885,910</u> | <u>876,359</u> | <u>9,551</u> |
| OPERATING INCOME (LOSS) | 26,847 | 404 | 26,443 |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| Interest income | 264 | 283 | 19 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>264</u> | <u>283</u> | <u>19</u> |
| NET INCOME (LOSS) | <u>\$ 27,111</u> | 687 | <u>\$ 26,424</u> |
| RETAINED EARNINGS, BEGINNING OF YEAR | | <u>175,813</u> | |
| RETAINED EARNINGS, END OF YEAR | | <u>\$ 176,500</u> | |

CITY OF HANCOCK
MOTOR VEHICLE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL
Year ended June 30, 2012

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---|--------------------|-------------------|---------------------|
| OPERATING REVENUES: | | | |
| Charges for services | \$ 420,309 | \$ 376,222 | \$ (44,087) |
| Federal revenue | - | 43,501 | 43,501 |
| Other revenue | 662 | 4,967 | 4,305 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL OPERATING REVENUES | 420,971 | 424,690 | 845,661 |
| | <hr/> | <hr/> | <hr/> |
| OPERATING EXPENSES: | | | |
| General government administration | 24,341 | 22,341 | 46,682 |
| Garage maintenance | 107,189 | 101,470 | 208,659 |
| Operations and maintenance | 258,557 | 272,830 | 531,387 |
| Depreciation | - | 166,475 | 166,475 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL OPERATING EXPENSES | 390,087 | 563,116 | 953,203 |
| | <hr/> | <hr/> | <hr/> |
| OPERATING INCOME (LOSS) | 30,884 | (138,426) | (107,542) |
| | | | |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| Gain on sale of assets | 3,426 | 7,022 | 3,596 |
| Interest income | 1,060 | 188 | (872) |
| Interest expense | (92,977) | (23,261) | 69,716 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | (88,491) | (16,051) | (104,542) |
| | <hr/> | <hr/> | <hr/> |
| NET INCOME (LOSS) | <u>\$ (57,607)</u> | (154,477) | <u>\$ (212,084)</u> |
| | | | |
| RETAINED EARNINGS, BEGINNING OF YEAR | | <u>636,656</u> | |
| | | | |
| RETAINED EARNINGS, END OF YEAR | | <u>\$ 482,179</u> | |

CITY OF HANCOCK
TRANSIT FUND SUPPLEMENTAL INFORMATION
June 30, 2012

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
For the Year Ended June 30, 2012

| | 07/01/11 through 09/30/11 | 10/01/11 through 06/30/12 | Total |
|-----------------------------------|---------------------------------|---------------------------------|--------------------------|
| Farebox receipts- passenger fares | \$ 8,966 | \$ 29,897 | \$ 38,863 |
| Contract Fares* | 425 | 3,427 | 3,852 |
| State Operating Assistance** | 17,586 | 66,157 | 83,743 |
| Federal Section 5311*** | 1,595 | 37,324 | 38,919 |
| Federal RTAP** | 2,661 | 1,746 | 4,407 |
| Local Operating Assistance**** | 30,000 | 34,000 | 64,000 |
| Interest Income | 50 | 94 | 144 |
| Total Operating Revenue | <u>\$ 61,283</u> | <u>\$ 172,645</u> | <u>\$ 233,928</u> |

| | 10/01/10 through 06/30/11 | 07/01/11 through 09/30/11 | Total |
|-----------------------------------|---------------------------------|---------------------------------|--------------------------|
| Farebox receipts- passenger fares | \$ 28,647 | \$ 8,966 | \$ 37,613 |
| Contract Fares | 1,263 | 425 | 1,688 |
| State Operating Assistance | 66,949 | 17,586 | 84,535 |
| Federal Section 5311 | 40,893 | 1,595 | 42,488 |
| Federal RTAP | - | 2,661 | 2,661 |
| Local Operating Assistance | 24,000 | 30,000 | 54,000 |
| Interest Income | 163 | 50 | 213 |
| Total Operating Revenue | <u>\$ 161,915</u> | <u>\$ 61,283</u> | <u>\$ 223,198</u> |

* Contract Fares revenue in the amount of \$3,852 is included under other revenue on page 80 of audit report.

**State revenue on page 80 of audit report exceeds the total of State operating assistance by \$6,002. The audit report is higher because it includes an audit adjustment of \$1,595 and the RTAP revenue of \$4,407.

***Federal revenue on page 80 of audit report is less than the total of Federal Section 5311 by \$1,595. The audit report includes an audit adjustment not reflected on the quarterly transit reports.

****Operating transfers on page 80 of audit report, in the amount of \$40,000, are considered local operating assistance revenue and is included in the amount of \$64,000 above.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
For the Year Ended June 30, 2012

| | 07/01/11 through 09/30/11 | | | | 10/01/11 through 06/30/12 | | | | Total | | | |
|--------------------------------|---------------------------|-----------------|-----------------|------------------|---------------------------|------------------|------------------|-------------------|-------------------|------------------|------------------|-------------------|
| | Operations | Maint. | Gen. Admin. | Total | Operations | Maint. | Gen. Admin. | Total | Operations | Maint. | Gen. Admin. | Total |
| Labor: | | | | | | | | | | | | |
| Wages -operations | \$ 17,597 | \$ 0 | \$ 0 | \$ 17,597 | \$ 56,093 | \$ 0 | \$ 0 | \$ 56,093 | \$ 73,690 | \$ 0 | \$ 0 | \$ 73,690 |
| Other salaries and wages | 0 | 2,710 | 2,911 | 5,621 | 0 | 12,561 | 14,348 | 26,909 | 0 | 15,271 | 17,259 | 32,530 |
| Dispatchers wages | 2,764 | 0 | 0 | 2,764 | 5,520 | 0 | 0 | 5,520 | 8,284 | 0 | 0 | 8,284 |
| Fringe benefits | 5,538 | 2,826 | 3,453 | 11,817 | 13,095 | 10,876 | 11,460 | 35,431 | 18,633 | 13,702 | 14,913 | 47,248 |
| Services: | | | | | | | | | | | | |
| Advertising | 0 | 0 | 0 | 0 | 0 | 0 | 403 | 403 | 0 | 0 | 403 | 403 |
| Audit costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 500 | 500 |
| Other | 99 | 364 | 473 | 936 | 1,930 | 2,736 | 1,592 | 6,258 | 2,029 | 3,100 | 2,065 | 7,194 |
| Materials and supplies: | | | | | | | | | | | | |
| Fuel and lubricants | 6,378 | 0 | 0 | 6,378 | 20,931 | 0 | 0 | 20,931 | 27,309 | 0 | 0 | 27,309 |
| Tires and tubes | 457 | 0 | 0 | 457 | 1,131 | 1,982 | 0 | 3,113 | 1,588 | 1,982 | 0 | 3,570 |
| Major supplies | 0 | 573 | 0 | 573 | 0 | 4,303 | 9 | 4,312 | 0 | 4,876 | 9 | 4,885 |
| Other | 0 | 0 | 14 | 14 | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 14 |
| Utilities | 0 | 0 | 900 | 900 | 0 | 0 | 7,351 | 7,351 | 0 | 0 | 8,251 | 8,251 |
| Insurance | 1,677 | 0 | 0 | 1,677 | 244 | 0 | 0 | 244 | 1,921 | 0 | 0 | 1,921 |
| Operating lease and rentals | 0 | 0 | 0 | 0 | 0 | 13 | 0 | 13 | 0 | 13 | 0 | 13 |
| Miscellaneous expenses: | | | | | | | | | | | | |
| Travel | 0 | 0 | 0 | 0 | 0 | 0 | 2,103 | 2,103 | 0 | 0 | 2,103 | 2,103 |
| Dues & Subscriptions | 0 | 0 | 645 | 645 | 0 | 0 | 0 | 0 | 0 | 0 | 645 | 645 |
| Other | 0 | 43 | 0 | 43 | 44 | 11 | 98 | 153 | 44 | 54 | 98 | 196 |
| Depreciation | 0 | 0 | 0 | 0 | 59,229 | 0 | 0 | 59,229 | 59,229 | 0 | 0 | 59,229 |
| | <u>34,510</u> | <u>6,516</u> | <u>8,396</u> | <u>49,422</u> | <u>158,217</u> | <u>32,482</u> | <u>37,364</u> | <u>228,063</u> | <u>192,727</u> | <u>38,998</u> | <u>46,260</u> | <u>277,985</u> |
| Less: | | | | | | | | | | | | |
| Ineligible expenses- RTAP | 0 | 0 | 0 | 0 | 0 | 0 | 1,746 | 1,746 | 0 | 0 | 1,746 | 1,746 |
| Deprecation | 0 | 0 | 0 | 0 | 59,229 | 0 | 0 | 59,229 | 59,229 | 0 | 0 | 59,229 |
| | <u>\$ 34,510</u> | <u>\$ 6,516</u> | <u>\$ 8,396</u> | <u>\$ 49,422</u> | <u>\$ 98,988</u> | <u>\$ 32,482</u> | <u>\$ 35,618</u> | <u>\$ 167,088</u> | <u>\$ 133,498</u> | <u>\$ 38,998</u> | <u>\$ 44,514</u> | <u>\$ 217,010</u> |

Total expenses in the amount of \$277,985 are less than total operating expenses on page 80 by \$17,433. The difference is due to a combination of depreciation expense being \$17,867 higher in audit report, and audit costs of \$500 included on the quarterly transit reports, but not in audit report. In addition, transit dues were \$700, however, 7.1%,(\$50), was not eligible for reimbursement and was not included on the quarterly reports. There was also a transposition when recording wages in quarterly transit reports causing the dispatcher wages to be understated by \$9.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Reporting period October 1, 2010 through September 30, 2011

| | 10/01/10 through 06/30/11 | | | | 07/01/11 through 09/30/11 | | | | Total | | | |
|--------------------------------|---------------------------|------------------|------------------|-------------------|---------------------------|-----------------|-----------------|------------------|-------------------|------------------|------------------|-------------------|
| | Operations | Maint. | Gen. Admin. | Total | Operations | Maint. | Gen. Admin. | Total | Operations | Maint. | Gen. Admin. | Total |
| Labor: | | | | | | | | | | | | |
| Wages -operations | \$ 58,163 | \$ 0 | \$ 0 | \$ 58,163 | \$ 17,597 | \$ 0 | \$ 0 | \$ 17,597 | \$ 75,760 | \$ 0 | \$ 0 | \$ 75,760 |
| Other salaries and wages | 0 | 9,533 | 15,111 | 24,644 | 0 | 2,710 | 2,911 | 5,621 | 0 | 12,243 | 18,022 | 30,265 |
| Dispatchers wages | 5,528 | 0 | 0 | 5,528 | 2,764 | 0 | 0 | 2,764 | 8,292 | 0 | 0 | 8,292 |
| Fringe benefits | 13,413 | 8,375 | 13,036 | 34,824 | 5,538 | 2,826 | 3,453 | 11,817 | 18,951 | 11,201 | 16,489 | 46,641 |
| Services: | | | | | | | | | | | | |
| Advertising | 0 | 0 | 314 | 314 | 0 | 0 | 0 | 0 | 0 | 0 | 314 | 314 |
| Other | 2,694 | 4,576 | 1,380 | 8,650 | 99 | 364 | 473 | 936 | 2,793 | 4,940 | 1,853 | 9,586 |
| Materials and supplies: | | | | | | | | | | | | |
| Fuel and lubricants | 19,181 | 0 | 0 | 19,181 | 6,378 | 0 | 0 | 6,378 | 25,559 | 0 | 0 | 25,559 |
| Tires and tubes | 537 | 0 | 0 | 537 | 457 | 0 | 0 | 457 | 994 | 0 | 0 | 994 |
| Major supplies | 0 | 6,672 | 45 | 6,717 | 0 | 573 | 0 | 573 | 0 | 7,245 | 45 | 7,290 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 14 | 0 | 0 | 14 | 14 |
| Utilities | 0 | 0 | 5,953 | 5,953 | 0 | 0 | 900 | 900 | 0 | 0 | 6,853 | 6,853 |
| Insurance | 673 | 0 | 0 | 673 | 1,677 | 0 | 0 | 1,677 | 2,350 | 0 | 0 | 2,350 |
| Operating lease and rentals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous expenses: | | | | | | | | | | | | |
| Travel | 0 | 0 | 1,921 | 1,921 | 0 | 0 | 0 | 0 | 0 | 0 | 1,921 | 1,921 |
| Dues & Subscriptions | 0 | 0 | 165 | 165 | 0 | 0 | 645 | 645 | 0 | 0 | 810 | 810 |
| Other | 7 | 391 | 87 | 485 | 0 | 43 | 0 | 43 | 7 | 434 | 87 | 528 |
| Depreciation | 59,229 | 0 | 0 | 59,229 | 0 | 0 | 0 | 0 | 59,229 | 0 | 0 | 59,229 |
| | <u>159,425</u> | <u>29,547</u> | <u>38,012</u> | <u>226,984</u> | <u>34,510</u> | <u>6,516</u> | <u>8,396</u> | <u>49,422</u> | <u>193,935</u> | <u>36,063</u> | <u>46,408</u> | <u>276,406</u> |
| Less: | | | | | | | | | | | | |
| Ineligible expenses- RTAP | 0 | 0 | 1,606 | 1,606 | 0 | 0 | 0 | 0 | 0 | 0 | 1,606 | 1,606 |
| Deprecation | 59,229 | 0 | 0 | 59,229 | 0 | 0 | 0 | 0 | 59,229 | 0 | 0 | 59,229 |
| | <u>\$ 100,196</u> | <u>\$ 29,547</u> | <u>\$ 36,406</u> | <u>\$ 166,149</u> | <u>\$ 34,510</u> | <u>\$ 6,516</u> | <u>\$ 8,396</u> | <u>\$ 49,422</u> | <u>\$ 134,706</u> | <u>\$ 36,063</u> | <u>\$ 44,802</u> | <u>\$ 215,571</u> |

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
For the Year Ended June 30, 2012

| NON URBAN AREAS | 10/01/11 Through 09/30/12 |
|-------------------------------|---------------------------------|
| STATE OF MICHIGAN | |
| Total Eligible Expenses | \$ 217,010 |
| Reimbursement Rate % | <u>36.2300%</u> |
| Eligible operating assistance | <u>\$ 78,623</u> |
| | |
| FEDERAL SECTION 5311 | |
| Total Eligible Expenses | \$ 215,571 |
| Reimbursement Rate % | <u>18.5000%</u> |
| Eligible operating assistance | <u>\$ 39,881</u> |

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
For the Year Ended June 30, 2012

| <u>Quarter Ending:</u> | <u>Miles</u> |
|------------------------|----------------------|
| September 30, 2011 | 14,251 |
| December 31, 2011 | 14,645 |
| March 31, 2012 | 15,405 |
| June 30, 2012 | 14,202 |
| Total Miles | <u><u>58,503</u></u> |

**CITY OF HANCOCK
FEDERAL AWARDS PROGRAMS
JUNE 30, 2012**

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

310 Sheldon Avenue, Houghton, Michigan 49931

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2012 which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Hancock is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2012-1 through 2012-2. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and questioned costs as items 2012-3 through 2012-4.

We noted certain matters that we reported to management of the City of Hancock's in a separate letter dated December 20, 2012.

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

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

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

December 20, 2012

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

310 Sheldon Avenue, Houghton, Michigan 49931

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

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

Compliance

We have audited the City of Hancock's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hancock's major federal programs for the year ended June 30, 2012. The City of Hancock's major federal programs are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hancock's management. Our responsibility is to express an opinion on the City of Hancock's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hancock's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hancock's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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

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

December 20, 2012

CITY OF HANCOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2012

| <u>Federal Grantor/Pass-through Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Federal Expenditures</u> |
|--|-------------------------------|--|
| Environmental Protection Agency Pass-through programs from: State of Michigan/Department Of Environmental Quality Stormwater Management | 66.469 | \$ 8,188 |
| United States Department of Agriculture Rural Development AARA Water Supply System Junior Lien Revenue Refunding Grant 2011A | 10.781 | 2,486,635 |
| 2009 Water System | 10.781 | 500,000 |
| AARA 2010 Sewage Disposal Revenue Bond | 10.781 | 706,531 |
| AARA 2010 Sewage Disposal System Revenue Grant | 10.781 | <u>1,679,344</u> |
| | | <u>5,372,510</u> |
| AARA Water Supply System Junior Lien Revenue and Revenue Refunding Bond Series 2011B | 10.760 | 693,038 |
| Rural Housing Service Community Facilities Grant AARA Dump truck grant | 10.766 | 43,501 |
| Police vehicle grant | 10.766 | <u>13,000</u> |
| | | <u>56,501</u> |
| Michigan Department of Natural Resources and Environment AARA Urban Forestry Grant | 10.688 | 100 |
| U.S. Department of Transportation - Federal Transit Administration Pass-through programs from: State of Michigan, Michigan Department of Transportation Operating Assistance-Section 5311 | 20.509 | 37,324 |
| Federal Transit Capital Investment Grants Highway research planning & construction | 20.205 | <u>94,266</u> |
| | | <u>131,590</u> |
| Total expenditures of federal awards | | <u>\$ 6,261,927</u> |

CITY OF HANCOCK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

NOTE A - OVERSIGHT AGENCY

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

NOTE B - BASIS OF ACCOUNTING

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

NOTE C-SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION

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

| | |
|---|---------------------|
| Total Federal expenditures per Schedule of Expenditures | <u>\$ 6,261,927</u> |
| Federal awards per financial statements: | |
| Federal awards governmental funds | \$ 159,055 |
| Federal awards enterprise funds | 4,436,447 |
| Federal expenditures recorded in prior year and revenue recognized in current year | |
| Bond proceeds enterprise funds | 3,289,000 |
| Proceeds received in excess of expenditures | |
| Federal expenditures recorded in prior year and proceeds recognized in current year | <u>(1,622,575)</u> |
| Total federal awards per financial statements | <u>\$ 6,261,927</u> |

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|-------------|
| Type of auditor's report issued: | Unqualified |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133? | No |

Identification of major programs:

| Name of Federal Program | <u>CFDA Number</u> |
|--|--------------------|
| United States Department of Agriculture: | |
| Rural Development | |
| AARA Water Supply System Junior Lien Revenue Refunding Bond Series 2011A | 10.781 |
| AARA 2010 Sewage Disposal System Grant | 10.781 |
| AARA 2010 Sewage Disposal System Revenue Bond | 10.781 |
| AARA Water Supply System Junior Lien Revenue and Revenue Refunding Bond Series 2011B | 10.760 |

| | |
|--|-----------|
| Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | No |

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2012
(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-1 – Preparation of Financial Statements in Accordance with GAAP (Repeat Finding)

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

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

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

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

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

2012-2 – Recording, Processing and Summarizing Accounting Data - Capital Assets/Adjustments (Repeat Finding)

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

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

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

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

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2012
(Continued)

Instances of Non-compliance

2012-3 - Budget

Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that cities shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City of Hancock has actual expenditures and budgeted expenditures. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2012, 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.

2012-4 - Deficit Net Assets

Condition/Criteria: At June 30, 2012 the City of Hancock had an unrestricted equity deficit in their Parking Meter Fund, as shown on page 71 and in Local Street as shown on page 63. 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 Parking Meter Fund and Local Street Fund to eliminate the deficit over the course of a three year period. Contact Person(s) Responsible for Correction: Glenn Anderson, City Manager, Corrective Action Planned:

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Current Year - No matters were reported.

Prior Year - No matters were reported.

COMMUNICATION SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

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COMMUNICATION WITH THOSE IN CHARGE OF 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, 2012, and have issued our report thereon dated December 20, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 20, 2012. 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, 2012. We noted no transactions entered into by the City of Hancock during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2012.

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

With respect to the supplementary information accompanying the financial statements, 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.

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

We appreciate your business, thank you.

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

December 20, 2012